

TRANSACT TECHNOLOGIES INC

FORM 10-K (Annual Report)

Filed 3/15/2007 For Period Ending 12/31/2006

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Industry	Computer Peripherals
Sector	Technology
Fiscal Year	12/31

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**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, 2006 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 203-859-6800

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

TITLE OF EACH CLASS -----	NAME OF EXCHANGE ON WHICH REGISTERED -----
Common Stock, par value \$.01 per share	The NASDAQ Stock Market, LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer (as
defined in Rule 405 of the Securities Act).

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Act.

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark 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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of June 30, 2006 the aggregate market value of the registrant's issued and outstanding voting stock held by non-affiliates of the registrant was \$93,200,000.

As of February 28, 2007, the registrant had outstanding 9,574,777 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 15, 2007 - Part III (Items 10-14).

TRANSACT TECHNOLOGIES INCORPORATED

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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, assembles, markets and services world-class transaction printers under the Epic(TM) and Ithaca(R) brand names. Known and respected worldwide for innovative designs and real-world service reliability, our impact, thermal and inkjet printers generate top-quality 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 to original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. In addition, we have a strong focus on the after-market side of the business, with a growing commitment to printer service, supplies and spare parts. We have one primary operating facility located in Ithaca, NY, five sales offices located in the United States (including our 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) 859-6800.

FINANCIAL INFORMATION ABOUT SEGMENTS

We have determined that we operate in one reportable segment, the design, development, assembly and marketing of transaction printers and printer-related service, supplies and spare parts.

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 cabinetry color. In addition to our configurable printers, we design and assemble custom printers for certain OEM customers. In collaboration with these customers, we provide engineering and manufacturing expertise for the design and development of specialized printers.

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 approximate 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, racetracks and other gaming establishments 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 coupons/promotions. In addition, we sell printers using thermal and impact printing technology for use in non-casino gaming establishments, including game types such as Amusements with Prizes ("AWP"), Skills with Prizes ("SWP"), Video lottery terminals ("VLT"), Fixed Odds Betting Terminals ("FOBT") and other off-premise gaming type machines around the world.

TransAct Services Group

Through our TransAct Services Group, we proactively market the sale of consumable products (including inkjet cartridges, ribbons and receipt 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 TransAct Xpress(SM), and other repair services for our printers. 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 through partners strategically located around the world.

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

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 newly-released printers only, 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 finalize assembly of 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 and assembly 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. In addition, we have begun to procure fully assembled printers from a foreign supplier. We typically strive to maintain more than one source for our component parts, subassemblies and fully assembled printers to reduce the risk of parts shortages or unavailability. However, we could experience temporary disruption if certain suppliers ceased doing business with us, as described below.

Okidata Americas, Inc. ("Okidata"), is the sole supplier for an impact 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. However, sales of impact printers continue to decline as sales of these printers are replaced by sales of thermal and inkjet printers. As such, we believe that any possible loss of supply of Oki Kits will have less of an impact on TransAct in 2007 and beyond. Although we do not have a supply agreement with Okidata, our relationship with Okidata remains strong and we have no reason to believe that Okidata will discontinue its supply of Oki Kits to us or that their terms to us will be any less favorable than they have been historically.

Hewlett-Packard Company ("HP") is the sole supplier of inkjet cartridges that are used in all of our inkjet printers. The loss of the supply of HP inkjet cartridges would have a material adverse effect on the sale of our inkjet printers. Prior to February 2006, we had a supply agreement with HP to purchase inkjet cartridges at fixed prices. This agreement expired on February 1, 2006 and was not renewed, as HP informed us that they no longer maintain supply agreements for these inkjet cartridges; however, we continue to purchase inkjet cartridges from HP. Although we no longer have a supply agreement with HP, our relationship with HP remains strong and we have no reason to believe that HP will discontinue its supply of inkjet cartridges to us. The inkjet cartridges we purchase from HP are used not only in our inkjet printers for the POS and banking market, but also in other manufacturer's printing devices across several other markets.

We currently buy substantially all of our thermal print mechanisms, an important component of our thermal printers, from one supplier. Although we believe that other suppliers could provide similar thermal print mechanisms on comparable terms, a change in suppliers could cause a delay in manufacturing and possible loss of sales which may have a material adverse effect on our operating results.

PATENTS AND PROPRIETARY INFORMATION

We have significantly expanded our patent portfolio over the past six years, and expect to continue to do so in the future. We also believe our patent portfolio could provide additional opportunities to license our intellectual property in the future. We hold 21 United States and nine foreign patents and have nine United States and 19 foreign patent applications pending pertaining to our products. The duration of these patents range from 11 to 18 years. The expiration of any individual patent would not have a significant negative impact on our business. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do 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 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, which was paid 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 an ongoing OEM purchase agreement, as amended in February 2006, (the "GTECH Thermal Printer Agreement") with GTECH Corporation ("GTECH") that provides for the sale of thermal on-line lottery printers and spare parts, at fixed prices, through June 28, 2012. Firm purchase orders for printers under the GTECH Thermal Printer Agreement may be placed as required by GTECH. Prior to this agreement, we had a purchase agreement with GTECH 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. However, we do expect to continue to sell spare parts to GTECH for the remaining installed base of impact on-line lottery printers, although we expect such sales to decline as the installed base of impact on-line lottery printers are replaced with our thermal printer.

BACKLOG

Our backlog of firm orders was approximately \$4,300,000 as of February 28, 2007, compared to \$8,300,000 as of February 28, 2006. Based on customers' current delivery requirements, we expect to ship our entire current backlog during 2007.

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

In the lottery market (consisting principally of on-line lottery transaction printing), we hold a leading position, based largely on our long-term purchase agreement with GTECH, which holds approximately 70% market share 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 compete with several companies including FutureLogic, Inc., Nanoptix, Inc., Custom Engineering SPA and others. Certain of our products sold for gaming applications compete based upon our ability to provide highly specialized products, custom engineering and ongoing technical support.

The TransAct Services Group business is highly fragmented, and we compete with numerous competitors of various sizes depending on the geographic area.

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. Although we believe that our products, operations and relationships provide a competitive foundation, there can be no assurance that we will compete successfully in the future. In addition, our products utilize certain inkjet, thermal and impact printing technology. If other technologies, or variations to existing technologies were to evolve or become available to us, it is possible that we would incorporate these technologies into our products. Alternatively, if such technologies were to evolve or become available to our competitors, our products could become obsolete, which would have a significant negative impact on our business.

RESEARCH AND DEVELOPMENT ACTIVITIES

We spent approximately \$2,824,000, \$2,726,000 and \$2,715,000 in 2006, 2005 and 2004, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new products and to customize existing products.

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 28, 2007, TransAct and our subsidiaries employed 185 persons, of whom 172 were full-time and 13 were temporary employees. None of our employees are 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 \$2,722,000, \$2,181,000, and \$1,000,000, (primarily for the service of printers used in the British Post Office) in 2006, 2005 and 2004, respectively. We had export sales from our domestic operations of approximately \$11,416,000, \$10,137,000 and \$5,423,000 in 2006, 2005 and 2004, respectively. Total international sales, which include sales from our foreign subsidiary and export sales from our domestic operations, were approximately \$14,138,000, \$12,318,000 and \$6,423,000 in 2006, 2005 and 2004, 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. Any person may request a copy of our Code of Business Conduct free of charge by calling (203) 859-6800.

EXECUTIVE OFFICERS OF THE REGISTRANT

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 15, 2007.

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	49	Chairman of the Board, President and Chief Executive Officer
Steven A. DeMartino	37	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Michael S. Kumpf	57	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 Peripherals 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 to that, 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 Peripherals from 1991 until June 1996.

ITEM 1A. RISK FACTORS

Investors should carefully consider the risks, uncertainties and other factors described below, as well as other disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations, because they could have a material adverse effect on our business, financial condition, operating results, and growth prospects. The risks described below and incorporated by reference are not the only ones facing our Company. Additional risks not known to us now or that we currently deem immaterial may also impair our business operations.

Our success will depend on our ability to sustain and manage growth.

As part of our business strategy, we intend to pursue an aggressive growth strategy. Assuming this growth occurs, it will require the expansion of distribution relationships in international markets, the successful development and marketing of new products, expanded customer service and support, an increased number of personnel throughout the Company and the continued implementation and improvement of our operational, financial and management information systems.

To the extent that we seek growth through acquisitions, our ability to manage our growth will also depend on our ability to integrate businesses that have previously operated independently. We may not be able to achieve this integration without encountering difficulties or experiencing the loss of key employees, customers or suppliers. It may be difficult to design and implement effective financial controls for combined operations and differences in existing controls for each business may result in weaknesses that require remediation when the financial controls and reporting functions are combined.

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

We compete in a highly competitive market, which is likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements.

We face significant competition in developing and selling our printers and services. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, we believe we must continue to provide:

- Technologically advanced printers that satisfy the user demands,
- Superior customer service,
- High levels of quality and reliability, and
- Dependable and efficient distribution networks.

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

We have been dependent on sales to one large customer; the loss of this customer or reduction in orders from this customer could materially affect our sales.

We expect that sales to one large customer will continue to represent a significant percentage of our net sales for the foreseeable future. A reduction or delay in orders from this customer, including reductions or delays due to market, economic, or competitive conditions in the industries in which we serve, could have a material adverse effect upon our results of operations.

We rely on resellers to sell our products and services.

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

Our dependence upon resellers exposes us to numerous risks, including:

- loss of channel and the ability to bring new products to market;
- concentration of credit risk, including disruption in distribution should the resellers' financial condition deteriorate;
- reduced visibility to end user demand and pricing issues which makes forecasting more difficult;
- resellers leveraging their buying power to change the terms of pricing, payment and product delivery schedules; and
- direct competition should a reseller decide to manufacture printers internally or source printers from a competitor.

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

Our operating results and financial condition may fluctuate.

Our operating results and financial condition may fluctuate from quarter to quarter and year to year and are likely to continue to vary due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, who may derive their expectations by extrapolating data from recent historical operating results, the market price of our common stock will likely decline. Fluctuations in our operating results and financial condition may be due to a number of factors, including, but not limited to, those identified throughout this "Risk Factors" section:

- changes in accounting rules
- changes in the amount that we spend to develop, acquire or license new products, consumables, technologies or businesses;
- changes in the amount we spend to promote our products and services;
- changes in the cost of satisfying our warranty obligations and servicing our installed base of printers;
- delays between our expenditures to develop and market new or enhanced printers and consumables and the generation of sales from those products;
- development of new competitive printers by others;
- the geographic distribution of our sales;
- our responses to price competition;
- the outcome of lawsuits between TransAct and FutureLogic, Inc.
- market acceptance of our products, both domestically and internationally;

- availability of third-party components at reasonable prices;
- general economic and industry conditions, including changes in interest rates affecting returns on cash balances and investments, that affect customer demand;
- severe weather events (such as hurricanes) that can disrupt or interrupt the operation of our customers facilities; and
- our level of research and development activities.

Due to all of the foregoing factors, and the other risks discussed in this report, quarter-to-quarter comparisons of our operating results may not be an indicator of future performance.

Our stock price may fluctuate significantly.

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

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

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

Limited trading volume of our capital stock may contribute to its price volatility.

Our common stock is traded on the NASDAQ National Market. During the twelve months ended December 31, 2006, the average daily trading volume for our common stock as reported by the NASDAQ National Market was approximately 53,900 shares. We are uncertain whether a more active trading market in our common stock will develop. In addition, many investment banks no longer find it profitable to provide securities research on micro-cap and small-cap companies. If analysts were to discontinue coverage of our common stock, our trading volume may be further reduced. As a result, relatively small trades may have a significant impact on the market price of our common stock, which could increase the volatility and depress the price of our common stock.

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

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

We depend on key personnel, the loss of which could materially impact our business.

Our future success will depend in significant part upon the continued service of certain key management and other personnel and our continuing ability to attract and retain highly qualified managerial, technical and sales and marketing personnel. There can be no assurance that we will be able to recruit and retain such personnel. The loss of Bart C. Shuldman, the Company's Chairman of the Board, President and Chief Executive Officer, or the loss of certain groups of key employees, could have a material adverse effect on our results of operations.

We source some of our component parts from sole source suppliers; any disruptions may impact our ability to manufacture and sell our products.

A disruption in the supply of such component parts could have a material adverse effect on our operations and financial results.

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

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

Infringement on the proprietary rights of others could put us at a competitive disadvantage, and any related litigation could be time consuming and costly.

Third parties may claim that we violated their intellectual property rights. To the extent of a violation of a third party's patent or other intellectual property right, we may be prevented from operating our business as planned and may be required to pay damages, to obtain a license, if available, or to use a non-infringing method, if possible, to accomplish our objectives. Any of these claims, with or without merit, could result in costly litigation and divert the attention of key personnel. If such claims are successful, they could result in costly judgments or

settlements.

We sell a significant portion of our products internationally and purchase important components from foreign suppliers. These circumstances create a number of risks.

We sell a significant amount of our products to customers outside the United States. Shipments to international customers are expected to continue to account for a material portion of net sales. Risks associated with sales and purchases outside the United States include:

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

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

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

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

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

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

We assume no obligation (and specifically disclaim any such obligation) to update these Risk Factors or any other forward-looking statements contained in this Annual Report to reflect actual results, changes in assumptions or other factors affecting such forward-looking statements, except as required by law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES.

Our corporate headquarters is currently located in Wallingford, CT. However, in November 2006, we entered into a ten-year lease for office space for a new, approximately 11,000 square feet corporate headquarters located in Hamden, CT. We expect to move into our corporate headquarters on approximately May 1, 2007. Concurrent with the signing of this new lease, we executed an agreement effective May 1, 2007 to terminate the lease agreement for our existing corporate headquarters and eastern region service center located in Wallingford, CT (the "Release Agreement"). Our global engineering and manufacturing center is located in Ithaca, NY. We also maintain a facility in Las Vegas, NV that serves as our global gaming and lottery headquarters and western region service center. Our eastern region service center is currently located in our Wallingford, CT facility, however, we are currently in negotiations for a new facility location.

Our principal facilities as of December 31, 2006 are listed below:

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Wallingford, Connecticut	Executive offices and service center	49,000	Leased	May 1, 2007

Hamden, Connecticut	Executive offices	11,000	Leased	April 23, 2017
Ithaca, New York	Manufacturing facility	74,000	Leased	June 30, 2012
Las Vegas, Nevada	Service center and gaming and lottery sales headquarters	13,700	Leased	January 31, 2010
Doncaster, United Kingdom	Sales office and service center	2,800	Leased	August 1, 2009
Georgia (2), New York and Texas	Four regional sales offices	600	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.

On April 28, 2005, we announced that we filed a complaint in Connecticut Superior Court against FutureLogic, Inc. ("FutureLogic") of Glendale, California. The complaint charges FutureLogic with disseminating false and misleading statements, which impugn our business reputation with the intent of damaging our business. We assert claims of defamation, tortious interference with contractual relations, tortious interference with business expectancy, and violation of the Connecticut Unfair Trade Practices Act, and seek an award of compensatory and punitive damages, attorneys' fees and costs. FutureLogic removed this action to the United States District Court for the District of Connecticut and, on June 7, 2005, filed a motion to dismiss the claims for lack of jurisdiction. On December 7, 2005, we amended our complaint in the action pending in the District of Connecticut to add claims that FutureLogic's conduct violated the Lanham Act's bar on false and deceptive advertising.

On May 20, 2005, FutureLogic filed a complaint in the United States District Court for the Central District of California against us. The complaint charges us with false advertising, defamation, trade libel, intentional interference with prospective economic advantage, common law unfair competition and statutory unfair competition and seeks an award of compensatory and punitive damages, attorneys' fees and costs. On August 3, 2005, FutureLogic amended its complaint in California to seek a declaratory judgment that Patent No. 6,924,903 issued to us by the United States Patent and Trademark Office ("PTO") on August 2, 2005, for our dual-port printer technology, is invalid, and that FutureLogic is not infringing our patent. We moved to dismiss FutureLogic's action in California, on the grounds that any claims raised in that action should have been brought as part of the case filed by us in the District of Connecticut. In the alternative, we moved to stay the California action pending the resolution of jurisdictional motions in the Connecticut court.

On January 20, 2006, the California District Court filed an order granting our motion to stay the California proceeding pending the resolution of jurisdictional motions in the Connecticut case. Under the California court's order, should the Connecticut court find that it has jurisdiction over FutureLogic, FutureLogic's case will be transferred to the District of Connecticut for consolidation with the action pending in that forum. On September 1, 2006, the District of Connecticut dismissed our case because of a lack of jurisdiction. The decision was not on the merits of our claims, but on the jurisdiction of the court in which the suit was brought. The California District Court has been notified of this development. We intend to vigorously defend TransAct against FutureLogic's claims, which we believe to be without merit. At this stage in the proceedings we are unable to estimate any potential or probable liability.

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 Global Market under the symbol TACT. As of February 28, 2007, there were 624 holders of record of the common stock. The high and low sales prices of the common stock reported during each quarter of the years ended December 31, 2006 and 2005 were as follows:

	Year Ended		Year Ended	
	December 31, 2006		December 31, 2005	
	High	Low	High	Low
First Quarter	\$ 9.90	\$7.80	\$22.19	\$9.90
Second Quarter	14.87	8.95	10.65	6.71
Third Quarter	11.23	8.49	10.35	6.95
Fourth Quarter	9.38	7.47	8.70	6.09

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 2004, and we do not anticipate declaring dividends in the foreseeable future. Our new credit agreement with TD Banknorth, N.A. restricts the payment of cash dividends on our common stock for the term of the agreement.

ISSUER PURCHASES OF EQUITY SECURITIES

On March 25, 2005, the Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10 million of our outstanding shares of common stock from time to time in the open market over a three year period ending on March 25, 2008, depending on market conditions, share price and other factors.

The following table summarizes repurchases of our common stock in the quarter ended December 31, 2006:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
October 1, 2006 - October 31, 2006	--	\$ --	--	\$5,281,000
November 1, 2006 - November 30, 2006	126,000	\$8.81	126,000	\$4,170,000
December 1, 2006 - December 31, 2006	78,000	\$8.49	78,000	\$3,508,000
Total	204,000	\$8.69	204,000	

CORPORATE PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Company's Common Stock from December 31, 2001 through December 31, 2006, with the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Manufacturer Stocks Index. The graph assumes that \$100 was invested on December 31, 2001 in each of the Company's common stock, the CRSP Total Return Index for the Nasdaq Stock Market (U.S.) and the Nasdaq Computer Manufacturer Stocks Index, and that all dividends were reinvested.

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

(PERFORMANCE GRAPH)

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06
	-----	-----	-----	-----	-----	-----
TransAct Technologies Incorporated Common Stock	\$100.00	\$86.18	\$442.73	\$582.55	\$215.45	\$226.36
CRSP Total Return Index for the Nasdaq Stock Market (U.S.)	\$100.00	\$69.13	\$103.36	\$112.49	\$114.88	\$126.23
Nasdaq Computer Manufacturer Stocks Index	\$100.00	\$66.27	\$ 92.18	\$120.53	\$123.33	\$126.30

ITEM 6. SELECTED CONSOLIDATED 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,				
	2006	2005	2004	2003(1)	2002(1)
Consolidated Statement of Operations Data:					
Net sales	\$64,328	\$51,091	\$59,847	\$52,098	\$39,461
Gross profit	22,365	15,590	22,042	15,543	10,216
Operating expenses	16,277	15,366	13,591	12,855	11,200
Operating income (loss)	6,088	224	8,451	2,688	(984)
Net income (loss)	3,916	377	5,458	1,528	(692)
Net income (loss) available to common shareholders	3,916	377	5,236	1,087	(1,050)
Net income (loss) per share:					
Basic	0.41	0.04	0.55	0.13	(0.12)
Diluted	0.40	0.04	0.51	0.12	(0.12)
	December 31,				
	2006	2005	2004	2003	2002
Balance Sheet Data:					
Total assets	\$33,706	\$29,332	\$34,099	\$26,361	\$22,030
Working capital	16,438	15,375	20,511	11,787	8,798
Long-term debt, excluding current portion	--	--	--	330	2,791
Redeemable convertible preferred stock	--	--	--	3,902	3,824
Shareholders' equity	24,290	21,257	23,715	10,347	6,545

(1) Net income (loss) per share amounts have been restated to reflect a three-for-two stock split effected in the form of a stock dividend in April 2004.

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 those listed in Item 1A of this Annual Report. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them to reflect new, changing or unanticipated events or circumstances.

OVERVIEW

The year 2006 was a successful and much improved year for TransAct as compared to 2005. During 2006, we marked our tenth year as a publicly traded company by achieving a record level of sales. We also shipped a record 186,000 printers during 2006, led by our top-selling Epic 950(R) casino printer. In addition to our financial success, some of our other key accomplishments for 2006 include the following:

- Extending our sales contract through 2012 with GTECH for the purchase of our lottery printers
- Extending our strategic sales alliance through 2009 with Eurocoin, one of Europe's leading suppliers of products for the amusement and gaming industries, to sell our gaming and casino printers in Europe and Africa
- Receiving three new patents, including another key patent in connection with dual port technology
- Partnering with Merley Paper Converters Ltd., the U.K.'s largest independent manufacturer of receipt paper rolls, for exclusive U.S. distribution rights for thermal receipt paper that has true full color images printed on the front or back under our newly-created POWEROLL (TM) brand
- Signing an agreement with a leading national office supply chain to supply inkjet cartridges with an expected annual sales value of \$1.4 million

We continue to focus on sales growth in our two core markets, POS and banking and gaming and lottery, and in our TransAct Services Group, to drive increased profitability. During 2006, our total net sales increased by 26% to approximately \$64,328,000. See the table below for a breakdown of our sales by market.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2006		December 31, 2005		\$	%
POS and banking	\$16,858	26.2%	\$16,410	32.1%	\$ 448	2.7%
Gaming and lottery	34,677	53.9%	23,634	46.3%	11,043	46.7%
TransAct Services Group	12,793	19.9%	11,047	21.6%	1,746	15.8%
Total net sales	\$64,328	100.0%	\$51,091	100.0%	\$13,237	25.9%

We experienced an increase of approximately 3% in sales of POS and banking printers in 2006. Although we experienced increases in sales of our line of thermal printers and our Bankjet(R) printers to existing banking customers, these increases were largely offset by lower sales of our legacy line of POS impact printers, as these printers are being replaced by our newer thermal and inkjet printers. Our sales into the POS and banking market over the last several years have been impacted by a market shift in technology from impact printing to thermal and inkjet printing. This change in technology has resulted in declining sales of our impact printers that were at higher average selling prices and increasing sales of our thermal and inkjet printers that are at lower average selling prices. Although our unit sales volume has increased over the last several years, the revenue generated from those sales have not increased to the same extent due to lower average selling prices of thermal and inkjet printers as compared to impact printers. In fact, since 1996, unit sales of all of our printers, including POS and banking printers, have more than doubled, while average selling prices of these printers have declined by approximately 38%. We expect sales of legacy impact printers to continue to decline. In 2007, we plan to focus a substantial portion of our engineering and product development resources on continuing to expand our portfolio of POS printers. 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 approximately a 70% market share. GTECH has been our customer since 1995, and we continue to maintain a good relationship with them. In fact, during 2006, we extended our contract with GTECH through 2012. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades worldwide. During 2006, we experienced solid sales growth from GTECH, with total printer sales increasing by approximately \$4,499,000, or 65%, compared to 2005. However, 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 at casinos and racetracks, as well as in other gaming devices that print tickets, primarily in the United States, Europe and Australia, as well as in the emerging Asian market, including Macau. During 2006, our domestic gaming printer sales increased by 42% from 2005, as we gained market share in the U.S. casino market due to (1) our strategic alliance agreement with JCM American Corporation, the worldwide leading bill acceptor company, to sell our casino printers, (2) increased sales to IGT, the world's largest slot machine manufacturer, and (3) expanded acceptance of our new Epic 950(R) thermal casino printer. With the success of our Epic 950(R) thermal casino printer, and our expanding portfolio of patented technology on this printer, including dual port technology, we believe we are well positioned to continue to expand our market share in the North American slot machine market, which now stands at over 850,000 slot machines. In the international gaming market, we experienced our third consecutive record sales year in 2006, as our international gaming sales increased by 34% to \$8.4 million, largely due to sales growth from the Australian market. We expect continued strength from gaming sales internationally during 2007, as markets such as Europe, Australia and Asia (including Macau) continue to adopt and/or expand ticket printing for slot machines and other gaming machines, and as our new line of Epic printers launched in 2005 for the off-premise gaming market begin to take hold.

Our TransAct Services Group ("TSG"), which sells service, replacement parts and consumable products, including receipt paper, ribbons and inkjet cartridges, continues to offer a substantial growth opportunity and recurring revenue stream for TransAct. Even with declining sales of replacement parts for legacy impact printers as the installed base of these printers in the market declines, TSG revenue reached a record \$12,793,000 or 20% of net sales in 2006, representing an increase of 16% from 2005. During 2006, our sales benefited from increased sales from our maintenance services, including extended warranty contracts and our innovative 24-hour guaranteed replacement product service called TransAct Xpress(SM). In addition, our sales benefited from higher inkjet cartridge sales including incremental sales resulting from the signing of an agreement with a leading national office supply chain to supply inkjet cartridges. During 2006, we also partnered with Merley Paper Converters Ltd., the U.K.'s largest independent manufacturer of receipt paper rolls, to distribute exclusively in the U.S. specialized thermal receipt paper that will have true full color images printed on the front or back. This receipt paper, that we will market under our newly-created POWEROLL(TM) brand, will allow users the ability to leverage the receipt for branding and marketing purposes, while also helping to reduce copied receipt fraud. We remain focused on continuing to grow the lucrative TSG in 2007 and expect these initiatives to contribute to our growth.

Operationally, our gross margin and operating margin showed marked improvement during 2006, reflecting the investment we made in the growth elements of our business during 2005. During 2006, our gross margin improved to 34.8% compared to 30.5% in 2005, and our operating margin also improved to 9.5% compared to just 0.4% in 2005.

Overall, we reported net income of \$3.9 million and earnings per share (diluted) of \$0.40 per share for 2006. We also generated sufficient cash during 2006 to fund \$2.9 million of capital expenditures, repurchase \$2.6 million of our common stock (approximately 3% of our common stock outstanding) and finish the year with \$3.4 million of cash and no debt on our balance sheet as of December 31, 2006.

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

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

ACCOUNTS RECEIVABLE - We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all new customer accounts; ongoing credit evaluations of current customers; credit limits and payment terms based on available credit information; and adjustments to credit limits based upon payment history and the customer's current creditworthiness. We also provide an estimate of doubtful accounts based on historical experience and specific customer collection issues. Our allowance for doubtful accounts as of December 31, 2006 was \$204,000, or 1.8% of outstanding accounts receivable, which we feel is appropriate considering the overall quality of our accounts receivable. While credit losses have historically been within expectations and the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience. As of December 31, 2006, we had accounts receivable balances due from three customers of approximately 14%, 14% and 10%, respectively, of the total balance due, and no other customer accounts receivable balance exceeded 10%. As of December 31, 2005, we had accounts receivable balances due from one customer of 19% of the total balance due, 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 changing 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, 2006, our net inventory included a reserve of \$1,900,000, or 20.1% of gross inventory, to write inventory down to lower of cost or market.

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, 2006. 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, 2006 and we have determined that no goodwill impairment has occurred.

INCOME TAXES - In preparing our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This involves estimating the actual current tax exposure together with assessing temporary differences between the tax basis of certain assets and liabilities and their reported amounts in the financial statements, as well as net operating losses, tax credits and other carryforwards. These differences result in deferred tax assets

and liabilities, which are included within our consolidated balance sheets. We then assess the likelihood that the deferred tax assets will be realized from future taxable income, and to the extent that we believe that realization is not likely, we establish a valuation allowance.

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

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes", which will be effective the first quarter of 2007. Based on the "more-likely-than-not" standard under FIN 48, we expect that this guidance may impact the Company's recognition of tax benefits related to uncertain tax positions. However, the Company has not yet finalized its assessment of FIN 48.

As of December 31, 2006, we recorded a net deferred tax asset of approximately \$2,709,000, net of a valuation allowance of \$64,000, and a tax reserve of \$333,000, primarily on portions of certain tax credits. We will need to recognize approximately \$6.8 million in future taxable income in order to realize all of our deferred tax assets at December 31, 2006. 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.

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"). As of December 31, 2001, we successfully transferred substantially all our Wallingford operations to Ithaca, NY, with the exception of our Corporate headquarters and a service center that remains in Connecticut. The closing of the Wallingford manufacturing facility resulted in the related 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, 2006, we have recognized approximately \$5.5 million of expenses associated with the Consolidation, including severance pay, stay bonuses, employee benefits, moving expenses, non-cancelable lease payments, and other costs. Management has made reasonable estimates of such costs and expenses. During November 2006, we executed an agreement, effective May 1, 2007, to terminate the lease agreement for our Wallingford, CT facility. As a result, we changed our estimate of the restructuring accrual and reversed approximately \$479,000 of restructuring expenses in 2006. We do not expect to incur any additional restructuring expenses related to the Consolidation.

WARRANTY - We generally warrant 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 repairs and the related estimated cost of labor and material to make the necessary repairs. If actual future product repair rates or the actual costs of material and labor differ from the estimates, adjustments to the accrued warranty liability and related warranty expense would be made.

CONTINGENCIES - We record an estimated liability related to contingencies based on our estimates of the probable outcomes pursuant to 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. If the actual liabilities are settled in an amount greater than those recorded on the balance sheet, a change to income would be recorded.

SHARE-BASED COMPENSATION - We calculate share-based compensation expense in accordance with SFAS 123(R), "Share-Based Payment (as amended)" using the Black-Scholes option-pricing model to calculate the fair value of share-based awards. The key assumptions for this valuation method include the expected term of an option grant, and the stock price volatility, risk-free interest rate, dividend yield, and forfeiture rate. The determination of these assumptions is based on

past history and future expectations, and is subject to a high level of judgment. To the extent any of the assumptions were to change from year to year, the fair value of new option grants may vary significantly.

(A) RESULTS OF OPERATIONS

(I) YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

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, 2006 and 2005 were as follows:

(In thousands)	Year ended		Year ended		Change	
	December 31, 2006		December 31, 2005		\$	%
Point of sale and banking	\$16,858	26.2%	\$16,410	32.1%	\$ 448	2.7%
Gaming and lottery	34,677	53.9%	23,634	46.3%	11,043	46.7%
TransAct Services Group	12,793	19.9%	11,047	21.6%	1,746	15.8%
	-----	-----	-----	-----	-----	-----
	\$64,328	100.0%	\$51,091	100.0%	\$13,237	25.9%
	=====	=====	=====	=====	=====	=====
International*	\$14,138	22.0%	\$12,318	24.1%	\$ 1,820	14.8%
	=====	=====	=====	=====	=====	=====

* 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 2006 increased \$13,237,000, or 26%, from 2005 due to significantly higher printer shipments into our gaming and lottery market, as well as increased sales from our TransAct Services Group and a slight increase in printer shipments into our POS and banking market. Overall, international sales increased by \$1,820,000, or 15%, due largely to higher international shipments of our gaming printers, primarily to Australia, somewhat offset by lower POS printer shipments through our international distributors.

Point of sale and banking: Revenue from the POS and banking market includes sales of inkjet, thermal and impact printers 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. Revenue from this market also includes sales of printers used by banks, credit unions and other financial institutions to print and/or validate receipts at bank teller stations. Sales of our POS and banking printers worldwide increased approximately \$448,000, or 3%, from 2005.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2006		December 31, 2005		\$	%
Domestic	\$15,410	91.4%	\$14,188	86.5%	\$1,222	8.6%
International	1,448	8.6%	2,222	13.5%	(774)	(34.8%)
	-----	-----	-----	-----	-----	-----
	\$16,858	100.0%	\$16,410	100.0%	\$ 448	2.7%
	=====	=====	=====	=====	=====	=====

Domestic POS and banking printer sales increased to \$15,410,000, representing a \$1,222,000, or 9%, increase from 2005, due primarily to higher sales of (1) our line of thermal printers including our new thermal printer launched in 2005 exclusively for POS distributors and (2) our Bankjet(R) line of inkjet printers to existing banking customers. Although we are currently pursuing additional banking opportunities, due to the project-oriented nature of these sales, we cannot predict if and when future sales may occur. These increases were offset by lower sales of our legacy line of POS impact printers, as expected, as these printers are being replaced by our newer thermal and inkjet printers. Our sales into the POS and banking market over the last several years have been impacted by a shift in technology in the market from impact printing technology to thermal and inkjet printing technology. This change in technology has resulted in declining sales of our impact printers that were at higher average selling prices and increasing sales of our thermal and inkjet printers that are at lower average selling prices. And, although our unit sales volume has increased over the last several years, the revenue generated from those sales have not increased to the same extent due to lower average selling prices of thermal and inkjet printers as compared to impact printers.

International POS and banking printer sales decreased by approximately \$774,000, or 35%, due primarily to lower sales of our legacy impact printers to our international POS distributors in Europe and Latin America, somewhat offset by higher sales of our iTHERM(R) 280 thermal printer to our distributors in Latin America.

Gaming and lottery: Revenue from the gaming and lottery market includes sales of printers used in slot machines, video lottery terminals ("VLTs") and other gaming machines that print tickets instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos, racetracks ("racinos") and other gaming venues worldwide. Revenue from this market also includes sales of lottery printers to GTECH, the world's largest provider of lottery terminals, for various lottery applications. Sales of our gaming and lottery printers increased by \$11,043,000, or 47%, from 2005, primarily due to an increase in sales of our slot machine and other gaming printers, both domestically and internationally, as well as higher sales of lottery printers to GTECH.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2006		December 31, 2005		\$	%
Domestic	\$25,198	72.7%	\$16,271	68.8%	\$ 8,927	54.9%
International	9,479	27.3%	7,363	31.2%	2,116	28.7%
	-----	-----	-----	-----	-----	-----
	\$34,677	100.0%	\$23,634	100.0%	\$11,043	46.7%
	=====	=====	=====	=====	=====	=====

Domestic sales of our gaming and lottery printers increased by \$8,927,000, or 55%, from 2005 due largely to a significant increase in both sales of lottery printers to GTECH and thermal casino printers. Lottery printer sales to GTECH (excluding any international sales), which include thermal on-line lottery and other lottery printers, increased by approximately \$4,512,000, or 77%, in 2006 compared to 2005. Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly between quarters and years. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

Domestic gaming printer sales increased by approximately \$4,415,000 driven primarily by increased market share as we continue to benefit from our sales relationship with JCM American Corporation.

International gaming and lottery printer sales increased by approximately \$2,116,000, or 29%, to \$9,479,000 in 2006 compared to 2005. Such sales represented 27% and 31% of total sales into our gaming and lottery market during 2006 and 2005, respectively. This increase was led primarily by continued growth in international gaming printer sales, primarily in Australia and Asia, as these international markets continue to expand ticket printing in slot machines and other gaming machines. In addition, we experienced higher gaming printer sales in Canada, and slightly lower international lottery printer sales to GTECH.

TransAct Services Group: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons and receipt paper), replacement parts, maintenance and repair services, refurbished printers and shipping and handling charges. Sales by TSG increased by approximately \$1,746,000, or 16%.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2006		December 31, 2005		\$	%
Domestic	\$ 9,582	74.9%	\$ 8,314	75.3%	\$1,268	15.3%
International	3,211	25.1%	2,733	24.7%	478	17.5%
	-----	-----	-----	-----	-----	-----
	\$12,793	100.0%	\$11,047	100.0%	\$1,746	15.8%
	=====	=====	=====	=====	=====	=====

Domestic TSG revenue increased by approximately \$1,268,000 or 15%, to \$9,582,000 due to revenue generated from service contracts, as well as increased sales of refurbished printers and consumable products. These increases were somewhat offset by a decline in the sale of replacement parts for certain legacy impact printers, as the installed base of these legacy printers in the market declines. International TSG sales increased by approximately \$478,000, or 18%, to \$3,211,000, due largely to an increase in maintenance and repair services revenue, as well as increased sales of consumable products.

The primary operations of our United Kingdom subsidiary, a European sales and service center, relates to revenue generated from a service contract from a single customer in the United Kingdom. The contract has a termination date of May 2007. We do not expect that such contract will be renewed at the same volume of activity as the previous contract. We are currently evaluating the impact that this may have on our financial results.

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 manufacturing overhead expenses. Gross profit increased by \$6,775,000, or 43%, to \$22,365,000, and gross margin increased to 34.8% from 30.5% due primarily to a higher volume of sales and a more favorable sales mix in 2006 compared to 2005, as well as lower product costs resulting from increased sourcing of components for our printers in Asia. In addition, gross profit for 2005 was negatively impacted

by a charge of \$600,000, or 1.2% of net sales, related to the write-down of inventory and accrual for estimated settlement/cancellation payments for non-cancelable purchase orders for certain excess inventory components related primarily to our Model 850 casino ticket printer. The charge was largely the result of the faster than expected acceptance of our new Epic 950(R) casino ticket printer, which replaces our Model 850 casino ticket printer.

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 expenses, outside design and testing services and supplies). Such expenses increased by \$98,000, or 4%, to \$2,824,000, from 2005 as we incurred higher expenses related to increased engineering staffing and other employee compensation expenses and product development expenses related to our new line of off-premise gaming printers, which were largely offset by a decrease in costs associated with International Game Technology's ("IGT") integration and attainment of jurisdictional approvals for our Epic 950(R) thermal casino printer on all of IGT's slot platforms worldwide (the "IGT Integration"). We incurred approximately \$150,000 of IGT Integration costs in 2005 that did not recur in 2006. Engineering and product development expenses decreased as a percentage of net sales to 4.4% from 5.3%, primarily due to higher sales volume in 2006 compared to 2005.

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 \$573,000, or 9%, to \$6,892,000, as we incurred the full year effect in 2006 of expenses related to the addition of new corporate marketing staff, and new sales staff for our three strategic sales units, including those for our service centers in Las Vegas, NV and Wallingford, CT, made throughout 2005. We also incurred increased expenses related to demonstration printers and the redesign of our website that we re-launched in August 2006. These increases were somewhat offset by decreased travel, trade show, advertising, consulting and other promotional marketing expenses compared with 2005. Selling and marketing expenses decreased as a percentage of net sales to 10.7% from 12.4%, due primarily to higher sales volume in proportion to a higher level of expenses in 2006 compared to 2005.

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, telecommunication expenses, and other expenses related to being a publicly-traded company. General and administrative expenses increased by \$719,000, or 11%, due primarily to (1) the full year effect in 2006 of compensation related expenses associated with the relocation of our accounting department from Ithaca, NY to Wallingford, CT during 2005, (2) expenses associated with the Company's Oracle implementation including data conversion expenses, temporary help, travel and compensation related expenses, (3) approximately \$220,000 of legal and consulting services related to a potential acquisition that was not consummated, (4) higher incentive compensation expenses based on the Company's improved performance in 2006 and (5) increased telecommunications expenses associated with the implementation of our new company-wide phone system. These increases were partially offset by lower travel expenses and a decrease in recruiting costs incurred during 2005 related to the relocation of our accounting department and the increased staffing of the TSG sales unit that did not recur in 2006. General and administrative expenses decreased as a percentage of net sales to 10.9% from 12.4%, due primarily to increased sales in proportion to higher expenses in 2006 as compared to 2005.

BUSINESS CONSOLIDATION AND RESTRUCTURING. During the fourth quarter of 2006, we executed an agreement, effective May 1, 2007, to terminate the lease agreement for our existing corporate headquarters and eastern region service center facility located in Wallingford, CT (the "Release Agreement"). Prior to the execution of the Release Agreement, we accrued for the remaining non-cancelable lease payments and other related costs for this facility through the expiration date of the lease (March 31, 2008). As a result of the Release Agreement and the early termination of the old lease, we were released from the legal obligation for lease payments after May 1, 2007 and, accordingly, we reversed \$479,000 of previously accrued expenses related to the Consolidation in the fourth quarter of 2006. As of December 31, 2006, we have provided for the estimated remaining non-cancelable lease payments and other related costs for this facility through the new termination date of the lease (May 1, 2007).

We do not expect to incur any further restructuring expenses or to adjust our restructuring accrual. The restructuring accrual balance will be reduced to zero as of May 1, 2007.

OPERATING INCOME. During 2006, we reported operating income of \$6,088,000, or 9.5% of net sales, compared to \$224,000, or 0.4% of net sales, in 2005. The substantial increase in our operating income and operating margin was due largely to the operating leverage we experienced in 2006 resulting from higher sales and gross profit, somewhat offset by higher operating expenses, compared to that of 2005.

INTEREST. We recorded net interest income of \$104,000 in 2006 compared to net interest income of \$73,000 in 2005. Even though our average cash balance was lower in 2006 compared to 2005 due largely to the repurchase of common stock under our stock repurchase program, our net interest income still increased as we substantially improved our overall rate of return on our invested cash balance. See "Liquidity and Capital Resources" below for more information.

OTHER EXPENSE. We recorded other expense of \$159,000 in 2006 due primarily to transaction exchange losses recorded by our UK subsidiary in 2006 due to the weakening of the U.S. dollar against the British pound. We recorded other income of \$32,000 in 2005 due primarily to transaction exchange gains due to the strengthening of the U.S. dollar against the British pound in 2005.

INCOME TAXES. We recorded an income tax provision of \$2,117,000, at an effective rate of 35.1% during 2006 compared to an income tax benefit of \$48,000, at an effective rate of (14.6%) in 2005. During 2005, we recorded an income tax benefit, as compared to an income tax provision in 2006, as we recognized certain discrete tax benefits and tax credits and reversed certain valuation allowances during 2005, combined with an unusually low level of income before taxes.

NET INCOME. We reported net income in 2006 of \$3,916,000, or \$0.40 per diluted share compared to net income of \$377,000, or \$0.04 per diluted share in 2005.

(II) YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

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, 2005 and 2004 were as follows:

(In thousands)	Year ended		Year ended		Change	
	December 31, 2005		December 31, 2004		\$	%
Point of sale and banking	\$16,410	32.1%	\$17,659	29.5%	\$(1,249)	(7.1%)
Gaming and lottery	23,634	46.3%	31,937	53.4%	(8,303)	(26.0%)
TransAct Services Group	11,047	21.6%	10,251	17.1%	796	7.8%
	-----	-----	-----	-----	-----	-----
	\$51,091	100.0%	\$59,847	100.0%	\$(8,756)	(14.6%)
	=====	=====	=====	=====	=====	=====
International	\$12,318	24.1%	\$ 6,423	10.7%	\$ 5,895	91.8%
	=====	=====	=====	=====	=====	=====

* 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 2005 decreased \$8,756,000, or 15%, from 2004 due to significantly lower printer shipments into our gaming and lottery market, as well as lower printer shipments into our POS and banking market. However, sales from our TransAct Services Group increased by \$796,000, or 8%, from 2004, as our installed base of printers grows and as we continue to aggressively pursue these after-market sales. Overall, international sales almost doubled to \$12,318,000, due largely to higher international shipments of our gaming printers, primarily to Europe and Australia, as well as international shipments of lottery printers to GTECH.

Point of sale and banking: Sales of our POS and banking printers worldwide decreased approximately \$1,249,000, or 7%, from 2004.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2005		December 31, 2004		\$	%
Domestic	\$14,188	86.5%	\$15,734	89.1%	\$(1,546)	(9.8%)
International	2,222	13.5%	1,925	10.9%	297	15.4%
	-----	-----	-----	-----	-----	-----
	\$16,410	100.0%	\$17,659	100.0%	\$(1,249)	(7.1%)
	=====	=====	=====	=====	=====	=====

Domestic POS and banking printer sales decreased to \$14,188,000, or 10%, due largely to significantly lower shipments of our BANKjet(R) line of inkjet printers in 2005 as compared to 2004. We experienced this decrease due to the project-oriented nature of banking printer sales. During 2004, we shipped banking printers to two top-tier financial services companies. However, during 2005, we shipped banking printers primarily to only one top-tier financial services company. The decrease in banking printer sales was slightly offset by increasing sales of our POS printers, primarily our iTHERM(R)

280 thermal printer and our new line of printers exclusively for POS distributors. Excluding banking printers, sales of our POS printers increased by 2% in 2005 compared to 2004.

International POS and banking printer sales increased by approximately \$297,000, or 15%, due primarily to higher sales through our growing network of international POS distributors in Europe and Latin America, somewhat offset by lower sales to distributors in the Pacific Rim.

Gaming and lottery: Revenue from the gaming and lottery market includes sales of printers used in slot machines, video lottery terminals ("VLTs") and other gaming machines that print tickets instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos, racetracks ("racinos") and other gaming venues worldwide. Revenue from this market also includes sales of lottery printers to GTECH, the world's largest provider of lottery terminals, for various lottery applications. Sales of our gaming and lottery printers decreased by \$8,303,000, or 26%, from 2004, primarily due to a decrease in sales of slot machine printers in North America, as well as a decrease in sales of lottery printers to GTECH. This decrease was partially offset by significantly higher sales of our slot machine and other gaming printers in Europe and Australia.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2005		December 31, 2004		\$	%
Domestic	\$16,271	68.8%	\$29,692	93.0%	\$(13,421)	(45.2%)
International	7,363	31.2%	2,245	7.0%	5,118	228.0%
	-----	-----	-----	-----	-----	-----
	\$23,634	100.0%	\$31,937	100.0%	\$(8,303)	(26.0%)
	=====	=====	=====	=====	=====	=====

Domestic sales of our gaming and lottery printers declined by \$13,421,000, or 45%, from 2004. Due to the continued decline in slot machine sales into the domestic casino market, including the effects of Hurricane Katrina, lower capital spending due to mergers of major casino operators, and the loss of revenue from a large slot machine manufacturer as it depletes a large inventory position, we experienced significantly lower sales of our TITO casino printers throughout North America during 2005.

Printer sales to GTECH Corporation (a worldwide lottery terminal provider and major customer), which include impact and thermal on-line lottery printers, decreased by approximately \$1,153,000, or 14%, in 2005 compared to 2004. This decrease was largely due to shipments of legacy impact printers to GTECH in 2004 that did not recur in 2005.

International gaming and lottery printer sales more than tripled to \$7,363,000 in 2005 compared to 2004. Such sales represented 31% and 7% of total sales into our gaming and lottery market during 2005 and 2004, respectively. We experienced growth in both international gaming and lottery printer sales in 2005 as markets in Europe and Australia continue to adopt and roll out ticket printing in slot machines and other gaming/amusement machines, and GTECH installs our lottery printers in its international markets.

TransAct Services Group: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons and receipt paper), replacement parts, maintenance and repair services, refurbished printers and shipping and handling charges. Sales by TSG increased by approximately \$796,000, or 8%.

(In thousands)	Year ended		Year ended		Change	
	December 31, 2005		December 31, 2004		\$	%
Domestic	\$ 8,314	75.3%	\$ 7,998	78.0%	\$316	4.0%
International	2,733	24.7%	2,253	22.0%	480	21.3%
	-----	-----	-----	-----	-----	-----
	\$11,047	100.0%	\$10,251	100.0%	\$796	7.8%
	=====	=====	=====	=====	=====	=====

Domestic TSG revenue increased by approximately \$316,000 or 4%, to \$8,314,000 largely due to higher revenue from maintenance and repair services and refurbished printer sales, offset by a decline in the sale of spare parts, mostly for legacy printers. International TSG sales increased by approximately \$480,000, or 21%, to \$2,733,000, due primarily to an increase in service revenue.

GROSS PROFIT. Gross profit decreased by \$6,452,000, or 29%, to \$15,590,000, and gross margin decreased to 30.5% from 36.8% due primarily to lower volume of sales in 2005 compared to 2004 and a less favorable sales mix. In addition, gross profit for 2005 was negatively impacted by a charge of \$600,000, or 1.2% of net sales, related to the write-down of inventory and accrual for estimated settlement/cancellation payments for non-cancelable purchase orders for certain excess inventory components related primarily to our Model 850 casino ticket printer. The charge was largely the result of the

faster than expected acceptance of our new Epic 950(R) casino ticket printer, which replaces our Model 850 casino ticket printer.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses increased slightly by \$11,000, or less than 1%, to \$2,726,000, from 2004 as we incurred higher expenses related to increased engineering staffing and other employee compensation expenses, which were almost entirely offset by a decrease in costs associated with IGT's integration and attainment of jurisdictional approvals for our new Epic 950(R) thermal casino printer on all of IGT's slot platforms worldwide (the "IGT Integration"). We incurred approximately \$150,000 of IGT Integration costs in 2005 compared to \$350,000 in 2004. Engineering and product development expenses increased as a percentage of net sales to 5.3% from 4.5%, primarily due to lower sales volume in 2005 compared to 2004.

SELLING AND MARKETING. Selling and marketing expenses increased by \$1,208,000, or 24%, to \$6,319,000, due primarily to increased expenses related to (1) the addition of new sales staff for our three business units and our new service centers in Las Vegas, NV and Wallingford, CT, (2) marketing, promotional and trade show expenses related to the launch of our new line of printers exclusively for POS distributors and our increased presence at this year's Global Gaming Exposition (G2E) trade show in Las Vegas, NV, and (3) the recruitment and hiring of a Senior Vice President of Marketing during the second quarter of 2005. Selling and marketing expenses increased as a percentage of net sales to 12.4% from 8.5%, due primarily to the increases noted above in proportion to lower sales volume in 2005 compared to 2004.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by \$331,000, or 6%, due primarily to (1) recruiting and compensation related expenses associated with the re-location of our accounting department from Ithaca, NY to Wallingford, CT, (2) higher legal expenses related to our lawsuit against FutureLogic, Inc., and (3) increased software maintenance, travel, training and temporary help expenses associated with our Oracle software implementation. These increases were partially offset by (1) a decrease related to a one-time listing fee incurred in 2004 resulting from our move back onto the NASDAQ National Market from the NASDAQ SmallCap Market, (2) lower audit and professional expenses related to compliance with the Sarbanes-Oxley Act of 2002 incurred during 2005 (our second year of compliance) compared to 2004 (our initial year of compliance), and (3) expenses incurred in 2004 associated with our proposed acquisition of TPG, Inc. that was terminated and did not recur in 2005. General and administrative expenses increased as a percentage of net sales to 12.4% from 10.0%, due primarily to the increased expenses noted above in proportion to a lower volume of sales in 2005 compared to 2004.

BUSINESS CONSOLIDATION AND RESTRUCTURING. We recorded a reversal of expense of \$225,000 related to the Consolidation in 2004. This amount was the result of a revision to our original estimate for non-cancelable lease payments included in the restructuring accrual.

OPERATING INCOME. During 2005, we reported operating income of \$224,000, or 0.4% of net sales, compared to \$8,451,000, or 14.1% of net sales, in 2004. The significant decrease in our operating income and operating margin was due largely to lower sales and gross margin, and higher operating expenses (primarily selling and marketing expenses and general and administrative expenses).

INTEREST. We recorded net interest income of \$73,000 in 2005 compared to net interest income of \$4,000 in 2004, due to our higher average cash balances and slightly higher interest rates throughout 2005 as compared to 2004.

OTHER EXPENSE. We recorded other income of \$32,000 in 2005 compared to other expense of \$18,000 in 2004, due primarily to transaction exchange gains recorded by our UK subsidiary in 2005 due to the weakening of the British pound against the U.S. dollar as compared to transaction exchange losses recorded in 2004 due to the strengthening of the British pound against the U.S. dollar.

INCOME TAXES. We recorded an income tax benefit of \$48,000, at an effective rate of (14.6%) during 2005 compared to an income tax provision of \$2,979,000, at an effective rate of 35.3% in 2004. Despite reporting \$329,000 of income before taxes in 2005, we recorded a net income tax benefit, resulting largely from the recognition of certain discrete tax benefits and tax credits, as well as the reversal of valuation allowances during the year, combined with an unusually low level of income before taxes.

NET INCOME. We reported net income in 2005 of \$377,000, or \$0.04 per diluted share compared to net income of \$5,458,000, or \$0.51 per diluted share in 2004. 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.

(B) LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Overview: During 2006, our cash flows reflected the results of higher sales volume, increased investment in infrastructure and our stock repurchase program as compared to 2005. Even with the repurchase of approximately \$2,625,000 of our common stock, and capital expenditures of \$2,891,000, we still finished 2006 with no outstanding bank debt and approximately \$3.4 million of cash and cash equivalents.

Operating activities: The following significant factors primarily affected our cash provided by operations of \$3,300,000 in 2006:

- We reported net income of \$3,916,000.
- We recorded depreciation, amortization and non-cash compensation expense of \$2,149,000.
- Accounts receivable increased by \$3,063,000 due primarily to a higher volume of sales in the fourth quarter of 2006 compared to the fourth quarter of 2005.
- Inventories increased by \$1,531,000 and accounts payable increased by \$1,138,000 due to higher inventory purchases and inventory levels related to higher sales volume in the fourth quarter of 2006 compared to the fourth quarter of 2005.
- Accrued liabilities and other liabilities increased by \$1,423,000 due to increases in: (1) compensation related accruals, (2) income tax accrual based on the increased level of income before taxes, (3) deferred revenue balances related to increased sales of extended service contracts, (4) accruals for legal fees and (5) consulting services accruals related to our Oracle software implementation. These increases were partly offset by a decrease in warranty accruals.
- Accrued restructuring expenses decreased by \$878,000 due to \$399,000 of payments made on our Wallingford, CT lease obligation and the reversal of \$479,000 of expense related to the execution of an agreement effective May 1, 2007 to terminate the lease agreement for our existing corporate headquarters located in Wallingford, CT.

Investing activities: Our capital expenditures were approximately \$2,891,000 and \$2,756,000 in 2006 and 2005, respectively. Expenditures in 2006 included approximately \$1,058,000 for the purchase of hardware, software and outside consulting costs related to our Oracle software implementation, \$366,000 for the purchase of hardware and consulting costs related to our new phone system, \$244,000 for the purchase of leasehold improvements made on the gaming and lottery headquarters and western region service center in Las Vegas, NV, with the remaining amount primarily related to the purchase of new product tooling.

Financing activities: We used approximately \$1,684,000 from financing activities during 2006, largely due to the repurchase of Company stock of approximately \$2,625,000, partly offset by proceeds and tax benefits from stock option exercises of approximately \$1,029,000. We also used approximately \$88,000 of cash related to deferred financing costs for the new revolving credit facility we entered into with TD Banknorth during November 2006.

WORKING CAPITAL

Our working capital increased to \$16,438,000 at December 31, 2006 from \$15,375,000 at December 31, 2005. The current ratio decreased to 2.9 to 1 at December 31, 2006 compared to 3.2 to 1 at December 31, 2005. The decrease in the current ratio was largely due to higher accounts payable resulting from higher sales volume and inventory purchases and an increase in income taxes payable resulting from a higher level of income before taxes, somewhat offset by higher accounts receivable and inventory levels. In addition, our working capital and current ratio were impacted by our stock repurchase program, as we continue to use available cash to repurchase shares of our common stock in the open market.

DEFERRED TAXES

As of December 31, 2006, we had a net deferred tax asset of approximately \$2,709,000. In order to utilize this deferred tax asset, we will need to generate approximately \$6.8 million of taxable income in future years. Based on future projections of taxable income, we have determined that it is more likely than not that the existing net deferred tax asset will be realized.

CREDIT FACILITY AND BORROWINGS

On November 28, 2006, we signed a new, five-year \$20 million credit facility (the "New TD Banknorth Credit Facility") with TD Banknorth, N.A. ("TD Banknorth"). The new credit facility provides for a \$20 million revolving credit line expiring on November 28, 2011. The New TD Banknorth Credit facility replaces a previous \$11.5 million credit facility also with TD Banknorth. Due to TransAct's improved financial performance, our New TD Banknorth Credit Facility provides substantially improved terms compared to our existing credit facility, including lower on-going costs, fewer financial covenants, reduced reporting requirements and a lower interest rate. Borrowings under the new revolving credit line

bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. Deferred financing costs relating to expenses incurred to complete the New TD Banknorth Credit Facility were \$88,000 at December 31, 2006. The New TD Banknorth Credit Facility imposes certain quarterly financial covenants on us 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 New TD Banknorth Credit Facility at December 31, 2006.

As of December 31, 2006, we had no balances outstanding on the revolving credit line. Undrawn commitments under the New TD Banknorth Credit facility were approximately \$20,000,000 at December 31, 2006.

STOCK REPURCHASE PROGRAM

On March 25, 2005, the Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10 million of our outstanding shares of common stock from time to time in the open market over a three year period ending on March 25, 2008, depending on market conditions, share price and other factors. During 2006, we repurchased a total of 296,300 shares of common stock for approximately \$2,625,000 at an average price of \$8.86 per share. As of December 31, 2006, we have repurchased a total of 801,300 shares of common stock for approximately \$6,492,000, at an average price of \$8.10 per share.

SHAREHOLDERS' EQUITY

Shareholders' equity increased by \$3,033,000 to \$24,290,000 at December 31, 2006 from \$21,257,000 at December 31, 2005. The increase was primarily due to

(1) net income of \$3,916,000, (2) proceeds of approximately \$687,000 from the issuance of approximately 136,000 shares of common stock from stock option exercises, (3) an increase in additional paid-in capital of approximately \$342,000 resulting from tax benefits from tax deductions arising from the sale of employee stock from stock option exercises and vesting of restricted stock, and (4) non-cash compensation expense of \$581,000 related to stock options and restricted stock, and (5) foreign currency translation adjustments of approximately \$132,000. These increases were offset by treasury stock purchases of 296,300 shares of common stock for approximately \$2,625,000.

CONSOLIDATION EXPENSES

During 2001 through 2007, we recognized approximately \$5.5 million 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.

In November 2006, we executed an agreement, effective May 1, 2007, to terminate the lease agreement for our facility located in Wallingford, CT (the "Release Agreement"). Prior to the execution of the Release Agreement, we accrued for the remaining non-cancelable lease payments and other related costs for this facility through the expiration date of the lease (March 31, 2008). As a result of the Release Agreement and the early termination of the old lease, we were released from the legal obligation for lease payments after May 1, 2007 and, accordingly, we reversed \$479,000 of previously accrued expenses related to the Consolidation in the fourth quarter of 2006. As of December 31, 2006, we have provided for the estimated remaining non-cancelable lease payments and other related costs for this facility through the new termination date of the lease (May 1, 2007).

As of December 31, 2006, our restructuring accrual amounted to \$315,000 which represents the estimated remaining non-cancelable lease payments and other related costs for the Wallingford facility through the new termination date of the lease (May 1, 2007). We do not expect to incur any further restructuring expenses or to adjust our restructuring accrual. The restructuring accrual balance will be reduced to zero as of May 1, 2007. We paid approximately \$399,000, \$447,000 and \$446,000 of expenses related to the Consolidation in 2006, 2005 and 2004, respectively.

CONTRACTUAL OBLIGATIONS

TransAct's contractual obligations as of December 31, 2006 were as follows:

(In thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease obligations	\$ 5,622	\$ 978	\$1,743	\$1,461	\$1,440
Purchase obligations	16,918	16,848	70	--	--
Total	\$22,540	\$17,826	\$1,813	\$1,461	\$1,440
	=====	=====	=====	=====	=====

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR INCOME TAX UNCERTAINTIES: In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, which will be effective the first quarter of 2007. Based on the "more-likely-than-not" standard under FIN 48, we expect that this guidance may impact the Company's recognition of tax benefits related to uncertain tax positions. However, the Company has not yet finalized its assessment of FIN 48.

EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING CURRENT YEAR MISSTATEMENTS: In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements". SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for our fiscal year 2006 annual financial statements. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

FAIR VALUE MEASUREMENTS: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FASB 157") which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. Because the guidance was recently issued, management has not yet determined the impact, if any, of adopting the provisions of FASB 157 on the Company's financial position and results of operations.

RESOURCE SUFFICIENCY

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

(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 2007.

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	29
TransAct Technologies Incorporated consolidated financial statements:	
Consolidated balance sheets as of December 31, 2006 and 2005	30
Consolidated statements of income for the years ended December 31, 2006, 2005 and 2004	31
Consolidated statements of changes in shareholders' equity and comprehensive income for the years ended December 31, 2006, 2005 and 2004	32
Consolidated statements of cash flows for the years ended December 31, 2006, 2005 and 2004	33
Notes to consolidated financial statements	34-50
Financial Statement Schedule	
The following financial statement schedule is included herein:	
Schedule II - Valuation and Qualifying Accounts	51

All other financial statement schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of TransAct Technologies Incorporated's consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 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 and financial statement schedule

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, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule 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.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9a, that the Company maintained effective internal control over financial reporting as of December 31, 2006 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, 2006 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

*PricewaterhouseCoopers LLP
Hartford, CT
March 15, 2007*

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

	December 31, 2006	December 31, 2005
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 3,436	\$ 4,579
Receivables, net	11,422	8,359
Inventories	7,567	6,036
Refundable income taxes	42	295
Deferred tax assets	2,167	2,735
Other current assets	552	258
	-----	-----
Total current assets	25,186	22,262
	-----	-----
Fixed assets, net	5,938	4,510
Goodwill	1,469	1,469
Deferred tax assets	542	557
Intangible and other assets, net of accumulated amortization of \$122 and \$41, respectively	571	534
	-----	-----
	8,520	7,070
	-----	-----
Total assets	\$33,706	\$29,332
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	\$ 3,997	\$ 2,859
Accrued liabilities	4,047	3,198
Accrued restructuring expenses	315	420
Deferred revenue	389	410
	-----	-----
Total current liabilities	8,748	6,887
	-----	-----
Accrued restructuring expenses, net of current portion	--	773
Deferred revenue, net of current portion	508	270
Accrued warranty, net of current portion	160	145
	-----	-----
	668	1,188
	-----	-----
Total liabilities	9,416	8,075
	-----	-----
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 4,800,000 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 at December 31, 2006 and 2005; 9,574,777 and 9,731,670 shares issued; 8,773,477 and 9,226,670 shares outstanding, at December 31, 2006 and 2005, respectively	104	102
Additional paid-in capital	19,105	19,334
Retained earnings	11,405	7,489
Unamortized restricted stock compensation	--	(1,837)
Accumulated other comprehensive income, net of tax	168	36
Treasury stock, 801,300 and 505,000 shares at cost	(6,492)	(3,867)
	-----	-----
Total shareholders' equity	24,290	21,257
	-----	-----
Total liabilities and shareholders' equity	\$33,706	\$29,332
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2006	2005	2004
Net sales	\$64,328	\$51,091	\$59,847
Cost of sales	41,963	35,501	37,805
Gross profit	22,365	15,590	22,042
Operating expenses:			
Engineering, design and product development	2,824	2,726	2,715
Selling and marketing	6,892	6,319	5,111
General and administrative	7,040	6,321	5,990
Business consolidation and restructuring	(479)	--	(225)
	16,277	15,366	13,591
Operating income	6,088	224	8,451
Interest and other income (expense):			
Interest expense	(44)	(41)	(44)
Interest income	148	114	48
Other, net	(159)	32	(18)
	(55)	105	(14)
Income before income taxes	6,033	329	8,437
Income tax provision (benefit)	2,117	(48)	2,979
Net income	3,916	377	5,458
Dividends and accretion charges on preferred stock	--	--	(111)
Earnings allocated to preferred shareholders	--	--	(111)
Net income available to common shareholders	\$ 3,916	\$ 377	\$ 5,236
Net income per common share:			
Basic	\$ 0.41	\$ 0.04	\$ 0.55
Diluted	\$ 0.40	\$ 0.04	\$ 0.51
Shares used in per-share calculation:			
Basic	9,577	9,849	9,593
Diluted	9,870	10,163	10,231

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income	\$ 3,916	\$ 377	\$ 5,458
Adjustments to reconcile net income to net cash provided by operating activities:			
Share-based compensation expense	581	484	291
Incremental tax benefits from stock options exercised	(342)	--	--
Depreciation and amortization	1,568	1,493	1,634
Deferred income taxes	583	(648)	380
Loss (gain) on sale of fixed assets	--	4	--
Reversal of accrued restructuring expense	(479)	--	(225)
Changes in operating assets and liabilities:			
Receivables	(3,063)	551	164
Inventories	(1,531)	2,038	(13)
Refundable income taxes	253	215	(380)
Other current assets	(276)	328	(207)
Other assets	(72)	3	(8)
Accounts payable	1,138	(945)	516
Accrued liabilities and deferred revenue	1,423	(580)	1,179
Accrued restructuring expenses	(399)	(447)	(446)
Net cash provided by operating activities	3,300	2,873	8,343
Cash flows from investing activities:			
Purchases of fixed assets	(2,891)	(2,756)	(1,178)
Purchase of intangible assets	--	(510)	--
Net cash used in investing activities	(2,891)	(3,266)	(1,178)
Cash flows from financing activities:			
Term loan repayments	--	--	(420)
Payment of deferred financing costs	(88)	--	--
Proceeds from stock option exercises	687	347	1,516
Purchases of common stock for treasury	(2,625)	(3,867)	--
Incremental tax benefits from stock options exercised	342	--	--
Payment of cash dividends	--	--	(91)
Payment of preferred stock conversion and registration expense	--	(3)	(102)
Net cash (used in) provided by financing activities	(1,684)	(3,523)	903
Effect of exchange rate changes	132	(133)	62
(Decrease) increase in cash and cash equivalents	(1,143)	(4,049)	8,130
Cash and cash equivalents, beginning of period	4,579	8,628	498
Cash and cash equivalents, end of period	\$ 3,436	\$ 4,579	\$ 8,628
Supplemental cash flow information:			
Interest paid	\$ 43	\$ 41	\$ 44
Income taxes paid	1,201	431	517
Non-cash financing activities:			
Conversion of preferred stock to common stock	\$ --	\$ --	\$ 3,926
Tax benefit related to employee stock sales and restricted stock	342	337	2,332
Accretion of preferred stock discount and issuance costs	--	--	24
Issuance of restricted stock	207	1,231	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, market-specific printers for transaction-based industries. These industries include gaming, lottery, banking and hospitality. Our printers are designed based on market specific requirements and are sold under the Ithaca(R) and Epic(TM) product brands. We distribute our products through OEMs, value-added resellers, selected distributors, and directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. We also generate revenue from the after-market side of the business, providing printer service, supplies and spare parts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STOCK SPLIT: On March 17, 2004, we effected a three-for-two split of our common stock in the form of a 50 percent stock dividend. 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.

RECLASSIFICATIONS: Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

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.

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 20 for information regarding our international operations. We provide the following disclosures of revenues from products and services:

(In thousands)	Year ended		Year ended		Year ended	
	December 31, 2006		December 31, 2005		December 31, 2004	
POS and banking printers	\$16,858	26.2%	\$16,410	32.1%	\$17,659	29.5%
Gaming and lottery printers	34,677	53.9%	23,634	46.3%	31,937	53.4%
Services, spare parts and consumables	12,793	19.9%	11,047	21.6%	10,251	17.1%
Total net sales	\$64,328	100.0%	\$51,091	100.0%	\$59,847	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.

ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS: 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,
- Adjustments to credit limits based upon payment history and the customer's current creditworthiness.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

We establish an allowance for doubtful accounts to ensure trade receivables are valued appropriately. We maintain an allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, significant one-time events and historical experience. We record a specific allowance for individual accounts when we become aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, we would further adjust estimates of the recoverability of receivables. Allowances for doubtful accounts on accounts receivable balances were \$204,000 and \$240,000, as of December 31, 2006 and 2005, respectively.

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 recorded using 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 software and equipment is three to seven 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. The costs of sold or retired assets are removed from the related asset and accumulated depreciation accounts and any gain or loss is recognized. Depreciation expense was \$1,466,000, \$1,419,000 and \$1,608,000 in 2006, 2005 and 2004, respectively.

LEASES: Rent expense under non-cancelable operating leases with scheduled rent increases or free rent periods is accounted for on a straight-line basis over the lease term, beginning on the date of control of physical use of the asset or of initial possession. The amount of the excess of straight-line rent expense over scheduled payments is recorded as a deferred liability. Construction allowances and other such lease incentives are recorded as deferred credits, and are amortized on a straight-line basis as a reduction of rent expense beginning in the period they are deemed to be earned, which generally coincides with the occupancy date.

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 is tested for impairment at least annually at the reporting unit level.

We test goodwill 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, 2006 and determined that no impairment has occurred.

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 contracts 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.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CONCENTRATION OF CREDIT RISK: Financial instruments that potentially expose TransAct to concentrations of credit risk are limited to accounts receivable.

Accounts receivable from customers representing 10% or more of total accounts receivable were as follows:

	December 31,	
	----- 2006	2005 -----
Customer A	14%	19%
Customer B	10%	*
Customer C	14%	*

* - customer balances were less than 10% of total accounts receivable

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

	Year ended December 31,		
	----- 2006	2005 -----	2004 -----
Customer A	20%	17%	16%
Customer B	*	14%	*
Customer C	*	*	14%

* - customer balances were less than 10% of total net sales

The primary operations of our United Kingdom subsidiary, a European sales and service center, relates to revenue generated from a service contract from a single customer in the United Kingdom. The contract has a termination date of May 2007. We do not expect that such contract will be renewed at the same volume of activity as the previous contract. We are currently evaluating the impact that this may have on our financial results.

WARRANTY: We generally warrant 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 repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability:

(In thousands)	Year ended December 31,		
	----- 2006	2005 -----	2004 -----
Balance, beginning of year	\$ 644	\$ 597	\$ 495
Additions related to warranties issued	595	613	610
Warranty costs incurred	(636)	(566)	(508)
Balance, end of year	\$ 603	\$ 644	\$ 597
	=====	=====	=====

Approximately \$160,000 and \$145,000 of the accrued product warranty liability were classified as long-term at December 31, 2006 and 2005, 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 recorded approximately \$2,824,000, \$2,726,000 and \$2,715,000 of research and development expense in the years ended December 31, 2006, 2005 and 2004, respectively.

ADVERTISING: Advertising costs are expensed as incurred. Advertising expenses, which are included in selling and marketing on the accompanying consolidated statements of income, for the years ended December 31, 2006, 2005 and 2004 totaled \$182,000, \$371,000 and \$343,000, 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 manufacturing 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 for additional disclosures related to our restructuring plan.

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, net of tax, 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, including those related to intercompany balances, are recognized in other income (expense).

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, accounts payable and accrued liabilities is a reasonable estimate of fair value because of the short-term nature of these accounts.

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, net of tax, related to our subsidiary in the United Kingdom within our calculation of comprehensive income.

SHARE-BASED PAYMENTS: In December 2004, the Financial Accounting Standards Board ("FASB") revised Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which establishes accounting for share-based awards exchanged for employee services and requires companies to expense the estimated fair value of these awards over the requisite employee service period. We adopted the accounting provisions of FAS 123R beginning in the first quarter of 2006. Prior to January 1, 2006, we accounted for share-based compensation to employees in accordance with Accounting Principles Board Opinion No. 25, ("APB 25") "Accounting for Stock Issued to Employees," and related interpretations. We also followed the disclosure requirements of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by Statement of Financial Accounting Standards 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("FAS 148").

Under FAS 123R, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as expense over the employee's requisite service period. We have no awards with market or performance conditions. We adopted the provisions of FAS 123R on January 1, 2006, using a modified prospective application ("MPA"), which provides for certain changes to the method for valuing share-based compensation. Under the MPA, prior periods are not revised for comparative purposes. The valuation provisions of FAS 123R apply to new awards and to modifications or cancellations of awards that are outstanding on the effective date.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In November 2005, the FASB issued FASB Staff Position No. FAS

123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We have elected to adopt the alternative transition method provided in this FASB Staff Position for calculating the tax effects of share-based compensation pursuant to FAS 123R. The alternative transition method includes a simplified method to establish the beginning balance of the additional paid-in capital pool related to the tax effects of employee share-based compensation, which is available to absorb tax deficiencies recognized subsequent to the adoption of FAS 123R.

We use the Black-Scholes option-pricing model to calculate the fair value of share based awards. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate, dividend yield and exercise price. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense. In addition, we estimate forfeitures when recognizing compensation expense, and we will adjust our estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative true-up adjustment in the period of change and will also impact the amount of compensation expense to be recognized in future periods.

On November 2, 2005, the Compensation Committee of the Board of Directors approved the acceleration of the vesting of all outstanding unvested stock options granted to directors, officers and employees of the Company under our applicable stock incentive plans. As a result of the acceleration, options to acquire approximately 109,500 shares of our common stock, which otherwise would have vested from time to time over the next four years, became immediately exercisable. All other terms and conditions applicable to the outstanding stock option grants remain in effect. The option plans under which accelerated grants were issued are our 1996 Stock Plan, 1996 Directors' Stock Plan and the 2001 Employee Stock Plan.

The Compensation Committee's decision to accelerate the vesting of affected stock options was primarily based upon our required adoption of FAS 123R effective January 1, 2006. Due to the acceleration of vesting of unvested options prior to the adoption of FAS 123R, we are only recording compensation expense related to stock options granted in 2006 and beyond. We recorded approximately \$26,000 of compensation expense in the fourth quarter of 2005 related to the acceleration of vesting.

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. Unvested restricted stock is excluded from the calculation of weighted average common shares for basic EPS. 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 restricted stock, 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. See Note 16 for EPS calculation.

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 03-06 became effective for reporting periods beginning after March 31, 2004. The application of EITF 03-06 only impacted the calculation of earnings per share for the year ended December 31, 2004 due to no preferred stock outstanding in 2006 and 2005.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

ACCOUNTING FOR INCOME TAX UNCERTAINTIES: In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. In July 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes, which will be effective the first quarter of 2007. Based on the "more-likely-than-not" standard under FIN 48, we expect that this guidance may impact the Company's recognition of tax benefits related to uncertain tax positions. However, the Company has not yet finalized its assessment of FIN 48.

EFFECTS OF PRIOR YEAR MISSTATEMENTS WHEN QUANTIFYING CURRENT YEAR MISSTATEMENTS: In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Current Year Misstatements". SAB No. 108 requires analysis of misstatements using both an income statement (rollover) approach and balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. SAB No. 108 is effective for our fiscal year 2006 annual financial statements. The adoption of this guidance did not have a material impact on our financial position, results of operations or cash flows.

FAIR VALUE MEASUREMENTS: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FASB 157") which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. Because the guidance was recently issued, management has not yet determined the impact, if any, of adopting the provisions of FASB 157 on the Company's financial position and results of operations.

4. INVENTORIES

The components of inventories are:

	December 31,	
(In thousands)	2006	2005
Raw materials and purchased component parts	\$7,337	\$5,788
Finished goods	230	248
	\$7,567	\$6,036
	=====	=====

5. FIXED ASSETS

The components of fixed assets are:

	December 31,	
(In thousands)	2006	2005
Tooling, machinery and equipment	\$ 12,407	\$ 13,748
Furniture and office equipment	1,560	1,553
Computer software and equipment	4,985	3,515
Leasehold improvements	1,051	949
	20,003	19,765
Less: accumulated depreciation and amortization	(14,065)	(15,255)
	\$ 5,938	\$ 4,510
	=====	=====

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. INTANGIBLE ASSETS

On June 30, 2005, we acquired certain intangible assets related to casino ticket printer designs and technology from Bally Gaming, Inc. ("Bally") for \$475,000, plus the costs of effecting the acquisition (approximately \$35,000). Prior to the acquisition, pursuant to the terms of a license agreement, we were required to pay Bally a royalty on sales of certain gaming printers utilizing the licensed technology. As a result of the acquisition, effective July 1, 2005, we were no longer required to pay any future royalties to Bally.

The purchase price was allocated, based on management's estimates, to intangible assets based on their relative fair value at the date of acquisition. The fair value of the intangibles, comprised of purchased technology and a covenant not to compete, was determined using the future discounted cash flows method. The intangible assets are being amortized on a straight-line basis over six and seven years, respectively, for the estimated life of the assets.

The following summarizes the allocation of the purchase price for the acquisition of certain intangible assets from Bally (in thousands):

Purchased technology	\$364
Covenant not to compete	146

Consideration paid	\$510
	=====

Amortization expense associated with the technology purchased from Bally was \$81,000 and \$41,000 for 2006 and 2005, respectively. Amortization expense for each of the next five years ending December 31 is expected to be as follows: \$81,000 in each of 2007 through 2010; and \$51,000 in 2011.

7. ACCRUED LIABILITIES

The components of accrued liabilities (current portion) are:

	December 31,	
(In thousands)	2006	2005
	-----	-----
Payroll and fringe benefits	\$1,671	\$1,219
Income taxes	710	679
Warranty - current portion	443	499
Rent and occupancy	251	200
Professional and consulting	364	80
Other	608	521
	-----	-----
	\$4,047	\$3,198
	=====	=====

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 manufacturing 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 through 2003, we recorded expenses of approximately \$6,182,000 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.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING EXPENSES (CONTINUED)

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 use of space in the Wallingford facility, and because we had experienced lower than expected operating and maintenance costs than previously estimated, during 2004 we reversed \$225,000 of previously accrued amounts provided for the remaining non-cancelable lease payments and related costs.

In November 2006, we executed an agreement effective May 1, 2007 to terminate the lease agreement for our Wallingford, CT facility (the "Release Agreement"). Prior to the execution of the Release Agreement, we accrued for the remaining non-cancelable lease payments and other related costs for the unused portion of this facility through the expiration date of the lease (March 31, 2008). As a result of the Release Agreement and the early termination of the lease, we were released from the legal obligation for lease payments after May 1, 2007 and, accordingly, we were released from the legal obligation for lease payments after May 1, 2007 and, accordingly, we reversed approximately \$479,000 of previously accrued restructuring reserve in the fourth quarter of 2006. As of December 31, 2006, our restructuring accrual was \$315,000, which represents the estimated remaining non-cancelable lease payments and other related costs for the unused portion of this facility through the new termination date of the lease (May 1, 2007).

The following table summarizes the activity recorded in the restructuring accrual:

(In thousands)	Year ended December 31,		
	2006	2005	2004
Accrual balance, beginning of year	\$1,193	\$1,640	\$2,311
Business consolidation and restructuring expenses:			
Reversal of lease obligation related to unused space	(479)	--	(225)
	(479)	--	(225)
Cash payments	(399)	(447)	(446)
Accrual balance, end of year	\$ 315	\$1,193	\$1,640

At December 31, 2006 and 2005, \$0 and \$773,000, respectively, of the restructuring accrual was classified as part of long-term liabilities. The long-term portion 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 \$249,000, \$225,000 and \$201,000 in 2006, 2005 and 2004, respectively.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. BORROWINGS

On November 28, 2006, we signed a new, five-year \$20 million credit facility (the "New TD Banknorth Credit Facility") with TD Banknorth, N.A. ("TD Banknorth"). The new credit facility provides for a \$20 million revolving credit line expiring on November 28, 2011. The New TD Banknorth Credit facility replaces a previous \$11.5 million credit facility also with TD Banknorth. Borrowings under the new revolving credit line bear a floating rate of interest at the prime rate minus one-percent and are secured by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. Deferred financing costs relating to expenses incurred to complete the New TD Banknorth Credit Facility were \$88,000 at December 31, 2006. The New TD Banknorth Credit Facility imposes certain quarterly financial covenants on us 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 New TD Banknorth Credit Facility at December 31, 2006.

As of December 31, 2006, we had no outstanding borrowings on the revolving credit line. Undrawn commitments under the New TD Banknorth Credit Facility were \$20,000,000 at December 31, 2006.

11. COMMITMENTS AND CONTINGENCIES

In April 2005, we announced a complaint against FutureLogic, Inc. ("FutureLogic") in Connecticut, which charges FutureLogic with disseminating false and misleading statements. We assert claims of defamation and certain other charges. In May 2005, FutureLogic filed a complaint against us in California, asserting false advertising, defamation, trade libel and certain other charges. We moved to dismiss FutureLogic's action in California, on the grounds that any claims raised in that action should have been brought as part of the case filed by us in Connecticut. In the alternative, we moved to stay the California action pending the resolution of jurisdictional motions in the Connecticut court. In January 2006, the California court filed an order granting our motion to stay the California proceeding pending the resolution of jurisdictional motions in the Connecticut case. Under the California court's order, should the Connecticut court find that it has jurisdiction over FutureLogic, FutureLogic's case will be transferred to the Connecticut court for consolidation with the action pending in that forum. In September 2006, the District of Connecticut dismissed our case because of a lack of jurisdiction. The decision was not on the merits of our claims, but on the jurisdiction of the court in which the suit was brought. The California District Court has been notified of this development. The action is currently in the pre-trial motion stage and, as of December 31, 2006, we are currently unable to estimate any potential liability or range of loss associated with this litigation. Accordingly, no amounts have been accrued in the financial statements related to this matter.

At December 31, 2005, we were lessee on operating leases for equipment and real property. Rent expense was approximately \$1,330,000, \$1,294,000 and \$1,098,000 in 2006, 2005 and 2004, 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, 2006 are as follows: \$978,000 in 2007; \$877,000 in 2008; \$867,000 in 2009; \$716,000 in 2010; \$745,000 in 2011; and \$1,440,000 thereafter. Such payments include those related to the lease of our Wallingford, CT manufacturing facility, a portion of which has been recognized within the restructuring accrual described in Note 8.

12. PATENT LICENSE FEES

During 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, which we paid 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.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS

STOCK INCENTIVE PLANS. We currently have four 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; 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; and the 2005 Equity Incentive Plan, which provides for awards to executives, key employees, directors and consultants. The plans generally provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) restricted stock, (iv) restricted stock 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 have exercise 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. Effective upon the approval of the 2005 Equity Incentive Plan on May 25, 2005, no new awards will be made under the 1996 Stock Plan, the 1996 Directors' Stock Plan or the 2001 Employee Stock Plan. At December 31, 2006, approximately 462,000 shares of common stock remained available for issuance under the 2005 Equity Incentive Plan.

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 were available for issuance to employees beginning June 1, 2000. All full-time employees were eligible to participate in the ESPP at the beginning of each six-month period (the "Offering Period"), which began on June 1 and December 1. Eligible employees could 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 was terminated on May 31, 2005. We issued 2,690 and 3,706, shares of common stock under the ESPP during 2005 and 2004, respectively. At December 31, 2006, no shares remained available for issuance due to the termination of the ESPP.

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the year ended December 31, 2006 and 2004 was \$5.91 and \$20.64, respectively. No fair value or assumptions have been disclosed for the year ended December 31, 2005 as no stock option grants were made during this period. The table below indicates the key assumptions used in the option valuation calculations for options granted in the twelve months ended December 31, 2006 and 2004 and a discussion of our methodology for developing each of the assumptions used in the valuation model:

	Year ended December 31, 2006	Year ended December 31, 2004
Expected option term	5.2 years	8.9 years
Expected volatility	78.4%	81.5%
Risk-free interest rate	4.5%	3.6%
Dividend yield	0%	0%

Expected Option Term - This is the weighted average period of time over which the options granted are expected to remain outstanding giving consideration to our historical exercise patterns. Options granted have a maximum term of ten years. An increase in the expected term will increase compensation expense.

Expected Volatility - The stock volatility for each grant is measured using the weighted average of historical daily price changes of our common stock over the most recent period approximately equal to the expected option term of the grant. An increase in the expected volatility factor will increase compensation expense.

Risk-Free Interest Rate - This is the U.S. Treasury rate in effect at the time of grant having a term approximately equal to the expected term of the option. An increase in the risk-free interest rate will increase compensation expense.

Dividend Yield - We have not made any dividend payments on our common stock, and we have no plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

Prior to adopting the provisions of FAS 123R, we recorded estimated compensation expense for employee stock options based upon their intrinsic value on the date of grant pursuant to APB 25 and provided the required pro forma disclosures of FAS 123. Because we established the exercise price based on the fair market value of our common stock at the date of grant, the stock options had no intrinsic value upon grant, and therefore no expense was recorded prior to adopting FAS 123R. We recorded compensation expense for restricted stock at the fair value of the stock at the date of grant, recognized over the service period. Each accounting period, we reported the potential dilutive impact of stock options in our diluted earnings per common share using the treasury-stock method. Out-of-the-money stock options (i.e., the average stock price during the period was below the strike price of the stock option) were not included in diluted earnings per common share as their effect was anti-dilutive.

For purposes of pro forma disclosures under FAS 123 for the years ended December 31, 2005 and 2004, the estimated fair value of the share-based awards was assumed to be amortized to expense over the stock option's vesting periods. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and net income per common share were as follows:

	Year ended December 31, 2005	Year ended December 31, 2004
	-----	-----
(In thousands, except per share data)		
Net income available to common shareholders:		
Net income available to common shareholders, as reported	\$ 377	\$5,236
Add: Stock-based compensation expense included in reported net income, net of tax	315	205
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of tax	(1,294)	(390)
	-----	-----
Pro forma net (loss) income available to common shareholders	\$ (602)	\$5,051
	=====	=====
Net (loss) income per common share:		
Basic:		
As reported	\$ 0.04	\$ 0.55
Pro forma	\$ (0.06)	\$ 0.53
Diluted:		
As reported	\$ 0.04	\$ 0.51
Pro forma	\$ (0.06)	\$ 0.49

The fair values used to reflect the pro forma effects of estimated share-based compensation expense on net income and earnings per common share for the years ended December 31, 2005 and 2004 were estimated at the date of grant using the Black-Scholes option-pricing model.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

After the adoption of FAS 123R, we recognized compensation expense associated with awards granted after January 1, 2006, and the unvested portion of previously granted restricted stock awards that were outstanding as of January 1, 2006, in our condensed consolidated statement of income for the year ended December 31, 2006. During 2006, we recognized compensation expense, net of reversal of expense related to forfeitures, of \$111,000 for stock options and \$470,000 for restricted stock, which was recorded in our consolidated statement of income. The income tax benefits from share-based payments recorded in the income statement totaled \$204,000 for 2006. No compensation expense related to stock options was recorded in 2005 and \$458,000 in compensation expense related to restricted stock was recorded in 2005. The following table illustrates the impact of the adoption of FAS 123R on reported amounts:

	Year ended December 31, 2006	
	As Reported	Impact of FAS 123R Adoption
	-----	-----
Operating income	\$6,088	\$ 111
Income before income taxes	6,033	111
Net income	3,916	72
Net income per share:		
Basic	\$ 0.41	\$0.01
Diluted	0.40	0.01

For the year ended December 31, 2006, the adoption of FAS 123R resulted in tax benefits from stock options exercised in the period being classified as financing activities in the 2006 statement of cash flows. Shares that are issued upon exercise of employee stock options are newly issued shares and not issued from treasury stock. Upon the adoption of FAS 123R, we also reclassified the unamortized restricted stock compensation account of \$1,837,000 against additional paid-in capital. This adjustment was applied using MPA and, accordingly, has not been reflected in the 2005 financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

The 1996 Stock Plan, 1996 Directors' Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan option activity is summarized below:

	Year Ended December 31,					
	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period:	741,501	\$ 6.10	813,664	\$ 5.97	1,123,533	\$ 4.50
Granted	115,000	8.83	--	--	52,750	26.81
Exercised	(136,157)	5.05	(71,064)	4.55	(321,947)	4.28
Canceled	(13,000)	10.62	(1,099)	3.93	(40,672)	5.74
Outstanding at end of period	707,344	\$ 6.67	741,501	\$ 6.10	813,664	\$ 5.97
Options exercisable at end of Period	602,344	\$ 6.29	741,501	\$ 6.10	458,382	\$ 4.67

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 2006	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Exercisable at December 31, 2006	Weighted-Average Exercise Price
			(In years)		
\$ 2.00 - \$ 5.00	423,469	\$ 3.70	5.0	423,469	\$ 3.70
5.01 - 7.50	115,875	6.53	4.3	115,875	6.53
7.51 - 10.00	118,750	8.74	8.2	13,750	8.09
10.01 - 25.00	13,500	16.50	5.2	13,500	16.50
25.01 - 35.00	35,750	31.66	7.2	35,750	31.66
	707,344	6.67	5.6	602,344	6.29

At December 31, 2006, outstanding stock options at the end of the year had an intrinsic value of \$2,180,000. At December 31, 2006, outstanding stock options that are vested or expected to vest were 658,603 at a weighted average exercise price of \$6.67. In addition, outstanding stock options that are vested or expected to vest had an intrinsic value of \$2,042,000 with a weighted average remaining contractual life of 4.0 years. As of December 31, 2006, unrecognized compensation cost related to stock options totaled \$509,000, which is expected to be recognized over a weighted average period of 4.1 years.

At December 31, 2006, exercisable stock options had an intrinsic value of \$2,159,000 with a weighted average remaining contractual life of 4.9 years. In addition, exercisable stock options that are vested or expected to vest were 556,417 and had an intrinsic value of \$2,022,000 at a weighted average exercise price of \$6.29.

The total intrinsic value of stock options exercised was \$825,000 for the year ended December 31, 2006. No stock options vested during the year ended December 31, 2006.

Cash received from stock option exercises for the year ended December 31, 2006 was \$687,000.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

RESTRICTED STOCK: Under the 1996 Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan, we have granted shares of restricted common stock, for no consideration, to our officers, directors and certain key employees. Restricted stock activity for the 1996 Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan is summarized below:

	Weighted Average Grant Date Fair Values
Nonvested shares at December 31, 2005	\$12.23
Granted	13.78
Vested	12.78
Canceled	12.64
Nonvested shares at December 31, 2006	12.22

	Year Ended December 31,		
	2006	2005	2004
Nonvested shares at beginning of period	187,550	79,500	16,999
Granted	15,000	125,400	81,000
Vested	(36,684)	(17,100)	(15,499)
Canceled	(11,750)	(250)	(3,000)
Nonvested shares at end of period	154,116	187,550	79,500
	=====	=====	=====

As of December 31, 2006, unrecognized compensation cost related to restricted stock totaled \$1,426,000, which is expected to be recognized over a weighted average period of 3.1 years. The total intrinsic value of restricted stock that vested during the twelve months ended December 31, 2006 was \$338,000.

14. STOCKHOLDER RIGHTS PLAN

In December 1997, our 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,		
	2006	2005	2004
Current:			
Federal	\$ 952	\$ 7	\$2,077
State	41	68	216
Foreign	541	525	306
	1,534	600	2,599
Deferred:			
Federal	552	(634)	363
State	31	(14)	17
Foreign	--	--	--
	583	(648)	380
Income tax provision (benefit)	\$2,117	\$ (48)	\$2,979

At December 31, 2006, we have \$1,599,000 of state net operating loss carryforwards that begin to expire in 2009, and no federal net operating loss carryforwards. We also have approximately \$129,000 in federal research and development tax credit carryforwards that begin to expire in 2011 and foreign tax credit carryforwards of approximately \$401,000 that begin to expire in 2011. We had foreign income before taxes of \$1,813,000, \$1,833,000 and \$1,084,000 in 2006, 2005 and 2004, 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,	
	2006	2005
Gross deferred tax assets:		
Net operating losses	\$ 47	\$ 67
Accrued restructuring expenses	116	418
Capitalized research and development	574	790
Inventory reserves	702	800
Deferred revenue	100	165
Warranty reserve	223	238
Foreign tax and other credits	615	927
Other liabilities and reserves	516	591
	2,893	3,996
Valuation allowance	(64)	(207)
Net deferred tax assets	2,829	3,789
Gross deferred tax liabilities:		
Depreciation	12	401
Other	108	96
Net deferred tax liabilities	120	497
Net deferred tax assets	\$2,709	\$3,292

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. INCOME TAXES (CONTINUED)

During 2006 and 2005, we recorded a valuation allowance of \$64,000 and \$207,000 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, 2006 and 2005.

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

	Year Ended December 31,		
	2006	2005	2004
Federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal income taxes	1.1	(9.1)	1.0
Tax benefit from tax credits, net of valuation allowance	(0.7)	(17.5)	(0.8)
Foreign rate differential	--	9.4	(0.7)
Valuation allowance and tax accruals	0.4	(41.7)	--
Permanent items	0.6	13.0	--
Other	(0.3)	(2.7)	1.8
	-----	-----	-----
Effective tax rate	35.1%	(14.6%)	35.3%
	=====	=====	=====

16. EARNINGS PER SHARE

For the years ended December 31, 2006, 2005 and 2004, earnings per share were computed as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2006	2005	2004
Net income	\$3,916	\$ 377	\$ 5,458
Dividends and accretion on preferred stock	--	--	(111)
Earnings allocation to preferred shareholders	--	--	(111)
	-----	-----	-----
Net income available to common shareholders	\$3,916	\$ 377	\$ 5,236
	=====	=====	=====
Shares:			
Basic: Weighted average common shares outstanding	9,577	9,849	9,593
Add: Dilutive effect of outstanding options and warrants as determined by the treasury stock method	293	314	638
	-----	-----	-----
Diluted: Weighted average common and common equivalent shares outstanding	9,870	10,163	10,231
	=====	=====	=====
Net income per common share:			
Basic	\$ 0.41	\$ 0.04	\$ 0.55
Diluted	0.40	0.04	0.51

For the years ended December 31, 2006 and 2005, potentially dilutive shares that were excluded from the earnings per share calculation, consisting of out-of-the-money stock options and warrants, were 101,750 and 52,250 shares, respectively.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. 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 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. In April 2004, all shareholders of our Series B Preferred Stock converted all their preferred shares into common stock. Pursuant to the conversion, a total of 666,665 new shares of common stock were issued. We recorded the costs of registering and issuing these shares as a deduction to Additional Paid-In Capital.

18. STOCK REPURCHASE PROGRAM

On March 25, 2005, our Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to \$10 million of our outstanding shares of common stock from time to time in the open market over a three-year period ending on March 25, 2008, depending on market conditions, share price and other factors. As of December 31, 2006, we repurchased a total of 801,300 shares of common stock for approximately \$6,492,000 under this program, at an average price of \$8.10 per share. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account.

19. INTERNATIONAL OPERATIONS

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary in the United Kingdom, which had sales to its customers of approximately \$2,722,000, \$2,181,000 and \$1,000,000 in 2006, 2005 and 2004, respectively. Tangible assets at foreign locations are not material. We had sales from the United States to our customers outside of the United States of approximately \$11,416,000, \$10,137,000 and \$5,423,000 in 2006, 2005 and 2004, respectively. International sales do not include sales of printers made to domestic distributors or other domestic customers who in turn may ship those printers to international destinations.

20. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Our quarterly results of operations for 2006 and 2005 are as follows:

(In thousands, except per share amounts)	Quarter Ended			
	March 31	June 30	September 30	December 31
2006:				
Net sales	\$16,434	\$16,905	\$15,276	\$15,713
Gross profit	5,687	5,746	5,438	5,494
Net income	1,057	857	1,019	983
Net income per share:				
Basic	0.11	0.09	0.11	0.10
Diluted	0.11	0.09	0.10	0.10
2005:				
Net sales	\$12,036	\$12,346	\$14,210	\$12,499
Gross profit	3,677	4,254	4,576	3,083
Net income (loss)	163	267	674	(727)
Net income (loss) per share:				
Basic	0.02	0.03	0.07	(0.08)
Diluted	0.02	0.03	0.07	(0.08)

TRANSACT TECHNOLOGIES INCORPORATED

Schedule II
Valuation and Qualifying Accounts
(Amounts in thousands)

Description -----	Balance at Beginning of Period -----	Provision -----	Write-offs, net of recoveries -----	Balance at End of Period -----
Valuation account for accounts receivable:				
Year ended December 31, 2006	\$ 240	\$ --	\$ (36)	\$ 204
Year ended December 31, 2005	\$ 175	\$ 68	\$ (3)	\$ 240
Year ended December 31, 2004	\$ 100	\$ 73	\$ 2	\$ 175
Valuation account for inventories:				
Year ended December 31, 2006	\$2,165	\$266	\$ (531)	\$1,900
Year ended December 31, 2005	\$2,010	\$995	\$ (840)	\$2,165
Year ended December 31, 2004	\$1,950	\$148	\$ (88)	\$2,010

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, 2006 and of management's assessment of internal control over financial reporting as of December 31, 2006 set forth below in this section. This section should be read in conjunction with the CEO and CFO 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") for 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 review data errors, control problems or acts of fraud, if any, and seek to confirm that appropriate corrective actions, including process improvements, are 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 evaluation of the controls, 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.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The implementation of our new accounting system, completed effective January 8, 2007, required us to modify and add certain internal controls and processes and procedures. Otherwise, no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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, 2006. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2006 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, 2006 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

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 errors or mistakes. 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

The 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 in response to this item is incorporated by reference from the Proxy Statement sections entitled "Executive Compensation and Certain Transactions" and "Compensation Discussion and Analysis."

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, 2006 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	472,278	\$ 2.95	--
1996 Non-Employee Director Plan	176,250	10.91	--
2005 Equity Incentive Plan	135,000	6.86	462,000
Total	783,528	\$ 5.42	462,000
Equity compensation plans not approved by security holders:			
2001 Employee Stock Plan	77,932	\$ 6.03	--
	861,460	\$ 5.47	462,000
	=====	=====	=====

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.

In May 2005, our shareholders approved the adoption of the 2005 Equity Incentive Plan. No new awards will be available for future issuance under any existing TransAct equity plan other than the 2005 Equity Incentive Plan.

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 Registered Public Accounting Firm's 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:

(i) Financial statements

See Item 8.

(ii) Financial statement schedules

All other 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 TransAct Technologies Incorporated ("TransAct" or 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)	2001 Employee Stock Plan.	(9)
10.4(x)	2005 Equity Incentive Plan	(14)
10.5(x)	Employment Agreement, dated July 31, 1996, by and between TransAct and Bart C. Shuldman.	(2)
10.6(x)	Severance Agreement by and between TransAct and Michael S. Kumpf, dated September 4, 1996.	(3)
10.7(x)	Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004.	(13)
10.8	Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992.	(2)
10.9	Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996.	(4)
10.10	Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001.	(11)
10.11	Lease Agreement by and between Pyramid Construction Company and Magnetec, dated July 30, 1997.	(4)
10.12	Lease Addendum by and between Wallingford Warehouse LLC (successor in interest to Pyramid Construction Company) and TransAct dated November 28, 2006.	(1)
10.13	Lease Agreement by and between Las Vegas Airport Properties LLC and TransAct dated December 2, 2004.	(13)

10.14	Lease Agreement by and between 2319 Hamden Center I, L.L.C. and TransAct dated November 27, 2006.	(1)
10.15	OEM Purchase Agreement by and between GTECH Corporation, TransAct 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)
10.16	OEM Purchase Agreement by and between GTECH Corporation and TransAct 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.)	(10)
10.17	Amendment to OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated February 17, 2006. (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.)	(15)
10.18	Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. dated November 28, 2006	(1)
10.19	License Agreement between Seiko Epson Corporation and TransAct 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.)	(12)
23.1	Consent of PricewaterhouseCoopers LLP.	(1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	(1)
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) These exhibits, which were previously filed with the Company's Current Report on Form 8-K filed February 18, 1999 (Commission File No. 000-21121), are incorporated by reference.
- (6) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission File No. 000-21121), is 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) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 25, 2000, are incorporated by reference.
- (9) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-59570), is incorporated by reference.
- (10) 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.
- (11) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, 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, 2004, is incorporated by reference.
- (13) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2004, are incorporated by reference.
- (14) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed June 1, 2005 (Commission File No. 000-21121), is incorporated by reference.
- (15) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2005, are 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

Name: Bart C. Shuldman

Title: Chairman of the Board, President
and Chief Executive Officer

Date: March 15, 2007

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 15, 2007
/s/ Steven A. DeMartino ----- Steven A. DeMartino	Executive Vice President, Chief Financial Officer, Treasurer and Secretary (Principal Financial and Accounting Officer)	March 15, 2007
/s/ Charles A. Dill ----- Charles A. Dill	Director	March 15, 2007
/s/ Thomas R. Schwarz ----- Thomas R. Schwarz	Director	March 15, 2007
/s/ Graham Y. Tanaka ----- Graham Y. Tanaka	Director	March 15, 2007

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit

- 10.12 Lease Addendum by and between Wallingford Warehouse LLC (successor in interest to Pyramid Construction Company) and TransAct dated November 28, 2006.
- 10.14 Lease Agreement by and between 2319 Hamden Center I, L.L.C. and TransAct dated November 27, 2006.
- 10.18 Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. dated November 28, 2006
- 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

Exhibit 10.12

LEASE ADDENDUM

This Agreement, made this 26th day of September 2006 by and between WALLINGFORD WAREHOUSE LLC (hereinafter referred to as "Landlord") and MAGNETEC CORP. (hereinafter referred to as "Tenant");

WITNESS THAT:

Whereas, the parties hereto have heretofore entered into a "Lease of Industrial Property" Agreement dated July 30, 1997, whereby Landlord (successor in interest to (Pyramid Construction Company) leased to Tenant approximately 49,068 square feet with an expiration date of March 31, 2008; and

Whereas, Tenant desires to terminate its business operations at the location covered by the Lease and to cancel and terminate its obligations and rights hereunder; and whereas also:

Landlord desires to cancel and terminate the Lease as of the close of business April 30, 2007;

Now therefore, Landlord and Tenant agree as follows:

1. Article 1 (e) "Expiration Date" Is hereby amended to April 30, 2007 and the Lease Agreement (including the Lease Agreement Riders "Option to Renew #1" and "Option to Renew #2") shall be deemed expired as of the close of business April 30, 2007.
2. Tenant shall vacate and surrender the premises to Landlord by delivering all keys to Pyramid Construction Group LLC, 275 North Franklin Turnpike, Ramsey, NJ 07446.
3. Tenant will leave the premises in a broom clean condition, all fixtures can be left at Tenant's option.
4. The payment due Landlord for the unamortized portion of the \$350,000.00 office expansion will be reduced by \$75,000.00.

All other terms and conditions of the Lease of Industrial Property will remain in full force and effect.

WALLINGFORD WAREHOUSE LLC

MAGNETEC, CORP.

/s/ William J. Coleman

/s/ Steven A. DeMartino

William J. Coleman

Steven A. DeMartino

Date: 11/28/06

/s/ Bart C. Shuldman

Bart C. Shuldman

Date: 11/27/06

.

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Exhibit 10.14

BASIC LEASE INFORMATION

DATE: November 27, 2006

LANDLORD: 2319 HAMDEN CENTER I, L.L.C.

TENANT: TRANSACT TECHNOLOGIES INCorporated

BUILDING: One Hamden Center
2319 Whitney Avenue
Hamden, CT 06518

PREMISES: ONE HAMDEN CENTER
2319 WHITNEY AVENUE, SUITE 3-B (11,075 RSF)
HAMDEN, CONNECTICUT

USE: General Office Use

LEASE TERM: One Hundred and Twenty (120) months

COMMENCEMENT DATE: Later of April 23, or date of "Substantial Completion" of
Tenant Improvements (See Lease Section 2)

BASE RENT:	Month	Monthly Rent	Annual Rent
	-----	-----	-----
	1-24	\$11,666.67	\$140,000.00
	25-48	\$13,500.00	\$162,000.00
	49-60	\$17,073.96	\$204,887.50
	61-72	\$17,996.88	\$215,962.50
	73-96	\$18,919.79	\$227,037.50
	97-120	\$19,611.98	\$235,343.75

BASE YEAR: 2007

TENANT'S PERCENTAGE SHARE: 9.86%

SECURITY DEPOSIT: \$ NONE

BROKERS: CB Richard Ellis- NE Partners, L.P. and Press Cuzzo
Realtors

CONTRACT MANAGER: MCR Property Management, Inc.

ADDRESS FOR NOTICES: LANDLORD: One Hamden Center
2319 Whitney Avenue, Suite 1A
Hamden, Connecticut 06518

TENANT: 7 Laser Lane
Wallingford, CT 06492

TENANT IMPROVEMENTS: See Lease Section 7(b) \$276,875.00 maximum allowance

EXHIBITS: Exhibits A, A-1, B, B-1, B-2, C, D, E, F, and G

INITIALS:

-----	-----
LANDLORD	TENANT

THIS LEASE, which is effective as of the date set forth in the Basic Lease Information, is entered into by Landlord and Tenant, as set forth in the Basic Lease Information. Terms which are capitalized in this Lease and are not expressly defined herein shall have the meanings set forth in the Basic Lease Information.

1. PREMISES. Landlord leases to Tenant, and Tenant leases from Landlord, the Premises described in the Basic Lease Information, which Premises are more particularly shown on Exhibit A, together with the right in common to use the Common Areas of the Building and the land (as described on Exhibit A-1) upon which the Building is located (the "Property"). The Common Areas shall mean the areas and facilities within the Building and the Property provided and designated by Landlord for the general use, convenience or benefit of Tenant and other tenants and occupants of the Building, (including, without limitation, common entrances and hallways, restrooms, trash disposal facilities, janitorial, telephone and electrical closets and landscaping walks, the parking garage, other unreserved parking areas, and drives).

Subject to prior rights of existing tenants as more particularly set forth on Exhibit E, Tenant shall have a right of first offer to lease additional adjacent space on the third floor of the building in which the Premises are located on the same terms as herein provided, except that any Tenant Improvement allowance shall be prorated at the rate of \$2.50 per rentable square foot for each full lease year of the remaining portion of the Initial Term of this Lease. Said right of first offer shall be exercised by Tenant's written notice of its intent to enter negotiations, which notice shall be sent to Landlord not more than ten (10) days following receipt of Landlord's written notice to Tenant of the availability of such space. In furtherance of the intention of this provision, Landlord shall have a duty to give notice of the availability of such space whenever the same shall become available during the term of the Lease.

2. TERM. The Lease Term shall commence on the Commencement Date (as set forth in the Basic Lease Information) and, unless terminated on an earlier date in accordance with the terms of this Lease, shall extend for the period (i.e., Lease Term) specified in the Basic Lease Information, together with the Option Period as hereinafter defined if the Tenant has properly exercised its option to extend the Lease Term. For purposes of determining the Commencement Date, the term "Substantial Completion" shall mean the date on which: (i) Landlord's work is "complete" as defined in the Workletter attached hereto as Exhibit B-1, (ii) Landlord has delivered a certificate of occupancy for the Premises to the Tenant, and (iii) Landlord delivers exclusive possession of the Premises in good and operating condition. Any delay in Substantial Completion due to Tenant delays shall not affect the determination of the Commencement Date, provided, however, Tenant shall be obligated to reimburse Landlord for lost Base Rent for each day of such delay. Payment of any lost Base Rent shall be made to Landlord within ten (10) business days of billing.

Provided Tenant has delivered to Landlord evidence of the insurance required under subsection 13(b) below and all necessary permits, Tenant shall have the right to enter upon the Premises during the 14 day period prior to the Commencement Date for the purpose of furniture setup, phone system installation, data cabling, and the like. Any such entry shall be made in a manner which will not interfere with the performance of Landlord's Work, and upon any reasonable condition imposed by Landlord.

Promptly following the Commencement Date, Landlord and Tenant shall execute a Commencement Date Certificate confirming the actual Commencement Date.

Provided Tenant has delivered the Space Plan (as described in Exhibit B-1) by December 8, 2006, if the Commencement Date has not occurred by June 9, 2007 (the "Rent Credit Date"), then Tenant shall be entitled to a credit against Rent equal to the amount of Base Rent payable for one (1) day for each two (2) days between the Rent Credit Date and the Commencement Date. The Rent Credit Date shall be extended on a day-for-day basis for each day of Tenant Delay. If the Commencement Date has not occurred by April 23, 2007, then beginning on April 24, 2007, Landlord agrees to provide Tenant with temporary space located on the fourth floor of the Building to use and occupy pending occurrence of the Commencement Date. Such temporary premises shall consist of at least 6,000 square feet of space and shall be reasonably sufficient in all respects for Tenant to use and occupy for its business purposes. Tenant's use and occupancy of the temporary space shall be on the terms and conditions of this Lease, except Tenant shall not have any obligation to pay any Rent or any other use or occupancy fee, or to reimburse Landlord for any costs or expenses relating to the temporary space; however, Tenant shall be solely responsible for all costs of electric and data/telephone/communication services supplied to the

temporary space. Tenant's right to occupy the temporary space shall terminate on the 10th business day following the Commencement Date, and any occupancy thereafter shall be at the rate of \$20.00 per square foot for each day of occupancy in addition to and not in substitution for the applicable charges for the Premises.

3. RENT. As used in this Lease, the term "Rent" shall include:(i) the Base Rent; (ii) Tenant's Percentage Share of the total dollar increase, if any, in the Operating Costs paid or incurred by Landlord during the calendar year over the Operating Costs paid or incurred by Landlord in the Base Year ("Base Year Operating Costs"), and; (iii) all other amounts which Tenant is obligated to pay under the terms of this Lease. All amounts of money payable by Tenant to Landlord shall be paid without prior notice or demand, deduction or offset. Any amount which is not paid when due shall bear interest from the date due until the date paid at the rate ("Interest Rate") which is the lesser of twelve percent (12%) per annum or the maximum rate permitted by law. In addition, if any required payment of Rent or Additional Rent is not made within ten (10) days of when due, Tenant shall pay a late charge of five (5%) percent of such overdue sum.

4. BASE RENT. From and after the Commencement Date, Tenant shall pay Base Rent to Contract Manager (or such other entity designated by Landlord), in advance, on the first day of each calendar month of the Term, at Contract Manager's address for notices (as set forth in the Basic Lease Information) or at such other address as Landlord may designate. The Base Rent shall be the amount set forth in the Basic Lease Information.

5. ADDITIONAL RENT - ANNUAL RENT ADJUSTMENTS/OPERATING COSTS.

(a) Increase in Operating Costs. Rent shall include Tenant's Percentage Share of the total dollar increases (separately determined), if any, in the Operating Expenses, Real Property Taxes and Insurance (collectively, the Operating Costs) paid or incurred by Landlord during each calendar year of the Term over the Base Year Operating Costs. If less than one hundred percent (100%) of the rentable area of the Building is occupied during the Base Year, Operating Expenses shall be adjusted to equal Landlord's reasonable estimate of Operating Expenses if ninety-five percent (95%) of the total rentable area of the Building were occupied during the Base Year.

(b) Operating Expenses. The term "Operating Expenses" shall mean (i) all of Landlord's direct costs and expenses of operation, repair and maintenance of the Building and the Common Areas and supporting facilities, including, without limitation, management fees and costs, landscaping, maintenance, security, and such costs as may be payable by Landlord under that certain Declaration of Easement dated April 11, 1985 and recorded in Volume 728 of the Hamden Land Records at Page 232 (the "Declaration"), as such Declaration may be subsequently modified, all as reasonably determined by Landlord in accordance with generally accepted accounting principles or other recognized accounting principles, consistently applied; (ii) costs, or a portion thereof, properly allocable to the Building or Common Areas of any capital improvements made to the Building or Common Areas by Landlord which comprise labor-saving devices or other equipment intended to improve the operating efficiency of any system within the Building or Common Areas (such as an energy management computer system) to the extent of cost savings in Operating Expenses as a result of the device or equipment, as reasonably determined by Landlord; (iii) costs properly allocable to the Building or Common Areas of any capital improvements made to the Building or Common Areas by Landlord that are required under any governmental law or regulation that was not applicable to the Building and Common Areas at the time they were constructed, or that are reasonably required for the health and safety of tenants in the Building, the costs, or allocable portion thereof, to be amortized over the applicable useful life of the capital item as Landlord shall reasonably determine in accordance with U.S. GAAP consistently applied, together with interest upon the unamortized balance at the Interest Rate equal to the prime rate plus 1% ; and (iv) excluding those "Excluded Costs" more particularly described on Exhibit F attached hereto. If less than ninety-five percent (95%) of the rentable area of the Building is occupied, Operating Expenses shall be adjusted to equal Landlord's reasonable estimate of Operating Expenses if ninety-five percent (95%) of the total rentable area of the Building were occupied.

(c) Real Property Taxes. For purposes of this Section 5, the term "Real Property Taxes" shall include any ordinary or extraordinary form of assessment or special assessment, license

fee, rent tax, levy, penalty (if a result of Tenant's delinquency), or tax, other than net income, premium, estate, succession, inheritance, transfer or franchise taxes, imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government for any maintenance or improvement or other district or division thereof. The term shall include all real estate taxes and all other taxes relating to the Premises, Building and/or Property, all other taxes which may be levied in lieu of real estate taxes, all assessments, levies, fees, and other governmental charges for amounts necessary to be expended because of governmental orders, whether general or special, ordinary or extraordinary, unforeseen as well as foreseen, of any kind and nature for public improvement, services, benefits or any other purposes which are assessed, levied, confirmed, imposed or become a lien upon the Premises, Building or Property or become payable during the Term.

(d) Insurance. For purposes of this Section 5, the term "Insurance" shall mean all of Landlord's direct costs and expenses of insuring Building and the Common Areas and supporting facilities. If Landlord elects to self-insure or includes the Property under blanket insurance policies covering multiple properties, then the term "Insurance" shall include the portion of the cost of such self-insurance or blanket insurance allocated by Landlord to this Property; provided, however, the right to self-insure shall only apply if Landlord is a property and casualty company authorized to issue policies in the State of Connecticut, or otherwise complies with requirements of law regarding reserves and financial reporting.

(e) Estimates of Increases in Operating Costs. During December of each calendar year during the Term, commencing December 2007, or as soon thereafter as practicable, Landlord shall give Tenant written notice of Landlord's estimates of any amount of Operating Costs in excess of the Base Operating Costs and, subject to the limitations set forth in Section 5(a) above, the amount of the increases which will be payable by Tenant for the ensuing calendar year. Upon request, Landlord will provide Tenant with reasonable documentation to substantiate Landlord's estimate. On or before the first day of each month during the ensuing calendar year, Tenant shall pay to Landlord one-twelfth (1/12) of the estimated amounts; provided, however, that if notice is not given in December, Tenant shall continue to pay on the basis of the then applicable Rent until the month after the notice is given. If at any time it appears to Landlord that the increased amount payable for the current calendar year will vary from Landlord's estimates by more than five percent (5%), Landlord may give notice to Tenant of Landlord's revised estimates for the year, and subsequent payments by Tenant for the year shall be based on the revised estimate; provided, however, that Landlord shall not give notice of a revised estimate for any year more frequently than once a calendar quarter.

(f) Annual Adjustments. Within one hundred twenty (120) days after the close of each calendar year of the Term, commencing with calendar year 2007, or as soon after the one hundred twenty (120) day period as practicable, Landlord shall deliver to Tenant a statement of the adjustments to the Operating Costs for the prior calendar year. If, on the basis of the statement, Tenant owes an amount that is less than the estimated payments for the calendar year previously made by Tenant, Landlord shall apply the excess to the next payment of increased Rent due. If, on the basis of the statement, Tenant owes an amount that is more than the estimated payments for the calendar year previously made by the Tenant, Tenant shall pay the deficiency to Landlord within thirty (30) days after delivery of the statement. The statements of Operating Costs shall be presumed correct and shall be deemed final and binding upon Tenant unless

(i) Tenant in good faith objects in writing thereto within thirty (30) days after delivery of the statement to Tenant (which writing shall state, in reasonable detail, all of the reasons for the objection); and (ii) Tenant pays in full, within thirty (30) days after delivery of the statement to Tenant, any amount owed by Tenant with respect to the statement which is not in dispute. If Tenant objects to Landlord's allocation to this Property of the cost of self-insurance or blanket insurance, such allocation shall nonetheless be presumed correct and shall be deemed final and binding upon Tenant unless Tenant's timely written objection includes credible evidence that Landlord could have obtained substantially comparable insurance coverage for this Property alone at lower cost. If Tenant objects to Landlord's statement as set forth above, then within thirty (30) days after such notice of objection, Tenant shall be permitted, after reasonable notice to Landlord and during normal business hours, to cause an independent certified public accountant ("CPA"), who shall be a member of a nationally recognized accounting firm) designated by Tenant to inspect Landlord's operating expense records at Landlord's offices, provided that Tenant is not then in default under the Lease. If after such inspection, Tenant still disputes Landlord's statement, a certification as to the proper amount payable by Tenant shall be made, at

Tenant's expense, by an independent CPA designated by Landlord, which certification shall be final and conclusive. However, if such inspection reveals that Landlord overcharged Tenant for any category of expense by ten percent (10%) or more of the total costs in such respective category of expense, then Landlord shall reimburse Tenant, promptly upon demand, for all fees, costs and expense incurred by Tenant in connection with such inspection. Rent shall be appropriately adjusted on the basis of such inspection or audit.

(g) Taxes on Tenant Improvements and Personal Property. Notwithstanding any other provision hereof, Tenant shall pay the full amount of any increase in Real Property Taxes during the Term resulting from any and all alterations and tenant improvements of any kind whatsoever placed in, on or about the Premises for the benefit of and at the request of, or by, Tenant. Tenant shall pay, prior to delinquency, all taxes assessed or levied against Tenant's personal property in, on or about the Premises. When possible, Tenant shall cause its personal property to be assessed and billed separately from the real or personal property of Landlord.

6. PRORATION OF RENT. If the Commencement Date is not the first day of the month, or if the end of the Term is not the last day of the month, Rent shall be prorated on a monthly basis (based upon a thirty (30) day month) for the fractional month during the month which this Lease commences or terminates. The termination of this Lease shall not affect the obligations of Landlord and Tenant pursuant to Section 5 which are to be performed after the termination.

7. TENANT IMPROVEMENTS.

(a) Tenant's Work. Except for the work to be performed by Landlord expressly described in Subsection 7(b) below ("Landlord's Work"), Tenant hereby accepts the Premises in their current "as-is" condition. Other than Landlord's Work, Landlord shall have no obligation to construct any improvements within the Premises or the Building as part of the initial improvement of the Premises for Tenant's occupancy.

(b) Landlord's Work. Landlord shall, at its own cost and expense, perform the work set forth on Exhibit B attached hereto. All Landlord's Work shall be completed in compliance with applicable building codes.

8. USE OF PREMISES.

(a) Use/Compliance with Laws. Tenant shall use the Premises solely for the use set forth in the Basic Lease Information, and Tenant shall not use the Premises for any other purpose without obtaining the prior written consent of Landlord, which consent shall be given or withheld in the sole and absolute discretion of Landlord without any requirement of reasonableness in the exercise of that discretion. Subject to Landlord's reasonable security procedures, Tenant shall have access to the Premises 24 hours per day, seven days per week. Landlord represents that the use set forth in the Basic Lease Information is a permitted use under applicable legal requirements. Tenant shall, at its own cost and expense, comply with all laws, rules, regulations, orders, permits, licenses and ordinances issued by any governmental authority ("Laws") which relate to the use or occupancy of the Premises during the term of this Lease, including, without limitation, the Building Rules and Regulations attached hereto as Exhibit C. Tenant acknowledges that it shall be required to comply with ADA in completing any Tenant Improvements, and during the Term, shall bear and pay the costs of all changes and corrective measures required by ADA (i) in and to the Premises and (ii) provided that such changes and corrective measures are required due to the specific use or manner of use of the Premises by Tenant, to the Common Areas. Landlord shall undertake all changes and corrective measures to the Common Areas otherwise required by ADA, and the costs thereof shall constitute Operating Expenses. Tenant shall not use the Premises in any manner that will constitute waste, nuisance, or unreasonable annoyance (including, without limitation, use of loudspeakers or sound or light apparatus that can be heard or seen outside the Premises) to other tenants in the Building.

(b) Hazardous Materials. Tenant shall not do or permit anything to be done in or upon the Premises or the Building or the Property, or bring in or keep anything in the Premises or the Building which shall constitute the release, generation, manufacture, storage, treatment, transportation or disposal of oil, hazardous chemical, substances, materials, or wastes ("Hazardous Materials") under applicable federal, state or local environmental laws or regulations

("Environmental Laws"). The foregoing restriction shall not apply as to ordinary office supplies in customary quantities. Tenant shall notify Landlord of any incident which would require the filing by Tenant of a notice under Environmental Laws. Landlord hereby represents that Landlord has not received any written notice that the Building or the Property is in violation of Environmental Laws, and acknowledges that Tenant shall have no obligation to comply with Environmental Laws relating to Hazardous Materials located in the Premises prior to the date of this Lease.

9. ALTERATIONS.

(a) Permitted Alterations. Tenant shall give Landlord not less than ten

(10) days' written notice of any alteration Tenant desires to make to the Premises, which notice shall include a description and preliminary sketch of the proposed alterations. Tenant shall not make any alteration in, the Premises without the prior written consent of Landlord unless the alteration does not affect the Building Structure, the exterior appearance of the Building, the roof or the Building Systems and the cost of the alteration is not in excess of Ten Thousand Dollars (\$10,000.00). Tenant shall comply with all rules, laws, ordinances and requirements applicable at the time Tenant makes any alteration and shall deliver to Landlord all certificates of insurance from all contractors, copy of the building permit (if required), and a complete set of "as built" plans and specifications for each alteration. Tenant shall be solely responsible for maintenance and repair of all alterations made by Tenant. As used in this Section, the term "alteration" shall include any alteration, addition or improvement.

(b) Liens. If, because of any act or omission of Tenant or anyone claiming by, through, or under Tenant, any mechanics' lien or other lien is filed against the Premises, the Building, the Property or against other property of Landlord (whether or not the lien is valid or enforceable), Tenant shall, at its own expense, cause it to be discharged of record within a reasonable time, not to exceed thirty (30) days, after the date of the filing. In addition, Tenant shall defend and indemnify Landlord and hold it harmless from any and all claims, losses, damages, judgments, settlements, costs and expenses, including attorneys' fees, resulting from the lien.

(c) Ownership of Alterations. Any alteration made by Tenant shall immediately become Landlord's property at the end of the Lease Term or upon a Tenant Default. The foregoing notwithstanding, Tenant shall be responsible for and shall remove its trade fixtures promptly upon the termination of this Lease. Any damage resulting from such removal shall be promptly restored by Tenant.

10. REPAIRS.

(a) Landlord Repairs. Except as otherwise provided in this Lease, Landlord shall, at all times during the Term, keep in good condition and repair the roof, Common Areas, exterior walls (including exterior glass and mullions), and structure of the Building (including the mechanical, electrical, and plumbing systems servicing the Premises in common with other areas in the Building) all insofar as they affect the Premises.

(b) Tenant Repairs. Tenant, shall at all times during the Term and at Tenant's sole cost and expense, keep the Premises and every part thereof in good condition and repair, ordinary wear and tear, damage thereto by fire, earthquake, acts of God or the elements excepted. Tenant hereby waives all right to make repairs at the expense of Landlord or in lieu thereof to vacate the Premises as may be provided in or any law, statute or ordinance now or hereafter in effect.

11. DAMAGE OR DESTRUCTION.

(a) Landlord's Obligation to Rebuild. If the Premises are damaged or destroyed, Landlord shall promptly and diligently repair the Premises unless Landlord has the option to terminate this Lease as provided herein, and Landlord elects to terminate.

(b) Right to Terminate. Landlord and Tenant each shall have the option to terminate this Lease if the Premises or the Building is destroyed or damaged by fire or other casualty, regardless of whether the casualty is insured against under this Lease, if Landlord reasonably determines that the repair of the Premises or the Building cannot be completed within one hundred eighty (180) days after the casualty. Landlord shall notify Tenant of such determination within forty-five (45) days following such destruction or damage. If a party desires to exercise the

right to terminate this Lease as a result of a casualty, the party shall exercise the right by giving the other party written notice of its election to terminate within thirty (30) days after the damage or destruction, in which event this Lease shall terminate fifteen (15) days after the date of the notice. If neither Landlord nor Tenant exercises the right to terminate this Lease, Landlord shall promptly commence the process of obtaining necessary permits and approvals, and shall commence repair of the Premises or the Building as soon as practicable and thereafter prosecute the repair diligently to completion, in which event this Lease shall continue in full force and effect. If Landlord fails to complete the repair and restoration of the Premises or the Building within 180 days after the date of such fire or other casualty, then Tenant may terminate this Lease by providing written notice to Landlord.

(c) Limited Obligation to Repair. Landlord's obligation, should Landlord elect or be obligated to repair or rebuild, shall be limited to the Building shell, the Landlord's work and any improvements within the Premises which existed as of the date of this Lease. Tenant, at its option and expense, shall replace or fully repair all trade fixtures, equipment and other improvements installed by Tenant and existing at the time of the damage or destruction.

(d) Abatement of Rent. In the event of any damage or destruction to the Premises which does not result in termination of this Lease, the Rent shall be temporarily abated proportionately to the degree the Premises are untenantable as a result of the damage or destruction, commencing from the date of the damage or destruction and continuing during the period required by Landlord to substantially complete its repair and restoration of the Premises; provided, however, that nothing herein shall preclude Landlord from being entitled to collect the full amount of any rent loss insurance proceeds. Tenant shall not be entitled to any compensation or damages from Landlord for loss of the use of the Premises, damage to Tenant's personal property or any inconvenience occasioned by any damage, repair or restoration.

(e) Damage Near End of Term and Extensive Damage. In addition to the rights to termination under Subsection 11(b), either Landlord or Tenant shall have the right to cancel and terminate this Lease as of the date of the occurrence of destruction or damage if the Premises or the Building is substantially destroyed or damaged (i.e., there is damage or destruction which Landlord reasonably determines would require more than six (6) months to repair, which determination shall be made, and notice given to Tenant within 30 days after the date of occurrence of destruction or damage) and made untenantable during the last twelve (12) months of the Term. Landlord or Tenant shall give notice of its election to terminate this Lease under this Subsection 11(e) within thirty (30) days after Landlord determines that the damage or destruction would require more than six (6) months to repair. If Landlord elects to terminate this Lease in accordance with this section 11 (e), then Tenant may negate such election by exercising any option it has to extend the Term. If neither Landlord nor Tenant elects to terminate this Lease, the repair of the damage shall be governed by Subsection 11(c).

(f) Insurance Proceeds. If this Lease is terminated, Landlord may keep all the insurance proceeds resulting from the damage from policies maintained by Landlord.

12. EMINENT DOMAIN. If all or any part of the Premises is taken for public or quasi-public use by a governmental authority under the power of eminent domain or is conveyed to a governmental authority in lieu of such taking, and if the taking or conveyance causes the remaining part of the Premises to be untenantable and inadequate for use by Tenant for the purpose for which they were leased, then Tenant, at its option and by giving notice within fifteen (15) days after the taking, may terminate this Lease as of the date Tenant is required to surrender possession of the Premises. If a part of the Premises is taken or conveyed but the remaining part is tenantable and adequate for Tenant's use, then this Lease shall be terminated as to the part taken or conveyed as of the date Tenant surrenders possession; Landlord shall make such repairs, alterations and improvements as may be necessary to render the part not taken or conveyed tenantable; and the Rent shall be reduced in proportion to the part of the Premises taken or conveyed. All compensation awarded for the taking or conveyance shall be the property of Landlord without any deduction therefrom for any estate of Tenant, and Tenant hereby assigns to Landlord all its right, title and interest in and to the award. Tenant shall have the right, however, to recover from the governmental authority, but not from Landlord, such compensation as may be awarded to Tenant on account of the interruption of Tenant's business, moving and relocation expenses and removal of Tenant's trade fixtures and personal property.

13. INDEMNITY AND INSURANCE.

(a) Indemnity. Tenant shall be responsible for, shall insure against, and shall indemnify Landlord and Landlord's agents, employees and contractors and hold them harmless from, any and all liability for any loss, damage or injury to person or property occurring in, on or about the Premises, except to the extent that such liability is the result of the gross negligence or willful misconduct of Landlord, its agents, employees or contractors and Tenant hereby releases Landlord and Landlord's agents, employees and contractors from any and all liability for the same. Tenant's obligation to indemnify Landlord and Landlord's agents, employees and contractors hereunder shall include the duty to defend against any claims asserted by reason of any loss, damage or injury, and to pay any judgments, settlements, costs, fees and expenses, including attorneys' fees, incurred in connection therewith.

(b) Insurance. At all times during the term of this Lease, Tenant shall carry, at its own expense, for the protection of Tenant, Landlord and Landlord's agents, employees and contractors, as their interests may appear, one or more policies of comprehensive general public liability and property damage insurance, issued by one or more insurance companies acceptable to Landlord, with minimum coverage of One Million Dollars (\$1,000,000) for injury to one person in any one accident, Three Million Dollars (\$3,000,000) for injuries to more than one person in any one accident and Two Million Dollars (\$2,000,000) in property damage per accident and insuring against any and all liability for which Tenant is responsible under this Lease. The insurance policy or policies shall name Landlord and Landlord's agents, employees and contractors as additional insureds, and shall provide that the policy or policies may not be canceled on less than thirty (30) days' prior written notice to Landlord. Tenant shall furnish Landlord with certificates evidencing the insurance. If Tenant fails to carry the insurance and furnish Landlord with copies of all the policies after a request to do so, Landlord shall have the right to obtain the insurance and collect the cost thereof from Tenant as additional Rent. Landlord shall obtain and throughout the Term shall maintain, with companies qualified to do business in Connecticut, and adjusting insurance coverages to reflect current values from time to time: fire, extended coverage and so-called "all-risk" insurance, with coverage against vandalism and malicious conduct, covering the Building and all improvements made thereto, in an amount equal to one hundred percent (100%) of the full replacement cost thereof above foundation walls.

14. ASSIGNMENT AND SUBLETTING.

(a) Landlord's Consent. Subject to Landlord's rights set forth in Subsection (b) below, Tenant shall not assign, sublet or otherwise transfer all or any portion of Tenant's interest in this Lease (collectively, "sublet") without Landlord's prior written consent which consent Landlord shall not unreasonably withhold. Any request made by Tenant for Landlord's consent to a proposed sublet shall be made in writing and sent to Landlord in accordance with the notice requirements of Section 35 of this Lease. Landlord's consent shall not be deemed granted unless Landlord, within 15 days of the date any such notice is deemed received by Landlord, shall advise Tenant in writing that Landlord's consent is granted. Consent by Landlord to one sublet shall not be deemed to be a consent to any subsequent sublet. The foregoing notwithstanding, no consent of Landlord shall be required in the case of a sublet to wholly owned affiliates or subsidiaries of Tenant or in connection with any merger, consolidation or sale of substantially all of the assets of Tenant. Subject to Landlord's rights set forth in Subsection (b) below, Tenant may assign, sublet or otherwise transfer all or any portion of Tenant's interest in this Lease (collectively, "sublet") to its said affiliate or subsidiary without Landlord's prior written consent, provided, however, that no such assignment or sublease shall relieve Tenant of its obligations under this Lease. For purposes of this Subsection 14(a), the term "affiliate" means a person or entity controlling, controlled by or under common control with the Tenant.

(b) Effect of Sublet. Each sublet to which Landlords consent is required per Subsection 14(a) above shall be by an instrument in writing, in a form satisfactory to Landlord as evidenced by Landlord's written approval. Each sublessee shall agree in writing, for the benefit of Landlord, to assume (with respect to an assignment), to be bound by and to perform the terms, conditions and covenants of this Lease to be performed by Tenant. Tenant shall not be released from personal liability for the performance of each term, condition and covenant of this Lease, and Landlord shall have the right to proceed against Tenant without proceeding against the subtenant.

(c) Executed Counterparts. No sublet shall be valid nor shall any subtenant take possession of the Premises until an executed counterpart of the sublease has been delivered to Landlord and approved in writing.

15. DEFAULT.

(a) Tenant's Default. At the option of Landlord, a material breach of this Lease by Tenant shall exist if any of the following events (severally, "Event of Default"; collectively, "Events of Default") shall occur: (i) if Tenant shall have failed to pay Rent, including Tenant's Percentage Share of increased Operating Costs, or any other sum required to be paid hereunder when due, together with interest at the Interest Rate, from the date the amount became due through the date of payment, inclusive, where such failure to pay continues for ten (10) days after written notice to Tenant of such default, provided that Landlord shall not be required to provide such notice and right to cure more than once in any twelve-month period during the Term; (ii) if Tenant shall have failed to perform any term, covenant or condition of this Lease except those requiring the payment of money, and Tenant shall have failed to cure the breach within thirty (30) days after written notice from Landlord if the breach could reasonably be cured within the thirty (30) day period; provided, however, if the failure could not reasonably be cured within the thirty (30) day period, then Tenant shall not be in default unless it has failed to promptly commence and thereafter continue to make diligent and reasonable efforts to cure the failure as soon as practicable as reasonably determined by Landlord; (iii) if Tenant shall have assigned its assets for the benefit of its creditors; (iv) if the sequestration of, attachment of, or execution on, any material part of the property of Tenant or on any property essential to the conduct of Tenant's business shall have occurred, and Tenant shall have failed to obtain a return or release of the property within thirty (30) days thereafter, or prior to sale pursuant to any sequestration, attachment or levy, whichever is earlier; (v) if Tenant shall have abandoned the Premises; (vi) if a court shall have made or entered any decree or order adjudging Tenant to be insolvent, or approving as properly filed a petition seeking reorganization of Tenant, or directing the winding up or liquidation of Tenant, and the decree or order shall have continued for a period of thirty (30) days; (vii) if Tenant shall make or suffer any transfer which constitutes a fraudulent or otherwise avoidable transfer under any provision of the federal Bankruptcy Laws or any applicable state law; or (viii) if Tenant shall have failed to comply with the provisions of Section 23 or 25. For all purposes under this Lease, Tenant shall not be deemed to be in default unless and until an Event of Default occurs.

(b) Remedies Upon Tenant's Default. Upon and during the continuance of an Event of Default, Landlord shall have the following remedies, in addition to all other rights and remedies provided by law, equity, statute or otherwise provided in this Lease, to which Landlord may resort cumulatively or in the alternative:

(i) Landlord may continue this Lease in full force and effect, and this Lease shall continue in full force and effect as long as Landlord does not terminate Tenant's right to possession, and Landlord shall have the right to collect Rent when due. During the period Tenant is in default, Landlord may, if it so elects in its sole discretion (but shall have no obligation to) enter the Premises pursuant to summary process laws and relet it, or any part of it, to third parties for Tenant's account, provided that any rent received which is in excess of the Rent due hereunder shall be payable to Landlord. Tenant shall be liable immediately to Landlord for all costs Landlord incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of cleaning and redecorating the Premises required by the reletting and like costs. Reletting may be for a period shorter or longer than the remaining Term of this Lease. Tenant shall pay to Landlord the Rent and other sums due under this Lease on the dates the Rent is due, less the Rent and other sums Landlord receives from any reletting. No act by Landlord allowed by this Subsection 15(b)(i) shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease. Under all circumstances, Landlord shall use reasonable efforts to mitigate damages resulting from any default by Tenant.

(ii) Landlord may terminate Tenant's right to possession of the Premises at any time by giving written notice to that effect. No act by Landlord other than giving written notice to Tenant shall terminate this Lease. Acts of maintenance, efforts to relet the Premises or the appointment of a receiver on Landlord's initiative to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to

possession. On termination and repossession of the Premises pursuant to summary process laws Landlord shall have the right to remove all personal property of Tenant and store it at Tenant's cost and to recover from Tenant as damages: (1) the worth at the time of award of unpaid Rent and other sums due and payable which had been earned at the time of termination; plus (2) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable which would have been payable after termination until the time of award exceeds the amount of the Rent loss that Tenant proves could have been reasonably avoided; plus (3) the worth at the time of award of the amount by which the unpaid Rent and other sums due and payable for the balance of the Term after the time of award exceeds the amount of the Rent loss that Tenant proves could be reasonably avoided; plus (4) any other amount necessary to compensate Landlord for any costs or expenses incurred by Landlord: (a) in retaking possession of the Premises, including reasonable attorneys' fees and costs therefor; (b) maintaining or preserving the Premises for reletting to a new tenant, including repairs or alterations to the Premises for the reletting; (c) leasing commissions; (d) any other costs necessary or appropriate to relet the Premises; and (e) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by the laws of the State of Connecticut.

The "worth at the time of award" of the amounts referred to in Subsections 15(b)(ii)(1) and 15(b)(ii)(2) is computed by allowing interest at the lesser of twelve percent (12%) per annum or the maximum rate permitted by law, on the unpaid Rent and other sums due and payable from the termination date through the date of award. The "worth at the time of award" of the amount referred to in Subsection 15(b)(ii)(3) is computed by discounting the amount at the prime rate plus one percent (1%).

(c) Landlord's Default. Landlord shall not be deemed to be in default in the performance of any obligation required to be performed by Landlord hereunder unless and until Landlord has failed to perform the obligation within thirty (30) days after receipt of written notice by Tenant to Landlord specifying wherein Landlord has failed to perform the obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, then Landlord shall not be deemed to be in default if Landlord shall commence the performance within the thirty (30) day period and thereafter shall diligently prosecute the same to completion.

16. LANDLORD'S RIGHT TO PERFORM TENANT'S COVENANTS. If Tenant shall at any time fail to make any payment or perform any other act on its part to be made or performed under this Lease and such failure continues beyond all applicable notice, grace and cure periods, then Landlord may, but shall not be obligated to, make the payment or perform any other act to the extent Landlord may deem desirable and, in connection therewith, pay reasonable expenses and employ counsel at reasonable rates. Any payment or performance by Landlord shall not waive or release Tenant from any obligations of Tenant under this Lease. All reasonable sums so paid by Landlord, and all penalties, interest and costs in connection therewith, shall be due and payable by Tenant within ten (10) days after receipt of Landlord's invoice requesting payment, together with interest thereon at the Interest Rate, from that date to the date of payment thereof by Tenant to Landlord, plus collection costs and attorneys' fees. Landlord shall have the same rights and remedies for the nonpayment thereof as in the case of default in the payment of Rent.

17. SECURITY DEPOSIT. Tenant has deposited with Landlord the Security Deposit, in the amount specified in the Basic Lease Information, as security for the full and faithful performance of every provision of this Lease to be performed by Tenant. If Tenant defaults with respect to any provision of this Lease, Landlord may use, apply or retain all or any part of the Security Deposit for the payment of any Rent or other sum in default, for the payment of any amount which Landlord may expend or become obligated to expend by reason of Tenant's default, or to compensate Landlord for any loss or damage which Landlord may suffer by reason of Tenant's default. If any portion of the Security Deposit is used or applied, Tenant shall deposit with Landlord, within ten (10) days after written demand therefor, cash in an amount sufficient to restore the Security Deposit to its original amount. Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on the Security Deposit. The balance of the Security Deposit shall be returned to Tenant within 30 days after the termination of this Lease and vacation of the Premises by Tenant.

18. SURRENDER OF PREMISES. By taking possession of the Premises, Tenant shall be deemed to have accepted the Premises and the Property in good, clean and completed condition and repair, subject to all

applicable laws, codes and ordinances, except as may otherwise be provided in the Lease. On the expiration or early termination of this Lease, Tenant shall surrender the Premises to Landlord in the condition required pursuant to Section 9(c) and 10(b). Tenant shall remove from the Premises all of Tenant's personal property and any trade fixtures that Tenant removes pursuant to Section 9(c). Tenant shall repair damage or perform any restoration work required by the removal. If Tenant fails to remove any such personal property or trade fixtures after the end of the Term, Landlord may remove the property and store it at Tenant's expense, including interest at the Interest Rate. If said property has been stored for a period in excess of ninety (90) days, Landlord shall be free to dispose of same in any way it deems practicable. If disposed of by sale, Landlord shall be entitled to all proceeds.

19. **HOLDING OVER.** If Tenant remains in possession of all or any part of the Premises after the expiration of the Term or the termination of this Lease, the tenancy shall be month-to-month only and shall not constitute a renewal or extension for any further term. In such event, Base Rent shall be increased in an amount equal to one hundred fifty percent (150%) of the Base Rent during the last month of the Term (including any extensions), and any other sums due under this Lease shall be payable in the amount, and at the times, specified in this Lease. The month-to-month tenancy shall be subject to every other term, condition, covenant and agreement contained in this Lease and Tenant shall vacate the Premises immediately upon Landlord's request.

20. **ACCESS TO PREMISES.** Tenant shall permit Landlord and its agents to enter the Premises at all times upon reasonable notice, except in the case of an emergency (in which event no notice shall be necessary), to inspect the Premises; to show the Premises to interested parties such as prospective mortgagors, purchasers and tenants; to make necessary alterations, additions, improvements or repairs either to the Premises, the Building, or other premises within the Building; and to discharge Tenant's obligations hereunder when Tenant has failed to do so within a reasonable time after written notice from Landlord. The above rights are subject to reasonable security regulations of Tenant, and to the requirement that Landlord shall at all times act in a manner to cause the least possible interference with Tenant's operations.

21. **SIGNS.** Landlord shall include Tenant's name on the building directory at Landlord's expense on a one-time basis. Any changes shall be at Tenant's expense. The size, design, color, location and other physical aspects of any sign in the Building shall be subject to the Rules and Landlord's approval prior to installation, and to any appropriate municipal or other governmental approvals. The costs of any other permitted sign, and the costs of its installation, maintenance and removal, shall be at Tenant's sole expense, except that the suite identification sign adjacent to the door shall be installed at Landlord's expense as a part of the Tenant Allowance.

22. **WAIVER OF SUBROGATION.** Anything in this Lease to the contrary notwithstanding, Landlord and Tenant each hereby waives and releases the other of and from any and all rights of recovery, claim, action or cause of action against the other, its subsidiaries, directors, agents, officers and employees, for any loss or damage that may occur in the Premises, the Building or the Property; to improvements to the Building or personal property (building contents) within the Building; or to any furniture, equipment, machinery, goods and supplies not covered by this Lease which Tenant may bring or obtain upon the Premises or any additional improvements which Tenant may construct on the Premises by reason of fire, the elements or any other cause which is required to be insured against under this Lease, regardless of cause or origin, including negligence of Landlord or Tenant and their agents, subsidiaries, directors, officers and employees, to the extent insured against under the terms of any insurance policies carried by Landlord or Tenant and in force at the time of any such damage, but only if the insurance in question permits such a partial release in connection with obtaining a waiver of subrogation from the insurer. Because this Section will preclude the assignment of any claim mentioned in it by way of subrogation or otherwise to an insurance company or any other person, each party to this Lease agrees immediately to give to each insurance company written notice of the terms of the mutual waivers contained in this Section and to have the insurance policies properly endorsed, if necessary, to prevent the invalidation of the insurance coverages by reason of the mutual waivers contained in this Section.

23. **SUBORDINATION.**

(a) **Subordinate Nature.** Except as provided in Subsection 23(b), this Lease is subject and subordinate to all ground and underlying leases, mortgages and deeds of trust which now affect the Property, the Building or the Premises, to the Declaration, and to all renewals, modifications, consolidations, and extensions thereof, but only if the Holder or Lessor (as those terms are defined below) enters into a recordable agreement with Tenant, in form and substance

reasonably acceptable to Tenant, providing that such Holder or Lessor will, in foreclosing against (or accepting a deed in lieu of foreclosure) or in taking possession of the Property, the Building or any portion thereof, or in otherwise exercising any of its rights under the lease, mortgage or deed of trust, be bound as landlord by, and will not disturb Tenant's possession of the Premises or any of Tenant's rights under, this Lease, so long as there shall not exist any default by Tenant beyond all applicable notice, grace and cure periods. Within ten (10) business days after Landlord's written request therefor, Tenant shall execute any and all documents in form reasonably required by Landlord, the lessor under any future ground or underlying lease ("Lessor"), or the holder or holders of any future mortgage or deed of trust ("Holder") to make this Lease subordinate to the lien of any lease, mortgage or deed of trust, as the case may be, but only if Tenant receives such recognition and non-disturbance agreement.

(b) Possible Priority of Lease. If a Lessor or a Holder advises Landlord that it desires or requires this Lease to be prior and superior to a lease, mortgage or deed of trust, Landlord may notify Tenant. Within ten (10) days of Landlord's notice, Tenant shall execute, have acknowledged and deliver to Landlord any and all documents or instruments, in the form presented to Tenant, which Landlord, Lessor or Holder deems reasonably necessary or desirable to make this Lease prior and superior to the lease, mortgage or deed of trust.

24. TRANSFER OF THE PROPERTY. Upon transfer of the Property and assignment of this Lease, Landlord shall be entirely freed and relieved of all liability under any and all of its covenants and obligations contained in or derived from this Lease occurring after the consummation of the transfer and assignment, and from all liability for the Security Deposit. Tenant shall attorn to any entity purchasing or otherwise acquiring the Premises at any sale or other proceeding, provided such entity shall assume the obligations of Landlord hereunder from and after any such acquisition.

25. ESTOPPEL CERTIFICATES. Within ten business (10) days following written request by Landlord, Tenant shall execute and deliver to Landlord an estoppel certificate, in the form prepared by Landlord. The certificate shall: (a) certify that this Lease is unmodified and in full force and effect or, if modified, state the nature of the modification and certify that this Lease, as so modified, is in full force and effect, and the date to which the Rent and other charges are paid in advance, if any; (b) acknowledge that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or if there are uncured defaults on the part of the Landlord, state the nature of the uncured defaults; and (c) evidence the status of the Lease as may be required either by a lender making a loan to Landlord to be secured by deed of trust or mortgage covering the Premises or a purchaser of the Property from Landlord.

26. MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee of a mortgage covering the Property who has entered into a nondisturbance and attornment agreement with Tenant or who has notified Tenant of the identity and address of the person to whom such notice should be sent and shall offer the beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Property or the Premises by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure.

27. ATTORNEYS' FEES. If either party shall bring any action or legal proceeding for damages for an alleged breach of any provision of this Lease, to recover rent or other sums due, to terminate the tenancy of the Premises or to enforce, protect or establish any term, condition or covenant of this Lease or right of either party, the prevailing party shall be entitled to recover, as a part of the action or proceedings, or in a separate action brought for that purpose, such reasonable attorneys' fees and court costs as may be fixed by the court or jury.

28. BROKERS. Landlord and Tenant each warrant and represent to each other that it has had no dealings with any real estate broker or agent in connection with the negotiation of this Lease, except for the brokers(s) specified in the Basic Lease Information, whose commissions shall be paid by Landlord pursuant to separate agreements, and that it knows of no other real estate broker or agent who is or might be entitled to a commission in connection with this Lease. Landlord and Tenant shall indemnify and hold each other harmless from and against any and all liabilities or expenses arising out of claims made by any other broker or individual for commissions or fees resulting from this Lease.

29. PARKING. Tenant shall have the right, without additional charge during the initial Term of this Lease, to park forty-four (44) cars in the Building's parking garage and/or surface parking, exclusive of reserved parking areas, in common with other tenants of the Building upon terms and conditions as may

from time to time be established by Landlord. All such spaces shall be unreserved. Tenant agrees not to use in excess of its proportionate share of parking facilities and agrees to cooperate with Landlord and other tenants in the use of the parking facilities. Landlord reserves the right, in its absolute discretion, to determine whether the parking facilities are becoming crowded and to allocate and assign parking spaces among Tenant and the other tenants, provided that at all times Tenant shall have use of a minimum of 44 parking spaces in the Building's garage and/or surface parking areas. Landlord shall not be liable to Tenant, nor shall this Lease be affected, if any parking is impaired by moratorium, initiative, referendum, law, ordinance, regulation or order passed, issued or made by any governmental or quasi-governmental body.

30. **UTILITIES AND SERVICES.** Landlord agrees to furnish, or cause to be furnished, to the Premises the utilities and services described in the standards for Utilities and Services, set forth in Exhibit D subject to the conditions and in accordance with the standards set forth therein. Landlord shall not be liable for, and Tenant shall not be entitled to any abatement or reduction of Rent by reason of, no eviction of Tenant shall result from and, further, Tenant shall not be relieved from the performance of any covenant or agreement in this Lease because of, Landlord's failure to furnish any of the foregoing when the failure is not caused by Landlord's gross negligence or willful misconduct, but rather is caused by accident, breakage, or repairs, strikes, lockouts or other labor disturbance or labor dispute of any character, governmental regulation, moratorium or other governmental action, inability despite the exercise of reasonable diligence to obtain electricity, water or fuel, or by any other cause beyond Landlord's reasonable control. In the event of any failure, stoppage or interruption thereof, Landlord shall diligently attempt to resume service. If such interruption of service (other than that caused by casualty or condemnation) shall continue for more than ten (10) consecutive days, the Rent payable by Tenant hereunder shall abate, based upon the portion or portions of the Premises affected by such interruption of service and the degree of adverse effect of the interruption upon the normal conduct of Tenant's business at the Premises, until such interruption is remedied.

31. **ACCEPTANCE.** Delivery of this Lease, duly executed by Tenant, constitutes an offer to lease the Premises as set forth herein, and under no circumstances shall such delivery be deemed to create an option or reservation to lease the Premises for the benefit of Tenant. This Lease shall become effective and binding only upon execution hereof by Landlord and delivery of a signed copy to Tenant. Upon acceptance of Tenant's offer to lease under the terms hereof and receipt by Landlord of the Rent for the first month of the Term in connection with Tenant's submission of the offer, Landlord shall be entitled to retain the sums and apply them to damages, costs and expenses incurred by Landlord if Tenant fails to occupy the Premises. If Landlord rejects the offer, the sums shall be returned to Tenant.

32. **USE OF BUILDING NAME.** Tenant shall not employ the name of the Building nor the name of the business in which the Building is located in the name or title of its business or occupation without Landlord's prior written consent, which consent Landlord may withhold in its sole discretion. Landlord reserves the right to change the name of the Building without Tenant's consent and without any liability to Landlord.

33. **RECORDING.** Neither the Landlord nor Tenant shall record this Lease or a notice of this Lease without the prior written consent of the other. However, this subsection will not preclude Tenant from disclosing this Lease if required pursuant to SEC regulations.

34. **INTENTIONALLY OMITTED**

35. **NOTICES.** Any notice or demand required or desired to be given under this Lease shall be in writing and shall be given by hand delivery, electronic facsimile or the United States mail. Notices which are sent by electronic facsimile shall be deemed to have been given upon receipt. Notices which are mailed shall be deemed to have been given when seventy-two (72) hours have elapsed after the notice was deposited in the United States mail, registered or certified, the postage prepaid, addressed to the party to be served. As of the date of execution of this Lease, the addresses of Landlord and Tenant are as specified in the Basic Lease Information. Either party may change its address by giving notice of the change in accordance with this Section.

36. **LANDLORD'S EXCULPATION.** In the event of default, breach or violation by Landlord (which term includes Landlord's partners, co-venturers and co-tenants, and officers, directors, employees, agents and representatives of Landlord and Landlord's members, managers, partners, co-venturers and co-tenants) of any of Landlord's obligations under this Lease, Landlord's liability to Tenant shall be limited to its ownership interest in the Building and Property or the proceeds of a public sale of the ownership interest

pursuant to the foreclosure of a judgment against Landlord. Landlord shall not be personally liable, or liable in any event, for any deficiency beyond its ownership interest in the Building and Property.

37. **ADDITIONAL STRUCTURES.** Any diminution or interference with light, air or view by any structure which may be erected on land adjacent to the Building shall in no way alter this Lease or impose any liability on Landlord.

38. **GENERAL.**

(a) **Captions.** The captions and headings used in this Lease are for the purpose of convenience only and shall not be construed to limit or extend the meaning of any part of this Lease.

(b) **Time.** Time is of the essence for the performance of each term, condition and covenant of this Lease.

(c) **Severability.** If any provision of this Lease is held to be invalid, illegal or unenforceable, the invalidity, illegality, or unenforceability shall not affect any other provision of this Lease, but this Lease shall be construed as if the invalid, illegal or unenforceable provision had not been contained herein.

(d) **Choice of Law; Construction.** This Lease shall be construed and enforced in accordance with the laws of the State of Connecticut. The language in all parts of this Lease shall in all cases be construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

(e) **Gender; Singular, Plural.** When the context of this Lease requires, the neuter gender includes the masculine, the feminine, a partnership or corporation or joint venture, and the singular includes the plural.

(f) **Binding Effect.** The covenants and agreements contained in this Lease shall be binding on the parties hereto and on their respective successors and assigns (to the extent this Lease is assignable).

(g) **Waiver.** The waiver of Landlord of any breach of any term, condition or covenant of this Lease shall not be deemed to be a waiver of the provision or any subsequent breach of the same or any other term, condition or covenant of this Lease. The subsequent acceptance of Rent hereunder by Landlord shall not be deemed to be a waiver of any preceding breach at the time of acceptance of the payment. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord or Tenant unless the waiver is in writing signed by the party to whom performance is owed.

(h) **Entire Agreement.** This Lease is the entire agreement between the parties, and there are no agreements or representations between the parties except as expressed herein. Except as otherwise provided herein, no subsequent change or addition to this Lease shall be binding unless in writing and signed by the parties hereto.

(i) **Waiver of Jury.** To the extent permitted by law, Landlord and Tenant each hereby waives any right it may have to a jury trial in the event of litigation between Tenant and Landlord pertaining to this Lease.

(j) **Counterparts.** This Lease may be executed in counterparts, each of which shall be an original, but all counterparts shall constitute one (1) instrument.

(k) **Exhibits.** The Basic Lease Information, the executed Workletter, and all exhibits attached hereto are hereby incorporated herein and made an integral part hereof.

39. **OPTIONS TO EXTEND TERM.**

(a) **Option Period.** So long as Tenant is not in default under this Lease, either at the time of exercise or at the time the extended term commences, Tenant will have two (2) options to extend the initial ten (10) year term of this Lease each for an additional period of five (5) years (each an

"Option Period") on the same terms, covenants, and conditions of this Lease, except that the monthly Base Rent during each such Option Period will be determined at a mutually acceptable rate as negotiated between the Tenant and the Landlord. Tenant will exercise its option by giving Landlord written notice ("Option Notice") at least one hundred eighty (180) days but not more than three hundred sixty-five (365) days prior to the expiration of the initial term of this Lease, or any then applicable Option Period; provided, however that Tenant may elect to exercise both of its options to extend the Term simultaneously, in which case Tenant shall not make such election prior to the date that is 365 days prior to the expiration of the initial term of this lease. If Tenant elects to exercise both options to extend the Term simultaneously, then the Base Rent shall be adjusted at the commencement of the Option Period and again in year six (6) of the Option Period.

(b) Option Period Monthly Rent. The monthly rent for each such option period will be determined as follows::

(i) Landlord and Tenant will have fifteen (15) business days after Landlord receives the Option Notice within which to agree on the then-fair market rental value of the Premises as defined in Subsection

(b)(iii) below; provided, however, that the Base Rent for the Option Period shall be equal to ninety-five percent (95%) of the then-fair market rental value (except that if prior to the commencement of the Option Period Tenant has sublet its interest in all or any portion of the Premises, other than a sublet pursuant to Subsection 14(a) that does not require Landlord's consent to a subsidiary or successor by merger of Tenant, the Base Rent for the Option Period shall be equal to one hundred (100%) percent of the then-fair market value). If they agree on the Base Rent for the Option Period within fifteen (15) business days, they will amend this Lease by stating the new Base Rental for the Option Period.

(ii) If they are unable to agree on the Base Rent for the Option Period within fifteen (15) business days, then, Base Rent for the Option Period will be 95% of the then-fair market rental value of the Premises as determined in accordance with Subsection b(iv) below.

(iii) The "then-fair market rental value of the Premises" means what a Landlord under no compulsion to lease the Premises and a Tenant under no compulsion to lease the Premises would determine as Base Rent for such option period, as of the commencement of that option period, taking into consideration the uses permitted under this Lease, the quality, size, design, and location of the Premises, and the rent for comparable buildings located in the vicinity of Hamden, Connecticut.

(iv) Within seven business (7) days after the expiration of the fifteen (15) business day period set forth in paragraph b (ii), Landlord and Tenant will each appoint a real estate appraiser with at least five (5) years' full-time commercial appraisal experience in the area in which the Premises are located to appraise the then-fair market rental value of the Premises. If either Landlord or Tenant does not appoint an appraiser within ten (10) business days after the other has given notice of the name of its appraiser, the single appraiser appointed will be the sole appraiser and will set the then-fair market rental value of the Premises. If two appraisers are appointed pursuant to this paragraph, they will meet promptly and attempt to set the then-fair market rental value of the Premises. If they are unable to agree within thirty (30) days after the second appraiser has been appointed, they will attempt to elect a third appraiser meeting the qualifications stated in this paragraph within ten (10) business days after the last day the two appraisers are given to set the then fair market rental value of the premises. If they are unable to agree on the third appraiser, either Landlord or Tenant, by giving ten (10) business days' prior notice to the other, can apply to American Arbitration Association for the selection of a third appraiser who meets the qualifications stated in this paragraph. Landlord and Tenant will bear one-half (1/2) of the cost of appointing the third appraiser and of paying the third appraiser's fee. The third appraiser, however selected, must be a person who has not previously acted in any capacity for either Landlord or Tenant.

Within thirty (30) days after the selection of the third appraiser, a majority of the appraisers will set the then-fair market rental value of the Premises. If a majority of the appraisers are unable to set the then-fair market rental value of the Premises within thirty (30) days after selection of the third appraiser, the three appraisals will be averaged and the average will be the then-fair market rental value of the Premises.

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

"LANDLORD"

2319 HAMDEN CENTER I, L.L.C.,
a Connecticut limited liability company

By Hamden Center Investors, Inc.,
its Manager

By /s/ Richard L. Tolentino

Its Designated Agent

"TENANT"

TransAct Technologies Incorporated

By /s/ Steven A. DeMartino

*Its Executive Vice President, Chief
Financial Officer, Treasurer and
Secretary*

EXHIBIT A

PREMISES

Suite 3-B, approximately 11,075 rentable square feet, on the third floor of the building known as One Hamden Center, 2319 Whitney Avenue, Hamden CT 06518

EXHIBIT A-1

PROPERTY LEGAL DESCRIPTION

EXHIBIT B

LANDLORD'S WORK

Subject to and in accordance with the terms of the Workletter attached hereto and made a part hereof as EXHIBIT B-1, Landlord will cause the work described on EXHIBIT B-2 attached hereto and made a part hereof to be performed.

EXHIBIT B-1

Workletter

[REPLACE WITH NEW WORKLETTER AS DRAFTED BY TENANT]

EXHIBIT B-2

1. Demolition of all existing improvements as required
2. Ceiling grid and tiles;
3. lighting;
4. walls, wall coverings & painting;
5. doors, millwork, kitchen cabinets & shelving;
6. door hardware;
7. window blinds;
8. floor coverings; and,
9. plumbing for sinks

EXHIBIT C

RULES AND REGULATIONS

1. No sign, placard, picture, advertisement, name or notice shall be installed or displayed on any part of the outside or inside 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 and walls shall be printed, painted, affixed or inscribed at the expense of Tenant by a person chosen by Landlord.
2. The directory of the Building will be provided exclusively for the display of the name and location of tenants, and Landlord reserves the right to exclude any other names therefrom. Tenant shall pay Landlord's standard charge for any changes to Tenant's initial listing (which initial listing shall be completed at Landlord's expense) which may be requested by Tenant.
3. Except as consented to in writing by Landlord or in accordance with Building standard improvements, no draperies, curtains, blinds, shades, screens or other devices shall be hung at or used in connection with any window or exterior door or doors of the Premises. No awning shall be permitted on any part of the Premises. Tenant shall not place anything against or near glass partitions or doors or windows which may appear unsightly from outside the Premises.
4. Tenant shall not obstruct any sidewalks, halls, lobbies, passages, exits, entrances, elevators or stairways of the Building. Subject to the provisions of Lease Paragraph 9a, Tenant and no employee or invitee of Tenant shall go upon the roof of the Building or make any roof or terrace penetrations without Landlord's prior written consent. Tenant shall not allow anything to be placed on the outside terraces or balconies without the prior written consent of Landlord.
5. All cleaning and janitorial services for the Building shall be provided exclusively through Landlord, and, except with the written consent of Landlord, no person or persons other than those approved by Landlord shall be employed by Tenant or permitted to enter the Building for the purpose of cleaning. Tenant shall not cause any unnecessary labor by carelessness or indifference to the good order and cleanliness of the Premises. Landlord shall not in any way be responsible to any Tenant for any loss of property on the Premises, however occurring, or for any damage to any Tenant's property by the janitor or any other employee or person.
6. Landlord acknowledges that Tenant may install, at Tenant's expense, a card key entry system at the Premises, provided that Tenant shall provide Landlord with the appropriate card to allow access in the in accordance with the terms of the Lease, and shall deliver to Landlord, upon the termination of its tenancy, the card keys, and all equipment and other information necessary to operate all locks for doors in the Premises.
7. If Tenant requires telegraphic, telephonic, burglar alarm or similar services, it shall first obtain, and comply with, Landlord's instructions for their installation.
8. The elevators shall be available for use by all tenants in the Building, subject to reasonable scheduling as Landlord in its discretion shall deem appropriate. No equipment, materials, furniture, packages, supplies, merchandise or other property will be received in the Building or carried in the elevators except between the hours, in the manner and in the elevators as may be designated by Landlord.
9. Tenant shall not place a load upon any floor of the Premises which exceeds the maximum load per square foot which the floor was designed to carry and which is allowed by law. Tenant's business machines and mechanical equipment which cause noise or vibration which may be transmitted to the structure of the Building or to any space therein, and which is objectionable to Landlord or to any tenants in the Building, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or other devices sufficient to eliminate noise or vibration.
10. Tenant shall not use or keep in the Premises any toxic or hazardous materials or any kerosene, gasoline or inflammable or combustible fluid or material other than those limited quantities necessary for the operation or maintenance of office equipment. 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. No animal, except seeing eye dogs when in the company of their masters, may be brought into or kept in the Building.

11. Tenant shall not use any method of heating or air-conditioning other than that supplied by Landlord, unless Tenant receives the prior written consent of Landlord.

12. Tenant shall 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. Tenant shall refrain from attempting to adjust controls other than room thermostats installed for Tenant's use. Tenant shall keep corridor doors and sliding glass doors closed, and shall close window coverings at the end of each business day.

13. Landlord reserves the right, exercisable without notice and without liability to Tenant, to change the name and street address of the Building.

14. Landlord reserves the right to exclude any person from the Building between the hours of 6:00 p.m. and 8:00 a.m. the following day, or any other hours as may be established from time to time by Landlord, and on Saturdays, Sundays and legal holidays, unless that person is known to the person or employee in charge of the Building and has a pass or is properly identified. Tenant shall be responsible for all persons for whom it requests passes and shall be liable to Landlord for all acts of those persons. Landlord shall not be liable for damages for any error in admitting or excluding any person from the Building. Landlord reserves the right to prevent access to the Building by closing the doors or by other appropriate action in case of invasion, mob, riot, public excitement or other commotion.

15. Tenant shall close and lock the doors of its Premises, shut off all water faucets or other water apparatus and turn off all lights and other equipment which is not required to be continuously run. Tenant shall be responsible for any damage or injuries sustained by other tenants or occupants of the Building or Landlord for noncompliance with this Rule.

16. The toilet rooms, toilets, 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 placed therein. The expense of any breakage, stoppage or damage resulting from any violation of this rule shall be borne by the tenant who, or whose employees or invitees, shall have caused it.

17. Subject to the provisions of Lease Paragraph 9a, Tenant shall not install any radio or television antenna, loudspeaker or other device on the roof or exterior walls of the Building without Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed. Tenant shall not interfere with radio or television broadcasting or reception from or in the Building or elsewhere.

18. Tenant shall not cut or bore holes for wires in the partitions, woodwork or plaster of the Premises. Tenant shall not affix any floor covering to the floor of the Premises in any manner except as approved by Landlord. Tenant shall repair, or be responsible for the cost of repair of any damage resulting from noncompliance with this Rule.

19. Tenant shall not install, maintain or operate upon the Premises any vending machine without the prior written consent of Landlord.

20. Canvassing, soliciting and distributing handbills or any other written material and peddling in the Building are prohibited, and each tenant shall cooperate to prevent these activities.

21. Landlord reserves the right to exclude or expel from the Building 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 Building.

22. Tenant shall store all its trash and garbage within its Premises. Tenant shall not place in any trash box or receptacle any material which cannot be disposed of in the ordinary and customary manner of trash and garbage disposal within the Building. All garbage and refuse disposal shall be made in accordance with directions issued from time to time by Landlord.
23. Use by Tenant of Underwriters' Laboratory approved equipment for brewing coffee, tea, hot chocolate and similar beverages and microwaving food shall be permitted, provided that the equipment and use is in accordance with all applicable federal, state, county and city laws, codes, ordinances, rules and regulations.
24. Tenant shall not use the name of the Building in connection with or in promoting or advertising the business of Tenant, except as Tenant's address, without the written consent of Landlord.
25. Tenant shall comply with all safety, fire protection and evacuation procedures and regulations established by Landlord or any governmental agency. Tenant shall be responsible for any increased insurance premiums attributable to Tenant's use of the Premises, Building or Property.
26. Tenant assumes any and all responsibility for protecting its Premises from theft and robbery, which responsibility includes keeping doors locked and other means of entry to the Premises closed.
27. Tenant shall not use the Premises, or suffer or permit anything to be done on, in or about the Premises, which may result in an increase to Landlord in the cost of insurance maintained by Landlord on the Building and Common Areas.
28. Tenant's requests for assistance will be attended to only upon appropriate application to the office of the Building by an authorized individual. Employees of Landlord shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord, and no employee of Landlord will admit any person (Tenant or otherwise) to any office without specific instructions from Landlord.
29. Tenant shall not park its vehicles in any parking areas designated by Landlord as areas for parking by visitors to the Building or other reserved parking spaces. Tenant shall not leave vehicles in the Building parking areas overnight, nor park any vehicles in the Building parking areas other than automobiles, motorcycles, motor driven or non-motor driven bicycles or four-wheeled trucks. Tenant, its agents, employees and invitees shall not park any one (1) vehicle in more than one (1) parking space.
30. The scheduling and manner of all Tenant move-ins and move-outs shall be subject to the discretion and approval of Landlord, and move-ins and move-outs shall take place only after 6:00 p.m. on weekdays, on weekends, or at other times as Landlord may designate. Landlord shall have the right to approve or disapprove the movers or moving company employed by Tenant, and Tenant shall cause the movers to use only the entry doors and elevators designated by Landlord. If Tenant's movers damage the elevator or any other part of the Property, Tenant shall pay to Landlord the amount required to repair the damage.
31. Smoking is not permitted within the Premises or other portions of the Building, except in such building location(s), if any, which Landlord may at its sole discretion from time to time maintain for the convenience of all tenants.
32. Landlord may waive any one or more of these Rules and Regulations for the benefit of Tenant or any other tenant (provided any such waiver in favor of any other tenant shall be deemed a waiver in favor of Tenant) but no waiver by Landlord shall be construed as a waiver of the Rules and Regulations in favor of any other tenant, nor prevent Landlord from thereafter enforcing the Rules and Regulations against any or all of the tenants of the Building.
33. These Rules and Regulations are in addition to, and shall not be construed to in any way modify or amend, in whole or in part, the terms, covenants, agreements and conditions of any lease of premises in the Building.

34. Landlord reserves the right to make other 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 Rules and Regulations hereinabove stated and any additional rules and regulations which are adopted.

35. Tenant shall be responsible for the observance of all of the foregoing rules by Tenant's employees, agents, clients, customers, invitees and guests.

EXHIBIT D

UTILITIES AND SERVICES

The standards set forth below for Utilities and Services are in effect. Landlord reserves the right to adopt nondiscriminatory modifications and additions hereto, which do not materially affect Tenant's rights. Landlord shall give notice to Tenant, in accordance with provisions of this Lease, of material modification and additions.

1. PROVISION BY LANDLORD. Landlord shall:

(a) ELEVATOR. Provide unattended automatic elevator facilities Monday through Friday, except holidays, from 7:00 a.m. to 7:00 p.m., and Saturday from 8:00 a.m. to 1:00 p.m. ("Building Standard Hours") and have at least one elevator available at all other times.

(b) VENTILATION.

(i) Ventilate the Premises and furnish air-conditioning or heating during Building Standard Hours (and at other times for the additional charges described in Paragraph 2 to the extent required for the comfortable occupancy of the Premises) subject to governmental regulation and the provisions of subparagraph (ii) below. The air-conditioning system achieves maximum cooling when the window coverings and sliding glass doors are closed. Landlord shall not be responsible for room temperatures if Tenant does not keep all sliding glass doors in the Premises closed whenever the system is in operation. Tenant shall cooperate to the best of its ability at all times with Landlord and shall abide by all reasonable regulations and requirements which Landlord may prescribe for the proper functioning and protection of the air-conditioning system. Tenant shall not connect any apparatus, device, conduit or pipe to the Building's chilled and hot water air-conditioning supply lines. Tenant and Tenant's servants, employees, agents, visitors, licensees or contractors shall not enter at any time the mechanical installations or facilities of the Building, or adjust, tamper with, touch or otherwise in any manner affect the installations or facilities. If any installation of partitions, equipment or fixtures by Tenant necessitates the re-balancing of the climate control equipment in the Premises, the re-balancing shall be performed by Landlord at Tenant's expense.

(c) ELECTRICITY. Subject to the provisions of Paragraph 2, furnish to the Premises electric current as required by the Building standard office lighting and equipment installed by Tenant in the Premises. Tenant's electrical consumption shall be separately sub-metered, such sub-meter installed and maintained by Landlord at its sole expense, and Tenant shall reimburse Landlord monthly, as Additional Rent, for the measured consumption as set forth in an invoice from Landlord accompanied by such documentation as is reasonably sufficient to substantiate such changes. Tenant shall not connect any apparatus or device with wires, conduits or pipes, or other means by which the services are supplied, for the purpose of using additional or unusual amounts of the services without the prior written consent of Landlord. Unless expressly authorized by Landlord in writing, at all times Tenant's use of electric current shall not exceed the capacity of the feeders to the Building or the risers or wiring installation. The foregoing notwithstanding, Landlord shall make a minimum of 6 Watts per rentable square foot available for Tenant's use for connected load.

(d) WATER. Make water available in public areas for drinking and lavatory purposes only.

(e) JANITORIAL SERVICE. Provide building standard janitorial service to the Premises, as set forth on Exhibit G, provided the Premises are used exclusively as offices, and are kept reasonably in order by Tenant. Tenant shall pay to Landlord any cost incurred by Landlord for janitorial services in excess of those generally provided for other tenants in the Building. Tenant shall pay to Landlord the cost of removal of any of Tenant's refuse and rubbish.

2. ADDITIONAL CHARGES. Landlord may impose a charge equal to Landlord's actual incremental cost, without mark-up, in providing such utilities or services, including, without limitation any necessary maintenance personnel costs, for any utilities and services, including without limitation any necessary air-conditioning, electric current, water and janitorial service, required to be provided by Landlord by reason of (i) any use of the Premises at any time other than during Building Standard Hours;

(ii) any use beyond what Landlord agrees to furnish as described above; or (iii) special electrical, cooling and ventilating needs created in certain areas by hybrid telephone equipment, computers and other similar equipment or uses.

3. RULES AND REGULATIONS. Tenant agrees to cooperate at all times with Landlord and to abide by all reasonable regulations and requirements which Landlord may prescribe for the use of the utilities and services. Any failure to pay any excess costs as described above with the next installment of Rent due after receipt of a statement for such services accompanied by such documentation as is reasonably sufficient to substantiate such charges, shall constitute a breach of the obligation to pay Rent under this Lease and shall entitle Landlord to the rights granted in this Lease for a breach.

4. NOTICE. To the extent practical, Landlord shall attempt to give Tenant notice of proposed shutdowns of services.

EXHIBIT E

EXISTING TENANT PRIORITY RIGHTS AS TO FIRST OFFER TO LEASE

1. Allstate Insurance Co.
2. Metromarketing Resources, Inc.
3. Ryan Beck & Company
4. William Casper Graustein Memorial Fund
5. T.M. BYXBEE COMPANY, P.C.
6. IBM.
7. Parrett, proto, Psrese & Colwell, P.C.
8. Teachers insurance and Annuity Association of America
9. Waddell & Reed, Inc.

EXHIBIT F
EXCLUSIONS FROM OPERATING EXPENSES

1. Expenditures that are, under generally accepted accounting principles consistently applied, of a capital nature, and depreciation and amortization, except to the extent of the annual amortization of certain capital expenditures, as and to the extent permitted by the terms of Section 5(b) of the Lease.
2. Any costs, fees or expenses paid to an affiliate, subsidiary or related company of Landlord in excess of that which would be paid to competitor contractors, servicemen, vendors or companies at arms length for comparable service of comparable quality to the comparable area.
3. Interest on debt or amortization payments on any mortgage or mortgages, mortgage charges and brokerage commissions.
4. Attorneys' fees, accountants' fees architects' fees, costs and disbursements and other expenses incurred in connection with negotiations or disputes with Tenant, other tenants, other occupants, or prospective tenants or occupants or associated with the enforcement of any leases or defenses of Landlord's title to or interest in the Property or any part thereof.
5. Costs, expenses or expenditures relating to the renovation, improvement, decorating, painting or redecorating of any space for any other tenants or other occupants of the Building.
6. Expenses in connection with services or other benefits of a type or to the extent not provided to Tenant or the Premises but which are provided to another tenant or occupant.
7. Penalties or damages incurred due to violation by Landlord or any tenant of the terms and conditions of any lease, except for any violations committed by the Tenant.
8. All items and services for which Tenant or any other tenant or occupant in the Building or another part of the Property is separately charged, reimburses Landlord or pays third persons or for which Landlord is reimbursed by any other party, including, without limitation, amounts reimbursed under insurance policies and the net amount recoverable by Landlord under any warranties.
9. Any fines or penalties incurred due to violations by Landlord of any governmental rule or authority.
10. Advertising and promotional expenditures.
11. Any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord at the Property.
12. Payments under any ground lease.
13. Charitable or political contributions.

EXHIBIT G

CLEANING SPECIFICATIONS

ALL OFFICES & CONFERENCE ROOMS

Nightly:

1. Assemble all waste and dispose of it in waste container.
2. Replace plastic liner in waste basket.
3. Dispose of recycled waste in proper containers.
4. Dust all furniture, counters and file cabinet tops, and telephones.
5. Dust, mop or sweep all non-carpeted areas.
6. Vacuum traffic and obviously soiled carpet areas.
7. Remove finger prints and smudges from partitions, doors, woodwork and light switches (except where special solutions are needed).
8. Spot clean glass doors and partions.
9. Clean and sanitize all drinking fountains.
10. Spot clean carpet where possible.
11. Erase white board and clean marker tray.
12. Mop all marble floors nightly with clean water only.

Once Per Week:

1. Vacuum non-traffic carpet areas.
2. Dust all ledges and sills to hand level.

Monthly:

1. Dust high partitions, ledges, sills, picture frames, pipes, and cabinets above hand level.
2. Dust Venetian Blinds.
3. Strip, wash and wax resilient tile floors.

KITCHENETTS

Nightly:

1. Assemble all waste and dispose of it in waste container.
2. Replace plastic liner in waste baskets.
3. Vacuum traffic and obviously soiled areas.
4. Wet mop resilient floor tiles.

RESTROOMS

Nightly:

1. Clean and sanitize hand wash sinks, urinals, and commode--inthat order. Clean the inside and outside of each fixture.
2. Clean and polish chrome fittings and bright work, including shelves, flushometers and dispensers.
3. Clean and polish mirrors and glass.
4. Dust and spot clean toilet partitions and doors, tile walls, and receptacles.
5. Empty all waste and sanitary napkin receptacles. Insert liners.
6. Furnish and refill all dispensers with soap, paper towels, toilet tissue, plastic liners, tec.
7. Remove spots, stains and splashes from wall area.
8. Emoty and damp wipe all trash receptacles.
9. Wet mop and rinse all floors. Germicidal solution to be used in some locations.

Once Per Week:

1. Dust all horizontal surfaces including moldings, ledges, shelves, door frames, radiators and partitions.

Monthly:

1. Dust or vacuum all supply and exhaust air ducts covers and grills.
2. Change air freshener cartridges.

ELEVATORS

Nightly:

1. Vacuum or sweep.
2. Dust.
3. Wipe down control panel to remove finger prints.

COMMON AREAS, HALLWAYS AND LOBBY

Nightly:

1. Vacuum carpets and spot clean if necessary.
2. Wet mop, with clean water only, marble or ceramic floors.
3. Sweep all stairs in all stair wells.
4. Note and provide written list to building maintenance of all burned out lights or exit signs.
5. Clean all glass doors in main lobby inside and out.
6. Dust all stainless steel grills.

Exhibit 10.18

Amended and Restated Revolving Credit and Security Agreement

between

TRANSACT TECHNOLOGIES INCORPORATED

"Borrower"

and

TD BANKNORTH, N.A.

"Lender"

Dated: November 28, 2006

AMENDED AND RESTATED REVOLVING CREDIT AND SECURITY AGREEMENT

THIS Amended and Restated Revolving Credit and Security Agreement (the "Agreement"), dated as of November 28, 2006 is made by and between TransAct Technologies Incorporated, a Delaware corporation ("Borrower") and TD Banknorth, N.A., a national banking association ("Lender").

WITNESSETH:

In consideration of the premises and of the mutual covenants herein contained and to induce Lender to extend credit to Borrower, the parties agree as follows:

1 Definitions. Capitalized terms that are not otherwise defined herein shall have the meanings set forth in Exhibit 1 hereto.

2 The Loan.

2.1 Amendment and Restatement of Prior Agreement. This Agreement amends and restates in its entirety that certain Revolving Credit, Equipment Loan and Security Agreement by and between Borrower and Lender dated August 6, 2003 (as amended from time to time the "Prior Agreement"). Borrower reaffirms that all of the Indebtedness outstanding as of the date hereof under the Prior Agreement shall continue to be Indebtedness under this Agreement. The Amended and Restated Revolving Credit Note executed this date amends and restates the Revolving Credit Note under the Prior Agreement and reaffirms all of the Indebtedness evidenced by such Revolving Credit Note. The grant of a security interest hereunder is an affirmation of the security interest granted by Borrower under the Prior Agreement.

2.2 Revolving Credit Loan. Lender agrees, on the terms and conditions set forth in this Agreement to make Revolving Credit Loans to Borrower from time to time during the Revolving Credit Period, provided that no Default or Event of Default has occurred and is continuing, in amounts such that the aggregate principal amount of Revolving Credit Loans and the face amount of any Letters of Credit at any one time outstanding will not exceed the Maximum Loan Amount or as to any Revolving Credit Loan used to fund Permitted Acquisitions will not exceed \$7,500,000.00 in the aggregate during the Revolving Credit Period. Within the foregoing limit, Borrower may borrow, prepay and reborrow Revolving Credit Loans at any time during the Revolving Credit Period.

2.3 Amended and Restated Revolving Credit Note. The Revolving Credit Loans shall be evidenced by a promissory note in the face amount of the Maximum Loan Amount and dated the date hereof and in the form appended here to as Exhibit 2 (the "Amended and Restated Revolving Credit Note") and shall be payable in accordance with the terms of the Amended and Restated Revolving Credit Note and this Agreement.

2.4 Requesting Interest Rate.

(a) Each Revolving Credit Loan shall be a Prime Rate Borrowing if made through any controlled disbursement or similar account maintained by Borrower with Lender or a LIBOR Borrowing if Borrower so requests in compliance with the provisions of this Agreement. Borrower must request at least two Business Days prior to the end of any Interest Period that a LIBOR Borrowing be continued as a LIBOR Borrowing (in accordance with the provisions hereof) otherwise such LIBOR Borrowing will be continued as a Prime Rate Borrowing.

(b) Each LIBOR Borrowing or continuation of any LIBOR Borrowing shall be in an amount at least equal to \$100,000 or any greater multiple of \$50,000. There shall not at any time be more than a total of four (4) LIBOR Borrowings outstanding for all Loans at any time.

(c) Borrower may request a LIBOR Borrowing or continuation of a LIBOR Borrowing not later than 11:00 a.m. Eastern Standard or Daylight Savings time, as applicable, two Business Days before the date of the proposed LIBOR Borrowing or continuation. Each request for a LIBOR Borrowing shall set forth the requested Interest Period and shall be irrevocable.

2.5 Revolving Credit Loans.

(a) Lender, in its discretion, may require from Borrower a signed written request for a Revolving Credit Loan in form satisfactory to Lender, which request shall (i) be delivered to Lender no later than 12:00 noon (local Eastern Standard or Eastern Daylight Savings Time as applicable) on the date of the requested Revolving Credit Loan if a Prime Rate Borrowing and as provided in Section 2.4 if a LIBOR Borrowing, and (ii) specify the date (which shall be a Business Day) and the amount of the proposed Revolving Credit Loan and (iii) provide such other information as Lender may require. Lender's acceptance of such a request shall be indicated by its making the Revolving Credit Loan requested.

(b) Notwithstanding the foregoing, Lender may, in its sole and absolute discretion, make or permit to remain outstanding Revolving Credit Loans in excess of the original maximum principal amount of the Amended and Restated Revolving Credit Note, and all such amounts shall (i) be part of the Indebtedness evidenced by the Amended and Restated Revolving Credit Note, (ii) bear interest as provided herein, (iii) be payable upon demand by Lender, and (iv) be entitled to all rights and security as provided under the Loan Documents.

(c) Revolving Credit Loans may be repaid and reborrowed during the Revolving Credit Period.

(d) Borrower will maintain all of its primary deposit accounts with Lender, provided that Borrower may continue to utilize a deposit account with Tompkins County Trust in Ithaca, New York.

2.6 Letter of Credit. Lender in its sole discretion may issue letters of credit or bankers' acceptances (collectively "Letter of Credit") upon terms and conditions satisfactory to Lender.

2.7 Repayment of Loans.

(a) The Revolving Credit Loans shall mature, and the principal amount thereof and all interest, fees, expenses and other amounts payable under the Loan Documents shall be due and payable on the last day of the Revolving Credit Period unless extended in writing by Lender in its sole discretion.

(b) Borrower shall pay interest on the aggregate unpaid principal balance of each LIBOR Borrowing from the date of each such Loan through and including the last day of the Interest Period chosen by Borrower with respect to such LIBOR Borrowing or any continuation thereof as provided in Section 2.4 and shall pay all interest accrued but unpaid at the option of Lender (i) on the first day of each month, (ii) monthly from the date the LIBOR Borrowing is made or (iii) on the last day of the applicable Interest Period. Accrued and unpaid interest on all Prime Rate Borrowings shall be due and payable on the first day of each calendar month.

(c) Lender may debit any deposit account of Borrower with Lender or make Revolving Credit Loans to Borrower (whether or not in excess of the lesser of the Maximum Loan Amount) and apply such amounts to the payment of interest, fees, expenses and other amounts to which Lender may be entitled from time to time under any Indebtedness due Lender and Lender is hereby irrevocably authorized to do so without the consent of Borrower.

(d) Borrower shall make each payment of principal of and interest on the Loan and fees hereunder not later than 12:00 noon (Eastern Standard or Eastern Daylight Savings Time as applicable) on the date when due, without set off, counterclaim or other deduction, in immediately available funds to Lender at its address referred to in Section 10.6. Whenever any payment of principal of, or interest on, the Loans or of fees shall be due on a day, which is not a Business Day, the date for payment thereof shall be extended to the next succeeding Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(e) Regardless of the term of any Loan, all Loans shall be due and payable if any Loan is not paid when due.

2.8 Overdue Amounts. Any payments not made as and when due shall bear interest from the date due until paid at the Default Rate, in Lender's discretion.

2.9 Fees.

(a) Borrower shall pay to Lender a non-refundable facility fee in the amount of \$27,000.00 on the date of this Agreement.

(b) Borrower shall pay to Lender a unused facility fee for each day at a rate per annum equal to the product of (i) one-quarter of one percent divided by 360 multiplied by (ii) the difference between (A) the Maximum Loan Amount and (B) the aggregate outstanding amount of the Revolving Credit Loans on such day, payable monthly on the first day of each calendar month with respect to the immediately preceding month.

2.10 Statement of Account. Lender will provide Borrower with a statement of account on a monthly basis, such statement will be presumed complete and accurate and will be definitive and binding on Borrower, unless objected to with specificity by Borrower in writing within forty-five (45) days after receipt.

2.11 Interest Rate.

(a) The Revolving Credit Loans comprising each Prime Rate Borrowing shall bear interest at a rate per annum equal to the Prime Rate minus 1.00% per annum as adjusted from time to time.

(b) The Revolving Credit Loans comprising each LIBOR Borrowing shall bear interest at a rate per annum equal to the Adjusted LIBO Rate for the Interest Period in effect for such LIBOR Borrowing plus the Applicable Margin as adjusted from time to time.

(c) If prior to the commencement of any Interest Period for a LIBOR Borrowing Lender determines (which determination shall be conclusive absent manifest error):

(d) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or that, due to changes in circumstances, the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to Lender of making or maintaining their Loans included in such LIBOR Borrowing for such Interest Period; then Lender shall give notice thereof to Borrower by telephone or telecopy as promptly as practicable thereafter and such Loan shall be made as a Prime Rate Borrowing.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Prime Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by Lender and such determination shall be conclusive absent manifest error.

2.12 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, Lender (except any reserve requirement reflected in the Adjusted LIBO Rate) and the result of any of the foregoing shall be to increase the cost to Lender of making or maintaining any LIBOR Borrowing (or of maintaining its obligation to make any such Loan)

then, upon request of Lender, Borrower will pay to Lender such additional amount or amounts as will compensate Lender for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If Lender reasonably determines that any Change in Law affecting Lender or any lending office of such Lender or such Lender's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on Lender's capital or on the capital of Lender's holding company, if any, as a consequence of this Agreement, the commitments of Lender hereunder or the Loans made by Lender to a level below that which Lender or Lender's holding company could have achieved but for such Change in Law (taking into consideration Lender's policies and the policies of such Lender's holding company with respect to capital adequacy), then from time to time Borrower will pay to Lender such additional amount or amounts as will compensate such Lender or Lender's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section setting forth in reasonable detail the basis for such claim and a calculation of the amount payable to the Lender and delivered to Borrower shall be conclusive, so long as it reflects a reasonable basis for the calculation of the amounts set forth therein and does not contain any manifest error. Borrower shall pay the Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of Lender to demand compensation pursuant to this Section shall not constitute a waiver of Lender's right to demand such compensation, provided that Borrower shall not be required to compensate Lender pursuant to this Section for any increased costs incurred or reductions suffered more than six months prior to the date that Lender, notifies Borrower of the Change in Law giving rise to such increased costs or reductions and of Lender's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

2.13 Break Funding Payment. In the event of (i) the payment of any principal of any LIBOR Borrowing other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (ii) the conversion of any LIBOR Borrowing other than on the last day of the Interest Period applicable thereto, or (iii) the failure to borrow, convert, continue or prepay any LIBOR Borrowing on the date specified in any notice delivered pursuant hereto (regardless of whether such notice is permitted to be revocable and is revoked in accordance herewith) then, in any such event, Borrower shall compensate Lender for the loss, cost and expense attributable to such event, including the LIBOR Yield Maintenance Fee.

2.14 Mandatory Prepayments.

(a) Sale, Damage, Destruction, etc. If Borrower sells any Equipment, or if any of the Collateral is damaged, destroyed or taken by condemnation, Borrower shall pay to Lender,

unless otherwise specifically provided herein or otherwise agreed to by Lender, as and when received by Borrower and as a mandatory prepayment of the Loans, to be applied to the Revolving Credit Loans, subject to Borrower's ability to reborrow Revolving Credit Loans in accordance with the terms hereof (or, at Lender's option, such of the other Indebtedness of Borrower as Lender may elect), a sum equal to the net proceeds received by Borrower from (i) such sale or (ii) such damage, destruction or condemnation, provided, however, that without Lender's consent, unless and until an Event of Default has occurred and is continuing:

(i) obsolete or worn out Equipment may be sold or otherwise disposed of by Borrower and the proceeds thereof may be retained by Borrower, so long as the fair market value of any such Equipment sold or otherwise disposed of in any single transaction is less than \$100,000, and the fair market value, in the aggregate, of all such Equipment sold or otherwise disposed of by Borrower during any twelve-month period is less than \$100,000; and

(ii) proceeds of Collateral arising from the damage, destruction or condemnation thereof may be retained by Borrower and used by Borrower to repair, restore or replace such Collateral, as the case may be, so long as the fair market value of any such Collateral damaged, destroyed or condemned in any single incident is less than \$100,000 and the fair market value, in the aggregate, of all such Collateral owned by Borrower and damaged, destroyed or condemned during any twelve-month period is less than \$100,000.

3 Conditions Precedent to Borrowing. Prior to making any Loan, the following conditions shall have been satisfied, in the sole opinion of Lender and its counsel:

3.1 Conditions Precedent to Initial Advance. In addition to any other requirement set forth in this Agreement, Lender will not make the initial Loan unless and until the following conditions shall have been satisfied:

(a) Loan Documents. Borrower and each other party to any Loan Document, as applicable, shall have executed and delivered this Agreement, the Amended and Restated Revolving Credit Note and other required Loan Documents, all in form and substance satisfactory to Lender.

(b) Supporting Documents. Borrower shall cause to be delivered to Lender the following documents:

(i) A copy of the governing instruments of Borrower and each Subsidiary, and a good standing certificate of Borrower and each Subsidiary, certified by the appropriate official of its state of incorporation;

(ii) Incumbency certificate and certified resolutions of the board of directors (or other appropriate Persons) of Borrower and each other Person executing any Loan Documents, signed by the Secretary or another authorized officer of

Borrower or such other Person, authorizing the execution, delivery and performance of the Loan Documents;

- (iii) The legal opinion of Borrower's legal counsel addressed to Lender regarding such matters as Lender and its counsel may reasonably request;
 - (iv) Satisfactory evidence of payment of all fees due and reimbursement of all costs incurred by Lender, and evidence of payment to other parties of all fees or costs which Borrower is required to pay under this Agreement;
 - (v) UCC searches and other Lien searches showing no existing security interests in or Liens on the Collateral other than Permitted Liens or Liens to be terminated upon funding of the initial Loan and for which Lender has a satisfactory payoff letter;
 - (vi) An Affirmation of Guaranty from each of the Guarantors;
 - (vii) Fully executed and completed certificate in the form appended hereto as Exhibit 3 (the "Perfection Certificate");
 - (viii) Intellectual Property Security Agreement as to any Intellectual Property identified in the revised Perfection Certificate;
 - (ix) All material contracts not yet delivered to the Lender, including the GTECH Contract and any of the following, which if cancelled or violated would have a Material Adverse Effect on Borrower including by way of example (a) leases, (b) union contracts, (c) labor contracts, (d) vendor supply contracts, (e) license agreements, and (f) distributorship agreements; and
 - (x) The Transact UK Pledge Agreement duly executed and original share certificate for 65% of the issued and outstanding shares of Transact UK.
- (c) Insurance. Borrower shall have delivered to Lender satisfactory evidence of insurance meeting the requirements of Section 5.3.
- (d) Perfection of Liens. UCC-1 financing statements shall duly have been recorded or filed in the manner and places required by law to establish, preserve, protect and perfect the interests and rights created or intended to be created by the security interest granted hereunder; and all taxes, fees and other charges in connection with the execution, delivery and filing of the financing statements shall duly have been paid.
- (e) Lien Waiver. Lender has received certain Lien Waivers as provided on the Perfection Certificate and Borrower shall use best efforts to obtain all additional Lien Waivers from (i) all lessors of real property to Borrower or in which Collateral is located and (ii) all

processors and vendors agreed to by Borrower and Lender for which the Borrower has not yet received such Lien Waiver and which are listed on the Perfection Certificate.

(f) Additional Documents. Borrower shall have delivered to Lender all additional opinions, documents, certificates and other assurances that Lender or its counsel may require.

3.2 Conditions Precedent to Each Advance. The following conditions, in addition to any other requirements set forth in this Agreement, shall have been met or performed by the requested date for any Revolving Credit Loan (whether or not a written request is required) shall be deemed to be a representation that all such conditions have been satisfied:

(a) No Default. No Default shall have occurred and be continuing or would occur upon the making of the Revolving Credit Loan in question.

(b) Correctness of Representations. All representations and warranties made by Borrower herein or otherwise in writing in connection herewith shall be true and correct in all material respects with the same effect as though the representations and warranties had been made on and as of the proposed date for the Revolving Credit Loan except to the extent that such representations relate to a specific date or prior event.

(c) Limitations Not Exceeded. The proposed Revolving Credit Loan shall not cause the outstanding principal balance of the Revolving Credit Loans to exceed the Maximum Loan Amount.

(d) Further Assurances. Borrower shall have delivered such further documentation or assurances as Lender may reasonably require.

4 Representations and Warranties. In order to induce Lender to enter into this Agreement and to make the Loans provided for herein, Borrower makes the following representations and warranties, all of which shall survive the execution and delivery of the Loan Documents. Unless otherwise specified, such representations and warranties shall be deemed made as of the date hereof and as of each date Borrower requests a Revolving Credit Loan:

4.1 Valid Existence and Power. Borrower and each Subsidiary is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and is duly qualified or licensed to transact business in all places where the failure to be so qualified would have a Material Adverse Effect on it. Each of Borrower and each other Person which is a party to any Loan Document (other than Lender) has the power to make and perform the Loan Documents executed by it and all such instruments will constitute the legal, valid and binding obligations of such Person, enforceable in accordance with their respective terms, subject only to bankruptcy and similar laws affecting creditors' rights generally.

4.2 Authority. The execution, delivery and performance thereof by Borrower and each other Person (other than Lender) executing any Loan Document have been duly authorized by all necessary action of such Person, and do not and will not violate any provision of law or

regulation, or any writ, order or decree of any court or governmental or regulatory authority or agency or any provision of the governing instruments of such Person, and, except as set forth on Schedule 4.2, do not and will not, with the passage of time or the giving of notice, result in a breach of, or constitute a default or require any consent under, or result in the creation of any Lien upon any property or assets of such Person pursuant to, any law, regulation, instrument or agreement to which any such Person is a party or by which any such Person or its respective properties may be subject, bound or affected.

4.3 Financial Condition. Other than as disclosed in financial statements delivered on or prior to the date hereof to Lender, neither Borrower nor any Subsidiary has any direct or contingent obligations or liabilities (including any guarantees or leases) or any material unrealized or anticipated losses from any commitments of such Person except as described on Schedule 4.3 (if any). All such financial statements have been prepared in accordance with GAAP (other than the absence of footnotes and subject to year end adjustment, as to interim statements) and fairly present the financial condition of Borrower or Subsidiary, as the case may be, as of the date thereof. Borrower is Solvent, and after consummation of the transactions set forth in this Agreement and the other Loan documents, Borrower will be Solvent.

4.4 Litigation. Except as disclosed on Schedules 4.4 and 4.14 (if any), there are no suits or proceedings pending, or to the knowledge of Borrower threatened, before any court or by or before any governmental or regulatory authority, commission, bureau or agency or public regulatory body against or affecting Borrower or any Subsidiary, or their assets, which if adversely determined would have a Material Adverse Effect on Borrower or such Subsidiary.

4.5 Agreements, Etc. Neither Borrower nor any Subsidiary is a party to any agreement or instrument or subject to any court order, governmental decree or any charter or other corporate restriction, adversely affecting its business, assets, operations or condition (financial or otherwise), and except as set forth on Schedule 4.5 (if any), no such Person is in default in the performance, observance or fulfillment of any of the material obligations, covenants or conditions contained in any agreement or instrument to which it is a party, or any law, regulation, decree, order or the like.

4.6 Authorizations. All authorizations, consents, approvals and licenses required under applicable law or regulation for the ownership or operation of the property owned or operated by Borrower or any Subsidiary or for the conduct of any business in which it is engaged have been duly issued and are in full force and effect, and it is not in default, nor has any event occurred which with the passage of time or the giving of notice, or both, would constitute a default, under any of the terms or provisions of any part thereof, or under any order, decree, ruling, regulation, closing agreement or other decision or instrument of any governmental commission, bureau or other administrative agency or public regulatory body having jurisdiction over such Person, which default would have a Material Adverse Effect on such Person. Except as noted herein, no approval, consent or authorization of, or filing or registration with, any governmental commission, bureau or other regulatory authority or agency is required with respect to the execution, delivery or performance of any Loan Document.

4.7 Title. Each of Borrower and each Subsidiary have good title to all of the assets shown in its financial statements free and clear of all Liens, except Permitted Liens.

4.8 Collateral. The security interests granted to Lender herein and pursuant to any other Security Agreement (a) constitute and, as to subsequently acquired property included in the Collateral covered by the Security Agreement, will constitute, security interests under the Code entitled to all of the rights, benefits and priorities provided by the Code and (b) are, and as to such subsequently acquired Collateral will be, fully perfected, superior and prior to the rights of all third persons, now existing or hereafter arising, subject only to Permitted Liens. All of the Collateral is intended for use solely in Borrower's business.

4.9 Taxes. Borrower and each Subsidiary have filed all federal and state income and other tax returns which are required to be filed, and have paid all taxes as shown on said returns and all taxes, including withholding, FICA and ad valorem taxes, shown on all assessments received by it to the extent that such taxes have become due. Except as set forth on Schedule 4.9, neither Borrower nor any Subsidiary is subject to any federal, state or local tax Liens nor has such Person received any notice of deficiency or other official notice to pay any taxes. Borrower and each Subsidiary have paid all sales and excise taxes payable by it.

4.10 Labor Law Matters. No goods or services have been produced by Borrower or any Subsidiary in violation of any applicable labor laws or regulations or any collective bargaining agreement or other labor agreements or in violation of any minimum wage, wage-and-hour or other similar laws or regulations, except for such violations as would not have a Material Adverse Effect on Borrower.

4.11 Accounts. Each Account, instrument, chattel paper and other writing constituting any portion of the Collateral is genuine and enforceable in accordance with its terms except for such limits thereon arising from bankruptcy and similar laws relating to creditors' rights.

4.12 Judgment Liens. Neither Borrower nor any Subsidiary, nor any of their assets, are subject to any unpaid judgments (whether or not stayed) or any judgment liens in any jurisdiction.

4.13 Subsidiaries. Borrower's Subsidiaries are listed on Schedule 4.13.

4.14 Environmental. Except as disclosed on Schedule 4.14 or remedied to the satisfaction of the appropriate regulatory agency and to the best knowledge of Borrower, and except for ordinary and customary amounts of solvents, cleaners and similar materials used in the ordinary course of Borrower's business and in material compliance with all Environmental Laws, Borrower has not generated, stored or disposed of any Regulated Material on any portion of any property currently owned or operated by Borrower, or transferred any Regulated Material from such property to any other location in violation of any applicable Environmental Laws. Except as disclosed on Schedule 4.14, to the best knowledge of Borrower, Borrower is in material compliance with all applicable Environmental Laws, and Borrower has not been notified of any action, suit, proceeding or investigation which calls into question compliance by

Borrower with any Environmental Laws, or which seeks to suspend, revoke or terminate any license, permit or approval necessary for the generation, handling, storage, treatment or disposal of any Regulated Material. To the best knowledge of Borrower, any material non-compliance whether set forth on Schedule 4.14 or otherwise, which has been the subject of an investigation by a regulatory agency has been remedied or is being remedied to the satisfaction of the applicable regulatory agency.

4.15 ERISA. Except as set forth on Schedule 4.15, no Benefit Plan was in violation in any material respect of any of the provisions of ERISA or any of the qualification requirements of Section 401(a) of the IRC within the immediately preceding five year period, no non-exempt Prohibited Transaction or Reportable Event has occurred with respect to any Benefit Plan, no Benefit Plan has been the subject of a waiver of the minimum funding standard under Section 412 of the IRC, no Benefit Plan has experienced an accumulated funding deficiency under Section 412 of the IRC, no Lien has been imposed upon Borrower or any ERISA Affiliate of Borrower under Section 412(n) of the IRC, no Benefit Plan has been amended in such a way that the security requirements of Section 401(a)(29) of the IRC apply, no notice of intent to terminate a Benefit Plan has been distributed to affected parties or filed with the PBGC under Section 4041 of ERISA, and no Benefit Plan has been terminated under Section 4041(e) of ERISA, the PBGC has not instituted proceedings to terminate, or appoint a trustee to administer, a Benefit Plan and no event has occurred or condition exists which might reasonably constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Benefit Plan, neither Borrower nor any ERISA Affiliate of Borrower would be liable for any amount in the aggregate pursuant to Sections 4062, 4063 or 4064 of ERISA if all Benefit Plans terminated as of the most recent valuation dates of such Benefit Plans which would reasonably result in a Material Adverse Effect; neither Borrower nor any ERISA Affiliate of Borrower maintains any employee welfare benefit plan, as defined in Section 3(1) of ERISA, which provides any benefits to an employee or the employee's dependents with respect to claims incurred after the employee separates from service other than is required by applicable law; and neither Borrower nor any ERISA Affiliate of Borrower has incurred or expects to incur any withdrawal liability to any Multiemployer Plan and after the Closing Date, none of the above-described events shall occur which are reasonably likely to result in Material Adverse Effect;

4.16 Investment Company Act. Neither Borrower nor any Subsidiary is an "investment company" as defined in the Investment Company Act of 1940, as amended.

4.17 Compliance with Covenants; No Default. Borrower is, and upon funding of the Loans will be, in compliance with all of the covenants hereof. No Default has occurred, and the execution, delivery and performance of the Loan Documents and the funding of the Loans will not cause a Default.

4.18 Intellectual Property. Borrower and each of its Subsidiaries own such patents, trademarks, copyrights and other intellectual property to operate their respective businesses and have valid and enforceable licenses or rights to any additional patents, trademarks and registered copyrights necessary for the operation of their respective businesses. Schedule 4.18 is a complete list of all owned and licensed patents, trademarks, copyrights and other intellectual property of

Borrower or any of its Subsidiaries. Except as set forth on Schedule 4.18, no claim of infringement has been asserted against Borrower as to any intellectual property.

4.19 Full Disclosure. There is no fact (other than facts which are generally available to the public and not particular to Borrower, such as general economic or industry trends) which is known by Borrower that Borrower has not disclosed to Lender which would have a greater than \$250,000 negative impact on the Company's results of operations or Collateral, as determined under generally accepted accounting principles, in the then current quarter. Taken as a whole the Loan Documents and any agreement, document, certificate or statement delivered by Borrower to Lender do not contain any untrue statement of a material fact or omit to state any material fact which is known by Borrower and which is necessary to keep the other statements from being misleading.

4.20 Perfection Certificate. All representations, warranties and statements made by Borrower in the Perfection Certificate executed and delivered by Borrower to Lender in connection with the Loan are true and correct as of the date hereof.

4.21 Compliance with Law. Borrower, each Guarantor and each Subsidiary thereof is in compliance in all material respects with the requirements of all laws and all orders, writs, injunctions and decrees applicable to it or to its properties, except in such instances in which (a) such requirement of law or order, writ, injunction or decree is being contested in good faith by appropriate proceedings diligently conducted or (b) the failure to comply therewith, either individually or in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

5 Affirmative Covenants of Borrower. Borrower covenants and agrees that from the date hereof and until payment in full of the Indebtedness and the formal termination of this Agreement, Borrower and each Subsidiary:

5.1 Use of Loan Proceeds. Shall use the proceeds of the Revolving Credit Loans for working capital to be used in the operation of Borrower's business and for Permitted Acquisitions and the payment of stock buyouts under Section 6.3 (b), and Borrower shall furnish Lender all evidence that it may reasonably require with respect to such use.

5.2 Maintenance of Business and Properties. Shall at all times maintain, preserve and protect all Collateral and all the remainder of its material property used or useful in the conduct of its business, and keep the same in good repair, working order and condition (ordinary wear and tear accepted), and from time to time make, or cause to be made, all material needful and proper repairs, renewals, replacements, betterments and improvements thereto so that the business carried on in connection therewith may be conducted properly and in accordance with standards generally accepted in businesses of a similar type and size at all times, and maintain and keep in full force and effect all licenses and permits reasonably necessary to the proper conduct of its business.

5.3 Insurance. Shall maintain such liability insurance, workers' compensation insurance, business interruption insurance and casualty insurance as may be required by law, customary and usual for prudent businesses in its industry or as may be reasonably required by Lender and shall insure and keep insured all Collateral and other properties in good and responsible insurance companies satisfactory to Lender. Such insurance shall insure all Collateral no matter where located, including collateral held by third parties as processors or vendors to Borrower. All hazard insurance covering Collateral shall be in amounts and shall contain co-insurance and deductible provisions approved by Lender, shall name and directly insure Lender as secured party and loss payee under a long-form loss payee clause acceptable to Lender, or its equivalent, and shall not be terminable except upon 30 days' written notice to Lender.

5.4 Notice of Default. Shall provide to Lender prompt notice of (a) the occurrence of a Default and what action (if any) Borrower is taking to correct the same, (b) any material litigation or material changes in existing litigation or any judgment against it or its assets, (c) any material damage or loss to property, (d) any notice from taxing authorities as to claimed deficiencies or any tax lien or any notice relating to alleged ERISA violations, (e) any ERISA Event, (f) the cancellation or termination of, or any default under, any material agreement to which Borrower is a party or by which any of its properties are bound, or any acceleration of the maturity of any Debt of Borrower and (g) any loss or threatened loss of material licenses or permits.

5.5 Inspections. Shall permit inspections of the Collateral and the records of such Person pertaining thereto and verification of the Accounts, at such times and in such manner as may be reasonably required by Lender; provided that prior to an Event of Default such examinations shall take place during normal business hours of Borrower and upon twenty-four (24) hours prior notice and no more often than once each calendar year. Borrower shall further permit such inspections, reviews and field examinations of its other records and its properties (with such reasonable frequency and at such reasonable times as Lender may desire) by Lender as Lender may deem necessary or desirable from time to time; provided, that prior to an Event of Default, Lender shall conduct such examinations no more than once a year. The cost of such field examinations, reviews, verifications and inspections shall be borne by Borrower and, prior to an Event of Default, shall not exceed \$750.00 per day plus out of pocket expenses; provided such fees shall be subject to periodic review by Lender.

5.6 Financial Information. Shall maintain books and records in accordance with GAAP and shall furnish to Lender the following periodic financial information:

(a) Inventory and Equipment Reports. Borrower has delivered as of the date hereof a report listing for each of the processors and vendors listed on Schedule 3 to Perfection Certificate (i) the name and address of any third party which is holding, processing or using such Inventory or Equipment and (ii) stating whether such third party has executed a Lien Waiver in favor of Lender (the "Inventory and Equipment Report"), and a spread sheet setting forth in summary the tooling by vendor, whether or not listed on the Perfection Certificate. Borrower shall update the tooling at vendors listed on Schedule 3 to the Perfection Certificate at any time when there is a change which exceeds \$200,000 in the aggregate in the tooling at any particular

location or any new location when the tooling at a vendor exceeds \$50,000 in value. At the request of the Lender, Borrower shall deliver to Lender an update to the Inventory and Equipment Report not more frequently than thirty (30) days after the end of each fiscal quarter, modifying Schedule 3 to the Perfection Certificate, if necessary, so that the vendors listed on Schedule 3 to the Perfection Certificate as holding tooling make up at least 80% of the value of tooling at all vendors and listing any new processors holding inventory of a value of more than \$200,000 and the amount of inventory at that processor;

(b) Interim Statements. Within forty-five days after the end of each fiscal quarter, a copy of Borrower's Form 10-Q submitted to the Securities and Exchange Commission, including a consolidated balance sheet of Borrower at the end of that period and a consolidated income statement and statement of cash flows for that period (and for the portion of the fiscal year ending with such period), together with all supporting schedules, setting forth in comparative form the figures for the same period of the preceding fiscal year, and certified by the chief financial officer of Borrower as true and correct and fairly representing the financial condition of Borrower and its Subsidiaries and that such statements are prepared in accordance with GAAP, except without footnotes and subject to normal year end audit adjustments; provided that each fiscal quarter financial statement delivered to Lender hereunder shall be reviewed but not audited;

(c) Annual Statements. As soon as available and in any event within 90 days after the end of each fiscal year of Borrower:

(i) a copy of Borrower's Form 10-K as submitted to the Securities and Exchange Commission, including:

(ii) consolidated statements of income, retained earnings and cash flows of Borrower for such fiscal year and the related consolidated sheets of Borrower as at the end of such fiscal year, setting forth in each case in comparative form the corresponding consolidated figures for the preceding fiscal year; and

(iii) an opinion of independent certified public accountants of recognized standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) stating that said financial statements referred to in the preceding clause (i) fairly present the financial condition and results of operations of Borrower as at the end of, and for, such fiscal year in accordance with GAAP.

(d) No Default Certificates. Together with each report required by Subsection (b) and (c), a certificate of its chief executive officer or chief financial officer in the form appended hereto as Exhibit 4 ("Compliance Certificate") that no Event of Default then exists or if an Event of Default exists, the nature and duration thereof and Borrower's intention with respect thereto, and that Borrower is in compliance with the financial covenants set forth in Section 7.

(e) Auditor's Management Letters. Promptly upon receipt thereof, copies of each report submitted to Borrower by independent public accountants in connection with any annual, interim or special audit made by them of the books of Borrower including, without limitation, each report submitted to Borrower concerning its accounting practices and systems and any final comment letter submitted by such accountants to management in connection with the annual audit of Borrower;

(f) Other Filing. Borrower shall deliver to Lender copies of all notices received from or filings made with the Securities and Exchange Commission, any state securities office or any exchange;

(g) Other Information. Such other information reasonably requested by Lender from time to time concerning the business, properties or financial condition of Borrower and its Subsidiaries; and

(h) Projections. No later than thirty (30) days after the commencement of each fiscal year, deliver Projections to Lender for Borrower for such fiscal year. All Projections will be prepared in good faith by Borrower based on assumptions and opinions that Borrower arrives at in good faith. Actual results may vary significantly and Borrower shall have no liability by reason of Borrower's failure to meet any projections or estimates. Borrower disclaims any representation or warranty regarding the accuracy of such projections or estimates or the truth or reasonableness of such projections and estimates or the assumptions and opinions which underlie such projections and estimates, except that they will be arrived at in good faith.

5.7 Maintenance of Existence and Rights. Borrower will preserve and maintain its corporate existence, authorities to transact business, rights and franchises, trade names, patents, trademarks and permits necessary to the conduct of its business.

5.8 Payment of Taxes, Etc. Shall pay before delinquent all of its debts and taxes, except for debts and taxes being actively contested in good faith and in accordance with law and with proper reserves maintained on its books and records. Borrower shall promptly notify Lender of any such taxes being so contested.

5.9 Compliance; Hazardous Materials. Except as set forth on Schedule 4.14, shall materially comply with all laws, regulations, ordinances and other legal requirements, specifically including, without limitation, ERISA and all securities laws. Unless approved in writing by Lender, neither Borrower nor any Subsidiary shall engage in the storage, manufacture, disposition, processing, handling, use or transportation of any hazardous or toxic materials, unless in material compliance with applicable laws and regulations.

5.10 Compliance with Assignment Laws. Shall, if required by Lender, comply with the Federal Assignment of Claims Act and any other applicable law relating to assignment of government contracts.

5.11 Compliance with Intellectual Property. Borrower shall maintain all of its patents, trademarks and copyrights and shall actively pursue any infringement of any such patent, trademark or copyright unless Borrower reasonably determines, after notice to Lender, that the foregoing is not necessary for the conduct of its business and would not have a Material Adverse Effect. Borrower shall operate its business so as to not knowingly infringe any patent, trademark or copyright.

5.12 Further Assurances. Shall take such further action and provide to Lender such further assurances as may be reasonably requested to ensure compliance with the intent of this Agreement and the other Loan Documents.

5.13 Covenants Regarding Collateral. Borrower makes the following covenants with Lender regarding the Collateral:

(a) Borrower will use the Collateral only in the ordinary course of its business and will not permit the Collateral to be used in violation of any applicable law or policy of insurance;

(b) Borrower will defend the Collateral against all claims and demands of all Persons, except for Permitted Liens;

(c) Borrower will, at Lender's request, use reasonable best efforts to obtain and deliver to Lender such waivers as Lender may require waiving the landlord's, mortgagee's or other lienholder's enforcement rights against the Collateral and assuring Lender's access to the Collateral in exercise of its rights hereunder;

(d) Borrower will promptly deliver to Lender all promissory notes, drafts, trade acceptances, chattel paper, instruments or documents of title which are Collateral, appropriately endorsed to Lender's order; and

(e) Except for sales of Inventory in the ordinary course of business and the disposition of obsolete Equipment as provided in Section 2.14, Borrower will not sell, assign, lease, transfer, pledge, hypothecate or otherwise dispose of or encumber any Collateral or any interest therein.

5.14 Environmental Matters; Reporting. Borrower will observe and comply with, and cause each Subsidiary to observe and comply with, all Environmental Laws to the extent non-compliance could result in a material liability or otherwise have a Material Adverse Effect on Borrower or any Subsidiary. Borrower will give Lender prompt written notice of any material violation as to any environmental matter by Borrower and of the commencement of any judicial or administrative proceeding relating to health, safety or environmental matters

(a) in which an adverse result would have a Material Adverse Effect on any operating permits, air emission permits, water discharge permits, hazardous waste permits or other permits held by Borrower which are material to the operations of Borrower, or (b) which will or threatens to impose a material liability on Borrower to any Person or which will require a material expenditure by Borrower to cure any alleged problem or violation.

6 Negative Covenants of Borrower. Borrower covenants and agrees that from the date hereof and until payment in full of the Indebtedness and the formal termination of this Agreement, Borrower and each Subsidiary:

6.1 Debt. Shall not create or permit to exist any Debt, except Permitted Debt.

6.2 Liens. Shall not create or permit any Liens on any of its property except Permitted Liens.

6.3 Dividends.

(a) Shall not pay or acquire any Subordinated Debt unless, after giving effect thereto, there shall be no Default hereunder and such payment or acquisition is specifically permitted by Lender in writing (including, without limitation, by the express terms of the applicable Subordination Agreement). Additionally, Borrower shall not, unless specifically permitted by Lender in writing (i) declare or pay any dividend or other distribution (other than stock dividends) on, purchase, redeem or retire any shares of any class of its stock, or make any payment on account of, or set apart assets for the repurchase, redemption, defeasance or retirement of, any class of its stock, equity or other interest (ii) make any optional payment or prepayment on or redemption (including without limitation by making payments to a sinking fund or analogous fund) or repurchase of any Indebtedness for borrowed money other than indebtedness pursuant to this Agreement; (iii) pay any management or similar fees to any Person; or (iv) make any loan to any Person (except advances to Borrower's employees in the ordinary course of business consistent with past practices provided that all such advances shall not exceed \$10,000 outstanding in the aggregate at any time).

(b) Notwithstanding the foregoing limitations of this Section 6.3, Borrower may complete the stock buyback program as approved by the Board of Directors and commenced in 2005 provided that

(i) all future payments plus all payments through the date hereof shall not exceed \$10,000,000;

(ii) Borrower shall buy back the stock at a price determined by its officers in compliance with the Board of Directors original resolutions;

(iii) Borrower shall not buy back any such stock when an Event of Default has occurred and is continuing or which would cause an Event of Default; and

(iv) Borrower shall provide information as to any such buyback during any fiscal quarter in the financial statements to be provided under Section 5.6(b) hereof;

(v) All the repurchased common stock of Borrower shall be treated as a reduction in equity in accordance with GAAP; and

(vi) Borrower may use up to \$5,000,000 in Revolving Credit Loans in any one fiscal year to fund the buyback under this Section 6.3(b).

6.4 ERISA. Borrower shall not (i) (x) maintain, or permit any member of the Controlled Group to maintain, or (y) become obligated to contribute, or permit any member of the Controlled Group to become obligated to contribute, to any Benefit Plan, other than those Plans disclosed on Schedule 4.15, (ii) engage, or permit any member of the Controlled Group to engage, in any non-exempt "prohibited transaction", as that term is defined in section 406 of ERISA and

Section 4975 of the IRC, (iii) incur, or permit any member of the Controlled Group to incur, any "accumulated funding deficiency", as that term is defined in

Section 302 of ERISA or Section 412 of the IRC, (iv) terminate, or permit any member of the Controlled Group to terminate, any Benefit Plan could result in any material liability of Borrower or any member of the Controlled Group or the imposition of a lien on the property of Borrower or any member of the Controlled Group pursuant to Section 4068 of ERISA, (v) assume, or permit any member of the Controlled Group to assume, any obligation to contribute to any Multiemployer Plan not disclosed on Schedule 4.15, (vi) incur, or permit any member of the Controlled Group to incur, any withdrawal liability to any Multiemployer Plan;

(vii) fail promptly to notify Lender of the occurrence of any Termination Event,

(viii) fail to comply, in all material respects, or permit a member of the Controlled Group to fail to comply, in all material respects, with the requirements of ERISA or IRC or other applicable laws in respect of any Benefit Plan or (ix) fail to meet, or permit any member of the Controlled Group to fail to meet, all minimum funding requirements under ERISA or IRC or postpone or delay or allow any member of the Controlled Group to postpone or delay any funding requirement with respect of any Benefit Plan except as permitted by applicable laws, in each event (i) through (ix) which would be reasonably likely to result in a Material Adverse Effect;

6.5 Loans and Other Investments. Shall not make or permit to exist any advances or loans to, or guarantee or become contingently liable, directly or indirectly, in connection with the obligations, leases, stock or dividends of, or own, purchase or make any commitment to purchase any stock, bonds, notes, debentures or other securities of, or any interest in, or make any capital contributions to (all of which are sometimes collectively referred to herein as "Investments") any Person except for (a) purchases of direct obligations of the federal government, (b) deposits in commercial banks, (c) commercial paper of any U.S. corporation having the highest ratings then given by the Moody's Investors Services, Inc. or Standard & Poor's Corporation, (d) existing investments in Subsidiaries, (e) endorsement of negotiable instruments for collection in the ordinary course of business, (f) Permitted Acquisitions, (g) advances to employees for business travel and other expenses incurred in the ordinary course of business which do not at any time exceed \$50,000.00 in the aggregate and (h) any mutual fund or other pooled investment vehicle rated at least Aa by Moody's Investor Services, Inc. or AAA by Standard & Poors Corporation.

6.6 Change in Business. Shall not enter into any business which is substantially different from the business in which it is presently engaged.

6.7 Accounts. Shall not sell, assign or discount any of its Accounts, chattel paper or any promissory notes, instrument or payment intangible held by it other than the discount of such notes in the ordinary course of business for collection.

6.8 Transactions with Affiliates. Shall not directly or indirectly purchase, acquire or lease any property from, or sell, transfer or lease any property to, pay any management fees to or otherwise deal with, in the ordinary course of business or otherwise, any Affiliate (other than a Subsidiary); provided, however, that any acts or transactions prohibited by this Section may be performed or engaged in if upon terms not less favorable to Borrower or such Subsidiary than if no such relationship existed or involved a Permitted Acquisition.

6.9 No Change in Name, Offices; Removal of Collateral. Shall not, unless it shall have given 60 days' advance written notice thereof to Lender, (a) change its name or the location of its chief executive office or other office where books or records are kept, (b) change its state of organization or (c) permit any Inventory or other tangible Collateral in excess of ten percent (10%) of the aggregate value of the total Inventory of Borrower to be located at any location other than the facilities as specified in the Perfection Certificate.

6.10 No Sale, Leaseback. Shall not enter into any sale-and-leaseback or similar transaction.

6.11 Margin Stock. Shall not use any proceeds of the Loan to purchase or carry any margin stock (within the meaning of Regulation U of the Board of Governors of Federal Reserve System) or extend credit to others for the purpose of purchasing or carrying any margin stock.

6.12 Tangible Collateral. Shall not, except as otherwise provided herein, allow any Inventory or other tangible Collateral to be commingled with, or become an accession to or part of, any property of any other Person so long as such property is Collateral; nor allow any tangible Collateral to become a fixture unless Lender shall have given its prior written authorization, except as disclosed in the Certificate by Officers.

6.13 Subsidiaries. Shall not acquire, form or dispose of any Subsidiaries or permit any Subsidiary to issue capital stock except to its parent, except with the prior written consent of Lender or as part of a Permitted Acquisition. Any new Subsidiary shall become a party to this Agreement and unless Lender otherwise agrees, shall grant to Lender a Lien on all of its Collateral and agree to be bound by the provisions of this Agreement. Borrower shall not transfer, sell or assign any of its assets to any Subsidiary provided, that, during each fiscal year, Borrower may sell inventory consisting of finished goods or spare parts to TransAct UK having an aggregate fair market value of no more than \$500,000 and reducing on and after December 31, 2007 to \$250,000. No Subsidiary of Borrower (other than TransAct UK) currently or shall in the future

(x) engage in any business of a material nature, (y) own assets having an aggregate value in excess of \$2,750,000 and reducing on and after December 31, 2007 to \$500,000 or (z) have liabilities in excess of \$1,000,000 and reducing on and after December 31, 2007 to \$500,000 in the aggregate other than to Lender and Lenders pursuant to a Guaranty. In addition, TransAct UK shall not currently or shall not in the future (i) own assets having an aggregate value in excess of \$2,750,000 and reducing as of December 31, 2007 to \$500,000 or (ii) have indebtedness for borrowed money or any liability other than (A) in the ordinary course of business and (B) to Lender and Lenders pursuant to a Guaranty.

6.14 Change of Name. Shall give Lender thirty (30) days prior written notice of any new trade or fictitious name. Borrower's use of any trade or fictitious name shall be in compliance with all laws regarding the use of such names.

6.15 Liquidation, Mergers, Consolidations and Dispositions of Substantial Assets. Borrower shall not dissolve or liquidate, or become a party to any merger or consolidation other than a Permitted Acquisition, or acquire by purchase, lease or otherwise, all or a substantial part (more than 10% in the aggregate during the term hereof) of the assets of any Person other than a Permitted Acquisition, or sell, transfer, lease or otherwise dispose of all or a substantial part (more than 10% in the aggregate during the term hereof) of its property or assets, except for the sale of Inventory in the ordinary course of business and the merger of a Subsidiary with and into Borrower and which Borrower is the surviving party, or sell or dispose of any equity ownership interests in any Subsidiary.

6.16 Change of fiscal year or Accounting Methods. Shall not change its fiscal year or its significant accounting methods without the prior written consent of Lender.

7 Financial Covenants of Borrower. Borrower covenants and agrees that from the date hereof and until payment in full of the Indebtedness and the formal termination of this Agreement, Borrower and each Subsidiary, on a consolidated basis, shall comply with the following additional covenants:

7.1 Operating Cash Flow to Total Debt Service Ratio. Borrower shall, maintain a ratio of Operating Cash Flow for the preceding four fiscal quarters to Total Debt Service at the end of each fiscal quarter of not less than 1.25 to 1.00.

7.2 Funded Debt to EBITDA. The ratio of Funded Debt to Twelve Month EBITDA shall not exceed at the end of each fiscal quarter a ratio 3.25 to 1.00.

8 Default.

8.1 Events of Default. Each of the following shall constitute an Event of Default:

(a) There shall occur any default by Borrower in the payment, when due, of any principal of or interest on the Revolving Credit Note or any amounts due hereunder or under any other Loan Document; or

(b) There has occurred and is continuing default under Sections 5.1, 5.5, 5.6, 5.11, 5.13, Section 6 and Section 7 of this Agreement; or

(c) Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clauses

(a) or (b) of this Article) or any other Loan Document, and such failure shall continue unremedied for a period of 30 days after notice thereof from Lender (given at the request of any Lender) to Borrower provided, however, that if such failure cannot be remedied during such 30 day period despite all reasonable

efforts of Borrower, then such 30 day period shall be extended by an additional 30 day period if such delay could not reasonably be expected to have a Material Adverse Effect; provided, further, that such additional 30 day period shall immediately end if (i) it is no longer possible for such failure to be cured by the end of such period, or (ii) Borrower ceases to proceed diligently and in good faith to cure such failure;

(d) Any representation or warranty made by Borrower or any other party to any Loan Document (other than Lender) herein or therein or in any certificate or report furnished in connection herewith or therewith shall prove to have been untrue or incorrect in any material respect when made; or

(e) Any other obligation now or hereafter owed by Borrower or any Subsidiary to Lender shall be in default and not cured within the grace period, if any, provided therein, or any such Person shall be in default under any Debt in excess of \$100,000 owed to any other obligee, which default entitles the obligee to accelerate any such Debt or exercise other remedies with respect thereto; or

(f) Borrower or any Subsidiary shall (A) voluntarily dissolve, liquidate or terminate operations or apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee or liquidator of such Person or of all or of a substantial part of its assets, other than (i) as permitted under Section 6.15 or (ii) the liquidation of a Subsidiary and distribution of its net assets to Borrower, (B) admit in writing its inability, or be generally unable, to pay its debts as the debts become due, (C) make a general assignment for the benefit of its creditors, (D) commence a voluntary case under the federal Bankruptcy Code (as now or hereafter in effect), (E) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up, or composition or adjustment of debts, (F) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case under Bankruptcy Code, or (G) take any corporate action for the purpose of effecting any of the foregoing; or

(g) An involuntary petition or complaint shall be filed against Borrower or any Subsidiary or any Guarantor seeking bankruptcy relief or reorganization or the appointment of a receiver, custodian, trustee, intervenor or liquidator of Borrower or any Subsidiary or any Guarantor, of all or substantially all of its assets, and such petition or complaint shall not have been dismissed within ninety (90) days of the filing thereof; or an order, order for relief, judgment or decree shall be entered by any court of competent jurisdiction or other competent authority approving or ordering any of the foregoing actions;

(h) There shall occur any physical loss, theft, damage or destruction of any of the Collateral, which loss exceeds \$250,000 after the application of insurance proceeds; or

(i) A judgment in excess of \$250,000 shall be rendered against Borrower or any Subsidiary and shall remain undischarged, undismissed and unstayed for more than ten days (except judgments validly covered by insurance with a deductible of not more than \$250,000 except for director and officer liability insurance with no more than a \$100,000 deductible and

employment practices coverage under the director and officers liability insurance with no more than a \$50,000 deductible) or there shall occur any levy upon, or attachment, garnishment or other seizure of, any material portion of the Collateral or other assets of Borrower, any Subsidiary by reason of the issuance of any tax levy, judicial attachment or garnishment or levy of execution; or

(j) The making of any levy, seizure or attachment upon Collateral having a value in excess of \$100,000 which is not dismissed or released within 10 days of such levy, seizure or attachment; or

(k) cancellation of the GTECH Contract; or

(l) A Change of Control; or

(m) the operations of any of Borrower's manufacturing facilities are interrupted at any time for more than ten (10) consecutive Business Days, unless Borrower shall (i) be entitled to receive for such period of interruption, proceeds of business interruption insurance sufficient to assure that its per diem cash needs during such period is at least equal to its average per diem cash needs for the consecutive three month period immediately preceding the initial date of interruption and (ii) commence receiving such proceeds in the amount described in clause (i) preceding not later than thirty (30) days following the initial date of any such interruption.

8.2 Remedies. If any Event of Default shall occur and be continuing, Lender may, without notice to Borrower, at its option, (i) withhold further Revolving Credit Loans to Borrower or (ii) take any or all of the following actions:

(a) Lender may declare any or all Indebtedness to be immediately due and payable (if not earlier demanded), terminate its obligation to make Revolving Credit Loans to Borrower, bring suit against Borrower to collect the Indebtedness, exercise any remedy available to Lender hereunder or at law and take any action or exercise any remedy provided herein or in any other Loan Document or under applicable law. No remedy shall be exclusive of other remedies or impair the right of Lender to exercise any other remedies.

(b) Without waiving any of its other rights hereunder or under any other Loan Document, Lender shall have all rights and remedies of a secured party under the Code (and the Uniform Commercial Code of any other applicable jurisdiction) and such other rights and remedies as may be available hereunder, under other applicable law or pursuant to contract. If requested by Lender, Borrower will promptly assemble the Collateral and make it available to Lender at a place to be designated by Lender. Borrower agrees that any notice by Lender of the sale or disposition of the Collateral or any other intended action hereunder, whether required by the Code or otherwise, shall constitute reasonable notice to Borrower if the notice is mailed to Borrower by regular or certified mail, postage prepaid, at least five days before the action to be taken. Borrower shall be liable for any deficiencies in the event the proceeds of the disposition of the Collateral do not satisfy the Indebtedness in full.

(c) Lender may demand, collect and sue for all amounts owed pursuant to Accounts, general intangibles, chattel paper or for proceeds of any Collateral (either in Borrower's name or Lender's name at the latter's option), with the right to enforce, compromise, settle or discharge any such amounts.

9 Security Agreement.

9.1 Security Interest.

(a) As security for the payment and performance of any and all of the Indebtedness and the performance of all other obligations and covenants of Borrower hereunder and under the other Loan Documents, certain or contingent, now existing or hereafter arising, which are now, or may at any time or times hereafter be owing by Borrower to Lender, Borrower hereby pledges to Lender and gives Lender a continuing security interest in and general Lien upon and right of set off against, all right, title and interest of Borrower in and to the Collateral, whether now owned or hereafter acquired by Borrower.

(b) Except as herein or by applicable law otherwise expressly provided, Lender shall not be obligated to exercise any degree of care in connection with any Collateral in its possession, to take any steps necessary to preserve any rights in any of the Collateral or to preserve any rights therein against prior parties, and Borrower agrees to take such steps. In any case Lender shall be deemed to have exercised reasonable care if it shall have taken such steps for the care and preservation of the Collateral or rights therein as Borrower may have reasonably requested Lender to take and Lender's omission to take any action not requested by Borrower shall not be deemed a failure to exercise reasonable care. No segregation or specific allocation by Lender of specified items of Collateral against any liability of Borrower shall waive or affect any security interest in or Lien against other items of Collateral or any of Lender's options, powers or rights under this Agreement or otherwise arising.

9.2 Power of Attorney. Borrower authorizes Lender at Borrower's expense to file any financing statements relating to the Collateral (without Borrower's signature thereon) which Lender deems appropriate and Borrower irrevocably appoints Lender as its attorney in fact to execute any such financing statements in Borrower's name and to perform all other acts which Lender deems appropriate to perfect and to continue perfection of the security interest of Lender. Borrower hereby appoints Lender as Borrower's attorney in fact to endorse, present and collect on behalf of Borrower and in Borrower's name any draft, checks or other documents necessary or desirable to collect any amounts, which Borrower may be owed. To the extent permitted by applicable law or by the terms of any such licenses or franchise agreements, Lender is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks and advertising matter, or any Property of a similar nature, as it pertains to the Collateral, in advertising for sale and selling any Collateral, and Borrower's rights under all licenses and all franchise agreements shall inure to Lender's benefit. The proceeds realized from the sale or other disposition of any Collateral may be applied, after allowing two (2) Business Days for collection, first to the reasonable costs, expenses and attorneys' fees and expenses incurred by Lender for collection and for acquisition,

completion, protection, removal, storage, sale and delivering of the Collateral; secondly, to interest due upon any of the Indebtedness; and thirdly, to the principal amount of the Indebtedness. If any deficiency shall arise, Borrower shall remain liable to Lender therefore.

9.3 Entry. Borrower hereby irrevocably consents to any act by Lender or its agents in entering upon any premises for the purposes of either (i) inspecting the Collateral or (ii) taking possession of the Collateral and Borrower hereby waives its right to assert against Lender or its agents any claim based upon trespass or any similar cause of action for entering upon any premises where the Collateral may be located.

9.4 Other Rights. Borrower authorizes Lender without affecting Borrower's obligations hereunder or under any other Loan Document from time to time (i) to take from any party and hold additional Collateral or guaranties for the payment of the Indebtedness or any other supporting obligations or any part thereof, and to exchange, enforce or release such collateral or guaranty of payment of the Indebtedness or any other supporting obligation or any part thereof and to release or substitute any endorser or guarantor or any party who has given any security interest in any collateral as security for the payment of the Indebtedness or any part thereof or any party in any way obligated to pay the Indebtedness or any part thereof; and (ii) upon the occurrence and during the continuance of any Event of Default to direct the manner of the disposition of the Collateral and the enforcement of any endorsements, guaranties, letters of credit or other security relating to the Indebtedness or any part thereof as Lender in its sole discretion may determine.

9.5 Accounts. After the occurrence and during the continuance of an Event of Default, Lender may notify any Account Debtor of Lender's security interest and may direct such Account Debtor to make payment directly to Lender for application against the Indebtedness. Any such payments received by or on behalf of Borrower at any time, whether before or after default, shall be the property of Lender, shall be held in trust for Lender and not commingled with any other assets of any Person (except to the extent they may be commingled with other assets of Borrower in an account with Lender) and shall be immediately delivered to Lender in the form received. Lender shall have the right to apply any proceeds of Collateral to such of the Indebtedness as it may determine.

9.6 Waiver of Marshaling. Borrower hereby waives any right it may have to require marshaling of its assets.

10 Miscellaneous.

10.1 No Waiver, Remedies Cumulative. No failure on the part of Lender to exercise, and no delay in exercising, any right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and are in addition to any other remedies provided by law, any Loan Document or otherwise.

10.2 Survival of Representations. All representations and warranties made herein shall survive the making of the Loan hereunder and the delivery of the Revolving Credit Note, and shall continue in full force and effect so long as any Indebtedness is outstanding, there exists any commitment by Lender to Borrower, and until this Agreement is formally terminated in writing.

10.3 Costs and Expenses. Borrower shall pay (i) all reasonable out of pocket expenses incurred by Lender (including the reasonable fees, charges and disbursements of counsel for Lender, in connection with the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out of pocket expenses incurred by Lender in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out of pocket expenses incurred by Lender (including the fees, charges and disbursements of any counsel for Lender, in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section 10.3, or (B) in connection with the Revolving Credit Loans made or Letters of Credit issued hereunder, including all such out of pocket expenses incurred during any workout, restructuring or negotiations in respect of such Revolving Credit Loans or Letters of Credit.

10.4 Indemnification by Borrower. Borrower shall indemnify Lender and its Affiliate, and each officer, director, agent or attorney of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by Borrower arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder or the consummation of the transactions contemplated hereby or thereby, (ii) any Revolving Credit Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by Lender to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of hazardous or toxic materials on or from any property owned or operated by Borrower or any of its Subsidiaries, or any liability under any Environmental Law related in any way to Borrower or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by Borrower, and regardless of whether any Indemnitee is a party thereto, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by Borrower against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if Borrower has obtained a final and

nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction.

10.5 Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in paragraph (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

10.6 Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows:

Lender: TD Banknorth, N.A
Asset Based Lending Group
1441 Main Street
Springfield, MA 01103
Attn: James Hickson
Fax: (413) 748-8037
Email: jhickson@banknorth.com

Borrower: TransAct Technologies Incorporated
7 Laser Lane
Wallingford, Connecticut 06492
Attn: Steven A. DeMartino, Executive Vice President and Chief
Financial Officer
Fax: (203) 949-9048
Email: sdemartino@transact-tech.com

Copy to: David A. McKay, Esq.
Ropes & Gray
One International Place
Boston, MA 02110-2624
Fax: 617-235-0074
Email: david.mckay@ropesgray.com

(a) Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in paragraph (b) below, shall be effective as provided in said paragraph (b).

(b) Notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and

(c) Notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (b) of notification that such notice or communication is available and identifying the website address therefor.

(d) Change of Address, Etc. Any party hereto may change its address or telecopier number for notices and other communications hereunder by notice to the other parties hereto.

10.7 Set Off. If an Event of Default shall have occurred and be continuing, Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations at any time owing by Lender or any Affiliate to or for the credit or the account of Borrower against any and all of the Indebtedness of Borrower now or hereafter existing under this Agreement or any other Loan Document, irrespective of whether or not Lender shall have made any demand under this Agreement or any other Loan Document and although such Indebtedness may be contingent or unmatured. The rights of Lender and its Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that Lender or its Affiliates may have. Lender agrees to notify Borrower promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

10.8 Governing Law. This Agreement and the Loan Documents shall be deemed contracts made under the laws of The Commonwealth of Massachusetts and shall be governed by and construed in accordance with the laws of said commonwealth (excluding its conflict of laws provisions if such provisions would require application of the laws of another jurisdiction) except insofar as the laws of another jurisdiction may, by reason of mandatory provisions of law, govern the perfection, priority and enforcement of security interests in the Collateral.

10.9 Successors and Assigns. This Agreement shall be binding upon and shall inure to the benefit of Borrower and Lender, and their respective successors and assigns; provided that

Borrower may not assign any of its rights hereunder without the prior written consent of Lender, and any such assignment made without such consent will be void.

10.10 Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which when taken together shall constitute but one and the same instrument.

10.11 No Usury. Regardless of any other provision of this Agreement, the Amended and Restated Note or in any other Loan Document, if for any reason the effective interest should exceed the maximum lawful interest, the effective interest shall be deemed reduced to, and shall be, such maximum lawful interest, and (i) the amount which would be excessive interest shall be deemed applied to the reduction of the principal balance of the Amended and Restated Note and not to the payment of interest, and (ii) if the loan evidenced by the Amended and Restated Note has been or is thereby paid in full, the excess shall be returned to the party paying same, such application to the principal balance of the Amended and Restated Note or the refunding of excess to be a complete settlement and acquittance thereof.

10.12 Powers. All powers of attorney granted to Lender are coupled with an interest and are irrevocable.

10.13 Approvals. If this Agreement calls for the approval or consent of Lender, such approval or consent may be given or withheld in the discretion of Lender unless otherwise specified herein.

10.14 No Punitive Damages. Each party agrees that it shall not have a remedy of punitive or exemplary damages against the other in any dispute and hereby waives any right or claim to punitive or exemplary damages it may have now or which may arise in the future in connection with any dispute.

10.15 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION 10.15.

10.16 Participations. Lender shall have the right to enter into one or more participation with other lenders with respect to the Indebtedness. Upon prior notice to Borrower of such

participation, Borrower shall thereafter furnish to such participant any information furnished by Borrower to Lender pursuant to the terms of the Loan Documents. Nothing in this Agreement or any other Loan Document shall prohibit Lender from pledging or assigning this Agreement and Lender's rights under any of the other Loan Documents, including collateral therefore, to any Federal Reserve Lender in accordance with applicable law.

10.17 Dealings with Multiple Borrower. If more than one Person is named as Borrower hereunder, all Indebtedness, representations, warranties, covenants and indemnities set forth in the Loan Documents to which such Person is a party shall be joint and several. Lender shall have the right to deal with any individual of any Borrower with regard to all matters concerning the rights and obligations of Lender hereunder and pursuant to applicable law with regard to the transactions contemplated under the Loan Documents. All actions or inactions of the officers, managers, members and/or agents of any Borrower with regard to the transactions contemplated under the Loan Documents shall be deemed with full authority and binding upon all Borrower hereunder. Each Borrower hereby appoints each other Borrower as its true and lawful attorney-in-fact, with full right and power, for purposes of exercising all rights of such Person hereunder and under applicable law with regard to the transactions contemplated under the Loan Documents. The foregoing is a material inducement to the agreement of Lender to enter into the terms hereof and to consummate the transactions contemplated hereby.

10.18 Waiver of Certain Defenses. All rights of Lender and all obligations of Borrower hereunder shall be absolute and unconditional irrespective of (i) any change in the time, manner or place of payment of, or any other term of, all or any of the Indebtedness, or any other amendment or waiver of or any consent to any departure from any provision of the Loan Documents, (ii) any exchange, release or non-perfection of any other collateral given as security for the Indebtedness, or any release or amendment or waiver of or consent to departure from any guaranty for all or any of the Indebtedness, or (iii) any other circumstance which might otherwise constitute a defense available to, or a discharge of, Borrower or any third party, other than payment and performance in full of the Indebtedness.

[SIGNATURES ON NEXT PAGE]

SIGNATURE PAGE FOR AMENDED AND RESTATED REVOLVING CREDIT AND SECURITY AGREEMENT

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

TD BANKNORTH, N.A.

By: /s/ James Hickson

James Hickson
Its Vice President

TRANSACT TECHNOLOGIES INCORPORATED

By: /s/ Steven A. DeMartino

Steven A. DeMartino
Its Executive Vice President and
Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 333-32703, 333-32705, 333-49530, 333-49532, 333-49540, 333-49570, and 333-62269) of TransAct Technologies Incorporated of our report dated March 15, 2007 relating to the financial statements, financial statement schedule, 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

*PricewaterhouseCoopers LLP
Hartford, CT
March 15, 2007*

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 the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/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 the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2007

/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, 2006, 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 15, 2007

/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, 2006, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. DeMartino, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

- (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 15, 2007

/s/ Steven A. DeMartino

Steven A. DeMartino
Chief Financial Officer