# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended: June 30, 2023**

**or**

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

**For the transition period from _______________ to _______________.**

**Commission file number:** 0-21121

TRANSACT Technologies Incorporated

(Exact name of registrant as specified in its charter)

| **Delaware** | **06-1456680** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT** | **06518** |
| (Address of Principal Executive Offices) | (Zip Code) |

**(203) 859-6800**

(Registrant's Telephone Number, Including Area Code)

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

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock, par value $0.01 per share | TACT | NASDAQ Global Market |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer ☐ | Accelerated filer ☐ |
| Non-accelerated filer ☒ | Smaller reporting company ☒ |
| | Emerging growth company ☐ |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of July 31, 2023, the number of shares outstanding of the Registrant's common stock, par value $0.01 per share, was 9,958,118.

**TRANSACT TECHNOLOGIES INCORPORATED**

**INDEX**

## PART I - FINANCIAL INFORMATION

### Item 1. FINANCIAL STATEMENTS

**TRANSACT TECHNOLOGIES INCORPORATED**
**CONDENSED CONSOLIDATED BALANCE SHEETS**
**(unaudited)**

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| **Assets:** | *(In thousands, except share data)* | |
| Current assets: | | |
| Cash and cash equivalents | **$ 10,756** | $ 7,946 |
| Accounts receivable, net | **14,441** | 13,927 |
| Employee retention credit receivable | **–** | 1,500 |
| Inventories | **15,408** | 12,028 |
| Other current assets | **707** | 724 |
| Total current assets | **41,312** | 36,125 |
| | | |
| Fixed assets, net of accumulated depreciation of $18,193 and $17,656, respectively | **2,838** | 2,781 |
| Right-of-use asset, net | **2,053** | 2,488 |
| Goodwill | **2,621** | 2,621 |
| Deferred tax assets | **6,565** | 7,327 |
| Intangible assets, net of accumulated amortization of $1,441 and $1,364, respectively | **165** | 242 |
| Other assets | **333** | 248 |
| | **14,575** | 15,707 |
| Total assets | **$ 55,887** | $ 51,832 |
| | | |
| **Liabilities and Shareholders' Equity:** | | |
| Current liabilities: | | |
| Current portion of revolving loan payable | **$ 2,250** | $ 2,250 |
| Accounts payable | **6,321** | 7,395 |
| Accrued liabilities | **5,511** | 4,077 |
| Lease liability | **904** | 875 |
| Deferred revenue | **1,222** | 1,329 |
| Total current liabilities | **16,208** | 15,926 |
| | | |
| Deferred revenue, net of current portion | **152** | 143 |
| Lease liability, net of current portion | **1,210** | 1,683 |
| Other liabilities | **227** | 218 |
| | **1,589** | 2,044 |
| Total liabilities | **17,797** | 17,970 |
| | | |
| Commitments and contingencies (see Notes 5 and 7) | | |
| | | |
| Shareholders' equity: | | |
| Common stock, $0.01 par value, 20,000,000 shares authorized; 14,001,935 and 13,956,725 shares issued, respectively; 9,957,093 and 9,911,883 shares outstanding, respectively | **140** | 139 |
| Additional paid-in capital | **56,594** | 56,282 |
| Retained earnings | **13,534** | 9,630 |
| Accumulated other comprehensive loss, net of tax | **(68)** | (79) |
| Treasury stock, at cost (4,044,842 shares) | **(32,110)** | (32,110) |
| Total shareholders' equity | **38,090** | 33,862 |
| Total liabilities and shareholders' equity | **$ 55,887** | $ 51,832 |

See notes to Condensed Consolidated Financial Statements.

**TRANSACT TECHNOLOGIES INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| | *(In thousands, except per share data)* | | | |
| Net sales | **$ 19,906** | $ 12,623 | **$ 42,176** | $ 22,325 |
| Cost of sales | **9,048** | 7,189 | **19,063** | 14,325 |
| Gross profit | **10,858** | 5,434 | **23,113** | 8,000 |
| Operating expenses: | | | | |
| Engineering, design and product development | **2,505** | 2,172 | **4,774** | 4,455 |
| Selling and marketing | **2,684** | 3,293 | **5,441** | 5,976 |
| General and administrative | **4,445** | 2,923 | **7,861** | 6,127 |
| | **9,634** | 8,388 | **18,076** | 16,558 |
| Operating income (loss) | **1,224** | (2,954) | **5,037** | (8,558) |
| Interest and other income (expense): | | | | |
| Interest, net | **(68)** | (28) | **(134)** | (92) |
| Other, net | **–** | (264) | **21** | (299) |
| | **(68)** | (292) | **(113)** | (391) |
| Income (loss) before income taxes | **1,156** | (3,246) | **4,924** | (8,949) |
| Income tax (expense) benefit | **(391)** | 870 | **(1,020)** | 2,225 |
| Net income (loss) | **$ 765** | $ (2,376) | **$ 3,904** | $ (6,724) |
| Net income (loss) per common share: | | | | |
| Basic | **$ 0.08** | $ (0.24) | **$ 0.39** | $ (0.68) |
| Diluted | **$ 0.08** | $ (0.24) | **$ 0.39** | $ (0.68) |
| Shares used in per-share calculation: | | | | |
| Basic | **9,956** | 9,910 | **9,943** | 9,898 |
| Diluted | **10,017** | 9,910 | **10,016** | 9,898 |

See notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| | *(In thousands)* | | | |
| Net income (loss) | **$ 765** | $ (2,376) | **$ 3,904** | $ (6,724) |
| Foreign currency translation adjustment, net of tax | **9** | (8) | **11** | (50) |
| Comprehensive income (loss) | **$ 774** | $ (2,384) | **$ 3,915** | $ (6,774) |

See notes to Condensed Consolidated Financial Statements.

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

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| | *(In thousands)* | |
| Cash flows from operating activities: | | |
| Net income (loss) | **$ 3,904** | $ (6,724) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Share-based compensation expense | **398** | 581 |
| Depreciation and amortization | **722** | 625 |
| Deferred income taxes | **762** | (2,227) |
| Unrealized foreign currency transaction losses | **21** | 298 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | **(434)** | (4,547) |
| Employee retention credit receivable | **1,500** | – |
| Inventories | **(3,363)** | (3,250) |
| Other current and long-term assets | **(86)** | 26 |
| Accounts payable | **(1,063)** | 789 |
| Accrued liabilities and other liabilities | **1,329** | (159) |
| Net cash provided by (used in) operating activities | **3,690** | (14,588) |
| | | |
| Cash flows from investing activities: | | |
| Capital expenditures | **(689)** | (744) |
| Net cash used in investing activities | **(689)** | (744) |
| | | |
| Cash flows from financing activities: | | |
| Withholding taxes paid on stock issuances | **(86)** | (119) |
| Payment of bank financing costs | **–** | (10) |
| Net cash used in financing activities | **(86)** | (129) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | **(105)** | (103) |
| | | |
| Increase (decrease) in cash and cash equivalents | **2,810** | (15,564) |
| Cash and cash equivalents, beginning of period | **7,946** | 19,457 |
| Cash and cash equivalents, end of period | **$ 10,756** | $ 3,893 |
| | | |
| Supplemental schedule of non-cash investing activities: | | |
| Non-cash capital expenditure items | **$ 41** | $ 7 |

See notes to Condensed Consolidated Financial Statements.

**TRANSACT TECHNOLOGIES INCORPORATED**
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| | *(In thousands)* | | | |
| **Equity beginning balance** | **$ 37,196** | $ 34,771 | **$ 33,862** | $ 38,984 |
| | | | | |
| **Common stock** | | | | |
| Balance, beginning of period | **140** | 139 | **139** | 139 |
| Issuance of common stock from restricted stock units | **–** | – | **1** | – |
| Balance, end of period | **140** | 139 | **140** | 139 |
| **Additional paid-in capital** | | | | |
| Balance, beginning of period | **56,474** | 55,423 | **56,282** | 55,246 |
| Share-based compensation expense | **120** | 285 | **398** | 581 |
| Relinquishment of stock awards to pay for withholding taxes | **–** | – | **(86)** | (119) |
| Balance, end of period | **56,594** | 55,708 | **56,594** | 55,708 |
| **Retained earnings** | | | | |
| Balance, beginning of period | **12,769** | 11,218 | **9,630** | 15,566 |
| Net income (loss) | **765** | (2,376) | **3,904** | (6,724) |
| Balance, end of period | **13,534** | 8,842 | **13,534** | 8,842 |
| **Treasury stock** | | | | |
| Balance, beginning and end of period | **(32,110)** | (32,110) | **(32,110)** | (32,110) |
| **Accumulated other comprehensive (loss) income, net of tax** | | | | |
| Balance, beginning of period | **(77)** | 101 | **(79)** | 143 |
| Foreign currency translation adjustment, net of tax | **9** | (8) | **11** | (50) |
| Balance, end of period | **(68)** | 93 | **(68)** | 93 |
| **Equity ending balance** | **38,090** | 32,672 | **38,090** | 32,672 |
| | | | | |
| **Supplemental share information** | | | | |
| Issuance of shares from stock awards | **3** | – | **57** | 63 |
| Relinquishment of stock awards to pay withholding taxes | **–** | – | **12** | 26 |

See notes to Condensed Consolidated Financial Statements.

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

### 1. Basis of presentation

The accompanying unaudited financial statements of TransAct Technologies Incorporated ("TransAct", the "Company", "we", "us", or "our") have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP to be included in full year financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the periods presented have been included and are of a normal recurring nature. The December 31, 2022 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These interim financial statements should be read in conjunction with the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Form 10-K").

The results of operations for the three and six months ended June 30, 2023 are not necessarily indicative of the results to be expected for the full year ending December 31, 2023.

**Impact of the COVID-19 Pandemic and Global Supply Chain Disruptions**
Since early 2020 and into the first quarter of 2022, the COVID-19 pandemic caused uncertainty and disruption in the global economy and financial markets. Similar to other companies, TransAct has also been impacted by global supply chain issues, increased shipping costs and inflationary pressures, which have increased our costs and, in some instances, slowed our ability to deliver products to our customers. During 2021, we experienced significantly lower sales levels. However, during 2022, we were able to increase our inventory levels and minimize the impact to our customers by successfully modifying our products that were affected by supply chain disruptions, as well as sourcing component parts from alternate suppliers. At the same time, after a slowdown resulting from the Omicron and other variants of COVID-19 that began to ease in the first six months of 2022, we continued to experience demand recovery during the remainder of 2022 and into 2023. Although we were able to increase inventory levels during 2022 and expect to continue to do so in the balance of 2023, there can be no assurance that new or continuing supply chain disruptions will not affect our products or that we will be able to make timely modifications to address any future supply chain issues that arise. Further, while we have offset most of our cost increases by increasing prices of our products, there can be no guarantee that we will not be impacted by the economic effects of any future cost increases that cannot be predicted, supply chain disruptions, inflationary pressures and potential new COVID-19 variants in the markets we serve and from which we source our supplies and parts.

*Balance Sheet, Cash Flow and Liquidity.* We have taken the following actions to increase liquidity and strengthen our financial position in an effort to mitigate the negative impacts from the COVID-19 pandemic, supply chain disruptions and inflationary pressures:

- Employee Retention Credit – Under the provisions of the CARES Act, the Company received a refundable employee retention credit subject to certain criteria. In connection with the CARES Act, the Company recognized the employee retention credit during the fourth quarter of 2021 and recorded $1.5 million as "Gain from employee retention credit" in the Consolidated Statement of Operations for the year ended December 31, 2021 and the related receivable as "Employee retention credit receivable" in the Consolidated Balance Sheet as of December 31, 2021 and 2022. We received these funds in the first quarter of 2023.
- Credit Facility – On March 13, 2020, we entered into a credit facility with Siena Lending Group LLC that provides a revolving credit line of up to $10.0 million, subject to a borrowing base, and on July 19, 2022, we entered into an amendment to extend the maturity of the facility to March 13, 2025. See Note 5 for further details regarding this facility.

After reviewing whether conditions and/or events raise substantial doubt about our ability to meet future financial obligations over the 12 months following the date on which the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q were issued, including consideration of the actions to manage expenses and liquidity, we believe that our net cash to be provided by operations combined with our cash and cash equivalents and borrowing availability under our revolving credit facility will provide sufficient liquidity to fund our current obligations, capital spending, and working capital requirements and to comply with the financial covenants of our credit facility over at least 12 months following the date that the Condensed Consolidated Financial Statements were issued.

### Use of Assumptions and Estimates

Management's belief that the Company will be able to fund its planned operations over the 12 months following the date on which the Condensed Consolidated Financial Statements were issued is based on assumptions which involve significant judgment and estimates of future revenues, inflation, rising interest rates, capital expenditures and other operating costs. Our current assumptions are that casinos and restaurants will remain open and consumer traffic will continue to remain strong during the remainder of 2023. Though demand for our products at casinos has increased substantially in 2022 and during the first six months of 2023, we cannot predict the ultimate impact of the current economic environment, including inflation, rising interest rates and supply chain disruptions on our customers, which may impact sales. We believe that we are positioned to withstand the impact of any potential economic downturn or slower than anticipated economic recovery. However, should conditions warrant, we believe we will be able to take additional financial and operational actions to cut costs and/or increase liquidity.

In addition, the presentation of the accompanying unaudited financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable, inventory obsolescence, goodwill and intangible assets, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, share-based compensation and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ from those estimates used.

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year.

## 2. Significant accounting policies

For a discussion of our significant accounting policies, see Note 2, *Summary of significant accounting policies* within Part II, Item 8. "Financial Statements and Supplementary Data" in the 2022 Form 10-K for the year ended December 31, 2022. There have been no changes to our significant accounting policies since our 2022 Form 10-K for the year ended December 31, 2022.

### Recently Adopted Accounting Pronouncement

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU and its related amendments (collectively, the "Credit Loss Standard") modifies the impairment model to utilize an expected loss methodology in place of the incurred loss methodology for financial instruments, including trade receivables, contract assets and off-balance sheet credit exposures. The Credit Loss Standard requires consideration of a broader range of information to estimate expected credit losses, including historical information, current economic conditions and a reasonable forecast period. This Credit Loss Standard requires that the statement of operations reflect estimates of expected credit losses for newly recognized financial assets as well as changes in the estimate of expected credit losses that have taken place during the period, which may result in earlier recognition of certain losses.

We adopted this standard effective January 1, 2023, and this standard did not have a material impact on the Company's Condensed Consolidated Financial Statements.

We are exposed to credit losses primarily through our sales of products and software to commercial customers which are recorded as Accounts receivable, net on the Condensed Consolidated Balance Sheets. Our method for developing our allowance for credit losses involves making informed judgments regarding whether an adjustment is necessary to our historical loss experiences to reflect our expectations around current economic conditions and reasonable and supportable forecast periods, where applicable. We utilize current economic market data as well as other internal and external information available to us to inform our decision making in this process.

## 3. Revenue

We account for revenue in accordance with ASC Topic 606: Revenue from Contracts with Customers.

### Disaggregation of revenue

The following tables disaggregate our revenue by market type, as we believe this best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.  Sales and usage-based taxes are excluded from revenues.

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | (In thousands) | | | | | |
| | United States | International | Total | United States | International | Total |
| Food service technology | **$ 3,625** | **$ 270** | **$ 3,895** | $ 3,281 | $ 151 | $ 3,432 |
| POS automation | **1,904** | **–** | **1,904** | 1,172 | – | 1,172 |
| Casino and gaming | **9,475** | **2,697** | **12,172** | 3,929 | 2,596 | 6,525 |
| Transact Services Group | **1,721** | **214** | **1,935** | 1,345 | 149 | 1,494 |
| Total net sales | **$ 16,725** | **$ 3,181** | **$ 19,906** | $ 9,727 | $ 2,896 | $ 12,623 |

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | |
| | (In thousands) | | | | | |
| | United States | International | Total | United States | International | Total |
| Food service technology | **$ 6,888** | **$ 465** | **$ 7,353** | $ 5,227 | $ 335 | $ 5,562 |
| POS automation | **3,686** | **15** | **3,701** | 2,472 | – | 2,472 |
| Casino and gaming | **21,044** | **6,939** | **27,983** | 6,717 | 4,570 | 11,287 |
| TransAct Services Group | **2,704** | **435** | **3,139** | 2,413 | 591 | 3,004 |
| Total net sales | **$ 34,322** | **$ 7,854** | **$ 42,176** | $ 16,829 | $ 5,496 | $ 22,325 |

### Contract balances

Contract assets consist of unbilled receivables.  Pursuant to the over-time revenue recognition model, revenue may be recognized prior to the customer being invoiced.  An unbilled receivable is recorded to reflect revenue that is recognized when such revenue exceeds the amount invoiced to the customer.  Unbilled receivables are separated into current and non-current assets and included within “Accounts receivable, net” and “Other assets” in the Condensed Consolidated Balance Sheets.

Contract liabilities consist of customer pre-payments and deferred revenue.  Customer prepayments are reported as “Accrued liabilities” in current liabilities in the Condensed Consolidated Balance Sheets and represent customer payments made in advance of performance obligations in instances where credit has not been extended and are recognized as revenue when the performance obligation is complete.  Deferred revenue is reported separately in current liabilities and non-current liabilities and consists of our extended warranty contracts, technical support for our food service technology terminals, EPICENTRAL maintenance contracts and prepaid software subscriptions for our BOHA! software applications, and is recognized as revenue as (or when) we perform under the contract.  For the six months ended June 30, 2023, we recognized revenue of $1 million related to our contract liabilities at December 31, 2022.  Total net contract liabilities consisted of the following:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| | (In thousands) | |
| Unbilled receivables, current | **$ 261** | $ 392 |
| Unbilled receivables, net of current portion | **153** | 163 |
| Customer pre-payments | **(24)** | (101) |
| Deferred revenue, current | **(1,222)** | (1,329) |
| Deferred revenue, net of current portion | **(152)** | (143) |
| Total net contract liabilities | **$ (984)** | $ (1,018) |

**Remaining performance obligations**

Remaining performance obligations represent the transaction price of firm orders for which a good or service has not been delivered to our customer. As of June 30, 2023, the aggregate amount of transaction prices allocated to remaining performance obligations was $15.7 million. The Company expects to recognize revenue of $15.4 million of its remaining performance obligations within the next 12 months following June 30, 2023, $0.2 million within the next 24 months following June 30, 2023 and the balance of these remaining performance obligations recognized within the next 36 months following June 30, 2023.

**4. Inventories**

The components of inventories were:

| | June 30, 2023 | December 31, 2022 |
|---|---|---|
| | *(In thousands)* | |
| Raw materials and purchased component parts | **$ 10,338** | $ 8,884 |
| Finished goods | **5,070** | 3,144 |
| | **$ 15,408** | $ 12,028 |

**5. Debt**

***Credit Facility***

On March 13, 2020, we entered into a credit facility (the “Siena Credit Facility”) with Siena Lending Group LLC (the “Lender”). The Siena Credit Facility provides for a revolving credit line of up to $10.0 million and was originally scheduled to expire on March 13, 2023. Borrowings under the Siena Credit Facility bear a floating rate of interest equal to the greatest of (i) the prime rate plus 1.75%, (ii) the federal funds rate plus 2.25%, and (iii) 6.50%. The total deferred financing costs related to expenses incurred to complete the Siena Credit Facility was $245 thousand, which were reported as “Other current assets” in current assets and “Other assets” in non-current assets in the Condensed Consolidated Balance Sheets. We also pay a fee of 0.50% on unused borrowings under the Siena Credit Facility. Borrowings under the Siena Credit Facility are secured by a lien on substantially all the assets of the Company.

The Siena Credit Facility imposes a financial covenant on the Company and borrowings are subject to a borrowing base based on (i) 85% of eligible accounts receivable plus the lesser of (a) $5.0 million and (b) 50% of eligible raw material and 60% of finished goods inventory. The agreement governing the Siena Credit Facility restricts, among other things, our ability to incur additional indebtedness and create other liens. On July 21, 2021, the Company entered into an amendment (“Siena Credit Facility Amendment No. 1”) to the Loan and Security Agreement governing the Siena Credit Facility. Siena Credit Facility Amendment No. 1 changed the financial covenant under the Siena Credit Facility from a minimum EBITDA covenant to an excess availability covenant requiring that the Company maintain excess availability of at least $750 thousand under the Siena Credit Facility, tested as of the end of each calendar month, beginning with the calendar month ended July 31, 2021. From July 31, 2021 through June 30, 2023, we remained in compliance with our excess availability covenant. As of June 30, 2023, we had $2.3 million of outstanding borrowings under the Siena Credit Facility and $5.6 million of net borrowing capacity available under the Siena Credit Facility.

On July 19, 2022, the Company and the Lender entered into Amendment No. 2 (“Siena Credit Facility Amendment No. 2”) to the Loan and Security Agreement governing the Siena Credit Facility, as amended by Siena Credit Facility Amendment No. 1. Also on July 19, 2022, the Company and the Lender entered into an Amended and Restated Fee Letter (the “Amended Fee Letter”) in connection with the Siena Credit Facility Amendment No. 2. Siena Credit Facility Amendment No. 2 did not modify the aggregate amount of the revolving commitment or the interest rate applicable to the loans.

The changes to the Siena Credit Facility provided for in Siena Credit Facility Amendment No. 2 include, among other things, the following:

(i) The extension of the maturity date from March 13, 2023 to March 13, 2025; and

(ii) The termination of the existing blocked account control agreement and entry into a new “springing” deposit account control agreement, permitting the Company to direct the use of funds in its deposit account until such time as (a) the sum of excess availability under the Siena Credit Facility (as amended) and unrestricted cash is less than $5 million for 3 consecutive business days or (b) an event of default occurs and is continuing.

In addition, the Amended Fee Letter requires the Company, while it retains the ability to direct the use of funds in the deposit account, to maintain outstanding borrowings of at least $2,250,000 in principal amount. If the Company does not have the ability to direct the use of funds in the deposit account, then the Amended Fee Letter requires the Company to pay interest on at least $2,250,000 principal amount of loans, whether or not such amount of loans is actually outstanding.

On May 1, 2023, the Company and the Lender agreed to a letter amendment to the Loan and Security Agreement governing the Siena Credit Facility. Section 7.1(m) of the Loan and Security Agreement governing the Siena Credit Facility required that any successor to Mr. Shuldman be reasonably acceptable to the Lender, and this amendment confirmed that Mr. Dillon is an acceptable successor to Mr. Shuldman and applied the same requirement to any future successor to Mr. Dillon.

**6. Earnings per share**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2023** | **2022** | **2023** | **2022** |
| | *(In thousands, except per share data)* | | | |
| Net income (loss) | **$ 765** | $ (2,376) | **$ 3,904** | $ (6,724) |
| Shares: | | | | |
| Basic: Weighted average common shares outstanding | **9,956** | 9,910 | **9,943** | 9,898 |
| Add: Dilutive effect of outstanding options and restricted stock units as determined by the treasury stock method | **61** | – | **73** | – |
| Diluted: Weighted average common and common equivalent shares outstanding | **10,017** | 9,910 | **10,016** | 9,898 |
| Net income (loss) per common share: | | | | |
| Basic | **$ 0.08** | $ (0.24) | **$ 0.39** | $ (0.68) |
| Diluted | **$ 0.08** | $ (0.24) | **$ 0.39** | $ (0.68) |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options and restricted stock units, when the average market price of the common stock is lower than the exercise price of the related stock award during the period, as the inclusion of these stock awards in the computation of diluted earnings would be anti-dilutive. For the three and six months ended June 30, 2022, there were 1.5 million and 1.2 million, respectively, of potentially dilutive shares consisting of stock awards that were excluded from the calculation of earnings per diluted share. Furthermore, in periods when a net loss is reported, such as the three and six months ended June 30, 2022, basic and diluted net loss per common share are calculated using the same method.

**7. Leases**

We account for leases in accordance with ASC Topic 842: Leases.

We enter into lease agreements for the use of real estate space and certain equipment under operating leases and we have no financing leases. Our leases are included in “Right-of-use-assets” and “Lease liabilities” in our Condensed Consolidated Balance Sheets. Our leases have various lease terms, some of which include options to extend. Lease expense is recognized on a straight-line basis over the lease term.

Operating lease expense for the six months ended June 30, 2023 and 2022 was $483 thousand and $487 thousand, respectively, and is reported as “Cost of sales”, “Engineering, design and product development expense”, “Selling and marketing expense”, and “General and administrative expense” in the Condensed Consolidated Statements of Operations. Operating lease expenses include short-term lease costs, which were immaterial during the periods presented.

The following information represents supplemental disclosure for the statement of cash flows related to operating leases (in thousands):

| | Six Months Ended June 30, | |
|---|---|---|
| | **2023** | **2022** |
| Operating cash outflows from leases | **$ 504** | $ 456 |

The following summarizes additional information related to our leases as of June 30, 2023 and December 31, 2022:

| | **June 30, 2023** | **December 31, 2022** |
|---|---|---|
| Weighted average remaining lease term (in years) | **2.3** | 2.7 |
| Weighted average discount rate | **4.4%** | 4.5% |

The maturity of the Company's operating lease liabilities as of June 30, 2023 and December 31, 2022 were as follows (in thousands):

| | **June 30, 2023** | **December 31, 2022** |
|---|---|---|
| 2023 | **469** | 972 |
| 2024 | **1,024** | 1,022 |
| 2025 | **712** | 710 |
| 2026 | **22** | 20 |
| Total undiscounted lease payments | **2,227** | 2,724 |
| Less imputed interest | **113** | 166 |
| Total lease liabilities | **$ 2,114** | $ 2,558 |

**8. Income taxes**

We recorded income tax expense in the second quarter of 2023 of $391 thousand at an effective tax rate of 33.8% compared to an income tax benefit in the second quarter of 2022 of $870 thousand at an effective tax rate of (26.8%). For the six months ended June 30, 2023, we recorded income tax expense of $1.0 million at an effective tax rate of 20.7%, compared to an income tax benefit for the six months ended June 30, 2022 of $2.2 million at an effective tax rate of (24.9%).

We are subject to U.S. federal income tax, as well as income tax in certain U.S. state and foreign jurisdictions. We have substantially concluded all U.S. federal, state and local income tax, and foreign tax regulatory examination matters through 2018. However, our federal tax returns for the years 2019 through 2022 remain open to examination. Various U.S. state and foreign tax jurisdiction tax years remain open to examination as well, but we believe that any additional assessment would be immaterial to the Condensed Consolidated Financial Statements. The Company maintains a valuation allowance against certain deferred tax assets where realization is not certain.

**9. Subsequent events**

The Company has evaluated all events or transactions that occurred up to the date the Condensed Consolidated Financial Statements were available to be issued. Based upon this review, the Company did not identify any subsequent events that would have required adjustment or disclosure in the Condensed Consolidated Financial Statements.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Forward Looking Statements

*Certain statements included in this Quarterly Report on Form 10-Q for the period ended June 30, 2023 (this "Report"), including without limitation, statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations are "forward-looking statements" within the meaning of the U.S. federal securities laws, including the Private Securities Litigation Reform Act of 1995. Forward-looking statements are any statements other than statements of historical fact. Forward looking statements represent current views about possible future events that are often identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "project", "plan" or "continue" or the negative thereof or other similar words. Forward-looking statements are subject to certain risks, uncertainties and assumptions. In the event that one or more of such risks or uncertainties materialize, or one or more underlying assumptions prove incorrect, actual results may differ materially from those expressed or implied by the forward-looking statements.*

*Important factors and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following: the adverse effects of current economic conditions, whether due to the COVID-19 pandemic or otherwise, on our business, operations, financial condition, results of operations and capital resources, difficulties or delays in manufacturing or delivery of inventory or other supply chain disruptions, inflation and the Russia/Ukraine conflict, an inability of our customers to make payments on time or at all, diversion of management attention, a possible future reduction in the value of goodwill or other intangible assets, inadequate manufacturing capacity or a shortfall or excess of inventory as a result of difficulty in predicting manufacturing requirements due to volatile economic conditions, price increases or decreased availability of component parts or raw materials, exchange rate fluctuations, volatility of, and decreases in, trading prices of our common stock and the availability of needed financing on acceptable terms or at all; our ability to successfully develop new products that garner customer acceptance and generate sales, both domestically and internationally, in the face of substantial competition; our reliance on an unrelated third party to develop, maintain and host certain web-based food service application software and develop and maintain selected components of our downloadable software applications pursuant to a non-exclusive license agreement, and the risk that interruptions in our relationship with that third party could materially impair our ability to provide services to our food service technology customers on a timely basis or at all and could require substantial expenditures to find or develop alternative software products; our ability to successfully transition our business into the food service technology market; risks associated with potential future acquisitions; general economic conditions; our dependence on contract manufacturers for the assembly of a large portion of our products in Asia; our dependence on significant suppliers; our ability to recruit and retain quality employees as the Company grows; our dependence on third parties for sales outside the United States; our dependence on technology licenses from third parties; marketplace acceptance of new products; risks associated with foreign operations; the availability of third party components at reasonable prices; price wars, supply chain disruptions or other significant pricing pressures affecting the Company's products in the United States or abroad; increased product costs or reduced customer demand for our products due to changes in U.S. policy that may result in trade wars or tariffs; our ability to protect intellectual property; and other risk factors identified and discussed in Part I, Item 1A, Risk Factors, and Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2022 (our "2022 Form 10-K") and that may be detailed from time to time in the Company's other reports filed with the Securities and Exchange Commission (the "SEC").*

*We caution readers not to place undue reliance on forward-looking statements, which speak only as of the date of this Report. We undertake no obligation to publicly or otherwise revise any forward-looking statements, whether as a result of new information, future events or other factors, except where we are expressly required to do so by applicable law.*

**Overview**

TransAct is a global leader in developing and selling software-driven technology and printing solutions for high-growth markets including food service technology, point of sale ("POS") automation and casino and gaming. Our world-class products are designed from the ground up based on market and customer requirements and are sold under the BOHA!™, AccuDate™, Epic, EPICENTRAL®, and Ithaca®, brand names. During 2019, we launched a new line of products for the food service technology market, the BOHA! branded suite of cloud-based applications and companion hardware solutions. The BOHA! software and hardware products help restaurants, convenience stores and food service operators of all sizes automate the food production in the back-of-house operations. Known and respected worldwide for innovative designs and real-world service reliability, our thermal printers and terminals generate top-quality labels, coupons and transaction records such as receipts, tickets and other documents. We sell our technology to original equipment manufacturers ("OEMs"), value-added resellers, and select distributors, as well as directly to end users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, New Zealand, the Caribbean Islands and the South Pacific. We also offer world-class service, support, labels, spare parts, accessories and printing supplies to our growing worldwide base of products currently in use by our customers. Through our TransAct Services Group ("TSG"), we provide a complete range of supplies and consumables used in the printing activities of customers in the restaurant and hospitality, retail, casino and gaming, and government markets. Through our webstore, www.transactsupplies.com, and our direct selling team, we address the demand for these products. We operate in one reportable segment: the design, development, and marketing of software-driven technology and printing solutions for high growth markets, and provide related services, supplies and spare parts.

Solely for convenience, some of the trademarks, service marks, trade names and copyrights referred to in this Form 10-Q are listed without the ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our trademarks, service marks, trade names and copyrights.

**Recent Developments**

On April 5, 2023, the Company announced that on April 4, 2023, Bart C. Shuldman had resigned as the Company's Chief Executive Officer and as a director of the Company, effective immediately (the "Effective Time"). Mr. Shuldman's resignation as director is not due to any disagreement with the Company on any matter relating to the Company's operations, policies or practices. On April 4, 2023, the Board of Directors appointed John M. Dillon, a Board member, to serve as interim Chief Executive Officer of the Company, effective as of the Effective Time. In this capacity, Mr. Dillon serves as the Company's principal executive officer. Mr. Dillon will continue to serve on the Board of Directors, but has stepped down from his position as Audit Committee chair and from his membership on each of the committees of the Board of Directors. On May 8, 2023, the Board of Directors removed the "interim" designation and the Company announced that Mr. Dillon will continue in the role of Chief Executive Officer indefinitely, subject to the terms of his employment agreement.

**Impact of COVID-19 Pandemic and the Global Supply Chain Disruptions**

Since early 2020 and into the first quarter of 2022, the COVID-19 pandemic caused uncertainty and disruption in the global economy and financial markets. Similar to other companies, TransAct has been impacted by global supply chain issues, increased shipping costs and inflationary pressures, which have increased our costs and, in some instances, slowed our ability to deliver products to our customers. During 2021, we experienced significantly lower sales levels. However, during 2022, we were able to increase our inventory levels and minimize the impact to our customers by successfully modifying our products that were affected by supply chain disruptions, as well as sourcing component parts from alternate suppliers. At the same time, after a slowdown resulting from the Omicron and other variants of COVID-19 that began to ease in the first six months of 2022, we continued to experience demand recovery during the remainder of 2022 and into 2023. Although we were able to increase inventory levels during 2022 and expect to continue to do so in the balance of 2023, there can be no assurance that new or continuing supply chain disruptions will not affect our products or that we will be able to make timely modifications to address any future supply chain issues that arise. Further, while we have offset most of our cost increases by increasing prices of our products, there can be no guarantee that we will not be impacted by the economic effects of any future cost increases that cannot be predicted, supply chain disruptions, inflationary pressures and potential new COVID-19 variants in the markets we serve and from which we source our supplies and parts.

We have taken the following actions to increase liquidity and strengthen our financial position in an effort to mitigate the negative impacts from the COVID-19 pandemic, supply chain disruptions and inflationary pressures:

- Employee Retention Credit – The Company received a refundable employee retention credit under the CARES Act in the first quarter of 2023. The Company previously recognized the employee retention credit during the fourth quarter of 2021 as a $1.5 million "Gain from employee retention credit" in the Consolidated Statement of Operations for the year ended December 31, 2021 and recorded a $1.5 million "Employee retention credit receivable" in the Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021.

- Credit Facility – On March 13, 2020, we entered into a credit facility with Siena Lending Group LLC that provides a revolving credit line of up to $10.0 million, subject to a borrowing base and on July 19, 2022, we entered into an amendment to extend the maturity of the facility to March 13, 2025. See Note 5 of the accompanying condensed consolidated financial statements for further details regarding this facility.

Notwithstanding the foregoing, there is no assurance that the actions we have taken in response to the pandemic, global supply chain disruptions and inflation are sufficient or adequate, and we may be required to take additional preventive or responsive measures, as the ultimate extent of the effects of these risks on the Company, our financial condition, results of operations, liquidity, and cash flows are uncertain and are dependent on evolving developments which cannot be predicted at this time. See Part I, Item 1A, Risk Factors, of the 2022 Form 10-K for further discussion of risks related to COVID-19, global supply chain disruptions and inflation.

**Critical Accounting Judgments and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable, inventory obsolescence, goodwill and intangible assets, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, share-based compensation and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. There have been no material changes in our critical accounting judgements and estimates from the information presented in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our 2022 Form 10-K.

**Results of Operations: Three months ended June 30, 2023 compared to three months ended June 30, 2022**

***Net Sales:*** Net sales, which include printer, terminal and software sales, as well as sales of replacement parts, consumables (including labels) and maintenance and repair services, by market for the three months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Food service technology (“FST”) | $ 3,895 | 19.6% | $ 3,432 | 27.2% | $ 463 | 13.5% |
| POS automation | 1,904 | 9.6% | 1,172 | 9.3% | 732 | 62.5% |
| Casino and gaming | 12,172 | 61.1% | 6,525 | 51.7% | 5,647 | 86.5% |
| TransAct Services Group (“TSG”) | 1,935 | 9.7% | 1,494 | 11.8% | 441 | 29.5% |
| | $ 19,906 | 100.0% | 12,623 | 100.0% | $ 7,283 | 57.7% |
| | | | | | | |
| International * | $ 3,181 | 16.0% | $ 2,896 | 22.9% | $ 285 | 9.8% |

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

Net sales for the second quarter of 2023 increased $7.3 million, or 58%, compared to the second quarter of 2022. Printer, terminal and other hardware unit sales volume increased 68% to approximately 42,000 units, due primarily to a sales volume increase in the casino and gaming market of 73%, and to a lesser extent, an increase in POS Automation volume and FST hardware volume of 63% and 25%, respectively. Sales in the second quarter of 2022 were also still somewhat negatively impacted by COVID-19. The average selling price of our printers, terminals and other hardware increased 5% during the second quarter of 2023 compared to the second quarter of 2022 primarily due to price increases instituted during 2022. In addition to the sales volume increases, FST software, labels and other recurring revenue increased $0.3 million, or 14%, in the second quarter of 2023 compared to the second quarter of 2022.

International sales for the second quarter of 2023 increased $0.3 million, or 10%, from the same period in 2022 due to increased sales across all markets.

***Food service technology ("FST"):*** Our primary offering in the food service technology market is our line of BOHA! products, which can combine our latest generation terminal and workstation which includes one or two printers and our BOHA! labeling, timers, and media software. In addition, customers may individually purchase cloud-based software applications that connect to a separate application on a separate mobile device into a solution to automate back-of-house operations in restaurants, convenience stores and food service operations. The additional software offering of BOHA! consists of a variety of individually purchased software-as-a-service ("SaaS")-based applications for both Android and iOS operating systems, including applications for, temperature monitoring, temperature taking and checklists and task lists. These applications are sold separately, and customers purchase the applications they need for their back-of-house operations. Customers may also purchase associated hardware, such as handheld devices, tablets, temperature probes and temperature sensors and gateways. The BOHA! Terminal combines an operating system and hardware components in a device that includes a touchscreen and one or two thermal print mechanisms that print easy-to-read food rotation labels, grab-and-go labels, and nutritional labels for prepared foods, and "enjoy by" date labels. The BOHA! WorkStation uses an iPad or Android tablet instead of an integrated touchscreen. The BOHA! Terminal and the BOHA! WorkStation are equipped with the TransAct Enterprise Management System to ensure that only approved touchscreen functions are available on the touchscreen device and to allow over-the-air updates to the operating system. BOHA! helps food service establishments and restaurants (including fine dining, casual dining, fast casual and quick-service restaurants, convenience stores, hospitality establishments and contract food service providers) effectively manage food safety and grab-and-go initiatives, as well as automate and manage back-of-house operations. Recurring revenue from BOHA! is generated by software sales, including software subscriptions that are typically charged to customers annually on a per-application basis, as well as sales of labels, extended warranty and service contracts, and technical support services. In the food service technology market, we use an internal sales force to solicit sales directly from end users.

Sales of our worldwide food service technology products for the three months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 3,625 | 93.1% | $ 3,281 | 95.6% | $ 344 | 10.5% |
| International | 270 | 6.9% | 151 | 4.4% | 119 | 78.8% |
| | $ 3,895 | 100.0% | $ 3,432 | 100.0% | $ 463 | 13.5% |

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Hardware | $ 1,407 | 36.1% | $ 1,253 | 36.5% | $ 154 | 12.3% |
| Software, labels and other recurring revenue | 2,488 | 63.9% | 2,179 | 63.5% | 309 | 14.2% |
| | $ 3,895 | 100.0% | $ 3,432 | 100.0% | $ 463 | 13.5% |

The increase in food service technology sales in the second quarter of 2023 compared to the second quarter of 2022 was driven by an increase in both sales of hardware and software. Hardware sales increased 12% in the second quarter of 2023 compared to the second quarter of 2022, due to increased sales of our Accudate 9700. Software sales, including sales of BOHA! software recognized on a SaaS subscription basis, labels and other recurring revenue, increased 14% compared to the prior year period due largely to the growth of the installed base of our BOHA! Terminals and WorkStations.

***POS automation:*** In the POS automation market, we sell our Ithaca 9000 printer, which utilizes thermal printing technology. Our POS printer is used primarily by McDonald's, and to a lesser extent, other quick-service restaurants either at the checkout counter or within self-service kiosks to print receipts for consumers or print on linerless labels. In the POS automation market, we primarily sell our products through a network of domestic and international distributors and resellers. We use an internal sales force to manage sales through our distributors and resellers, as well as to solicit sales directly from end-users.

Sales of our worldwide POS automation products for the three months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 1,904 | 100.0% | $ 1,172 | 100.0% | $ 732 | 62.5% |
| International | – | 0.0% | – | 0.0% | – | -- |
| | $ 1,904 | 100.0% | $ 1,172 | 100.0% | $ 732 | 62.5% |

The increase in POS automation sales in the second quarter of 2023 compared to the second quarter of 2022 was driven by domestic sales of our Ithaca® 9000 printer, resulting from a 63% increase in sales volume and a price increase instituted during 2022. Sales in the second quarter of 2022 were negatively impacted by printer production limitations caused by the worldwide supply chain slowdown.

***Casino and gaming***. Revenue from the casino and gaming market includes sales of thermal ticket printers used in slot machines, video lottery terminals, and other gaming machines that print tickets or receipts instead of issuing coins at casinos, racetracks and other gaming venues worldwide. Revenue from this market also includes sales of thermal roll-fed printers used in the international off-premise gaming market in gaming machines such as Amusement with Prizes, Skills with Prizes and Fixed Odds Betting Terminals and kiosks for sports betting at non-casino gaming and sports betting establishments. Revenue from this market also includes royalties related to our patented casino and gaming technology. In addition, casino and gaming market revenue includes sales of the EPICENTRAL print system, our software solution (including annual software maintenance), that enables casino operators to create promotional coupons and marketing messages and to print them in real time at the slot machine. Sales of our worldwide casino and gaming products for the three months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 9,475 | 77.8% | $ 3,929 | 60.2% | $ 5,546 | 141.2% |
| International | 2,697 | 22.2% | 2,596 | 39.8% | 101 | 3.9% |
| | $ 12,172 | 100.0% | $ 6,525 | 100.0% | $ 5,647 | 86.5% |

The large increase in domestic sales of our casino and gaming products for the second quarter of 2023 compared to the second quarter of 2022 was primarily driven by a 153% increase in domestic sales of our thermal casino printers and price increases we instituted during 2022. Sales in the second quarter of 2022 were also still somewhat negatively impacted by COVID-19. We believe we have significantly increased our market share compared to the second quarter of 2022 due to our largest competitor's inability to supply product due to supply chain issues.

The increase in international casino and gaming sales during the second quarter of 2023 compared to the second quarter of 2022 was due to a 12% increase in sales of our thermal casino printers. The increase is attributable to our increased market share compared to the second quarter of 2022 due to our largest competitor's inability to supply product due to supply chain issues.

Though we expect both domestic and international sales of our casino printers to continue to be strong and higher in 2023 as compared to 2022, we believe it is likely that our largest competitor will be able to resume supplying product later in 2023 which would negatively impact our worldwide casino and gaming sales.

***TransAct Services Group ("TSG"):*** Revenue generated by TSG includes sales of consumable products (POS receipt paper, ribbons and other printing supplies for non-FST legacy products), replacement parts and accessories, maintenance and repair services, refurbished printers, and shipping and handling charges. Sales in our worldwide TSG market for the three months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Three Months Ended June 30, 2023 | | Three Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 1,721 | 88.9% | $ 1,345 | 90.0% | $ 376 | 28.0% |
| International | 214 | 11.1% | 149 | 10.0% | 65 | 43.6% |
| | $ 1,935 | 100.0% | $ 1,494 | 100.0% | $ 441 | 29.5% |

The increase in both domestic and international revenue from TSG during the second quarter of 2023 as compared to the second quarter of 2022 was due largely to higher sales of legacy replacement parts for lottery printers and increased service revenue. Sales of replacement parts for our legacy lottery printers can vary significantly from quarter to quarter.

***Gross Profit.*** Gross profit information for for the three months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|
| $ 10,858 | $ 5,434 | 99.8% | 54.5% | 43.0% |

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor, manufacturing overhead expenses, cost of finished products purchased directly from our contract manufacturers, expenses associated with installations and support of our EPICENTRAL print system and BOHA! ecosystem and royalty payments to third parties, including to the third-party licensor of our food service technology software products. For the second quarter of 2023, gross profit increased $5.4 million, or 100%, due primarily to a 58% increase in sales in the second quarter of 2023 compared to the second quarter of 2022 as well as an improved mix of higher margin casino and gaming printer sales. Additionally, our gross margin increased to 55% for the second quarter of 2023 compared to 43% for the second quarter of 2022 due primarily to increased sales and market share gained in the casino and gaming industry (as previously discussed) as well as the effect of two rounds of price increases we instituted during 2022 to mitigate our higher product and shipping costs related to worldwide supply chain disruptions. We anticipate that gross margin will be under downward pressure for the remainder of 2023 due to our expectation that our largest competitor will likely resume supplying product to the casino and gaming market later in 2023.

***Operating Expenses - Engineering, Design and Product Development.*** Engineering, design and product development expense information for the three months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|
| $ 2,505 | $ 2,172 | 15.3% | 12.6% | 17.2% |

Engineering, design and product development expenses primarily include salary and payroll-related expenses for our hardware and software engineering staff, depreciation and design expenses (including prototype printer expenses, outside design, development and testing services, supplies and contract software development expenses including those of the third-party licensor of our food service technology software products). Engineering, design and product development expenses increased $333 thousand, or 15%, for the second quarter of 2023 compared to the second quarter of 2022 due to additional software staff resources and product testing primarily related to our FST products.

***Operating Expenses - Selling and Marketing.*** Selling and marketing information for the three months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, 2023 | Three Months Ended June 30, 2022 | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|
| $ 2,684 | $ 3,293 | (18.5%) | 13.5% | 26.1% |

Selling and marketing expenses primarily include salaries and payroll-related expenses for our sales, marketing and customer success staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses, public relations, e-commerce and other promotional marketing expenses. Selling and marketing expenses decreased by $609 thousand, or 19%, in the second quarter of 2023 compared to the second quarter of 2022 due to reduced trade show expenses and BOHA! market studies conducted in the first half of 2022.

***Operating Expenses - General and Administrative***. General and administrative information for the three months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, | | Percent | Percent of | Percent of |
|---|---|---|---|---|
| 2023 | 2022 | Change | Total Sales – 2023 | Total Sales – 2022 |
| $ 4,445 | $ 2,923 | 52.1% | 22.3% | 23.2% |

General and administrative expenses primarily include salaries, incentive compensation, and other payroll-related expenses for our executive, accounting, human resources, business development and information technology staff, expenses for our corporate headquarters, professional and legal expenses, information technology expenses, board of director expenses and other expenses related to being a publicly traded company. General and administrative expenses increased $1.5 million, or 52%, during the second quarter of 2023 compared to the second quarter of 2022. In connection with the resignation of TransAct's former Chief Executive Officer in April 2023, the Company incurred a severance charge of approximately $1.5 million in the second quarter of 2023.

***Operating Income (Loss).*** Operating income (loss) information for the three months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, | | Percent | Percent of | Percent of |
|---|---|---|---|---|
| 2023 | 2022 | Change | Total Sales – 2023 | Total Sales – 2022 |
| $ 1,224 | $ (2,954) | 141.4% | 6.1% | (23.4%) |

Our operating income increased $4.2 million, or 141%, in the second quarter of 2023 compared to the second quarter of 2022 due to a $5.4 million increase in gross profit on 58% higher sales combined with a 1,150 basis point improvement in gross margin, partially offset by a 15% increase in operating expenses largely driven by the former Chief Executive Officer's $1.5 million dollar severance charge in the second quarter of 2023.

***Interest, net.*** We recorded net interest expense of $68 thousand for the second quarter of 2023 compared to $28 thousand for the second quarter of 2022. This increase in interest expense is related to the Company's Siena Credit Facility. Following the July 2022 amendment of the Siena Credit Facility, we were required to maintain outstanding borrowings of at least $2,250,000 in principal amount pursuant to the terms of the July 2022 Siena Credit Facility Amendment No. 2 – see Note 5. Interest expense increased due to this required borrowing and a rising interest rate environment.

***Other, net.*** Other, net primarily includes foreign exchange gains/ losses by our UK subsidiary. During the second quarter of 2023, our foreign exchange gains/losses netted such that we had no net gain/loss for the second quarter of 2023, resulting in no net other expense for the quarter, compared to a net exchange loss of $264 thousand for the second quarter of 2022. Going forward, we may continue to experience more foreign exchange gains or losses depending on the level of sales to European customers through our UK subsidiary and the fluctuation in exchange rates of the Euro and Pound Sterling against the U.S. Dollar.

***Income Taxes.*** We recorded income tax expense for the second quarter of 2023 of $0.4 million at an effective tax rate of 33.8%, compared to an income tax benefit during the second quarter of 2022 of $0.9 million at an effective tax rate of (26.8%). The effective tax rate for the second quarter of 2023 is higher than the effective tax rate for the second quarter of 2022 due to the non-deductibility of a portion of certain compensation and severance related to the resignation of TransAct's former CEO in April 2023, partially offset by the impact from the R&D credit. In periods with pre-tax income, such as the second quarter of 2023, the R&D credit has the effect of lowering the effective tax rate. In periods with pre-tax losses, such as second quarter of 2022, the R&D credit has the effect of raising the effective tax rate.

***Net Income (Loss)***. We reported net income for the second quarter of 2023 of $0.8 million, or $0.08 per diluted share, compared to a net loss of $2.4 million, or ($0.24) per diluted share, for the second quarter of 2022.

**Results of Operations: Six months ended June 30, 2023 compared to the six months ended June 30, 2022**

***Net Sales.*** Net sales, which include printer, terminal and software sales, as well as sales of replacement parts, consumables and maintenance and repair services, by market for the six months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| FST | $ 7,353 | 17.4% | $ 5,562 | 24.9% | $ 1,791 | 32.2% |
| POS automation | 3,701 | 8.8% | 2,472 | 11.1% | 1,229 | 49.7% |
| Casino and gaming | 27,983 | 66.4% | 11,287 | 50.6% | 16,696 | 147.9% |
| TSG | 3,139 | 7.4% | 3,004 | 13.4% | 135 | 4.5% |
| | $ 42,176 | 100.0% | $ 22,325 | 100.0% | $ 19,851 | 88.9% |
| | | | | | | |
| International * | $ 7,854 | 18.6% | $ 5,496 | 24.6% | $ 2,358 | 42.9% |

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

Net sales for the first six months of 2023 increased $19.9 million, or 89%, from the same period in 2022. Printer, terminal and other hardware sales unit volume increased by 95% to approximately 93,000, units for the first six months of 2023 driven primarily by a 118% increase in units within our casino and gaming market. The average selling price of our printers, terminals and other hardware increased 14% for the first six months of 2023 compared to the first six months of 2022 due primarily to price increases instituted on most of our products in the latter part of 2022. FST software, labels and other recurring revenue increased $1.1 million, or 29%, in the first six months of 2023 compared to the first six months of 2022. Sales in the six months ended June 30, 2022 were also still somewhat negatively impacted by COVID-19.

International sales for the first six months of 2023 increased $2.4 million, or 43%, from the same period in 2022 due primarily to a 52% increase in the international casino and gaming market.

***Food service technology.*** Sales of our worldwide food service technology products for the six months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 6,888 | 93.7% | $ 5,227 | 94.0% | $ 1,661 | 31.8% |
| International | 465 | 6.3% | 335 | 6.0% | 130 | 38.8% |
| | $ 7,353 | 100.0% | $ 5,562 | 100.0% | $ 1,791 | 32.2% |

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Hardware | $ 2,538 | 34.5% | $ 1,816 | 32.7% | $ 722 | 39.8% |
| Software, labels and other recurring revenue | 4,815 | 65.5% | 3,746 | 67.3% | 1,069 | 28.5% |
| | $ 7,353 | 100.0% | $ 5,562 | 100.0% | $ 1,791 | 32.2% |

The increase in food service technology sales of $1.8 million, or 32%, in the first six months of 2023 compared to the first six months of 2022 was driven by increases in both sales of hardware and sales of BOHA! software, labels and other recurring revenue. Hardware sales increased 40% in the first half of 2023 compared to the first half of 2022 due largely to increased sales of our AccuDate 9700. FST software, labels and other recurring revenue sales increased 29% in the first six months of 2023 compared to the first six months of 2022. This increase was primarily due to increased label sales and, to a lesser extent, increased software sales, compared to the prior year period due principally to the growth of the installed base of our BOHA! terminals and workstations.

***POS automation.*** Sales of our worldwide POS automation products for the six months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 3,686 | 99.6% | $ 2,472 | 100.0% | $ 1,214 | 49.1% |
| International | 15 | 0.4% | – | 0.0% | 15 | 100.0% |
| | $ 3,701 | 100.0% | $ 2,472 | 100.0% | $ 1,229 | 49.7% |

Sales of POS automation printers increased $1.2 million, or 50%, for the first six months of 2023 compared to the first six months of 2022 due to an increase of domestic sales of our Ithaca® 9000 printer combined with a price increase instituted during 2022. In addition, sales in the second quarter of 2022 were negatively impacted by printer production limitations caused by the worldwide supply chain slowdown.

***Casino and gaming.*** Sales of our worldwide casino and gaming products for the six months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 21,044 | 75.2% | $ 6,717 | 59.5% | $ 14,327 | 213.3% |
| International | 6,939 | 24.8% | 4,570 | 40.5% | 2,369 | 51.8% |
| | $ 27,983 | 100.0% | $ 11,287 | 100.0% | $ 16,696 | 147.9% |

The increase in domestic sales of our casino and gaming products of $14.3 million, or 213%, for the first six months of 2023 compared to the first six months of 2022 was due to an increase in sales and price increases in our gaming and thermal casino printers. We believe we have significantly increased our market share compared to the second quarter of 2022 due to our largest competitor's inability to supply product due to supply chain issues.

International sales of our casino and gaming products increased by $2.4 million, or 52%, in the first six months of 2023 compared to the first six months of 2022. The increase is attributable to our increased market share compared to the second quarter of 2022 due to our largest competitor's inability to supply product due to supply chain issues, as well as price increases instituted during 2022.

Though we expect both domestic and international sales of our casino printers to continue to be strong in 2023 as compared to 2022, we believe it is likely that our largest competitor will be able to resume supplying product later in 2023 which would negatively impact our worldwide casino and gaming sales.

***TSG.*** Sales in our worldwide TSG market for the six months ended June 30, 2023 and 2022 were as follows (in thousands, except percentages):

| | Six Months Ended June 30, 2023 | | Six Months Ended June 30, 2022 | | $ Change | % Change |
|---|---|---|---|---|---|---|
| Domestic | $ 2,704 | 86.1% | $ 2,413 | 80.3% | $ 291 | 12.1% |
| International | 435 | 13.9% | 591 | 19.7% | (156) | (26.4%) |
| | $ 3,139 | 100.0% | $ 3,004 | 100.0% | $ 135 | 4.5% |

The increase in domestic TSG revenue of $0.3 million, or 12%, for the first six months of 2023 as compared to the first six months of 2022 was primarily due to greater sales of replacement parts and accessories as well as increased service revenue.

Internationally, TSG revenue decreased $0.2 million, or 26%, for the first six months of 2023 compared to the first six months of 2022, primarily due to a 59% decrease in sales of replacement parts to international casino and gaming customers.

***Gross Profit.*** Gross profit for the six months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Six Months Ended | | | | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|---|---|
| 2023 | | 2022 | | | | |
| $ | 23,113 | $ | 8,000 | 188.9% | 54.8% | 35.8% |

For the first six months of 2023, gross profit increased $15.1 million, or 189%, due largely to a sales increase of 89% in the first six months of 2023 compared to the first six months of 2022. Gross margin also increased 1,900 basis points to 55% in the first half of 2023 compared to 36% in the second half of 2022. The large increase in both gross profit and gross margin is due to increased market share in the casino and gaming market, increased sales of higher margin products and price increases instituted in 2022. However, we anticipate that gross margin will be under downward pressure for the remainder of 2023 due to our expectation that our largest competitor will likely resume supplying product to the casino and gaming market later in 2023.

***Operating Expenses - Engineering, Design and Product Development.*** Engineering, design and product development expense for the six months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Six Months Ended June 30, | | | | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|---|---|
| 2023 | | 2022 | | | | |
| $ | 4,774 | $ | 4,455 | 7.2% | 11.3% | 20.0% |

Engineering, design and product development expenses increased $0.3 million, or 7%, during the first six months of 2023 compared to first six months of 2022 due to the impact from the hiring of additional engineering staff as well as product testing.

***Operating Expenses - Selling and Marketing.*** Selling and marketing expense for the six months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Six Months Ended June 30, | | | | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|---|---|
| 2023 | | 2022 | | | | |
| $ | 5,441 | $ | 5,976 | (9.0%) | 12.9% | 26.8% |

Selling and marketing expenses decreased $0.5 million, or 9%, for the first six months of 2023 compared to the first six months of 2022. The primary driver of the decline relates to BOHA! market studies conducted in the first half of 2022 which were not repeated in 2023. In addition to the reduction of these initiatives, we incurred lower trade show expenses in the first six months of 2023.

***Operating Expenses - General and Administrative***. General and administrative expense for the six months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Six Months Ended June 30, | | | | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|---|---|
| 2023 | | 2022 | | | | |
| $ | 7,861 | $ | 6,127 | 28.3% | 18.6% | 27.4% |

General and administrative expenses increased $1.7 million, or 28%, for the first six months of 2023 compared to the first six months of 2022. Driving the increase was the severance charge related to the resignation of the Company's former Chief Executive Officer in April 2023 of approximately $1.5 million. Other factors contributing to the increase were higher compensation expense and higher depreciation expense related to the implementation of a new ERP system in 2022.

***Operating Income (Loss).*** Operating income (loss) for the six months ended June 30, 2023 and 2022 is summarized below (in thousands, except percentages):

| Six Months Ended June 30, | | | | Percent Change | Percent of Total Sales – 2023 | Percent of Total Sales – 2022 |
|---|---|---|---|---|---|---|
| 2023 | | 2022 | | | | |
| $ | 5,037 | $ | (8,558) | 158.9% | 11.9% | (38.3%) |

Our operating income increased $13.6 million, or 159%, for the first six months of 2023 compared to the first six months of 2022 as a $15.1 million, or 189% increase in gross profit on 89% higher sales was partially offset by a $1.5 million, or 9%, increase in operating expenses during the first half of 2023 compared to the first half of 2022.

***Interest, net.*** We recorded net interest expense of $134 thousand for the first six months of 2023 compared to net interest expense of $92 thousand for the first six months of 2022. This increase in interest expense is related to the Company's Siena Credit Facility. Following the July 2022 amendment of the Siena Credit Facility, we were required to maintain outstanding borrowings of at least $2,250,000 in principal amount pursuant to the terms of the July 2022 Siena Credit Facility Amendment No. 2 – see Note 5. Interest expense increased due to this required borrowing and a rising interest rate environment.

***Other, net.*** We recorded other income of $21 thousand for the first six months of 2023 compared to other expense of $299 thousand for the first six months of 2022. The large decline in other expense is due to foreign exchange losses recorded by our U.K. subsidiary in the second quarter of 2022 largely due to a weakening of the British pound sterling against the U.S. dollar.

***Income Taxes.*** We recorded income tax expense for the first six months of 2023 of $1.0 million at an effective tax rate of 20.7%, compared to an income tax benefit for the first six months of 2022 of $2.2 million at an effective tax rate of (24.9%).

***Net Income (loss).*** As a result of the above, we reported net income for the first six months of 2023 of $3.9 million, or $0.39 per diluted share, compared to a net loss of $6.7 million, or ($0.68) per diluted share for the first six months of 2022.

## Liquidity and Capital Resources

### Cash Flow

For the first six months of 2023, our cash and cash equivalents balance increased $2.8 million from December 31, 2022. We ended the second quarter of 2023 with $10.8 million in cash and cash equivalents, of which $0.6 million was held by our U.K. subsidiary.

*Operating activities*: The following significant factors affected our cash provided by operating activities of $3.7 million for the first six months of 2023 as compared to cash used in operating activities of $14.6 million for the first six months of 2022:

During the first six months of 2023:

- We reported net income of $3.9 million.
- We recorded depreciation and amortization of $0.7 million, and share-based compensation expense of $0.4 million.
- Deferred income taxes were down $0.8 million due to pre-tax income being recognized in the first six months of 2023.
- Employee retention credit receivable decreased $1.5 million due to the collection of this receivable in the first quarter of 2023.
- Inventories increased $3.4 million consistent with overall increases in sales in 2023 compared to 2022.
- Accounts payable were down $1.1 million in 2023 due largely to the timing of vendor payments.
- Accrued liabilities and other liabilities increased $1.3 million due largely to accrued severance in connection with the resignation of TransAct's former Chief Executive Officer in April 2023.

During the first six months of 2022:

- We reported a net loss of $6.7 million.
- We recorded depreciation and amortization of $0.6 million and share-based compensation expense of $0.6 million.
- Accounts receivable increased $4.5 million due to higher sales volumes in the first half of 2022.
- Deferred income taxes increased $2.2 million due to a pretax loss during the first half of 2022.
- Inventories increased $3.3 million due largely to strategic purchases of electronic parts in volume in an effort to minimize disruptions of production at our contract manufacturers.

*Investing activities:* Our capital expenditures were $689 thousand for the first six months of 2023 compared to $744 thousand for the first six months of 2022. Expenditures in 2023 were for computer and networking equipment and new tooling equipment. Expenditures in 2022 were primarily related to the implementation of a new ERP system.

*Financing activities:* Financing activities used $86 thousand and $129 thousand of cash during the first six months of 2023 and 2022, respectively, primarily to pay for withholding taxes on stock issued from our stock compensation plans.

***Resource Sufficiency***
Since early 2020, we have been impacted in varying degrees by the COVID-19 pandemic. In addition, and more recently, we have been impacted by global supply chain issues, increased shipping costs, increased interest rates and inflationary pressures. Although these economic conditions have abated somewhat of late, they continue to cause uncertainty and disruption in the global economy and financial markets. Given the unprecedented impact and severity of these external factors on the food service and casino and gaming industries, the Company continues to monitor its cash generation, usage and preservation including the management of working capital to generate cash.

We believe that our cash and cash equivalents on hand, our expected cash flows generated from operating activities, and borrowings available under the Siena Credit Facility will provide sufficient resources to meet our working capital needs, finance our capital expenditures and meet our liquidity requirements through at least the next twelve months. Notwithstanding this belief, the duration and extent of these global economic pressures remain uncertain and the ultimate impact of these global pressures is unknown.

***Credit Facility and Borrowings***
On March 13, 2020, we entered into the Loan and Security Agreement governing the Siena Credit Facility with Siena Lending Group LLC (the “Lender”). The Siena Credit Facility provides for a revolving credit line of up to $10.0 million and was originally scheduled to expire on March 13, 2023. Borrowings under the Siena Credit Facility bear a floating rate of interest equal to the greatest of (i) the prime rate plus 1.75%, (ii) the federal funds rate plus 2.25%, and (iii) 6.50%. The total deferred financing costs related to expenses incurred to complete the Siena Credit Facility were $245 thousand. We also pay a fee of 0.50% on unused borrowings under the Siena Credit Facility. Borrowings under the Siena Credit Facility are secured by a lien on substantially all the assets of the Company. Borrowings under the Siena Credit Facility are subject to a borrowing base based on (i) 85% of eligible accounts receivable plus the lesser of (a) $5.0 million and (b) 50% of eligible raw material and 60% of finished goods inventory.

The Siena Credit Facility imposes a financial covenant on the Company and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. On July 21, 2021, the Company entered into an amendment (“Siena Credit Facility Amendment No. 1”) to the Siena Credit Facility. Siena Credit Facility Amendment No. 1 changed the financial covenant under the Siena Credit Facility from a minimum EBITDA covenant to an excess availability covenant requiring that the Company maintain excess availability of at least $750 thousand under the Siena Credit Facility, tested as of the end of each calendar month, beginning with the calendar month ended July 31, 2021. From July 31, 2021 through June 30, 2023, we remained in compliance with our excess availability covenant.

On July 19, 2022, the Company and the Lender entered into Amendment No. 2 (“Siena Credit Facility Amendment No. 2”) to the Siena Credit Facility as amended by Siena Credit Facility Amendment No. 1. Also on July 19, 2022, the Company and the Lender entered into an Amended and Restated Fee Letter (the “Amended Fee Letter”) in connection with Siena Credit Facility Amendment No. 2. Siena Credit Facility Amendment No. 2 did not modify the aggregate amount of the revolving commitment or the interest rate applicable to the loans.

The changes to Siena Credit Facility provided for in Siena Credit Facility Amendment No. 2 included, among other things, the following:

(i) The extension of the maturity date from March 13, 2023 to March 13, 2025; and

(ii) The termination of the existing blocked account control agreement and entry into a new “springing” deposit account control agreement, permitting the Company to direct the use of funds in its deposit account until such time as (a) the sum of excess availability under the Siena Credit Facility and unrestricted cash is less than $5 million for 3 consecutive business days or (b) an event of default occurs and is continuing.

In addition, the Amended Fee Letter requires the Company, while it retains the ability to direct the use of funds in the deposit account, to maintain outstanding borrowings of at least $2,250,000 in principal amount. If the Company does not have the ability to direct the use of funds in the deposit account, then the Amended Fee Letter requires the Company to pay interest on at least $2,250,000 principal amount of loans, whether or not such amount of loans is actually outstanding.

On May 1, 2023, the Company and the Lender agreed to a letter amendment to the Loan and Security Agreement governing the Siena Credit Facility. Section 7.1(m) of the Loan and Security Agreement governing the Siena Credit Facility required that any successor to Mr. Shuldman be reasonably acceptable to the Lender, and this amendment confirmed that Mr. Dillon is an acceptable successor to Mr. Shuldman and applied the same requirement to any future successor to Mr. Dillon.

As of June 30, 2023, we had $2.3 million of outstanding borrowings under the Siena Credit Facility and $5.6 million of net borrowing capacity available under the Siena Credit Facility.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TransAct is a smaller reporting company, as defined in Item 10(f)(1) of Regulation S-K, and is not required to provide information under this item.

## Item 4. CONTROLS AND PROCEDURES

***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2023. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2023, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

***Changes in Internal Control Over Financial Reporting***

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 fiscal quarter ended June 30, 2023 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS
The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. As of June 30, 2023, we are unaware of any material pending legal proceedings, or of any material legal proceedings contemplated by government authorities.

### Item 1A. RISK FACTORS
Information regarding risk factors appears under Part I, Item 1A, "Risk Factors," of our 2022 Form 10-K. There have been no material changes from the risk factors previously disclosed in our 2022 Form 10-K. The risks factors described in our 2022 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties, not currently known to us or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition or future results.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None.

### Item 3. DEFAULTS UPON SENIOR SECURITIES
None.

### Item 4. MINE SAFETY DISCLOSURES
Not applicable.

### Item 5. OTHER INFORMATION
None.

### Item 6. EXHIBITS

| | |
|---|---|
| 3.1 | Certificate of Incorporation of TransAct Technologies Incorporated (conformed copy) (incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q (SEC File No. 000-21121) filed with the SEC on August 18, 2022). |
| 3.2 | Amended and Restated By-laws of TransAct Technologies Incorporated (incorporated by reference to Exhibit 3.2 of the Company's Annual Report on Form 10-K (SEC File No. 000-21121) filed with the SEC on March 28, 2023). |
| 10.1 | TransAct Technologies Incorporated 2014 Equity Incentive Plan, as amended and restated in 2023 (incorporated by reference to Exhibit I to the Company's Definitive Proxy Statement on Schedule 14A (000-21121) filed with the SEC on April 21, 2023). |
| 10.2 | Separation Agreement and General Release, dated April 20, 2023, between the Company and Bart C. Shuldman (incorporated by reference to Exhibit 10.1 of Amendment No. 1 to the Company's Current Report on Form 8-K (SEC File No. 000-21121) filed with the SEC on April 26, 2023). |
| 10.3 | Letter Agreement, dated April 24, 2023, between the Company and John M. Dillon (incorporated by reference to Exhibit 10.2 of Amendment No. 1 to the Company's Current Report on Form 8-K (SEC File No. 000-21121) filed with the SEC on April 26, 2023). |
| 10.4 | Letter Amendment, dated May 1, 2023, to Loan and Security Agreement between Siena Lending Group LLC and TransAct Technologies Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (SEC File No. 000-21121) filed with the SEC on May 4, 2023). |
| 31.1 * | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 * | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 ** | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document). |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document. |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

---

* Filed herewith.
** Furnished herewith.

## SIGNATURES

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

**TRANSACT TECHNOLOGIES INCORPORATED**
(Registrant)

| | |
|---|---|
| Dated: August 10, 2023 | By: /s/ Steven A. DeMartino<br>Steven A. DeMartino<br>President, Chief Financial Officer, Treasurer and Secretary<br>(Principal Financial Officer) |
| Dated: August 10, 2023 | By: /s/ William J. DeFrances<br>William J. DeFrances<br>Vice President and Chief Accounting Officer<br>(Principal Accounting Officer) |

**Exhibit 31.1**

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

I, John M. Dillon, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransAct Technologies Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report 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: August 10, 2023

/s/ John M. Dillon
John M. Dillon
Chief Executive Officer

**Exhibit 31.2**

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

I, Steven A. DeMartino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TransAct Technologies Incorporated;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report 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: August 10, 2023

/s/ Steven A. DeMartino

Steven A. DeMartino
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 Quarterly Report of TransAct Technologies Incorporated (the "Company") on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 10, 2023

/s/ John M. Dillon
John M. Dillon
Chief Executive Officer

Date: August 10, 2023

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