

# **TRANSACT TECHNOLOGIES INCORPORATED**

## **AUDIT COMMITTEE CHARTER**

### **INTRODUCTION**

The Board of Directors (the “Board”) of TransAct Technologies Incorporated (the “Company”) has adopted this charter for its Audit Committee (the “Committee”). This Committee shall conduct its business in accordance with this charter, the Company’s Certificate of Incorporation and By-Laws and any direction by the Board.

### **COMMITTEE COMPOSITION**

#### *Number and Qualifications*

The Committee shall be composed of three or more directors. Each member of the Committee must be affirmatively determined by the Board to be independent in accordance with the rules of The Nasdaq Stock Market, the Securities Exchange Act of 1934, as amended, and rules promulgated thereunder, as well as the Company’s By-Laws and Corporate Governance Principles, except as may be permitted by the rules of The Nasdaq Stock Market under exceptional and limited circumstances. No member of the Committee may have participated in the preparation of the financial statements of the Company or any of the Company’s current subsidiaries at any time during the past three years.

Each member of the Committee must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement. At least one member of the Committee must have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that qualifies such person as having adequate financial sophistication (such as having served as a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities). In addition, at least one member of the Committee must qualify as an “audit committee financial expert”, as such term is defined under the rules and regulations of the Securities and Exchange Commission (the “SEC”). A person who satisfies the definition of “audit committee financial expert” will be presumed to have financial sophistication.

#### *Appointment and Removal*

The members of the Committee shall be appointed by the Board annually on the recommendation of the Nominating and Corporate Governance Committee, and shall serve until the earlier to occur of (i) such member’s resignation, removal or death, or (ii) the election and qualification of such member’s successor. A majority of the Board may remove any member of the Committee at any time with or without cause, provided that the Board must, at all times, assure that the Committee will have a Chair and sufficient members to satisfy the requirements set forth above relating to the number and qualifications of Committee members. Vacancies on

the Committee shall be filled by the Board upon the recommendation of the Nominating and Corporate Governance Committee.

### ***Committee Chair***

Unless a Chair of the Committee is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. A Chair elected by the Committee may be removed and replaced as Chair by the Committee or the full Board at any time with or without cause. To assure familiarity with the issues facing the Committee, a member of the Committee generally should have served at least one year on the Committee prior to becoming its Chair. The Committee Chair may be rotated periodically if and at such time as determined by the Board or the Committee.

### **PURPOSE**

The principal purpose of the Committee is to oversee the Company's accounting and financial reporting processes and the audit of the Company's financial statements. The primary role of the Committee is to oversee the financial reporting and disclosure processes. To fulfill these obligations, the Committee relies on: management, for the preparation and accuracy of the Company's financial statements; both management and the Company's internal audit department, for establishing effective internal controls and procedures to ensure the Company's compliance with accounting standards, financial reporting procedures and applicable laws and regulations; and the Company's independent auditors, for an unbiased, diligence audit or review, as applicable, of the Company's financial statements and the effectiveness of the Company's internal control over financial reporting and disclosure controls and procedures. The members of the Committee are not employees of the Company and are not responsible for conducting the audit or performing other accounting procedures.

### **RESPONSIBILITIES**

The Committee shall have the following authority and responsibilities:

#### ***Independent Auditor***

- **Appointment and Oversight.** The Committee is directly responsible for the appointment, compensation, retention, oversight and termination, if necessary, of any registered accounting firm engaged for the purpose of preparing or issuing an audit report and performing other audit, review or attest services for the Company (the "Independent Auditor"). The Independent Auditor shall report directly to the Committee. The Committee shall have a clear understanding with the Independent Auditor that the firm is ultimately accountable to the Committee, as the stockholders' representative.
- **Evaluation.** The Committee shall, at least annually (including at the time it appoints the Independent Auditor), evaluate the Independent Auditor's qualifications, performance and independence. The Committee shall conduct this evaluation in accordance with the framework established by the Nominating and Corporate Governance Committee of the Board. This evaluation shall include the review and evaluation of the lead partner of the Independent Auditor. In making its evaluation, the Committee shall take into account the

opinions of management and the Corporation's internal auditor. The Committee shall report its findings to the Board.

- **Annual Report on Quality Control and Independence.** The Committee shall receive and review, at least annually, a report from the Independent Auditor relating to the firm's independence and the quality of its internal controls. This report shall describe (i) the Independent Auditor's internal quality control procedures, (ii) any material issues raised by the most recent peer review, internal quality control review, Public Company Accounting Oversight Board review or inspection of the Independent Auditor, (iii) any material issues raised by any other inquiry or investigation by any governmental or professional authority in the preceding five years regarding any audit carried out by the Independent Auditor, and (iv) any steps taken to deal with any issues raised in connection with clauses (ii) and (iii) above. Further, to assist the Committee in assessing the Independent Auditor's independence, the report shall describe all relationships between the Independent Auditor and the Company (including any significant fees for any anticipated non-audit services), including those required by Independence Standards Board Standard No. 1, Independence Discussions with Committees, and any of the Company's subsidiaries. In addition, the Committee shall discuss with the Independent Auditor this report and any relationships or services that may impact the objectivity or independence of the Independent Auditor. The Committee shall present its conclusions with respect to the independence of the Independent Auditor to the Board.
- **Firm and Partner Rotation.** The Committee shall consider, at least annually, whether the Company should have a policy requiring a regular rotation of the Independent Auditor and report its findings to the Board. The Committee shall also establish a policy regarding the rotation of the lead partner and concurring and reviewing partners in accordance with applicable SEC regulations.
- **Hiring Policy.** The Committee shall establish a policy regarding the Company's hiring of current or former employees of the Independent Auditor.
- **Independent Auditor Plan.** The Committee shall review with the Independent Auditor and management the plan and scope of the Independent Auditor's proposed annual financial audit and quarterly reviews, including the procedures to be utilized and the Independent Auditor's compensation.
- **Audit Reports and Reviews.** The Committee shall, in consultation with management and the Independent Auditor, review the results of the annual financial audit and limited quarterly reviews of the Company's financial statements, significant findings thereof, and any other matters required to be communicated by the Independent Auditor under Generally Accepted Auditing Standards, including, if applicable, the Independent Auditor's summary of any significant accounting, auditing and internal control issues, along with questions, comments and recommendations and management's corrective action plans, if applicable (i.e., the management or internal control letter ). In conjunction with its annual audit and its limited quarterly reviews of the Company's financial statements, the Independent Auditor will review with the Committee any problems or difficulties the Independent Auditor encountered in the course of its work, including any

restrictions on the scope of the Independent Auditor's activities or its access to information, any significant disagreements with management and management's responses to such matters. Management shall notify the Committee when it seeks a second opinion on a significant accounting issue. The Committee shall be responsible for the resolution of any disagreements between management and the Independent Auditor regarding financial reporting.

- **Pre-Approval.** The Committee shall pre-approve all audit engagement fees and terms, as well as all audit and permitted non-audit and tax services that may be provided by the Independent Auditor or other registered public accounting firms, and establish policies and procedures for the Committee's pre-approval of permitted services by the Independent Auditor or other registered public accounting firms on an ongoing basis.
- **Related Party Information and the Audit.** The Committee shall keep the Independent Auditor informed of the Committee's understanding of the Company's relationships and transactions with related parties that are significant to the Company. The Committee shall also review and discuss with the Independent Auditor its evaluation of the Company's identification of, accounting for and disclosure of its relationships and transactions with related parties, including any significant matters arising from the audit regarding the Company's relationships and transactions with related parties.

#### *Internal Audit*

- **Internal Auditor.** The Company's internal audit function may be managed by an internal auditor who shall report directly to the Committee or in such other manner as the Committee shall deem appropriate. Any internal auditor may be an employee of the Company or, in the sole discretion of the Committee, the Company may outsource the internal audit function. The Committee shall have the sole authority to hire and terminate any internal auditor. An internal auditor shall report solely for administrative purposes to the Chief Financial Officer.
- **Internal Audit Reports.** The Committee shall receive regular reports from the internal auditor or other party responsible for the internal audit function regarding the results of the internal audits. The Committee shall also discuss with the internal auditor or such other party, at least annually, the responsibilities, budget and staffing of the Company's internal audit function.

#### *Financial Statements*

- **Form 10-K.** The Committee shall review, in consultation with management and the Independent Auditor, the Company's annual financial statements, the Independent Auditor's report, and the Company's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") to be contained in the annual report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of the Form 10-K) prior to the filing of the Form 10-K with the SEC. The Committee shall be responsible for providing the Board with a recommendation as to the inclusion of the Corporation's financial statements in the Form 10-K.

- **Form 10-Q.** The Committee shall review, in consultation with management and the Independent Auditor, the Corporation's interim financial statements and, prior to filing each of the Company's quarterly reports on Form 10-Q with the SEC, discuss the results of the period covered by the Form 10-Q.
- **Scope of Review.** In reviewing the Company's Forms 10-Q and 10-K, the Committee shall review with management and the Independent Auditor:
  - the certifications required to be made by management in relation to the filings, including regarding any significant deficiencies or weaknesses in the design or operation of the Company's internal control over financial reporting and any fraud, whether or not material, involving management or other employees who have a significant role in the Company's system of internal control;
  - major issues regarding the presentation of, and the clarity of the disclosure in, the Company's financial statements;
  - major issues regarding the Company's accounting principles, including (i) significant changes in the Company's selection or application of its accounting principles, (ii) material questions of choice with respect to the appropriate accounting principles and practices used and to be used in the preparation of the Company's financial statements, including judgments about the quality, not just acceptability, of accounting principles, and (iii) the reasonableness of those significant judgments;
  - significant regulatory and accounting initiatives, including material changes in, or adoptions of, accounting principles and disclosure practices and standards;
  - the effect of off-balance sheet structures on the Company's financial statements;
  - any analyses prepared by management or the Independent Auditor regarding the foregoing matters; and
  - other communications regarding the results of the Independent Auditor's audit or review, including any other matters required to be communicated to the Committee by the Independent Auditor under Generally Accepted Auditing Standards.

### ***Earnings Releases and Guidance***

- **Review of Releases.** The Committee (or Committee Chair) shall discuss with management and the Independent Auditor each of the Corporation's earnings releases prior to its issuance.
- **Periodic Review.** In addition, the Committee shall periodically review and discuss with management and the Independent Auditor the type of information to be included and its presentation in the Company's earnings press releases (including, but not limited to, the use

of any pro forma, adjusted or other non-GAAP financial information), and earnings guidance provided to analysts and rating agencies.

### ***Compliance, Internal Controls & Risk Management***

- **Compliance Program.** The Committee shall review the Company's compliance with applicable laws and regulations and review and oversee the Company's policies, procedures and programs designed to promote and monitor legal and regulatory compliance. The Committee is also responsible for monitoring compliance with the Company's Standards of Business Conduct (the "Standards"), to investigate any alleged breach or violation of the Standards, to enforce the provisions of the Standards and to review the Standards periodically and recommend any changes to the Board.
- **Complaints.** The Committee shall establish and oversee procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by the Company's employees of concerns regarding questionable accounting or auditing matters.
- **Regulatory Action and Investigations.** Unless otherwise determined by the Board, the Committee (i) shall have the authority to oversee the Company's response to regulatory actions, including investigations, involving financial, accounting and internal control matters, and (ii) may investigate any matter within the scope of its responsibilities that it determines appropriate.
- **Internal Control.** The Committee shall review major issues as to the adequacy of the Company's internal controls and any audit steps taken in light of material control deficiencies.
- **Risk Assessment.** The Committee shall review and discuss with management the risks faced by the Company and the policies, guidelines and process by which management assesses and manages the Company's risks, including the Company's major financial and other risk exposures and the steps that management has taken to monitor and control such exposures. In fulfilling this responsibility, the Committee shall receive a report from management at least annually regarding the manner in which the Company is assessing and managing the Company's exposure to financial and other risks.

### ***Other Responsibilities***

- **Review of Financial Structure.** The Committee shall review and make recommendations to the Board concerning the financial structure, condition and strategy of the Company, including with respect to annual budgets, long-term financial plans, corporate borrowings, investments, capital expenditures, long-term commitments, and the issuance and repurchase of stock.
- **Approval of Other Matters.** The Committee shall also have the authority to approve and oversee transactions and other matters that are consistent with guidelines that may be

established, from time to time, by the Board, including any transaction between the Company and any related person, as such term is defined by SEC rules and regulations, on an ongoing basis.

## **COMMITTEE OPERATIONS**

### ***Structure and Operations***

The Committee shall approve its schedule of meetings and shall meet at least four times a year. The Committee may also hold additional meetings at the direction of the Chairman of the Board or at the request of any Committee member. The Committee shall be governed by the same rules regarding meetings (including meetings in person or by telephone or other similar communications equipment), action without meetings (including action by written consent), notice, waiver of notice and quorum and voting requirements as are applicable to the Board.

### ***Agenda and Materials***

The Committee Chair shall approve the agenda for the meetings and any member may suggest items for the Committee's consideration. Briefing materials shall be provided to the Committee as far in advance of a meeting as practicable.

### ***Participation in Meetings***

The Committee, in the discretion of its Chair, may invite members of management to attend the Committee's meetings. All independent directors who are not Committee members shall be invited to attend Committee meetings, provided that (i) the Committee shall meet without such other directors during executive session, (ii) the Committee Chair may ask non-Committee members to leave the meeting at any time, and (iii) such non-Committee members may not vote on any actions considered by the Committee.

### ***Executive Sessions***

The Committee shall hold an executive session at each regularly scheduled meeting. As part of these executive sessions, the Committee shall meet separately and privately with representatives of the Independent Auditor. The Committee shall periodically, as and when the Committee determines it is necessary or appropriate, meet separately and privately with each of the following (i) management and (ii) the Internal Auditor. At its determination, the Committee may meet from time to time without the presence of management, the Internal Auditor, representatives of the Independent Auditor and other members of the Board.

### ***Delegation***

Except as otherwise prohibited by law, regulation, the rules of the Nasdaq Stock Market or such other market or exchange on which the Company's securities are listed, or the Company's Certificate of Incorporation or By-Laws, the Committee may delegate its responsibilities to one or more subcommittees of the Committee consisting of one or more members as it may deem appropriate in its sole discretion.

### ***Reporting to the Board***

At the Board meeting following each Committee meeting, the Committee Chair (or the Chair's designee) shall report to the full Board regarding Committee actions and make recommendations to the Board if and to the extent appropriate.

### ***Performance Evaluation***

The Committee shall conduct an annual evaluation of the performance of its duties under this charter and shall present the results of the evaluation to the Board. The evaluation shall address subjects including the Committee's composition, responsibilities, structure, processes and effectiveness. As part of this evaluation, the Committee shall also review the this charter at least annually. The Committee shall make recommendations to management, the Nominating and Corporate Governance Committee and the full Board based on its performance evaluation, as appropriate.

### **COMMITTEE RESOURCES**

To assist the Committee in fulfilling its responsibilities, (i) each Committee member shall have full access to any member of management, the internal auditor and the Independent Auditor, and (ii) the Committee may retain such independent consultants, counsel and other advisors as it determines necessary to fulfill its duties and responsibilities. The Committee will have sole authority and responsibility for hiring, setting the compensation, overseeing the work and terminating the services of any such advisors.

The Company will provide appropriate funding, as determined by the Committee, for payment of the fees of the Independent Auditor, the administrative expenses of the Committee, and any advisors that the Committee may employ in carrying out its duties.