UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC. 20549

FORM 10-K

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

(Mark One)

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

For the fiscal year ended December 31, 2005

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.)

7 LASER LANE, WALLINGFORD, CT	06492
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 203-859-6800

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

NONE

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

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

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

Yes [ ] No [X]

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

Yes [ ] No [X]

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

Yes [X] No [ ]

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

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

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

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

Yes [ ] No [X]

As of June 30, 2005 the aggregate market value of the registrant's issued and outstanding voting stock held by non-affiliates of the registrant was $79,000,000.

As of February 27, 2006, the registrant had outstanding 9,752,670 shares of common stock, $0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Shareholders to be held on May 18, 2006 - Part III (Items 10-14).

TRANSACT TECHNOLOGIES INCORPORATED

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PART I

ITEM 1. BUSINESS.

THE COMPANY

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

TransAct Technologies Incorporated ("TransAct" or the "Company") designs, develops, assembles, markets and services world-class transaction printers under the Epic and Ithaca(R) brand names. Known and respected worldwide for innovative designs and real-world service reliability, our impact, thermal and inkjet printers generate top-quality transaction records such as receipts, tickets, coupons, register journals and other documents. We focus on two core markets: (1) point-of-sale ("POS") and banking and (2) gaming and lottery. We sell our products to original equipment manufacturers ("OEMs"), value-added resellers ("VARs"), selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, the Caribbean Islands and the South Pacific. In addition, we have a strong focus on the after-market side of the business, with a growing commitment to printer service, supplies and spare parts. We have one primary operating facility located in Ithaca, NY, seven sales offices located in the United States (including our new global gaming and lottery headquarters and western region service center in Las Vegas, NV), and a European sales and service center in the United Kingdom. Our executive offices and eastern region service center are located at 7 Laser Lane, Wallingford, CT 06492, with a telephone number of (203) 859-6800.

FINANCIAL INFORMATION ABOUT SEGMENTS

We have assessed our operating and reportable segments and have determined that we operate in one reportable segment, the design, development, assembly and marketing of transaction printers and printer-related service, supplies and spare parts. See the Consolidated Financial Statements contained herein.

PRODUCTS AND SERVICES

Printers

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

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

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

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

TransAct Services Group

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

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

Product Warranty

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

PRODUCTION, MANUFACTURING AND SOURCES AND AVAILABILITY OF RAW MATERIALS

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

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

Okidata Americas, Inc. ("Okidata"), is the sole supplier for an impact printer component kit consisting of a printhead, control board and carriage (the "Oki Kit"), that is used in all of our Ithaca(R) brand impact printers. The loss of the supply of Oki Kits would have a material adverse effect on TransAct. We have a supply agreement with Okidata to provide Oki Kits until June 8, 2006. Prices under this agreement are fixed, but may be changed by Okidata after providing 180 days written notice.

We believe our relationship with Okidata is in good standing and have received no indication that the supply agreement will not be renewed beyond the respective expiration date of the current contract. We cannot be certain, however, that the supply agreement will be renewed, or if renewed, that the terms will be as favorable as those under the current contract.

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

PATENTS AND PROPRIETARY INFORMATION

We have significantly expanded our patent portfolio over the past five years, and expect to continue to do so in the future. We also believe our patent portfolio will provide additional opportunities to license our intellectual property in the future. We currently own fifteen patents, eleven of which we consider material. The earliest expiration date of these eleven patents is in 2008, with the latest expiration date in 2022. Of the material patents, one patent covers methods and apparatus for allowing a two-color printer to print images using single pass technology by printing during both forward and reverse movement of the print mechanism; another patent relates to our proprietary void and reprint receipt printing method which is used in certain of our slot machine printers; two patents prevent ticket jams resulting from player interference in certain of our slot machine printers; three patents cover a method for converting a full color image into a two-color image, plus a background color; one patent for a standard configurable universal serial bus ("USB") device identifier that enables a printer to be interchanged with another printer from the same printer model line without requiring reinstallation of the device driver or reconfiguration of the communication port by the host; two patents relate to methods and apparatus for automatically stacking printed sheets from a printer; and one patent covers our dual port technology where in a printer, one driver or port receives data indicative of voucher information from a local controller and a second driver or port receives data indicative of coupon information from a central system controller, thereby allowing the same printer to be used to print both vouchers and coupons. We also have sought patent protection for certain design features of 1) printers using inkjet technology, 2) POS printers using thermal technology, and 3) thermal printers for use in casino slot machines. We regard certain manufacturing processes and designs to be proprietary and attempt to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of our products or to reverse engineer or otherwise obtain and use, to our detriment, information that we regard as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to our proprietary rights as do United States laws. There can be no assurance that legal protections relied upon by the Company to protect our proprietary position will be adequate or that our competitors will not independently develop technologies that are substantially equivalent or superior to our technologies.

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

SEASONALITY

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

CERTAIN CUSTOMERS

We currently have an ongoing OEM purchase agreement, as amended in February 2006, (the "GTECH Thermal Printer Agreement") with GTECH Corporation ("GTECH") that provides for the sale of thermal on-line lottery printers and spare parts, at fixed prices, through June 28, 2012. Prior to this agreement, we had a purchase agreement with GTECH that provided for the sale of impact on-line lottery printers and spare parts through December 31, 2004. Because our new thermal on-line lottery printer is a replacement for our impact on-line printer, we do not expect any further shipments of impact on-line lottery printers beyond 2004. However, we do expect to continue to sell spare parts to GTECH for the significant remaining installed base of impact on-line lottery printers. Firm purchase orders for printers under the GTECH Thermal Printer Agreement may be placed as required by GTECH.

BACKLOG

Our backlog of firm orders was approximately $8,300,000 as of February 28, 2006, compared to $3,250,000 as of March 4, 2005. Based on customers' current delivery requirements, we expect to ship our entire current backlog during 2006.

COMPETITION

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

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

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

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

Our strategy for competing in our markets is to continue to develop new products and product line extensions, to increase our geographic market penetration, to take advantage of strategic relationships, and to lower product costs by sourcing certain products overseas. We expect to particularly focus on (1) promoting our line of slot machine printers into the gaming market including our recently launched Epic 950(TM) thermal casino printer, as well as our new Epic 430(TM) and Epic 630(TM) printers for the international off-premise gaming market, (2) increasing sales of our iTHERM(TM) 280 thermal POS printer, new Ithaca(R) 8000 linerless label printer and our family of printers utilizing Hewlett Packard's inkjet printing technology, including our BANKjet(R) line of inkjet printers used in bank teller applications and (3) expanding our consumables, spare parts and service business. Although we believe that our products, operations and relationships provide a competitive foundation, there can be no assurance that we will compete successfully in the future.

RESEARCH AND DEVELOPMENT ACTIVITIES

We spent approximately $2,726,000, $2,715,000 and $2,276,000 in 2005, 2004 and 2003, respectively, on engineering, design and product development efforts in connection with specialized engineering and design to introduce new products and to customize existing products. During 2006, we expect to focus the majority of our research and development activities on the continuing development and enhancement of (1) our family of printers for the POS and banking market utilizing inkjet and thermal printing technology and (2) our ticket-issuing printers for use in the worldwide casino and gaming market.

ENVIRONMENT

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

EMPLOYEES

As of February 27, 2006, TransAct and our subsidiaries employed 213 persons, of whom 174 were full-time and 39 were temporary employees. None of our employees is unionized, and we consider our relationships with our employees to be good.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary located in the United Kingdom, which had sales to its customers of $2,181,000, $1,000,000, and $1,068,000, (primarily for the service of printers used in the British Post Office) in 2005, 2004 and 2003, respectively. We had export sales from our domestic operations of approximately $10,137,000, $5,423,000 and $3,663,000 in 2005, 2004 and 2003, respectively. Total international sales, which include sales from our foreign subsidiary and export sales from our domestic operations, were approximately $12,318,000, $6,423,000 and $4,731,000 in 2005, 2004 and 2003, respectively.

ADDITIONAL INFORMATION

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

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

EXECUTIVE OFFICERS OF THE REGISTRANT

The following list is included as an unnumbered item in Part I of this Report in lieu of being included in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 18, 2006.

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

Name	Age	Position
Bart C. Shuldman	48	Chairman of the Board, President and Chief Executive Officer
Steven A. DeMartino	36	Executive Vice President, Chief Financial Officer, Treasurer and Secretary
Michael S. Kumpf	56	Executive Vice President - Engineering

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

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

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

ITEM 1A. RISK FACTORS

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

Our stock price may fluctuate significantly.

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

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

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

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

Our common stock is traded on the NASDAQ National Market. During the twelve months ended December 31, 2005, the average daily trading volume for our common stock as reported by the NASDAQ National Market was approximately 131,600 shares. We are uncertain whether a more active trading market in our common stock will develop. In addition, many investment banks no longer find it profitable to provide securities research on micro-cap and small-cap companies. If analysts were to discontinue coverage of our common stock, our trading volume may be further reduced. As a result, relatively small trades may have a significant impact on the market price of our common stock, which could increase the volatility and depress the price of our common stock.

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

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

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

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

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

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

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

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

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

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

We compete in a highly competitive market, which is likely to become more competitive. Competitors may be able to respond more quickly to new or emerging technology and changes in customer requirements. We face significant competition in developing and selling our printers and services. Principal competitors have substantial marketing, financial, development and personnel resources. To remain competitive, we believe we must continue to provide:

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

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

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES.

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

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

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Wallingford, Connecticut	Executive offices and service center	49,000	Leased	March 31, 2008
Ithaca, New York	Manufacturing facility	74,000	Leased	June 30, 2012
Las Vegas, Nevada	Service center and gaming and lottery sales headquarters	13,700	Leased	January 31, 2010
Doncaster, United Kingdom	Sales office and service center	2,800	Leased	August 1, 2009
Georgia (2), Missouri, New Jersey, New York and Texas	Six regional sales offices	900	Leased	Various

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

ITEM 3. LEGAL PROCEEDINGS.

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

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

On January 20, 2006, the California District Court filed an order granting our motion to stay the California proceeding pending the resolution of jurisdictional motions in the Connecticut case. Under the California court's order, should the Connecticut court find that it has jurisdiction over FutureLogic, FutureLogic's patent case will be transferred to the District of Connecticut for consolidation with the action pending in that forum. The jurisdictional motions before the District of Connecticut were fully briefed as of February 17, 2006 and await the decision of the Connecticut court. Regardless in what forum we eventually face FutureLogic's patent claims, we intend to defend against the claims vigorously, as we believe them to be without merit or factual basis. This action is in the pre-trial motion stage and we are currently unable to calculate any potential or probable liability associated with this action at this time.

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

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

PART II

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

Our common stock is traded on the NASDAQ National Market under the symbol TACT. Prior to September 2004, our stock was traded on the NASDAQ SmallCap Market. In April 2004, we completed a three-for-two stock split of our common stock effected in the form of a stock dividend. All amounts in the table below reflect the stock split on a retroactive basis. As of February 28, 2006, there were 646 holders of record of the common stock. The high and low sales bid quotations of the common stock reported during each quarter of the years ended December 31, 2005 and 2004 were as follows:

	Year Ended December 31, 2005		Year Ended December 31, 2004	
	High	Low	High	Low
First Quarter	$22.19	$9.90	$26.00	$13.67
Second Quarter	10.65	6.71	34.00	19.13
Third Quarter	10.35	6.95	32.89	15.00
Fourth Quarter	8.70	6.09	29.28	19.30

No dividends on common stock have been declared except for a cash dividend paid in lieu of fractional shares resulting from our three-for-two stock split in April 2004, and we do not anticipate declaring dividends in the foreseeable future. Our credit agreement with TD Banknorth, N.A. restricts the payment of cash dividends on our common stock for the term of the agreement.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

See Part III, Item 12.

ISSUER PURCHASES OF EQUITY SECURITIES

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

The following table summarizes repurchases of our common stock in the quarter ended December 31, 2005:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
October 1, 2005 - October 31, 2005	--	$ --	--	$6,865,000
November 1, 2005 - November 30, 2005	48,200	$7.00	48,200	$6,528,000
December 1, 2005 - December 31, 2005	47,900	$8.24	47,900	$6,133,000
Total	96,100	$7.62	96,100	

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

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

	Year Ended December 31,				
	2005	2004	2003	2002	2001
Consolidated Statement of Operations Data:					
Net sales	$51,091	$59,847	$52,098	$39,461	$43,974
Gross profit	15,590	22,042	15,543	10,216	9,774
Operating expenses	15,366	13,591	12,855	11,200	17,060
Operating income (loss)	224	8,451	2,688	(984)	(7,286)
Net income (loss)	377	5,458	1,528	(692)	(4,922)
Net income (loss) available to common shareholders	377	5,236	1,087	(1,050)	(5,280)
Net income (loss) per share:					
Basic	0.04	0.55	0.13	(0.12)	(0.63)
Diluted	0.04	0.51	0.12	(0.12)	(0.63)

	December 31,				
	2005	2004	2003	2002	2001
Balance Sheet Data:					
Total assets	$29,332	$34,099	$26,361	$22,030	$25,791
Working capital	15,375	20,511	11,787	8,798	8,366
Long-term debt, excluding current portion	--	--	330	2,791	5,344
Redeemable convertible preferred stock	--	--	3,902	3,824	3,746
Shareholders' equity	21,257	23,715	10,347	6,545	7,315

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

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

FORWARD LOOKING STATEMENTS

Certain statements included in this report, including without limitation statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "project" or "continue" or the negative thereof or other similar words. All forward-looking statements involve risks and uncertainties, including, but not limited to, customer acceptance and market share gains, both domestically and internationally, in the face of substantial competition from competitors that have broader lines of products and greater financial resources; the introduction of new products into the marketplace by competitors; successful product development; dependence on significant customers; dependence on significant vendors; the ability to recruit and retain quality employees as we grow; dependence on third parties for sales outside the United States including Australia, New Zealand, Europe and Latin America; economic and political conditions in the United States, Australia, New Zealand, Europe and Latin America; marketplace acceptance of new products; availability of third-party components at reasonable prices; the absence of price wars or other significant pricing pressures affecting our products in the United States and abroad; and the outcome of lawsuits between TransAct and FutureLogic, Inc. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them to reflect new, changing or unanticipated events or circumstances.

OVERVIEW

The year 2005 was a challenging year for TransAct. Our 2005 results were dramatically impacted by an overall slowdown in the domestic gaming market, including the effect of Hurricane Katrina, an issue at a major gaming OEM customer as it depletes a large inventory position, lower capital spending due to mergers of major casino operators, and lower than historical levels of lottery printer sales to GTECH, our largest customer. Despite our disappointing financial results and a less than ideal set of market conditions, we continued on our planned course of making substantial strategic investments into the growth elements of our business. This led to a number of strategic successes during 2005 including the following:

- Established three Strategic Sales Units to focus on each of our markets

- Doubled the size of our sales force company-wide

- Opened our new Gaming and Lottery headquarters and western regional service center in Las Vegas, Nevada

- Launched seven new products, including our new line of Epic printers for the new off-premise global gaming market, and our new line of printers, exclusively for our POS distributors

- Entered into a strategic sales alliance with JCM American Corporation ("JCM"), the worldwide leading bill acceptor company, to sell our casino printers

- Grew our international gaming sales by over 193% to $6.6 million

- Achieved standard printer status with IGT, including the integration of our Epic 950(TM) casino printer in every slot machine platform in every jurisdiction in which IGT competes

- Received five new patents, including a key one in connection with dual port technology

We continue to focus on sales growth in our two core markets, point of sale ("POS") and banking and gaming and lottery, and in our recently established TransAct Services Group, to drive increased profitability. During 2005, our total net sales decreased by 15% to approximately $51,091,000. See the table below for a breakdown of our sales.

(In thousands)	Year ended December 31, 2005		Year ended December 31, 2004		Change $	Change %
POS and banking	$16,410	32.1%	$17,659	29.5%	$(1,249)	(7.1%)
Gaming and lottery	23,634	46.3%	31,937	53.4%	(8,303)	(26.0%)
TransAct Services Group	11,047	21.6%	10,251	17.1%	796	7.8%
Total net sales	$51,091	100.0%	$59,847	100.0%	$(8,756)	(14.6%)

We experienced a decrease of approximately 7% in sales of POS and banking printers in 2005, driven primarily by lower project-oriented banking printer sales. During 2003, we announced wins from two major financial services companies for shipments of over 19,000 BANKjet(R) printers to upgrade bank teller applications, which we began to ship in 2003 and substantially completed shipping during 2004. During 2005, we announced and shipped approximately 6,000 BANKjet(R) printers for our third major bank win. Excluding the project-oriented banking market, sales of POS printers increased by 2% from 2004. We expect the upward trend in the POS market to accelerate during 2006. Given our success over the last three years, and in light of the renewed focus we see banks placing on branch banking, we plan to continue proactively to seek opportunities with other banks and credit unions for upgrading bank teller systems. In 2006, we also plan to increase our focus on selling through our distribution and reseller channels in an effort to expand sales of our new line of printers exclusively for these channels, and to continue to broaden our product portfolio. With the global POS printer market of approximately $800 million, we have many opportunities for market share gains, primarily through increasing and enhancing our product portfolio, increasing geographic coverage, and growing our customer base.

Our focus in the gaming and lottery market is two-fold. On the lottery side, we continue to hold a leading position based on our long-term purchase agreement through 2012 with GTECH Corporation ("GTECH"), our largest customer and the world's largest provider of lottery terminals, with approximately a 70% market share. GTECH has been our customer since 1995, and we continue to maintain a good relationship with them. Currently, we fulfill substantially all of GTECH's printer requirements for lottery terminal installations and upgrades. During 2005, total printer sales to GTECH were approximately $1,153,000 lower than in 2004, representing a decrease of approximately 14%. Based on existing orders and expected future demand for our lottery printers estimated with input from GTECH, we expect overall sales to GTECH in 2006 to be modestly higher than the 2005 level. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs. Our sales to GTECH are not indicative of GTECH's overall business or revenue.

On the gaming side, our focus lies primarily in supplying printers for use in slot machines in casinos and racetracks, as well as in other gaming devices that print tickets, primarily in the United States, Europe and Australia. During 2005, our gaming printer sales were significantly impacted by a weak domestic casino market, including the effect of Hurricane Katrina, lower capital spending due to mergers of major casino operators, and an issue at a large gaming OEM customer as it depletes a large inventory position. As a result, sales of our gaming printers decreased by 30%. Although we are not projecting a recovery of the domestic gaming market during 2006, we still expect to see approximately double digit growth in our worldwide gaming sales in 2006 compared to 2005. We expect to gain market share in the United States due to (1) our new strategic alliance agreement with JCM, the worldwide leading bill acceptor company, to sell our casino printers (2) our relationship with IGT, the world's largest slot machine manufacturer, and (3) expanded acceptance of our new Epic 950(TM) thermal casino printer. In addition, we expect a return to more normalized purchasing levels by the large gaming OEM customer mentioned above beginning in the second quarter 2006. Overall, we expect to continue to exploit opportunities for casino printer sales as the rollout of the ticket-in/ticket-out initiative continues and the size of the North American slot machine market continues to expand to over 850,000 slot machines. In the international gaming market, we experienced record sales growth during 2005, as our international gaming sales almost tripled to $6.6 million. We expect continued strength from gaming sales internationally during 2006, as markets such as Europe and Australia continue to adopt ticket printing for their slot machines and other gaming machines, and as our new line of Epic printer launched in 2005 for the off-premise gaming market begin to take hold.

Our TransAct Services Group ("TSG"), which sells service and consumable products, including printer repairs and the sale of spare parts and consumables (paper, ribbons and inkjet cartridges), offers a substantial growth opportunity and recurring revenue stream for TransAct. TSG revenue has grown to $11,047,000 or 21.6% of net sales in 2005, representing an increase of 8% from 2004. During 2006, we plan to continue to actively promote our service and consumable products in an effort to increase the volume of sales. With the investments we made in TSG during 2005 - including the addition of four dedicated sales people, a specialized software system that improved our sales lead tracking and prospecting processes, and the establishment of two new service centers - a western region service center in Las Vegas, NV and an eastern region service center in Wallingford, CT - we believe we are now even better positioned to accelerate the growth of TSG sales in 2006. In addition, we believe that the increasing sales of our inkjet printers will lead to a growing installed base that will drive substantially higher inkjet cartridge sales in 2006 and beyond.

Operationally, gross margin and operating margin for 2005 were impacted by lower sales, and our decision to make a strategic investment of $2.5 million in the growth elements of our business. We made this investment across three areas: an incremental $1.2 million investment in sales and marketing; a $400,000 incremental investment in engineering expenses for the development and launch of seven new products; and a $900,000 investment in operating expenses related to the opening and staffing of our new service center in Las Vegas and the hiring of additional services personnel in our Wallingford service center. We expect that, over the long-term, the investment we made in 2005 will accelerate our revenue growth and with our operating leverage, should lead to improved operating results beginning in the first quarter 2006.

Despite the challenging year and our increased level of investment, we reported net income and positive earnings per share (diluted) for 2005. We also generated sufficient cash during 2005 to fund $2.8 million of capital expenditures and repurchase $3.9 million of our common stock (approximately 5% of our common stock outstanding) and finished the year with $4.6 million of cash and no debt on our balance sheet as of December 31, 2005.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

ACCOUNTS RECEIVABLE - We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all new customer accounts; ongoing credit evaluations of current customers; credit limits and payment terms based on available credit information; and adjustments to credit limits based upon payment history and the customer's current creditworthiness. We also provide an estimate of doubtful accounts based on historical experience and specific customer collection issues. Our allowance for doubtful accounts as of December 31, 2005 was $240,000, or 2.8% of outstanding accounts receivable, which we feel is appropriate considering the overall quality of our accounts receivable. While credit losses have historically been within expectations and the reserves established, we cannot guarantee that our credit loss experience will continue to be consistent with historical experience. As of December 31, 2005, we had accounts receivable balances due from one customer of approximately 19% of the total balance due, and no other customer accounts receivable balance exceeded 10%. As of December 31, 2004, we had accounts receivable balances due from three customers of 18%, 14% and 10%, respectively, of the total balance due, and no other customer accounts receivable balance exceeded 10%.

INVENTORY - Our inventories are valued at the lower of cost or market. We assess market value based on historical usage and estimates of future demand. Assumptions are reviewed at least quarterly and adjustments are made, as necessary, to reflect changing market conditions. Should circumstances change and we determine that additional inventory is subject to obsolescence, additional write-downs of inventory could result in a charge to income. As of December 31, 2005, our net inventory included a reserve of $2,165,000, or 26.4% of gross inventory to write inventory down to lower of cost or market. During the fourth quarter of 2005, we recorded a charge of approximately $600,000 related primarily to the write-down of inventory for our Model 850 casino printer, as demand for this printer is declining due to the faster than expected acceptance of our new Epic 950(TM) casino printer. We also disposed of approximately $500,000 of fully-reserved inventory related to discontinued printer models during the fourth quarter of 2005. As a result, our inventory reserve at December 31, 2005 increased by only approximately 8% from December 31, 2004.

GOODWILL - We test the impairment of goodwill each year or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We completed our last assessment as of December 31, 2005. Factors considered that may trigger an impairment review are: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of acquired assets or the strategy for the overall business; significant negative industry or economic trends; and significant decline in market capitalization relative to net book value. Goodwill amounted to $1,469,000 at December 31, 2005 and we have determined that no goodwill impairment has occurred.

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

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

As of December 31, 2005, we recorded a net deferred tax asset of approximately $3,292,000, net of a valuation allowance of $207,000, and a tax reserve of $133,000, primarily on portions of certain tax credits. We will need to recognize approximately $7.9 million in future taxable income in order to realize all of our deferred tax assets at December 31, 2005. Based on our projection of future taxable income, no additional valuation allowance is considered necessary. Should circumstances change and we determine that some or all of the deferred taxes would not be realized, a valuation allowance would be recorded, resulting in a charge to income in the period such determination is made.

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

In connection with the Consolidation of manufacturing facilities in 2001, we recorded significant accruals. Through December 31, 2005, we have recognized approximately $6.0 million of expenses associated with the Consolidation, including severance pay, stay bonuses, employee benefits, moving expenses, non-cancelable lease payments, and other costs, of which approximately ($0.2 million) and $1.1 million were recognized in 2004 and 2003, respectively. No additional restructuring expense was recognized in 2005. Management has made reasonable estimates of such costs and expenses. However, if actual costs differ from the estimates, charges or credits to income could result in the period the adjustments are determined. We changed our estimate of the restructuring accrual related to the Wallingford, CT facility, resulting in additional restructuring expense in 2003, and a reversal of restructuring expense in 2004. We do not expect to incur any additional restructuring expenses related to the Consolidation. See the "Liquidity and Capital Resources" section for a discussion of the expected impact of the Consolidation on our future results of operations and cash flows.

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

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

During the fourth quarter of 2005, we recorded a charge to cost of goods sold of approximately $135,000 related to estimated settlement/cancellation payments for non-cancelable purchase orders for certain excess inventory components related to our Model 850 casino ticket printer. The charge was largely the result of the faster than expected acceptance of our new Epic 950(TM) casino ticket printer, which replaces our Model 850 casino ticket printer.

STOCK-BASED COMPENSATION - We apply the intrinsic value recognition and measurement principles whereby compensation expense is recognized over the vesting period to the extent that the fair market value of the underlying stock on the date of grant exceeds the exercise price of the employee stock option. Beginning January 1, 2006, we will be required to recognize expense pursuant to Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R") for stock-based compensation. We will utilize the Black-Scholes model to value share-based payments and will follow the modified prospective transition method. The Black-Scholes model uses judgmental inputs such as option life, expected volatility and expected forfeiture rate. Changes in these inputs may change the amount of expense recognized for stock options issued during the period of change.

(A) RESULTS OF OPERATIONS

CERTAIN SALES BY MARKET AMOUNTS FOR 2003 AND 2004 HAVE BEEN RECLASSIFIED TO CONFORM WITH THE CURRENT YEAR PRESENTATION IN THE NARRATIVE BELOW.

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

NET SALES. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the years ended December 31, 2005 and 2004 were as follows:

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

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

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

Point of sale and banking: Revenue from the POS and banking market includes sales of inkjet, thermal and impact printers used primarily by retailers in the hospitality, restaurant (including fine dining, casual dining and fast food) and specialty retail industries to print receipts for consumers, validate checks, or print on other inserted media. Revenue from this market also includes sales of printers used by banks, credit unions and other financial institutions to print and/or validate receipts at bank teller stations. Sales of our POS and banking printers worldwide decreased approximately $1,249,000, or 7%, from 2004.

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

Domestic POS and banking printer sales decreased to $14,188,000, or 10%, due largely to significantly lower shipments of our BANKjet(R) line of inkjet printers in 2005 as compared to 2004. We experienced this decrease due to the project-oriented nature of banking printer sales. During 2004, we shipped banking printers to two top-tier financial services companies. However, during 2005, we shipped banking printers primarily to only one top-tier financial services company. The decrease in banking printer sales was slightly offset by increasing sales of our POS printers, primarily our iTHERM(TM) 280 thermal printer and our new line of printers exclusively for POS distributors. Excluding banking printers, sales of our POS printers increased by 2% in 2005 compared to 2004.

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

We expect sales into the POS and banking market for the first quarter of 2006 to be higher than those reported for the fourth quarter of 2005, due largely to expected shipments of banking printers to an existing financial services company. We also expect full year sales for 2006 to be modestly higher than those reported during 2005, as we expect our initiatives and four new POS products launched in 2005 to begin to take hold.

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

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

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

Although we are not projecting a recovery of the domestic casino market during 2006, we expect sales into the gaming market for the first quarter of 2006 to be higher than those reported for the fourth quarter of 2005, and also expect full year sales for 2006 to be modestly higher than those reported during 2005. We expect growth in our gaming sales during 2006 due to (1) expected continued market share gains in the domestic market, aided by our new strategic sales alliance with JCM American Corporation, the worldwide leading bill acceptor company, to sell our casino printers (2) a return to normalized purchasing levels by the large slot machine manufacturer mentioned above during the second quarter 2006, and (3) expanded acceptance of our new Epic 950(TM) casino ticket printer by casinos.

Printer sales to GTECH Corporation (a worldwide lottery terminal provider and major customer), which include impact and thermal on-line lottery printers, decreased by approximately $1,153,000, or 14%, in 2005 compared to 2004. This decrease was largely due to shipments of legacy impact printers to GTECH in 2004 that did not recur in 2005. We do not expect any future orders for legacy impact printers, as GTECH replaced our legacy impact on-line lottery printer with our new thermal on-line lottery printer. However, we do expect to continue to sell spare parts to GTECH for the significant remaining installed base of impact on-line lottery printers. Based on existing orders and expected future demand based on input from GTECH, we expect overall sales to GTECH in 2006 to be higher than those reported for 2005, with more substantial growth expected in the first half of 2006. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs and are not indicative of GTECH's overall business or revenue.

International gaming and lottery printer sales more than tripled to $7,363,000 in 2005 compared to 2004. Such sales represented 31% and 7% of total sales into our gaming and lottery market during 2005 and 2004, respectively. We experienced growth in both international gaming and lottery printer sales in 2005 as markets in Europe and Australia continue to adopt and roll out ticket printing in slot machines and other gaming/amusement machines, and GTECH installs our lottery printers in its international markets. Due to the significant growth of our international gaming and lottery sales in 2005, we expect sales levels in 2006 to be relatively consistent with those reported during 2005. However, we continue to pursue additional opportunities in international markets, including those related to ticket printing for the new off-premise gaming market for which we launched two products in 2005.

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

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

Domestic TSG revenue increased by approximately $316,000 or 4%, to $8,314,000 largely due to higher revenue from maintenance and repair services and refurbished printer sales, offset by a decline in the sale of spare parts, mostly for legacy printers. International TSG sales increased by approximately $480,000, or 21%, to $2,733,000, due primarily to an increase in service revenue. With the investments we made in 2005, including our new service centers in Wallingford, CT and Las Vegas, NV, as well as the addition of a dedicated direct sales force and a growing installed base of printers, we expect significant sales growth from TSG during 2006.

GROSS PROFIT. Gross profit is measured as revenue less cost of goods sold. Cost of goods sold includes primarily the cost of all raw materials and component parts, direct labor, and the associated overhead expenses. Gross profit decreased by $6,452,000, or 29%, to $15,590,000, and gross margin decreased to 30.5% from 36.8% due primarily to lower volume of sales in 2005 compared to 2004 and a less favorable sales mix. In addition, gross profit for 2005 was negatively impacted by a charge of $600,000, or 1.2% of net sales, related to the write-down of inventory and accrual for estimated settlement/cancellation payments for non-cancelable purchase orders for certain excess inventory components related primarily to our Model 850 casino ticket printer. The charge was largely the result of the faster than expected acceptance of our new Epic 950(TM) casino ticket printer, which replaces our Model 850 casino ticket printer. We expect gross margin for the first quarter of 2006 to be higher than the fourth quarter of 2005 due to the higher expected volume of sales in the first quarter. We expect gross margin for 2006 also to be higher than 2005 due to the higher expected volume of sales.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services and supplies). Such expenses increased slightly by $11,000, or less than 1%, to $2,726,000, from 2004 as we incurred higher expenses related to increased engineering staffing and other employee compensation expenses, which were almost entirely offset by a decrease in costs associated with IGT's integration and attainment of jurisdictional approvals for our new Epic 950(TM) thermal casino printer on all of IGT's slot platforms worldwide (the "IGT Integration"). We incurred approximately $150,000 of IGT Integration costs in 2005 compared to $350,000 in 2004. Engineering and product development expenses increased as a percentage of net sales to 5.3% from 4.5%, primarily due to lower sales volume in 2005 compared to 2004. We expect engineering and product development expenses to increase in 2006 as we plan to utilize more contract engineering services to continue increasing product development to expand our product families for the POS market and ticket-issuing printers for the gaming market.

SELLING AND MARKETING. Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses and other promotional marketing expenses. Selling and marketing expenses increased by $1,208,000, or 24%, to $6,319,000, due primarily to increased expenses related to (1) the addition of new sales staff for our three business units and our new service centers in Las Vegas, NV and Wallingford, CT, (2) marketing, promotional and trade show expenses related to the launch of our new line of printers exclusively for POS distributors and our increased presence at this year's Global Gaming Exposition (G2E) trade show in Las Vegas, NV, and (3) the recruitment and hiring of a Senior Vice President of Marketing during the second quarter of 2005. Selling and marketing expenses increased as a percentage of net sales to 12.4% from 8.5%, due primarily to the increases noted above in proportion to lower sales volume in 2005 compared to 2004. We expect selling and marketing expenses to be higher in 2006 compared to 2005, as we incur the full year effect of our 2005 initiatives. These initiatives included the formation of our three strategic sales units, the doubling in size of our overall sales force, the addition of a new Senior Vice President of Marketing, and the establishment of two new service centers in Las Vegas, NV and Wallingford, CT. We believe these investments made in 2005 will allow us to achieve our sales growth strategy for 2006 and beyond.

GENERAL AND ADMINISTRATIVE. General and administrative expenses primarily include: salaries and payroll related expenses for our executive, accounting, human resource and information technology staff; expenses for our corporate headquarters; professional and legal expenses; and telecommunication expenses. General and administrative expenses increased by $331,000, or 6%, due primarily to (1) recruiting and compensation related expenses associated with the re-location of our accounting department from Ithaca, NY to Wallingford, CT, (2) higher legal expenses related to our lawsuit against FutureLogic, Inc., and (3) increased software maintenance, travel, training and temporary help expenses associated with our Oracle software implementation. These increases were partially offset by (1) a decrease related to a one-time listing fee incurred in 2004 resulting from our move back onto the NASDAQ National Market from the NASDAQ SmallCap Market, (2) lower audit and professional expenses related to compliance with the Sarbanes-Oxley Act of 2002 incurred during 2005 (our second year of compliance) compared to 2004 (our initial year of compliance), and (3) expenses incurred in 2004 associated with our proposed acquisition of TPG, Inc. that was terminated and did not recur in 2005. General and administrative expenses increased as a percentage of net sales to 12.4% from 10.0%, due primarily to the increased expenses noted above in proportion to a lower volume of sales in 2005 compared to 2004. We expect general and administrative expenses to increase in 2006 due primarily to annual increases in compensation expenses, as well as depreciation and other expenses related to our implementation of new Oracle software.

BUSINESS CONSOLIDATION AND RESTRUCTURING. We recorded a reversal of expense of $225,000 related to the Consolidation in 2004. This amount was the result of a revision to our original estimate for non-cancelable lease payments included in the restructuring accrual. As of December 31, 2005, we have provided for the estimated remaining non-cancelable lease payments and other related costs for this facility through the expiration of the lease (March 31, 2008).

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

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

INTEREST. We recorded net interest income of $73,000 in 2005 compared to net interest income of $4,000 in 2004, due to our higher average cash balances and slightly higher interest rates throughout 2005 as compared to 2004. We do not expect to draw on our revolving borrowings as we expect to continue to generate cash from operations during 2006. During 2006, we expect to report increasing net interest income as our cash balance increases throughout the year. See "Liquidity and Capital Resources" below for more information.

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

INCOME TAXES. We recorded an income tax benefit of $48,000, at an effective rate of (14.6%) during 2005 compared to an income tax provision of $2,979,000, at an effective rate of 35.3% in 2004. Despite reporting $329,000 of income before taxes in 2005, we recorded a net income tax benefit, resulting largely from the recognition of certain discrete tax benefits and tax credits, as well as the reversal of valuation allowances during the year, combined with an unusually low level of income before taxes. We expect to record income taxes at an effective rate of approximately 36% during 2006.

NET INCOME. We reported net income in 2005 of $377,000, or $0.04 per diluted share compared to net income of $5,458,000, or $0.51 per diluted share in 2004. Dividends paid in 2004 were approximately $86,000, and there will be no dividends or allocation of earnings to preferred shareholders beyond 2004, as the preferred stock was converted to common stock in April 2004. All share and per share amounts reflect the April 2004 stock split on a retroactive basis. In December 2004, the FASB issued Accounting Standard No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"), which requires the recognition of compensation expense for share-based compensation (including shares issued under employee stock purchase plans, stock options and restricted stock) over the period in which the share-based compensation vests. Although our Board of Directors accelerated the vesting of all outstanding unvested stock options granted under all our stock plans as of November 2, 2005, we will recognize compensation expense with respect to stock options granted after January 1, 2006 pursuant to FAS 123R.

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

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

(In thousands)	Year ended December 31, 2004		Year ended December 31, 2003		Change $	Change %
Point of sale and banking	$17,659	29.5%	$14,027	26.9%	$3,632	25.9%
Gaming and lottery	31,937	53.4%	29,274	56.2%	2,663	9.1%
TransAct Services Group	10,251	17.1%	8,797	16.9%	1,454	16.5%
	$59,847	100.0%	$52,098	100.0%	$7,749	14.9%
International	$ 6,423	10.7%	$ 4,731	9.1%	$1,692	35.8%

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

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

Point of sale and banking: Sales of our POS and banking printers worldwide increased approximately $3,632,000, or 26%, from 2003.

(In thousands)	Year ended December 31, 2004		Year ended December 31, 2003		Change $	Change %
Domestic	$15,734	89.1%	$11,889	84.8%	$3,845	32.3%
International	1,925	10.9%	2,138	15.2%	(213)	(10.0%)
	$17,659	100.0%	$14,027	100.0%	$3,632	25.9%

Domestic POS and banking printer sales increased 32% due largely to significantly higher sales of our POSjet(R) and BANKjet(R) lines of inkjet printers, and increasing sales of our iTHERM(TM) 280 thermal printer. Sales of inkjet printers increased by approximately 48% in 2004 compared to 2003, as we shipped our BANKjet(R) line of inkjet printers to two top-tier financial services companies to upgrade bank teller stations. We completed almost all shipments related to the upgrade during 2004.

International POS and banking printer sales decreased by approximately 10% due primarily to sales of our thermal fiscal printer in Europe in 2003 that did not repeat in 2004. We discontinued our thermal fiscal printer in 2004.

Gaming and lottery: Sales of our gaming and lottery printers increased by $2,663,000, or 9%, from 2003, primarily due to significantly stronger sales of our slot machine and VLT printers, somewhat offset by lower sales of lottery printers to GTECH.

(In thousands)	Year ended December 31, 2004		Year ended December 31, 2003		Change $	Change %
Domestic	$29,692	93.0%	$28,790	98.3%	$ 902	3.1%
International	2,245	7.0%	484	1.7%	1,761	363.8%
	$31,937	100.0%	$29,274	100.0%	$2,663	9.1%

Sales of our domestic gaming printers, which include VLT and slot machine printers used in racinos, increased 8% from 2003. This increase resulted primarily from increased installations of our casino printers, as we benefited from the adoption and rollout of slot machines at casinos throughout North America that print receipts instead of issuing coins.

Lottery printer sales to GTECH, which included impact and thermal on-line lottery printers and impact in-lane lottery printers (primarily found at checkout counters of certain grocery stores), decreased by approximately $630,000, or 7%, in 2004 compared to 2003. The decrease was largely due to shipments of in-lane lottery printers in 2003 that did not recur in 2004. Our sales to GTECH each year are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs and are not indicative of GTECH's overall business or revenue.

International gaming and lottery printer sales increased $1,761,000, or 364%, to $2,245,000, from 2003. Such sales represented 7% and 2% of total sales into our gaming and lottery market during 2004 and 2003, respectively. We experienced growth in international gaming revenue in 2004 as markets in Europe and Australia began to adopt and roll out ticket printing in slot machines.

TransAct Services Group: Revenue from TSG includes sales of consumable products (inkjet cartridges, ribbons and paper), replacement parts, maintenance and repair services, refurbished printers and shipping and handling charges. Sales from TSG increased by approximately $1,454,000, or 17%.

(In thousands)	Year ended December 31, 2004		Year ended December 31, 2003		Change $	Change %
Domestic	$ 7,998	78.0%	$6,688	76.0%	$1,310	19.6%
International	2,253	22.0%	2,109	24.0%	144	6.8%
	$10,251	100.0%	$8,797	100.0%	$1,454	16.5%

Domestic TSG revenue increased by approximately $1,310,000, or 20%, to $7,998,000 largely due to higher spare parts and consumable product (largely inkjet cartridges) sales, as well as higher revenue from maintenance and repair services. Internationally, sales increased by approximately $144,000, or 7%, to $2,253,000 largely due to an increase in services revenue.

GROSS PROFIT. Gross profit increased by $6,499,000, or 42%, to $22,042,000, and gross margin increased to 36.8% from 29.8% due primarily to a more favorable sales mix of higher margin products and continued reductions in component and sub-component costs in 2004 compared to 2003. Both gross profit and gross margin for 2004 benefited from a substantial increase in the volume of sales (15%) and a more favorable sales mix, including increased sales of higher margin gaming and lottery printers in 2004 compared to 2003. Gross profit in 2003 was impacted by a charge of $740,000, or 1.4% of net sales, related to a royalty payable to Seiko Epson for past usage of certain technology (see "Contingent Liabilities" in Liquidity and Capital Resources).

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses increased $439,000, or 19%, to $2,715,000, primarily due to (1) compensation related expenses (approximately $100,000) and (2) expenses incurred in the fourth quarter of 2004 related to the IGT Integration (approximately $350,000). Engineering and product development expenses increased as a percentage of net sales to 4.5% from 4.4%, primarily due to expenses related to the IGT Integration, largely offset by a higher sales volume in 2004 compared to 2003.

SELLING AND MARKETING. Selling and marketing expenses increased by $143,000, or 3%, to $5,111,000, due primarily to higher recruitment, compensation and travel expenses related to additional sales and marketing staff, including expenses associated with the opening of our new gaming and lottery headquarters and western region service center in Las Vegas, to support our growing gaming printer sales (approximately $700,000). Such increases were largely offset by lower (1) print advertising and other promotional marketing expense (approximately $110,000), (2) sales commissions (approximately $180,000), and (3) expenses at our UK facility (approximately $270,000) due largely to a staff reduction. Selling and marketing expenses decreased as a percentage of net sales to 8.5% from 9.5%, due primarily to higher volume of sales in 2004 compared to 2003.

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

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

OPERATING INCOME. During 2004, we reported operating income of $8,451,000, or 14.1% of net sales, compared to $2,688,000, or 5.2% of net sales, in 2003. The significant increase in our operating income and operating margin was due largely to higher gross profit on higher sales, partially offset by higher operating expenses (primarily general and administrative expenses) in 2004 compared to 2003. Operating income for 2004 included a reversal of expense related to the Consolidation ($225,000) and a charge related to the IGT Integration ($350,000). Operating income for 2003 included a charge related to the Consolidation ($1,128,000) and a royalty payable to Seiko-Epson for past usage of certain technology ($740,000).

INTEREST. We recorded net interest income of $4,000 in 2004 compared to net interest expense of $210,000 in 2003, as we repaid all outstanding revolving borrowings at December 31, 2003, and the remaining outstanding balance on our term loan in January 2004.

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

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

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

NET INCOME. We reported net income in 2004 of $5,458,000, or $0.51 per diluted share compared to net income of $1,528,000, or $0.12 per diluted share in 2003. Earnings per share have been retroactively restated for adoption of EITF 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share", which requires the two-class method of computing earnings per share. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. Dividends paid in 2004 were approximately $86,000, and there will be no dividends or allocation of earnings to preferred shareholders beyond 2004, as the preferred stock was converted to common stock in April 2004. All share and per share amounts reflect the April 2004 stock split on a retroactive basis.

(B) LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Overview: During 2005, our cash flow was impacted by lower sales volume and net income, the repurchase of outstanding common stock (approximately $3.9 million), the purchase of certain intangible assets from Bally Gaming, Inc. ("Bally") (approximately $0.5 million) and increased investment in new systems, product tooling and our new service center in Las Vegas, NV (approximately $2.7 million). However, we finished the year with no outstanding bank debt and $4.6 million of cash and cash equivalents. Looking forward, we expect to generate approximately $7 to $8 million in cash from operations during 2006. We also expect to earn increasing interest income on our available cash balance throughout 2006.

Operating activities: The following significant factors primarily affected our cash provided by operations of $2,874,000 in 2005:

- We reported net income of $377,000.

- We recorded depreciation, amortization and non-cash compensation expense of $1,977,000.

- Accounts receivable decreased by $551,000 due primarily to a lower volume of sales in the fourth quarter of 2005 compared to the fourth quarter of 2004.

- Inventories decreased by $2,038,000 due to lower inventory purchases related to lower sales volume and continued improved inventory management.

- Accounts payable decreased by $945,000 due to lower inventory purchases related to lower sales volume and the timing of payments.

- Accrued liabilities and other liabilities decreased by $580,000 due to the following: (1) lower compensation related accruals, (2) lower deferred revenue balances based on the completion of a significant prepaid service contract in 2005, (3) lower royalty accruals associated with the purchase of intangible assets from Bally and a final royalty payment for past usage made to Seiko-Epson in 2005.

- Accrued restructuring decreased by $447,000 due to continued lease payments on our Wallingford, CT facility.

Investing activities: Our capital expenditures were approximately $2,756,000 and $1,178,000 in 2005 and 2004, respectively. During 2005, we invested in two significant projects: (1) the purchase and implementation of a new Oracle ERP system (including software, hardware and outside consulting fees) the implementation of which we expect to complete in 2006 (approximately $900,000) and (2) office renovations to our new gaming and lottery headquarters and western region service center in Las Vegas, NV (approximately $700,000). We believe these projects will provide us with improved efficiency and will enable us to streamline and more cost effectively manage our business as it grows in size, number of locations and overall complexity. In addition to these projects, the remaining amount of capital expenditures for 2005 was primarily for the purchase of new product tooling.

During the second quarter of 2005, we acquired certain intangible assets related to casino printer designs and technology from Bally for $475,000, plus the costs of effecting the acquisition (approximately $35,000). Prior to the acquisition, pursuant to the terms of a license agreement, we were required to pay Bally a royalty on sales of certain gaming printers utilizing the licensed technology. As a result of the acquisition, effective July 1, 2005, we are no longer required to pay any future royalties to Bally. The elimination of future royalty payments to Bally resulted in a cost savings to the Company beginning in the third quarter of 2005.

We expect our capital expenditures in 2006 to be approximately $2.6 million, largely for the completion of our Oracle system implementation, as well as component cost reduction initiatives and our continued focus on product development and the purchase of tooling for new products and enhanced versions of our existing products.

Financing activities: We used approximately $3,524,000 from financing activities during 2005, largely due to repurchases of Company stock (approximately $3,867,000), although partly offset by proceeds from stock option exercises and employee stock purchase plan transactions (approximately $346,000).

WORKING CAPITAL

Our working capital decreased to $15,375,000 at December 31, 2005 from $20,511,000 at December 31, 2004. The current ratio also decreased to 3.2 to 1 at December 31, 2005 compared to 3.4 to 1 at December 31, 2004. The decrease in working capital was largely due to the lower cash balance, resulting largely from our stock repurchases, and lower inventory levels at December 31, 2005 as compared to December 31, 2004.

DEFERRED TAXES

As of December 31, 2005, we had a net deferred tax asset of approximately $3,292,000. In order to utilize this deferred tax asset, we will need to generate approximately $7.9 million of taxable income in future years. Based on future projections of taxable income, we have determined that it is more likely than not that the existing net deferred tax asset will be realized.

CREDIT FACILITY AND BORROWINGS

On August 6, 2003, we entered into a $12.5 million credit facility (the "TD Banknorth Credit Facility") with TD Banknorth, N.A. The TD Banknorth Credit Facility provides for an $11.5 million revolving credit line expiring on July 31, 2006, and a $1 million equipment loan facility, which expired in July 2005. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate and are secured by a lien on all the assets of the company. The TD Banknorth Credit Facility imposes certain quarterly financial covenants on the Company and restricts the payment of dividends on our common stock and the creation of other liens. We expect to renew the TD Banknorth Credit Facility during 2006.

On March 28, 2005, we received a consent from TD Banknorth, N.A. to permit us to repurchase our common stock pursuant to the terms of the Stock Repurchase Program as explained below.

On February 24, 2006, we amended the TD Banknorth Credit Facility to revise a financial covenant effective December 31, 2005, which resulted in covenant compliance.

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

As of December 31, 2005, we had no balances outstanding on the revolving credit line. Undrawn commitments under the TD Banknorth Credit Facility were approximately $11,500,000 at December 31, 2005. However, our maximum additional available borrowings under the facility were limited to approximately $6,500,000 at December 31, 2005 based on the borrowing base of our collateral.

STOCK REPURCHASE PROGRAM

On March 25, 2005, the Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to $10 million of our outstanding shares of common stock from time to time in the open market over a three year period ending on March 25, 2008, depending on market conditions, share price and other factors. As of December 31, 2005, we repurchased a total of 505,000 shares of common stock for approximately $3,867,000, at an average price of $7.66 per share.

PREFERRED STOCK

In connection with our 7% Series B Cumulative Convertible Redeemable Preferred Stock (the "Preferred Stock"), we paid $70,000 of cash dividends per quarter. In April 2004, all holders of our Series B Preferred Stock converted all their preferred shares into common stock. Under the conversion, a total 666,665 new shares of common stock were issued. No dividend payments were required beyond the second quarter of 2004.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased by $2,458,000 to $21,257,000 at December 31, 2005 from $23,715,000 at December 31, 2004. The decrease was primarily due to treasury stock purchases of 505,000 shares of common stock for approximately $3,867,000 and non-cash compensation expense of $484,000 related to restricted stock grants and the acceleration of vesting of all outstanding unvested options granted under all our stock incentive plans, offset by: (1) net income of $377,000, (2) proceeds of approximately $346,000 from the issuance of approximately 74,000 shares of common stock from stock option exercises and purchases from our employee stock purchase plan, and (3) an increase in additional paid-in capital of approximately $337,000 resulting from tax benefits from tax deductions arising from the sale of employee stock from stock option exercises and vesting of restricted stock.

CONSOLIDATION EXPENSES

During 2001 through 2005, we recognized approximately $6.0 million of business consolidation, restructuring and related expenses as a result of the Consolidation. These expenses primarily included employee severance and termination related expenses, facility closure and consolidation expenses (including moving expenses, estimated non-cancelable lease payments and other costs) and accelerated depreciation and asset disposal losses on certain leasehold improvements and other fixed assets.

After expanded efforts to sub-lease our facility in 2003, we determined that, because of the continuing regional decline in the commercial real estate market during 2003, it was unlikely that we would be able to sublease our Wallingford, CT manufacturing facility, which has a lease term that expires in March 2008. As a result, during 2003, we increased our restructuring accrual by $1,270,000 to provide for the remaining non-cancelable lease payments and related costs associated with the manufacturing facility through the lease expiration date. In 2004, we revised our estimate of the amount of remaining non-cancelable lease payments and related costs associated with the manufacturing facility, which resulted in the reversal of approximately $225,000 of accrued restructuring expenses. No additional restructuring expense was recognized in 2005.

As of December 31, 2005 and 2004, our restructuring accrual amounted to $1,007,000 and $1,454,000, respectively. The decrease of $447,000 is related solely to payments made on our Wallingford, CT facility lease obligation. We paid approximately $447,000, $446,000 and $721,000 of expenses related to the Consolidation in 2005, 2004 and 2003, respectively. We continue actively to seek to sublease this facility, and to consider opportunities to modify or exit our existing lease. However, there can be no assurance that we will be successful in these endeavors. Absent our ability to sublease or modify our existing Wallingford facility lease, we expect to pay approximately $420,000 of these expenses per year in 2006 and 2007, and the remaining $167,000 in 2008. These payments from 2006 through 2008 relate primarily to lease obligation costs for unused space in our Wallingford, CT facility, which terminates March 31, 2008.

CONTRACTUAL OBLIGATIONS

TransAct's contractual obligations as of December 31, 2005 were as follows:

(In thousands)	Total	< 1 year	1-3 years	3-5 years	> 5 years
Operating lease obligations	$ 5,407	$ 1,206	$2,074	$1,288	$839
Purchase obligations	19,750	16,450	3,300	-	-
Total	$25,157	$17,656	$5,374	$1,288	$839

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SHARE-BASED PAYMENT: In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"). FAS 123R replaced Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), and superseded Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the U.S. Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), which expresses views of the SEC staff regarding the interaction between FAS 123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. FAS 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. FAS 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. FAS 123R allows for implementation using a modified prospective method, under which compensation expense for the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. FAS 123R also allows companies to adopt FAS 123R by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under FAS 123. In April 2005, the FASB changed the implementation date for FAS 123R and the provisions of this statement will now be effective for the Company during the first quarter of 2006.

We are currently reviewing the method of adoption, including the transition method, method of attribution for compensation cost, valuation methods and support for the assumptions that underlie the valuation of awards. Currently, we anticipate utilizing the modified prospective application ("MPA") as our transition method. A company that chooses to utilize the MPA will not restate its prior financial statements. Because the vesting of all existing stock option awards was accelerated on November 2, 2005, we will recognize compensation expense solely for new awards granted after January 1, 2006. The Company anticipates allocating expense on a straight-line basis over the requisite service period and using the "short-cut method" for calculating the pool of windfall tax benefits. In addition, with regard to valuation methods, the Company also anticipates relying exclusively on historical volatility.

ACCOUNTING CHANGES AND ERROR CORRECTIONS: In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("FAS 154"), a replacement of Accounting Principles Board Opinion No. 20 "Accounting Changes" and Statement of Financial Accounting Standards No. 3 "Reporting Accounting Changes in Interim Financial Statements -- An Amendment of APB Opinion No. 28." FAS 154 applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement where no specific transition provisions are included. FAS 154 requires retrospective application to prior period's financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of FAS 154 are effective for accounting changes and correction of errors made in fiscal periods that begin after December 15, 2005, although early adoption is permitted. We do not anticipate that the implementation of this standard will have a material impact on our financial position, results of operations or cash flows.

RESOURCE SUFFICIENCY

We believe that cash on-hand and cash flows generated from operations will provide sufficient resources to meet our working capital needs, including costs associated with the Consolidation, to finance our capital expenditures and meet our liquidity requirements through at least the next twelve months.

(C) IMPACT OF INFLATION

TransAct believes that its business has not been affected to a significant degree by inflationary trends because of the low rate of inflation during the past three years, nor does it believe it will be significantly affected by inflation during 2006.

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

INTEREST RATE RISK

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

FOREIGN CURRENCY EXCHANGE RISK

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

	Page Number
Report of Independent Registered Public Accounting Firm	30
TransAct Technologies Incorporated consolidated financial statements:	
Consolidated balance sheets as of December 31, 2005 and 2004	31
Consolidated statements of income for the years ended December 31, 2005, 2004 and 2003	32
Consolidated statements of changes in shareholders' equity and comprehensive income for the years ended December 31, 2005, 2004 and 2003	33
Consolidated statements of cash flows for the years ended December 31, 2005, 2004 and 2003	34
Notes to consolidated financial statements	35 - 51
Financial Statement Schedule	
The following financial statement schedule is included herein:	
Schedule II - Valuation and Qualifying Accounts	52

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of TransAct Technologies Incorporated's 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of TransAct Technologies Incorporated and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Hartford, CT
March 15, 2006

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

	December 31, 2005	December 31, 2004
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 4,579	$ 8,628
Receivables, net	8,359	8,910
Inventories	6,036	8,074
Refundable income taxes	295	510
Deferred tax assets	2,735	2,370
Other current assets	258	586
Total current assets	22,262	29,078
Fixed assets, net	4,510	3,177
Goodwill	1,469	1,469
Deferred tax assets	557	274
Intangible and other assets, net of accumulated amortization of $41 and $0, respectively	534	101
	7,070	5,021
Total assets	$29,332	$34,099
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 2,859	$ 3,804
Accrued liabilities	3,162	3,209
Accrued restructuring expenses	420	420
Accrued patent license fees	36	417
Deferred revenue	410	717
Total current liabilities	6,887	8,567
Accrued restructuring expenses, net of current portion	587	1,034
Deferred revenue, net of current portion	270	444
Other liabilities	331	339
	1,188	1,817
Total liabilities	8,075	10,384
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Preferred stock, $0.01 par value, 4,800,000 authorized, none issued and outstanding	--	--
Preferred stock, Series A, $0.01 par value, 200,000 authorized, none issued and outstanding	--	--
Common stock, $0.01 par value, 20,000,000 authorized, 9,731,670 and 10,037,766 shares issued and outstanding	102	100
Additional paid-in capital	19,334	17,401
Retained earnings	7,489	7,112
Unamortized restricted stock compensation	(1,837)	(1,067)
Accumulated other comprehensive income, net of tax	36	169
Treasury stock, 505,000 and 0 shares at cost	(3,867)	--
Total shareholders' equity	21,257	23,715
Total liabilities and shareholders' equity	$29,332	$34,099

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2005	2004	2003
Net sales	$51,091	$59,847	$52,098
Cost of sales	35,501	37,805	36,555
Gross profit	15,590	22,042	15,543
Operating expenses:			
Engineering, design and product development	2,726	2,715	2,276
Selling and marketing	6,319	5,111	4,968
General and administrative	6,321	5,990	4,483
Business consolidation and restructuring	--	(225)	1,128
	15,366	13,591	12,855
Operating income	224	8,451	2,688
Other income (expense):			
Interest expense	(41)	(44)	(219)
Interest income	114	48	9
Write-off of deferred financing costs	--	--	(103)
Other, net	32	(18)	(122)
	105	(14)	(435)
Income before income taxes	329	8,437	2,253
Income tax provision (benefit)	(48)	2,979	725
Net income	377	5,458	1,528
Dividends and accretion charges on preferred stock	--	(111)	(358)
Earnings allocated to preferred shareholders	--	(111)	(83)
Net income available to common shareholders	$ 377	$ 5,236	$ 1,087
Net income per common share:			
Basic	$ 0.04	$ 0.55	$ 0.13
Diluted	$ 0.04	$ 0.51	$ 0.12
Shares used in per-share calculation:			
Basic	9,849	9,593	8,689
Diluted	10,163	10,231	9,335

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Unamortized Restricted Stock Compensation	Treasury Stock	Loan Receivable from Officer	Accumulated Other Comprehensive Income(Loss)	Total	Total Comprehensive Income
	Shares	Amount								
Balance, December 31, 2002	8,572,679	$ 57	$ 6,308	$ 599	$ (97)	$ --	$(330)	$ 8	$ 6,545	
Issuance of shares from exercise of stock options	357,906	3	1,355	--	--	--	--	--	1,358	
Issuance of shares from employee stock purchase plan	3,130	--	9	--	--	--	--	--	9	
Issuance of shares from exercise of common stock warrants	18,935	--	--	--	--	--	--	--	--	
Amortization of restricted stock compensation	--	--	--	--	67	--	--	--	67	
Tax benefit related to employee stock sales	--	--	769	--	--	--	--	--	769	
Dividends paid on preferred stock	--	--	--	(280)	--	--	--	--	(280)	
Accretion of preferred stock discount and issuance costs	--	--	--	(78)	--	--	--	--	(78)	
Repayment of loan from officer	--	--	--	--	--	--	330	--	330	
Comprehensive income:										
Foreign currency translation adj	--	--	--	--	--	--	--	99	99	99
Net income	--	--	--	1,528	--	--	--	--	1,528	1,528
Balance, December 31, 2003	8,952,650	60	8,441	1,769	(30)	--	--	107	10,347	1,627
Cancellation of restricted stock	(3,000)	--	(72)	--	72	--	--	--	--	
Issuance of shares from exercise of stock options	321,947	3	1,376	--	--	--	--	--	1,379	
Issuance of shares from employee stock purchase plan	3,706	--	47	--	--	--	--	--	47	
Issuance of shares from exercise of common stock warrants	15,000	--	90	--	--	--	--	--	90	
Issuance of shares from conversion of preferred stock, net of issuance and registration costs	666,665	6	3,818	--	--	--	--	--	3,824	
Issuance of restricted stock	81,000	1	1,399	--	(1,400)	--	--	--	--	
Amortization of restricted stock compensation	--	--	--	--	291	--	--	--	291	
Tax benefit related to employee stock sales	--	--	2,332	--	--	--	--	--	2,332	
Redemption of partial shares of common stock in connection with the 3:2 stock split	(202)	30	(30)	--	--	--	--	--	--	
Dividends paid on preferred stock	--	--	--	(91)	--	--	--	--	(91)	
Accretion of preferred stock discount and issuance costs	--	--	--	(24)	--	--	--	--	(24)	
Comprehensive income:										
Foreign currency translation										

adj	--	--	--	--	--	--	--	62	62	62
Net income	--	--	--	5,458	--	--	--	--	5,458	5,458
Balance, December 31, 2004	10,037,766	100	17,401	7,112	(1,067)	--	--	169	23,715	5,520
Cancellation of restricted stock	(250)	--	(3)	--	3	--	--	--	--	
Issuance of shares from exercise of stock options	71,064	1	323	--	--	--	--	--	324	
Issuance of shares from employee stock purchase plan	2,690	--	23	--	--	--	--	--	23	
Acceleration of outstanding stock options	--	--	26	--	--	--	--	--	26	
Issuance of restricted stock	125,400	1	1,230	--	(1,231)	--	--	--	--	
Amortization of restricted stock compensation	--	--	--	--	458	--	--	--	458	
Tax benefit related to employee stock sales and vesting of restricted stock	--	--	337	--	--	--	--	--	337	
Purchase of treasury stock	(505,000)	--	--	--	--	(3,867)	--	--	(3,867)	
Expenses related to preferred stock conversion	--	--	(3)	--	--	--	--	--	(3)	
Comprehensive income:										
Foreign currency translation adj., net of tax	--	--	--	--	--	--	--	(133)	(133)	(133)
Net income	--	--	--	377	--	--	--	--	377	377
Balance, December 31, 2005	9,731,670	$102	$ 19,334	$7,489	$(1,837)	$(3,867)	$ --	$ 36	$21,257	$ 244

See accompanying notes to consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2005	2004	2003
Cash flows from operating activities:			
Net income	$ 377	$ 5,458	$ 1,528
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash compensation expense	484	291	67
Write-off of deferred bank financing costs	--	--	103
Depreciation and amortization	1,493	1,634	1,656
Deferred income taxes	(648)	380	162
Loss (gain) on sale of fixed assets	4	--	(1)
Changes in operating assets and liabilities:			
Receivables	551	164	(5,035)
Inventories	2,038	(13)	374
Refundable income taxes	215	(380)	98
Other current assets	328	(207)	(52)
Other assets	3	(8)	(8)
Accounts payable	(945)	516	305
Accrued liabilities and deferred revenue	(199)	1,920	1,212
Accrued patent license fees	(381)	(741)	998
Accrued restructuring expenses	(447)	(671)	407
Net cash provided by operating activities	2,873	8,343	1,814
Cash flows from investing activities:			
Purchases of fixed assets	(2,756)	(1,178)	(1,261)
Proceeds from sale of fixed assets	--	--	1
Purchase of intangible assets	(510)	--	--
Repayment of loan receivable from officer	--	--	330
Net cash used in investing activities	(3,266)	(1,178)	(930)
Cash flows from financing activities:			
Revolving bank loan repayments, net	--	--	(2,541)
Term loan borrowings	--	--	450
Term loan repayments	--	(420)	(380)
Proceeds from option exercises, employee stock purchase plan, and common stock warrants	347	1,516	1,364
Purchases of common stock for treasury	(3,867)	--	--
Payment of cash dividends	--	(91)	(280)
Payment of preferred stock conversion and registration expense	(3)	(102)	--
Net cash provided by (used in) financing activities	(3,523)	903	(1,387)
Effect of exchange rate changes	(133)	62	99
Increase (decrease) in cash and cash equivalents	(4,049)	8,130	(404)
Cash and cash equivalents, beginning of period	8,628	498	902
Cash and cash equivalents, end of period	$ 4,579	$ 8,628	$ 498
Supplemental cash flow information:			
Interest paid	$ 41	$ 44	$ 226
Income taxes paid, net	117	379	229
Non-cash financing activities:			
Conversion of preferred stock to common stock	$ --	$ 3,926	$ --
Tax benefit related to employee stock sales and restricted stock	337	2,332	769
Accretion of preferred stock discount and issuance costs	--	24	78
Issuance of restricted stock	1,231	1,400	--

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

TransAct Technologies Incorporated ("TransAct"), which has its headquarters in Wallingford, CT and its primary operating facility in Ithaca, NY, operates in one industry segment, transaction-based printers and related products. TransAct designs, develops, assembles, markets and services world-class transaction printers under the Epic and Ithaca(R) brand names. Known and respected worldwide for innovative designs and real-world service reliability, our impact, thermal and inkjet printers generate top-quality receipts, tickets, coupons, register journals and other documents. We focus on two core markets: point-of-sale (POS) and banking, and gaming and lottery. We sell our products to original equipment manufacturers, value-added resellers and selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, the Caribbean Islands and the South Pacific. In addition, we have a strong focus on the after-market side of the business, with a growing commitment to printer service, supplies and spare parts.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

STOCK SPLIT: On March 17, 2004, we effected a three-for-two split of our common stock in the form of a 50 percent stock dividend. All share and per-share amounts within the accompanying financial statements and footnotes reflect the stock split.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SEGMENT REPORTING: We apply the provisions of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131"). We view our operations and manage our business as one segment, the design, development, manufacture and sale of transaction-based printers. Factors used to identify TransAct's single operating segment include the organizational structure of the Company and the financial information available for evaluation by the chief operating decision-maker in making decisions about how to allocate resources and assess performance. We operate predominantly in one geographical area, the United States of America. See Note 20 for information regarding our international operations. We provide the following disclosures of revenues from products and services:

(In thousands)	Year ended December 31, 2005		Year ended December 31, 2004		Year ended December 31, 2003	
POS and banking printers	$16,410	32.1%	$17,659	29.5%	$14,027	26.9%
Gaming and lottery printers	23,634	46.3%	31,937	53.4%	29,274	56.2%
Services, spare parts and consumables	11,047	21.6%	10,251	17.1%	8,797	16.9%
Total net sales	$51,091	100.0%	$59,847	100.0%	$52,098	100.0%

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

ACCOUNTS RECEIVABLE: We have standardized credit granting and review policies and procedures for all customer accounts, including:

- Credit reviews of all new customer accounts,
- Ongoing credit evaluations of current customers,
- Credit limits and payment terms based on available credit information,
- Adjustments to credit limits based upon payment history and the customer's current creditworthiness.

PROVISIONS FOR LOSSES ON UNCOLLECTIBLE RECEIVABLES: We establish an allowance for doubtful accounts to ensure trade receivables are valued appropriately. We maintain an allowance for doubtful accounts based on a variety of factors, including the length of time receivables are past due, significant one-time events and historical experience. We record a specific allowance for individual accounts when we become aware of a customer's inability to meet its financial obligations, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If circumstances related to customers change, we would further adjust estimates of the recoverability of receivables. Allowances for doubtful accounts on accounts receivable balances were $240,000 and $175,000, as of December 31, 2005 and 2004, respectively.

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

FIXED ASSETS: Fixed assets are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives. The estimated useful life of tooling is five years; machinery and equipment is ten years; furniture and office equipment is five to ten years; and computer software and equipment is three to five years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. Costs related to repairs and maintenance are expensed as incurred. The costs of sold or retired assets are removed from the related asset and accumulated depreciation accounts and any gain or loss is recognized. Depreciation expense was $1,419,000, $1,608,000 and $1,579,000 in 2005, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

We test goodwill annually for impairment, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We have performed an impairment test as of December 31, 2005 and determined that no impairment has occurred.

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

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

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

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

	December 31,	
	2005	2004
Customer A	19%	10%
Customer B	*	18%
Customer C	*	14%

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

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

	Year ended December 31,		
	2005	2004	2003
Customer A	17%	16%	19%
Customer B	14%	*	*
Customer C	*	14%	*
Customer D	*	--	12%

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

WARRANTY: We generally warrant our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded. Estimated warranty costs are based upon actual past experience of product repairs and the related estimated cost of labor and material to make the necessary repairs.

The following table summarizes the activity recorded in the accrued product warranty liability during 2005, 2004 and 2003:

	Year ended December 31,		
(In thousands)	2005	2004	2003
Balance, beginning of year	$ 597	$ 495	$ 644
Additions related to warranties issued	613	610	409
Warranty costs incurred	(566)	(508)	(558)
Balance, end of year	$ 644	$ 597	$ 495

Approximately $145,000 and $153,000 of the accrued product warranty liability were classified as long-term at December 31, 2005 and 2004, respectively.

RESEARCH AND DEVELOPMENT EXPENSES: Research and development expenses include engineering, design and product development expenses incurred in connection with specialized engineering and design to introduce new products and to customize existing products, and are expensed as a component of operating expenses as incurred. We spent approximately $2,726,000, $2,715,000 and $2,276,000 on research and development expenses in 2005, 2004 and 2003, respectively.

ADVERTISING: Advertising costs are expensed as incurred. Advertising expenses for the years ended December 31, 2005, 2004 and 2003 totaled $371,000, $343,000 and $417,000, respectively.

RESTRUCTURING: In 2001, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and close our Wallingford, CT manufacturing facility. We continue to apply the consensus set forth in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" in recognizing restructuring expenses. See Note 8 for additional disclosures related to our restructuring plan.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

STOCK-BASED COMPENSATION: We have elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for stock options. Since the exercise price of employee stock options granted by the Company equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. We have adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by Statement of Financial Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FAS 123" ("FAS 148"). See Note 13 for additional disclosures related to our stock-based compensation plans.

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

(In thousands, except per share data)	Year Ended December 31, 2005	2004	2003
Net income (loss) available to common shareholders:			
Net income available to common shareholders, as reported	$ 377	$5,236	$1,087
Add: Stock-based compensation expense included in reported net income, net of tax	315	205	43
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of tax	(1,294)	(390)	(229)
Pro forma net income (loss) available to common shareholders	$ (602)	$5,051	$ 901
Net income (loss) per share:			
Basic:			
As reported	$ 0.04	$ 0.55	$ 0.13
Pro forma	(0.06)	0.53	0.10
Diluted:			
As reported	$ 0.04	$ 0.51	$ 0.12
Pro forma	(0.06)	0.49	0.10

Pro forma stock based compensation expense for the year ended December 31, 2005 includes pro forma compensation expense of approximately $564,000 related to the acceleration of stock option vesting.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beginning in the second quarter of 2004, the Company applied the consensus set forth in EITF 03-06 "Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings Per Share", which requires the two-class method of computing earnings per share when participating securities, such as our redeemable preferred stock, are outstanding. The two-class method is an earnings allocation formula that determines earnings per share for common stock and participating securities based upon an allocation of earnings as if all of the earnings for the period had been distributed in accordance with participation rights on undistributed earnings. EITF 03-6 became effective for reporting periods beginning after March 31, 2004. This guidance impacted the calculation of earnings per share for the year ended December 31, 2004 and also required retroactive restatement of earnings per share presented for the year ended December 31, 2003.

3. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SHARE-BASED PAYMENT: In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("FAS 123R"). FAS 123R replaced Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), and superseded Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). In March 2005, the U.S. Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 107 ("SAB 107"), which expresses views of the SEC staff regarding the interaction between FAS 123R and certain SEC rules and regulations, and provides the staff's views regarding the valuation of share-based payment arrangements for public companies. FAS 123R will require compensation cost related to share-based payment transactions to be recognized in the financial statements. FAS 123R requires measurement of the cost of share-based payment transactions to employees at the fair value of the award on the grant date and recognition of expense over the requisite service or vesting period. FAS 123R allows for implementation using a modified prospective method, under which compensation expense for the unvested portion of previously granted awards and all new awards will be recognized on or after the date of adoption. FAS 123R also allows companies to adopt FAS 123R by restating previously issued financial statements, basing the amounts on the expense previously calculated and reported in their pro forma footnote disclosures required under FAS 123. In April 2005, the FASB changed the implementation date for FAS 123R and the provisions of this statement will now be effective for the Company during the first quarter of 2006.

We are currently reviewing the method of adoption, including the transition method, method of attribution for compensation cost, valuation methods and support for the assumptions that underlie the valuation of awards. Currently, we anticipate utilizing the modified prospective application ("MPA") as our transition method. A company that chooses to utilize the MPA will not restate its prior financial statements. Because the vesting of all existing stock option awards was accelerated on November 2, 2005, we will recognize compensation expense solely for new awards granted after January 1, 2006. The Company anticipates allocating expense on a straight-line basis over the requisite service period and using the "short-cut method" for calculating the pool of windfall tax benefits. In addition, with regard to valuation methods, the Company also anticipates relying exclusively on historical volatility.

ACCOUNTING CHANGES AND ERROR CORRECTIONS: In May 2005, FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections" ("FAS 154"), a replacement of Accounting Principles Board Opinion No. 20 "Accounting Changes" and Statement of Financial Accounting Standards No. 3 "Reporting Accounting Changes in Interim Financial Statements -- An Amendment of APB Opinion No. 28." FAS 154 applies to all voluntary changes in accounting principle and changes required by an accounting pronouncement where no specific transition provisions are included. FAS 154 requires retrospective application to prior period's financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. The provisions of FAS 154 are effective for accounting changes and correction of errors made in fiscal periods that begin after December 15, 2005, although early adoption is permitted. We do not anticipate that the implementation of this standard will have a material impact on our financial position, results of operations or cash flows.

4. INVENTORIES

The components of inventories are:

(In thousands)	December 31, 2005	December 31, 2004
Raw materials and purchased component parts	$5,788	$7,869
Finished goods	248	205

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$6,036	$8,074
======	======

5. FIXED ASSETS

The components of fixed assets are:

(In thousands)	December 31, 2005	December 31, 2004
Tooling, machinery and equipment	$ 13,748	$ 12,627
Furniture, office equipment, computer software and equipment	5,068	3,864
Leasehold improvements	949	522
	19,765	17,013
Less: accumulated depreciation and amortization	(15,255)	(13,836)
	$ 4,510	$ 3,177

6. INTANGIBLE ASSETS

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

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

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

Purchased technology	$364
Covenant not to compete	146
Consideration paid	$510

Amortization expense associated with the technology purchased from Bally was $41,000 for the year ended December 31, 2005. Amortization expense for each of the next five years ending December 31 is expected to be approximately $82,000 per year.

7. ACCRUED LIABILITIES

The components of accrued liabilities are:

(In thousands)	December 31, 2005	December 31, 2004
Payroll and fringe benefits	$1,208	$1,334
Income taxes	679	735
Warranty - current portion	499	444
Rent and occupancy	200	150
Other	576	546
	$3,162	$3,209

8. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING EXPENSES

In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this strategic decision, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and close our Wallingford, CT manufacturing facility (the "Consolidation"). As of December 31, 2001, substantially all Wallingford product lines were successfully transferred to Ithaca, NY. We currently maintain our corporate headquarters and a service center in Wallingford. The closing of the Wallingford manufacturing facility resulted in the termination of employment of approximately 70 production, administrative and management employees. We continue to apply the consensus set forth in EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)" in recognizing the accrued restructuring expenses.

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

During 2002, we incurred an additional $958,000 of Consolidation expenses, primarily due to a revision to our estimate for non-cancelable lease payments included in the restructuring accrual.

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

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

8. ACCRUED BUSINESS CONSOLIDATION AND RESTRUCTURING EXPENSES (CONTINUED)

The following table summarizes the activity recorded in the restructuring accrual during 2005, 2004 and 2003.

		Year ended December 31,		
(In thousands)		2005	2004	2003
Accrual balance, beginning of year		$1,454	$2,125	$1,718
Business consolidation and restructuring expenses:				
Employee severance and termination expenses	(1)	--	--	(142)
Facility closure and consolidation expenses	(2)	--	(225)	1,270
		--	(225)	1,128
Cash payments		(447)	(446)	(721)
Accrual balance, end of year		$1,007	$1,454	$2,125

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

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

At December 31, 2005 and 2004, $587,000 and $1,034,000, respectively, of the restructuring accrual was classified as part of long-term liabilities. The long-term portion represents the portion of non-cancelable lease termination costs and other costs expected to be paid beyond one year.

9. RETIREMENT SAVINGS PLAN

On April 1, 1997, we established the TransAct Technologies Retirement Savings Plan (the "401(k) Plan"), a defined contribution plan under Section 401(k) of the Internal Revenue Code. All full-time employees are eligible to participate in the 401(k) Plan at the beginning of the calendar quarter immediately following their date of hire. We match employees' contributions at a rate of 50% of employees' contributions up to the first 6% of the employees' compensation contributed to the 401(k) Plan. Our matching contributions were $225,000, $201,000 and $174,000 in 2005, 2004 and 2003, respectively.

10. BORROWINGS

On August 6, 2003, we entered into a $12.5 million credit facility (the "TD Banknorth Credit Facility") with TD Banknorth, N.A. The TD Banknorth Credit Facility provides for an $11.5 million revolving credit line expiring on July 31, 2006, and a $1 million equipment loan facility which, as amended, was available through July 2005. The equipment loan facility expired in July 2005. Borrowings under the revolving credit line bear a floating rate of interest at the prime rate and are collateralized by a lien on all the assets of the company. Under certain circumstances, we may select a fixed interest rate for a specified period of time of up to 180 days on borrowings based on the current LIBOR rate plus 2.75% under the revolving credit facility. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The TD Banknorth Credit Facility imposes certain quarterly financial covenants on the Company and restricts the payment of dividends on our common stock and the creation of other liens. In 2003, we recorded interest expense of approximately $103,000 related to the write-off of unamortized deferred financing costs from the prior credit facility.

10. BORROWINGS (CONTINUED)

Concurrent with the signing of the TD Banknorth Credit Facility, we borrowed $450,000 under the equipment loan facility, which was paid in full in 2004.

On March 28, 2005, we received a consent from TD Banknorth, N.A. to permit us to repurchase our common stock pursuant to the terms of the Stock Repurchase Program as explained in Note 19.

On February 24, 2006, we amended the TD Banknorth Credit Facility to revise a financial covenant effective December 31, 2005, which resulted in debt covenant compliance.

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

As of December 31, 2005, we had no outstanding borrowings on the revolving credit line. Undrawn commitments under the TD Banknorth Credit Facility were approximately $11,500,000 at December 31, 2005. However, our maximum additional available borrowings under the facility were limited to approximately $6,500,000 at December 31, 2005 based on the borrowing base of our collateral.

11. COMMITMENTS AND CONTINGENCIES

In April 2005, we announced a complaint against FutureLogic, Inc. ("FutureLogic"), which charges FutureLogic with disseminating false and misleading statements. We assert claims of defamation and certain other charges. In May 2005, FutureLogic filed a complaint against us, asserting false advertising, defamation, trade libel and certain other charges. The action is currently in the pre-trial motion stage, and, as of December 31, 2005, we are currently unable to estimate any potential liability or range of loss associated with this litigation. Accordingly, no amounts have been accrued in the financial statements related to this matter.

11. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During the fourth quarter of 2005, we recorded an expense to cost of goods sold of approximately $135,000 related to estimated settlement/cancellation payments for non-cancelable purchase orders for certain excess inventory components related primarily to our Model 850 casino ticket printer.

At December 31, 2005, we were lessee on operating leases for equipment and real property. The terms of certain leases provide for escalating rent payments in later years of the lease as well as payment of minimum rent and real estate taxes. The Company records rent expense related to leases with escalating rent payments or periods of free rent on a straight-line basis over the term of the lease. Rent expense was approximately $1,294,000, $1,098,000 and $1,096,000 in 2005, 2004 and 2003, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2005 are as follows: $1,206,000 in 2006; 1,222,000 in 2007; $853,000 in 2008; $717,000 in 2009; $571,000 in 2010; and $839,000 thereafter. Such payments include those related to the lease of our Wallingford, CT manufacturing facility, a portion of which has been recognized within the restructuring accrual described in Note 8.

12. PATENT LICENSE FEES

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

13. STOCK INCENTIVE PLANS AND WARRANTS

STOCK INCENTIVE PLANS. We currently have four primary stock incentive plans: the 1996 Stock Plan, which provides for the grant of awards to officers and other key employees of the Company; the 1996 Directors' Stock Plan, which provides for non-discretionary awards to non-employee directors; the 2001 Employee Stock Plan, which provides for the grant of awards to key employees of the Company and other non-employees who may provide services to the Company; and the 2005 Equity Incentive Plan, which provides for awards to executives, key employees, directors and consultants. The plans generally provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) restricted stock, (iv) restricted stock units, (v) stock appreciation rights or (vi) limited stock appreciation rights. However, the 2001 Employee Stock Plan does not provide for incentive stock option awards. Options granted under these plans are at prices equal to 100% of the fair market value of the common stock at the date of grant. Options granted have a ten-year term and generally vest over a three- to five-year period, unless automatically accelerated for certain defined events. Effective upon the approval of the 2005 Equity Incentive Plan on May 25, 2005, no new awards will be made under the 1996 Stock Plan, the 1996 Directors' Stock Plan or the 2001 Employee Stock Plan. At December 31, 2005, approximately 582,000 shares of common stock remained available for issuance under the 2005 Equity Incentive Plan.

EMPLOYEE STOCK PURCHASE PLAN: In May 2000, our shareholders approved the Employee Stock Purchase Plan (the "ESPP"), under which 75,000 shares of our common stock were available for issuance to employees beginning June 1, 2000. All full-time employees were eligible to participate in the ESPP at the beginning of each six-month period (the "Offering Period"), which began on June 1 and December 1. Eligible employees could elect to withhold up to 5% of their salary to purchase shares of our common stock at a price equal to 85% of the fair market value of the stock on the first or last day of each Offering Period, whichever is lower. The ESPP was terminated on May 31, 2005. We issued 2,690, 3,706, and 3,130 shares of common stock under the ESPP during 2005, 2004 and 2003, respectively. At December 31, 2005, no shares remained available for issuance due to the termination of the ESPP.

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

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

	Year Ended December 31,					
	2005		2004		2003	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period:	813,664	$5.97	1,123,533	$ 4.50	1,418,079	$4.20
Granted	--	--	52,750	26.81	102,000	5.84
Exercised	(71,064)	4.55	(321,947)	4.28	(357,906)	3.79
Canceled	(1,099)	3.93	(40,672)	5.74	(38,640)	3.81
Outstanding at end of period	741,501	$6.10	813,664	$ 5.97	1,123,533	$4.50
Options exercisable at end of Period	741,501	$6.10	458,382	$ 4.67	542,630	$4.72

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Outstanding at December 31, 2005	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Exercisable at December 31, 2005	Weighted-Average Exercise Price
			(In years)		
$ 2.00 - $ 5.00	461,414	$ 3.67	6.0	461,414	$ 3.67
5.01 - 7.50	213,587	6.15	3.3	213,587	6.15
7.51 - 10.00	14,250	8.12	2.0	14,250	8.12
10.01 - 25.00	16,500	16.52	6.6	16,500	16.52
25.01 - 35.00	35,750	31.66	8.4	35,750	31.66
	741,501	6.10	5.3	741,501	6.10

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the years ended December 31, 2005, 2004 and 2003. No stock option grants were made in 2005.

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

13. STOCK INCENTIVE PLANS AND WARRANTS (CONTINUED)

On November 2, 2005, the Compensation Committee of the Board of Directors approved accelerating the vesting of all outstanding unvested stock options granted to directors, officers and employees of the Company under our applicable stock incentive plans. The closing price of our common stock on the NASDAQ National Market Quotation System to be used for measurement of compensation as of the date of acceleration was $6.99. As a result of the acceleration, options to acquire approximately 109,500 shares of our common stock, which otherwise would have vested from time to time over the next four years, become immediately exercisable. All other terms and conditions applicable to outstanding stock option grants remain in effect. The option plans under which accelerated grants were issued are our 1996 Stock Plan, 1996 Directors' Stock Plan and the 2001 Employee Stock Plan.

The Compensation Committee's decision to accelerate the vesting of affected stock options was primarily based upon our required adoption of FAS 123R effective January 1, 2006. We believe that the acceleration of vesting of unvested options will eliminate the need to recognize any future compensation expense in our income statement with respect to these options. We will recognize compensation expense with respect to stock options granted after January 1, 2006 pursuant to FAS 123R. We recorded approximately $26,000 of compensation expense in the fourth quarter of 2005 related to the acceleration of vesting.

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

	Year Ended December 31,		
	2005	2004	2003
Outstanding shares at beginning of period	79,500	16,999	69,999
Granted	125,400	81,000	--
Vested	(17,100)	(15,499)	(53,000)
Canceled	(250)	(3,000)	--
Outstanding shares at end of period	187,550	79,500	16,999

We granted 125,400 shares of restricted stock during 2005 at weighted average grant price of $9.82. We granted 81,000 shares of restricted stock during 2004 at weighted average grant price of $17.28. No restricted stock was granted during 2003. Of the 187,550 shares of restricted stock outstanding at December 31, 2005, 169,550 shares vest over the original five-year vesting period, 4,000 shares vest over the original four-year vesting period and 14,000 shares vest over the original three-year vesting period. Under certain conditions such as a change in control as defined by the Plans, vesting may be automatically accelerated.

Unearned compensation for restricted stock award grants is recorded on the date of grant based on the fair value of such awards. Such unearned compensation is expensed, using the straight-line method, over the period during which the related restrictions on such stock lapse. Upon termination of employment, unvested restricted stock awards are forfeited and the related compensation expense and unearned compensation previously recognized are reversed. Compensation expense resulting from these restricted shares was $458,000, $291,000 and $67,000 during 2005, 2004 and 2003, respectively. Upon adoption of FAS 123R in the first quarter of 2006, the Company will reverse all amounts previously recorded in Unamortized Restricted Stock Compensation and continue to record expense as the restricted stock vests. In the first quarter of 2006, the Company will also measure a cumulative effect adjustment for estimated forfeitures on previously recognized restricted stock compensation.

14. STOCKHOLDER RIGHTS PLAN

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

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

15. INCOME TAXES

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

	Year Ended December 31,		
(In thousands)	2005	2004	2003
Current:			
Federal	$ 7	$2,077	$1,121
State	68	216	94
Foreign	525	306	131
	600	2,599	1,346
Deferred:			
Federal	(634)	363	(554)
State	(14)	17	(67)
Foreign	--	--	--
	(648)	380	(621)
Income tax provision (benefit)	$ (48)	$2,979	$ 725

At December 31, 2005, we have $2,274,000 of state net operating loss carryforwards that begin to expire in 2009, and no federal net operating loss carryforwards. We also have approximately $383,000 in federal research and development tax credit carryforwards that begin to expire in 2011. We also have foreign tax credit carryforwards of approximately $483,000 that begin to expire in 2011. We had foreign income before taxes of $1,833,000, $1,084,000 and $475,000 in 2005, 2004 and 2003, respectively.

15. INCOME TAXES (CONTINUED)

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

(In thousands)	December 31, 2005	December 31, 2004
Gross deferred tax assets:		
Net operating losses	$ 67	$ 423
Accrued restructuring expenses	418	605
Capitalized research and development	790	--
Inventory reserves	800	742
Deferred revenue	165	429
Foreign tax and other credits	927	649
Other liabilities and reserves	829	636
	3,996	3,484
Valuation allowance	(207)	(193)
Net deferred tax assets	3,789	3,291
Gross deferred tax liabilities:		
Depreciation	401	540
Other	96	107
Net deferred tax liabilities	497	647
Net deferred tax assets	$3,292	$2,644

During 2005 and 2004, we recorded a valuation allowance of $207,000 and $193,000 on a portion of our foreign tax credits, research and development credits and certain state net operating loss carryforwards. We have determined that it is more likely that not that the remaining net deferred tax assets will be realized, and no additional valuation allowance is considered necessary, as of December 31, 2005 and 2004.

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

	Year Ended December 31, 2005	2004	2003
Federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal income taxes	(9.1)	1.0	1.2
Tax benefit from tax credits, net of valuation allowance	(17.5)	(0.8)	--
Foreign rate differential	9.4	(0.7)	--
Reversal of valuation allowance and tax accruals	(41.7)	--	--
Permanent item	13.0	--	--
Other	(2.7)	1.8	(3.0)
Effective tax rate	(14.6%)	35.3%	32.2%

16. EARNINGS PER SHARE

For the years ended December 31, 2005, 2004 and 2003, earnings per share were computed as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2005	2004	2003
Net income	$ 377	$ 5,458	$1,528
Dividends and accretion on preferred stock	--	(111)	(358)
Earnings allocation to preferred shareholders	--	(111)	(83)
Net income available to common shareholders	$ 377	$ 5,236	$1,087
Shares:			
Basic: Weighted average common shares outstanding	9,849	9,593	8,690
Add: Dilutive effect of outstanding options and warrants as determined by the treasury stock method	314	638	645
Diluted: Weighted average common and common equivalent shares outstanding	10,163	10,231	9,335
Net income per common share:			
Basic	$ 0.04	$ 0.55	$ 0.13
Diluted	0.04	0.51	0.12

Unvested restricted stock is excluded from the calculation of weighted average common shares for basic EPS. For diluted EPS, weighted average common shares include the impact of restricted stock using the treasury method.

For the years ended December 31, 2005 and 2004, potentially dilutive shares that were excluded from the earnings per share calculation, consisting of out-of-the-money stock options and warrants, were 52,250 and 35,750 shares, respectively. In April 2004, we completed a three-for-two stock split of our common stock effected in the form of a stock dividend. All amounts in the table above reflect the stock split on a retroactive basis.

17. LOAN TO OFFICER

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

18. PREFERRED STOCK

On April 7, 2000 we sold 4,000 shares of 7% Series B Cumulative Convertible Redeemable Preferred Stock (the "Preferred Stock") in consideration of $1,000 per share (the "Stated Value"), for a total of $4,000,000, less issuance costs. The holders of the Preferred Stock were entitled to receive a cumulative annual dividend of $70 per share, payable quarterly and had preference to any other dividends, if any, paid by the Company.

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

19. STOCK REPURCHASE PROGRAM

On March 25, 2005, our Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to $10 million of our outstanding shares of common stock from time to time in the open market over a three year period ending on March 25, 2008, depending on market conditions, share price and other factors. As of December 31, 2005, we repurchased a total of 505,000 shares of common stock for approximately $3,867,000, at an average price of $7.66 per share. We use the cost method to account for treasury stock purchases, under which the price paid for the stock is charged to the treasury stock account.

20. INTERNATIONAL OPERATIONS

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary, which had sales to its customers of approximately $2,181,000, $1,000,000 and $1,068,000 in 2005, 2004 and 2003, respectively. Tangible assets at foreign locations are not material. We had sales from the United States to our customers outside of the United States of approximately $10,137,000, $5,423,000 and $3,663,000 in 2005, 2004 and 2003, respectively. International sales do not include sales of printers made to domestic distributors or other domestic customers who in turn ship those printers to international destinations.

21. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Our quarterly results of operations for 2005 and 2004 are as follows:

(In thousands, except per share amounts)	Quarter Ended			
	March 31	June 30	September 30	December 31
2005:				
Net sales	$12,036	$12,346	$14,210	$12,499
Gross profit	3,677	4,254	4,576	3,083
Net income (loss)	163	267	674	(727)
Net income (loss) available to common shareholders	163	267	674	(727)
Net income (loss) per share:				
Basic	0.02	0.03	0.07	(0.08)
Diluted	0.02	0.03	0.07	(0.08)

March 31 June 30 September 30 December 31 -------- ------- ----------- ------- ---- 2004: Net sales $15,075 $14,694 $15,482 $14,596 Gross profit 5,418 5,617 5,897 5,110 Net income 1,342 1,465 1,625 1,026 Net income available to common shareholders 1,165 1,421 1,625 1,026 Net income per share: Basic 0.13 0.15 0.16 0.10 Diluted 0.12 0.14 0.15 0.10 50

TRANSACT TECHNOLOGIES INCORPORATED Schedule II Valuation and Qualifying Accounts (Amounts in thousands) Balance at Write-offs, Balance at Beginning of net of End of Description Period Provision recoveries Period - ----------- ---- -------- --------- ----------- ---------- Valuation account for accounts receivable: Year ended December 31, 2005 $ 175 $ 68 $ (3) $ 240 Year ended December 31, 2004 $ 100 $ 73 $ 2 $ 175 Year ended December 31, 2003 $ 78 $ 76 $ (54) $ 100 Valuation account for inventories: Year ended December 31, 2005 $2,010 $995 $(840) $2,165 Year ended December 31, 2004 $1,950 $148 $ (88) $2,010 Year ended December 31, 2003 $2,027 $441 $(518) $1,950 51

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE. None. ITEM 9A. CONTROLS AND PROCEDURES Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the Exchange Act). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. Part II, Item 8 of this Form 10-K sets forth the report of PricewaterhouseCoopers LLP, our independent registered public accounting firm, regarding its audit of TransAct's internal control over financial reporting as of December 31, 2005 and of management's assessment of internal control over financial reporting as of December 31, 2005 set forth below in this section. This section should be read in conjunction with the CEO and CFO certifications and the PricewaterhouseCoopers LLP report for a more complete understanding of the topics presented. EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES We conducted an evaluation of the effectiveness of the design and operation of our "disclosure controls and procedures" ("Disclosure Controls") for the period covered by this Form 10-K. The controls evaluation was conducted under the supervision and with the participation of management, including our CEO and CFO. Disclosure Controls are controls and procedures designed to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's (SEC's) rules and forms. Disclosure Controls are also designed to reasonably assure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of Disclosure Controls includes an evaluation of some components of our internal control over financial reporting, and internal control over financial reporting is also separately evaluated on an annual basis for purposes of providing the management report which is set forth below. The evaluation of our Disclosure Controls included a review of the controls' objectives and design, the company's implementation of the controls and the effect of the controls on the information generated for use in this Form 10-K. In the course of the controls evaluation, we review data errors, control problems or acts of fraud, if any, and seek to confirm that appropriate corrective actions, including process improvements, are being undertaken. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the Disclosure Controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our Disclosure Controls are also evaluated on an ongoing basis by personnel in our finance organization. The overall goals of these various evaluation activities are to monitor our Disclosure Controls, and to modify them as necessary. Our intent is to maintain the Disclosure Controls as dynamic systems that change as conditions warrant. Based upon the evaluation of the controls, our CEO and CFO have concluded that, as of the end of the period covered by this Form 10-K, our Disclosure Controls were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to TransAct and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared. MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements. Management assessed our internal control over financial reporting as of December 31, 2005. Management based its assessment on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2005 based on the COSO criteria identified above, to provide reasonable assurance regarding the reliability

of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. Our management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein. INHERENT LIMITATIONS ON EFFECTIVENESS OF CONTROLS A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. PART III ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT. Some of the information in response to this item is incorporated by reference from the Proxy Statement sections entitled "Election of Directors" and "Executive Officers." ITEM 11. EXECUTIVE COMPENSATION. The information contained in "Executive Compensation" other than the "Compensation Committee Report on Executive Compensation" of the Proxy Statement is hereby incorporated herein by reference. ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS. The information contained in "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is hereby incorporated herein by reference.

Information regarding our equity compensation plans as of December 31, 2005 is as follows: (c) Number of securities remaining available (a) (b) for future issuance Number of securities Weighted average under equity to be issued upon exercise price of compensation plans exercise of outstanding (excluding securities outstanding options, options, warrants reflected in column Plan category warrants and rights and rights (a)) ------------- -------------------- ----------------- -------------------- Equity compensation plans approved by security holders: 1996 Stock Plan 614,374 $3.12 -- 1996 Non-Employee Director Plan 206,250 9.99 -- 2005 Equity Incentive Plan 18,000 -- 582,000 ------- ----- ------- Total 838,624 $4.74 582,000 ------- ----- ------- Equity compensation plans not approved by security holders: 2001 Employee Stock Plan 90,427 $6.05 -- ------- ----- ------- 929,051 $4.87 582,000 ======= ===== ======= The TransAct Technologies Incorporated 2001 Employee Stock Plan (the "2001 Employee Plan") was adopted by our Board of Directors, without approval of our security holders, effective February 26, 2001. Under the 2001 Employee Plan, we may issue non-qualified stock options, shares of restricted stock, restricted units to acquire shares of common stock, stock appreciation rights and limited stock appreciation rights to key employees of TransAct or any of our subsidiaries and to non-employees who provide services to TransAct or any of our subsidiaries. The 2001 Employee Plan is administered by our Compensation Committee, which has the authority to determine the vesting period and other similar restrictions and terms of awards, provided that the exercise price of options granted under the plan may not be less than the fair market value of the underlying shares on the date of grant. In May 2005, our shareholders approved the adoption of the 2005 Equity Incentive Plan. No new awards will be available for future issuance under any existing TransAct equity plan other than the 2005 Equity Incentive Plan. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. The information contained in "Certain Relationships and Related Transactions" of the Proxy Statement is hereby incorporated herein by reference. ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES. The information contained in "Independent Registered Public Accounting Firm's Fees" of the Proxy Statement is herby incorporated herein by reference.

PART IV ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES THE FOLLOWING FINANCIAL STATEMENTS AND EXHIBITS ARE FILED AS PART OF THIS REPORT: Financial statements (i) See Item 8. (ii) Financial statement schedules All other schedules are omitted since the required information is either (a) not present or not present in amounts sufficient to require submission of the schedule or (b) included in the financial statements or notes thereto. (iii) List of exhibits 3.1(a) Certificate of Incorporation of TransAct Technologies Incorporated ("TransAct" or the "Company"), filed with the Secretary of State of Delaware on June 17, 1996. (2) 3.1(b) Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 4, 1997. (4) 3.1(c) Certificate of Designation, Series A Preferred Stock, filed with the Secretary of State of Delaware on December 2, 1997. (5) 3.1(d) Certificate of Designation, Series B Preferred Stock, filed with the Secretary of State of Delaware on April 6, 2000. (8) 3.2 Amended and Restated By-laws of the Company. (6) 4.1 Specimen Common Stock Certificate. (2) 4.2 Amended and Restated Rights Agreement between TransAct and American Stock Transfer & Trust Company dated February 16, 1998. (5) 10.1(x) 1996 Stock Plan, effective July 30, 1996. (3) 10.2(x) Non-Employee Directors' Stock Plan, effective August 22, 1996. (3) 10.3(x) 2000 Employee Stock Purchase Plan. (9) 10.4(x) 2001 Employee Stock Plan. (10) 10.5(x) 2005 Equity Incentive Plan (17) 10.6(x) Employment Agreement, dated July 31, 1996, by and between TransAct and Bart C. Shuldman. (2) 10.7(x) Severance Agreement by and between TransAct and Michael S. Kumpf, dated September 4, 1996. (3) 10.8(x) Severance Agreement by and between TransAct and Steven A. DeMartino, dated June 1, 2004. (15) 10.9 Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992. (2) 10.10 Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996. (4) 10.11 Agreement regarding the Continuation and Renewal of Lease by and between Bomax Properties, LLC and TransAct, dated July 18, 2001. (12) 10.12 Lease Agreement by and between Pyramid Construction Company and Magnetec, dated July 30, 1997. (4) 10.13 Lease Agreement by and between Las Vegas Airport Properties LLC and (15) TransAct dated December 2, 2004.

10.14 OEM Purchase Agreement by and between GTECH Corporation, TransAct and Magnetec Corporation commencing July 14, 1999. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (7) 10.15 OEM Purchase Agreement by and between GTECH Corporation and TransAct commencing July 2, 2002. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (11) 10.16 Amendment to OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated February 17, 2006. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (1) 10.17 OEM Sales Agreement by and between Okidata Americas, Inc. and TransAct, dated June 8, 2005. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (1) 10.18 Revolving Credit, Equipment Loan and Security Agreement between TransAct and TD Banknorth, N.A. dated August 6, 2003. (12) 10.19 First Amendment to Revolving Credit, Equipment Loan and Security Agreement dated as of November 12, 2004 between TransAct and TD Banknorth, N.A. (14) 10.20 Consent by TD Banknorth, N.A. dated as of March 28, 2005 to permit stock repurchases under the Revolving Credit, Equipment Loan and Security Agreement. (16) 10.21 Second Amendment to Revolving Credit, Equipment Loan and Security Agreement dated as of February 24, 2006 between TransAct and TD Banknorth, N.A. (1) 10.22 License Agreement between Seiko Epson Corporation and TransAct dated May 17, 2004 (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) (13) 10.23 Preferred Stock Purchase Agreement and Certificate of Designation dated as of March 20, 2000 between TransAct and Advance Capital Partners, L.P. and affiliate (8) 23.1 Consent of PricewaterhouseCoopers LLP. (1) 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1) 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1) 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1) 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

(1) These exhibits are filed herewith. (2) These exhibits, which were previously filed with the Company's Registration Statement on Form S-1 (No. 333-06895), are incorporated by reference. (3) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996 (Commission File No. 000-21121), are incorporated by reference. (4) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (Commission File No. 000-21121), are incorporated by reference. (5) These exhibits, which were previously filed with the Company's Current Report on Form 8-K filed February 18, 1999 (Commission File No. 000-21121), are incorporated by reference. (6) This exhibit, which was previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (Commission File No. 000-21121), is incorporated by reference. (7) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 25, 1999 (Commission File No. 000-21121), is incorporated by reference. (8) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 25, 2000, are incorporated by reference. (9) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-49540), is incorporated by reference. (10) This exhibit, which was previously filed with the Company's Registration Statement on Form S-8 (No. 333-59570), is incorporated by reference. (11) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002, is incorporated by reference. (12) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2003, is incorporated by reference. (13) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2004, is incorporated by reference. (14) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004, is incorporated by reference. (15) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2004, are incorporated by reference. (16) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2005, is incorporated by reference. (17) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed June 1, 2005 (Commission File No. 000-21121), is incorporated by reference. (x) Management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c).

SIGNATURES Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. TRANSACT TECHNOLOGIES INCORPORATED By: /s/ Bart C. Shuldman ------------------------------------ Name: Bart C. Shuldman Title: Chairman of the Board, President and Chief Executive Officer Date: March 15, 2006 Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Signature Title Date - --------- ----- ---- /s/ Bart C. Shuldman Chairman of the Board, President and March 15, 2006 - ------------------------------------- Chief Executive Officer Bart C. Shuldman (Principal Executive Officer) /s/ Steven A. DeMartino Executive Vice President, Chief Financial March 15, 2006 - ------------------------------------- Officer, Treasurer and Secretary Steven A. DeMartino (Principal Financial and Accounting Officer) /s/ Charles A. Dill Director March 15, 2006 - ------------------------------------- Charles A. Dill /s/ Thomas R. Schwarz Director March 15, 2006 - - ------------------------------------ Thomas R. Schwarz /s/ Graham Y. Tanaka Director March 15, 2006 - ------------------------------------- Graham Y. Tanaka 58

EXHIBIT LIST The following exhibits are filed herewith.

Exhibit - ------- 10.16 Amendment to OEM Purchase Agreement by and between GTECH Corporation and TransAct, dated February 17, 2006. (Pursuant to Rule 24-b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) 10.17 OEM Sales Agreement by and between Okidata Americas, Inc. and TransAct, dated June 8, 2005. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.) 10.21 Second Amendment to Revolving Credit, Equipment Loan and Security Agreement dated as of February 24, 2006 between TransAct and TD Banknorth, N.A. 23.1 Consent of PricewaterhouseCoopers LLP 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 10.16

AMENDMENT

February 15, 2006

This Amendment dated February 15, 2006 (the "Amendment") hereby amends the Agreement No. 530133-7202 by and between GTECH Corporation and TransAct Technologies Incorporated (the "Agreement").

By signing this Amendment, the parties agree to amend the Agreement as follows:

1. Section 2.2 of the Agreement is hereby amended to replace "normal lead-time of sixty (60) calendar days" with "normal lead time of ninety (90) calendar days".

2. Section 21.1 of the Agreement is hereby amended to replace "and shall continue for five (5) years" with "and shall continue for ten (10) years".

3. Attachment 2 of the Agreement is hereby amended to replace "Unit Price for any quantity is $[*]" with "Unit Price for any quantity is $[*], such price effective with orders shipped by VENDOR starting on December 4, 2006".

Except as set forth in this Amendment, the Agreement is and shall remain in full force and effect in accordance with its terms.

TransAct Technologies Incorporated	GTECH Corporation
By: /s/ Bart C. Shuldman	By: /s/ William Middlebrook
Bart C. Shuldman	William Middlebrook
Chairman, president & CEO	VP Technology Operations

* Confidential treatment requested

EXHIBIT 10.17

OKI DATA AMERICAS, INC. - OEM SALES AGREEMENT

Transact Technologies Inc., with a location at 7 Laser Lane, Wallingford, CT 06492 (hereinafter "Customer") agrees to purchase and Oki Data Americas, Inc., with a location at 2000 Bishops Gate Boulevard, Mt. Laurel, New Jersey 08054-4620 (hereinafter "Oki Data") agrees to sell the printer kits and related consumables (hereinafter "Products") indicated in Exhibit A, and spare parts for Products (hereinafter "Spare Parts") indicated in Section 17 herein based on the terms and conditions of this Agreement.

1. TERM OF AGREEMENT

The term of this Agreement shall be one (1) year commencing on June 8, 2005 (hereinafter "Effective Date") and shall automatically renew for additional one (1) periods unless terminated by either party as follows: (i) by providing written notice at least thirty (30) days prior to the end of then current term, or (ii) in accordance with the provisions of Section 9 herein.

2. CUSTOMER ORDERS

Purchases of Product and Spare Parts by Customer will be made through individual written purchase orders (hereinafter "Purchase Orders") issued to and accepted by Oki Data. Purchase Orders for Products may be issued to Oki Data for either of the following purposes as specified by Customer:

A. Safety Stock Order Requirement - Products ordered for this purpose will be initially delivered to Oki Data's warehouse in Mt. Laurel, NJ and held at that location pending subsequent release orders (hereinafter "Release Order(s)") by Customer to have the Products delivered to Customer's location at 20 Bomax Drive, Ithaca, NY 14850 (hereinafter "Designated Location"). Customer must issue a Release Order to take delivery of all Products remaining in Safety Stock by March 31 of any calendar year.

B. Regular Order Requirement - Products ordered for this purpose will be shipped directly to Designated Location.

C. Annual Order for Stock Balancing Printer Kits (Refer to Exhibit A) - Products ordered for this purpose will be shipped directly to Designated Location.

3. QUANTITY OF PRODUCT

During each then current term of this Agreement, Customer anticipates purchasing an annual total of [*] printer kits from Oki Data.

4. PRICES, ORDER QUANTITIES, AND DELIVERY TERMS

A. The unit prices and order quantities for Products are as set forth in Exhibit A. Such prices are based on the delivery term "FOB Oki Data's Designated Shipping

[*] Confidential treatment requested.

Facility (Mt. Laurel, NJ)". Under this delivery term, Customer will be responsible for all freight and transportation costs on a "freight collect" basis. Risk of loss and title to all Products will pass to Customer upon deliver to Customer's carrier at Oki Data's Shipping Facility. Oki Data may change the unit price and/or order quantities by providing Customer with at least one-hundred eighty (180) days advance written notice of any such change.

B. The unit prices and order quantities for Spare Parts shall be as set forth in Section 17 herein. Such prices are based on the delivery term "FOB Oki Data's Designated Shipping Facility (Mt. Laurel, NJ)". Under this delivery term, Customer will be responsible for all freight and transportation costs on a "freight collect" basis. Risk of loss and title to all Spare Parts will pass to Customer upon deliver to Customer's carrier at Oki Data's Shipping Facility.

C. Oki Data warrants that the prices, terms and conditions offered under this Agreement are no less favorable than those offered to other OEM customers of Oki Data buying similar products in similar quantities. Should Oki Data decrease the price of like products to its other OEM customers, any such decrease will be passed on to the Customer to the extent that Oki Data offers the same price reduction to its other customers, procuring the same volumes and who are similarly situated. Price decreases do not include marketing programs or price changes that Oki Data may offer through its other channels of distribution, including, but not limited to, spiffs, rebates, one time offers and or marketing incentives.

5. DELIVERY LEAD TIMES & ORDER CANCELLATION

A. Deliveries pursuant to each Purchase Order for Products, applicable to either Safety Stock or Regular Order Requirements, shall be made on a best effort basis and typically within one hundred and twenty (120) days after receipt of such Purchase Order by Oki Data. Deliveries from Safety Stock to Designated Location shall be made within five (5) business days of Oki Data's receipt of Customer's Release Order.

B. Deliveries pursuant to each Purchase Order for Spare Parts shall be made on a best effort basis and typically within thirty (30) days after receipt of such Purchase Order by Oki Data.

C. All Purchase Orders issued by Customer can not be cancelled except if Customer Provides Oki Data with a written cancellation request within five (5) business days of the Purchase Order date.

6. CUSTOMER FORECASTS

By the tenth (10th) day of each calendar month, Customer shall furnish to Oki Data a written non-binding forecast of its requirements for Products for the ensuing twelve (12) month period.

7. PAYMENT

A. Payment for Products and Spare Parts purchased hereunder shall be made by Customer within thirty (30) days from Oki Data's invoice date. Interest shall accrue thereafter at the rate of one and one-half (1.5%) percent per month on the unpaid balance.

B. Prices for Products and Spare Parts are exclusive of any sales, use, property, and like taxes. Any such tax Oki Data may be required to collect or pay upon the sale or delivery of the Products or Spare Parts shall be promptly reimbursed by Customer.

8. PATENT INDEMNITY

A. Oki Data shall defend or settle any suit or proceeding brought against Customer to the extent that such suit or proceeding is based on a claim that Products manufactured to Oki Data's design and purchased hereunder constitute an infringement of an existing United States Patent, provided Oki Data is notified promptly in writing and given complete authority, information and assistance required for defense of same, and Oki Data shall pay all damages and costs awarded as a result thereof against Customer. Oki Data, however, shall not be responsible for any cost, expense, or compromise incurred or made by Customer without Oki Data's prior written consent.

B. In the event any Product furnished hereunder is, in Oki Data's opinion, likely to or does become the subject of a claim of infringement of a patent, Oki Data may, at its option and expense, procure for Customer the right to continue using the Product, replace same with a non-infringing Product of similar capability, or modify the Product so it becomes non-infringing. If, in Oki Data's opinion, none of the foregoing alternatives is reasonably available to Oki Data, Oki Data may terminate this Agreement forthwith by written notice to Customer and, upon return or disposal of the Product in accordance with the written instructions of Oki Data, refund the price paid by Customer, less straight line depreciation on the basis of a

five (5) year life of the Product.

C. Oki Data shall have no responsibility or liability for any claim of infringement (i) arising out of the use of its Products in combination with non-Oki Data products, or (ii) if such infringement arises out of Products manufactured to Customer's design, or (iii) if such infringement arises as a result of a customer modification to the Products.

D. The foregoing states the entire liability of Oki Data with respect to infringement of any patent by the Products of Oki Data or any parts thereof and, anything herein to the contrary notwithstanding, Oki Data's liability to Customer hereunder shall in no event exceed the total price plus taxes and other associated charges paid to Oki Data by Customer for each infringing Product purchased pursuant to this Agreement.

9. TERMINATION

This Agreement may be terminated or canceled as follows:

A. By either party at any time if the other party violates any provision of this Agreement. The defaulting party shall have a period of thirty (30) days from the date of receipt of written notice from the non-defaulting party describing the default within which to remedy the default. Should Customer be the defaulting party, Oki Data, during the aforesaid thirty (30) day period, shall be relieved of any obligations imposed on it by this Agreement until the default is cured. The termination shall become effective at the end of the thirty (30) day period if the defaulting party has failed to remedy the default.

B. If either party (i) admits in writing its inability to pay its debts generally as they become due, or (ii) makes an assignment for the benefit of its creditors, or (iii) institutes or consents to the filing of a petition in bankruptcy, whether for reorganization or liquidation, under federal or similar applicable state laws, or (iv) is adjudged bankrupt or insolvent by a court having jurisdiction, then in either of such events, the other party may, by written notice, immediately terminate this Agreement.

C. Customer's obligation to pay for all Products and Spare Parts received by it hereunder shall survive termination of this Agreement. Moreover, should termination be effected by Oki Data for any of the reasons set forth in this Section 9 at Oki Data's option, Customer shall be liable for the undelivered quantity of

Products or Spare Parts.

10. PACKAGING

Oki Data will package Products and Spare Parts in accordance with accepted standard commercial practices for normal shipment considering the type of Products and Spare Parts involved in the transaction and the normal risks encountered in shipments thereof.

11. COMPLIANCE WITH RoHS

With respect to individual components included in printer kits, Oki Data will comply with the European Union directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS) in accordance with the schedule provided in Exhibit 8.

12. LIMITATION OF LIABILITY

In no event will Oki Data be liable for loss of profits or incidental, special, or consequential damages arising out of any breach of obligations under this Agreement, nor will Oki Data be liable for any damages caused by delay in delivery of the Products being purchased hereunder.

13. CUSTOMER'S VALUE ADD AND RESALE OF PRODUCTS

Customer warrants and represents that the Products purchased hereunder are for use and resale by Customer as part of, or as accessories to, equipment manufactured or assembled by Customer, or are modified by Customer so as to change the normal functionality of the Products as sold to Customer by Oki Data.

14. EXPORT RESTRICTIONS

Customer warrants that it shall not at any time make or permit any export or re-export of Products or Spare Parts directly or indirectly to any country, without full compliance with United States export laws and regulations as issued by the United States Department of Commerce, Office of Export Administration, as amended from time to time, as those laws and regulations apply to Products, Spare Parts and all other things delivered to, or derived from things delivered to, Customer under this Agreement. Customer's failure to comply with the requirements of this provision constitutes an event of default giving Oki Data the right to terminate this Agreement immediately.

15. CONFIDENTIALITY AND PROPRIETARY RIGHTS

Each party (including its agents and employees) warrants that it shall not disclose to any third party, or use or reproduce for any purpose whatsoever the Intellectual Property of the other party, and shall treat as proprietary the other parties trade secrets, technical data, methods, processes or procedures or any other confidential, financial, or business information or data obtained from the other party which the receiving party has access to or becomes aware of during the course of its performance of the OEM Purchase Agreement, without the prior written consent of the disclosing party.

Nothing herein shall limit Customer's use or dissemination of information not derived from Oki Data, or any information that was, or subsequently has been, made public by Oki Data. This obligation shall survive the cancellation or other termination of the OEM Purchase Agreement.

16. WARRANTY

All Products and Spare Parts purchased under this Agreement are subject to a defect inspection warranty that expires thirty (30) days after delivery of same to Customer. During this period, Customer shall furnish Oki Data with a written description of any claimed defect. Oki Data shall then have the option to remedy the defect either at Customer's facility or at Oki Data's Repair Depot. If Oki Data elects the latter, it shall issue a Return Goods Authorization number (hereinafter "RGA") to Customer. No allegedly defective Product or Spare Part will be accepted by Oki Data without an RGA. Customer shall ship the defective Products or Spare Parts to Oki Data on a freight prepaid basis. Transportation costs for the return of a repaired or replacement Products or Spare Parts to the Designated Location shall be paid by Oki Data.

17. SPARE PARTS

A. Spare Parts for Products and their prices shall be listed in Oki Data's Suggested End-User Price List issued from time to time by Oki Data. Spare Parts will be available for a period of seven (7) years from the date of last delivery of Products under this Agreement and may be purchased by the issuance of a Customer purchase order acceptable to Oki Data. If Customer requires Spare Parts after they are no longer available from Oki Data, Oki Data available drawings or purchase specifications to assist Customer in obtaining the products from other sources. The documentation to be supplied will at do documentation to be supplied as is in existence at that time.

B. The minimum order value for Spare Parts is fifty dollars ($50.00)

C. Recommended End-User Spare Parts List (RSPL) will be issued from time to time by Oki Data. All spare parts pricing will be at [*] percent off list price with the exception of the following spare parts which will be at [*] off list price: Part Number 55080201, Main Controller Board, M90 Serial; and Part Number 40140601, M150 Serial I/F Board; and, Part Number 40297801, M150 Parallel I/F Board.

19. GENERAL PROVISIONS

A. All notices required to be given hereunder will be sent by registered or certified mail, return receipt requested, postage prepaid or by prepaid overnight courier, forwarded to the appropriate party at the address shown below, or at such other addresses as that party may, from time to time, advise in writing, and which have been received in the ordinary course of post.

B. Neither party shall have the right to assign its rights or obligations under this Agreement except with the written consent of the other party, provided, however, that a successor in interest by merger, by operation of law, or by assignment, purchase of otherwise of the entire business of either party, shall acquire all interest of such party hereunder. Any prohibited assignment shall be null and void.

C. The failure of either party to enforce at any time the terms, conditions, requirements, or any other provisions of this Agreement shall not be construed as a waiver by such party of any succeeding non-performance of the same term, condition, requirement or any other provision of this Agreement.

D. The headings of paragraphs contained herein are for convenience and reference only and are not a part of this Agreement, nor shall they in any way affect the interpretation thereof.

E. The parties agree that if any portion of this Agreement shall be held illegal and/or unenforceable, the remaining portions of this Agreement shall continue to be binding and enforceable provided that the effectivity of the remaining portion of this Agreement would not defeat the overall business intent of the parties, or give one party any substantial financial benefit to the detriment of the other party.

F. This agreement and its appendices shall be governed by the laws of the party against whom a claim is being made in any dispute, or if such claim is made in

* Confidential treatment requested.

litigation, by the laws of the state of the defendant.

G. This Agreement constitutes the entire Agreement between the parties and supersedes all prior discussion either oral or in writing.

H. The terms and conditions of this Agreement will prevail notwithstanding any variance with the terms and conditions of any order or release submitted by Customer, or any release acknowledgment returned by Oki Data. Except as expressly set forth in this Agreement, this Agreement shall not be deemed, or construed to be, modified, amended, rescinded, or canceled in whole or in part, except by written amendment executed by the parties hereto.

I. Exhibit A, attached hereto, is hereby incorporated in this Agreement by this reference.

IN WITNESS WHEREOF, the parties hereto have set their names on the dates hereinafter set forth.

TransAct Technologies, Inc.	Oki Data Americas, Inc.
Signature /s/ Andrew J. Hoffman	Signature /s/ John Insogno
Name Andrew J. Hoffman	Name John Insogno
Title SVP, Operations	Title Contract Admin
Date 6/5/05	Date 6/5/05

OKI DATA AMERICAS, INC. - OEM SALES AGREEMENT

EXHIBIT A - PRODUCT DESCRIPTIONS, UNITS PRICES, AND ORDER QUANTITIES

DESCRIPTION	PART NUMBER	MINIMUM ORDER QUANTITY	UNIT PRICE
	PRINTER KITS:		
M90	58238101	[*]	$[*]
M150P	40248402	[*]	$[*]
M150S	40248401	[*]	$[*]
M172P	58221401	[*]	$[*]
M172S	58221501	[*]	$[*]
ML 170lGT	40248403	[*]	$[*]
	CONSUMABLES:		
Ribbon-Black	52109401	[*]	$[*]
Ribbon- Purple	52108701	[*]	$[*]

STOCK BALANCING PRINTER KITS:

The regular Printer Kits listed in the above table contain and are packaged with the full compliment and quantity of individual components thereto. To accommodate Customer's stock balancing requirement, Customer may, not more than one time per year, issue a Purchase Order to Oki Data for Stock Balancing Printer Kits containing less than the full compliment and quantity of individual components (Customer to specify which components are to be removed from the regular Printer Kit to create the Stock Balancing Printer Kit). Oki Data's pricing for Stock Balancing Printer Kits will be [*] percent over the unit price of the applicable regular Printer Kit as indicated in the above table. The Minimum Order Quantity as indicated in the above table shall also apply for Stock Balancing Printer Kits.

* Confidential treatment requested.

Exhibit 10.21

SECOND AMENDMENT TO REVOLVING CREDIT, EQUIPMENT LOAN AND SECURITY AGREEMENT

THIS Second Amendment to Revolving Credit, Equipment Loan and Security Agreement (this "Amendment") amends that certain Revolving Credit, Equipment Loan and Security Agreement dated as of August 6, 2003 (the "Agreement") between TRANSACT TECHNOLOGIES INCORPORATED (the "Borrower"), and Banknorth N.A., a national banking association (the "Bank") as amended by a First Amendment to Revolving Credit, Equipment Loan and Security Agreement dated November 12, 2004 (the "First Amendment") (collectively, the Agreement, the First Amendment and this Amendment and any further or other amendment shall be referred to as the "Credit Agreement") is made and entered into as of the 31st day of December 2005 by and between the Borrower and the Bank. Capitalized terms used herein but not defined shall have the meanings assigned to them in the Credit Agreement.

1. AMENDMENT TO CREDIT AGREEMENT. In consideration of mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Bank do hereby amend the Credit Agreement as follows:

   a. Section 7.1 of the Credit Agreement is amended in its entirety to read as follows:

   7.1 Operating Cash Flow to Total Debt Service Ratio. Borrower shall, maintain a ratio of Operating Cash Flow plus the applicable Permitted Add Back as provided below to Total Debt Service at the end of each fiscal quarter of not less than 1.25 to 1.00.

Period Ending	Permitted Add Back
Fiscal Year Ending December 31, 2005	not to exceed $1,500,000
Fiscal Quarter Ending March 31, 2006	not to exceed $1,500,000
Fiscal Quarter Ending June 30, 2006	not to exceed $1,000,000
All Fiscal Quarters Ending after June 30, 2006	$0.00

   b. Exhibit 1 is amended by adding the following definitions in their entirety:

   "Permitted Add Back" means an amount of Capital Expenditures incurred during the fiscal year of the Borrower ending December 31, 2005 by the Borrower that can be characterized as financed Capital Expenditures for purposes of calculating the covenant

set forth in Section 7.1, but only in the amounts and for the fiscal periods provided for in Section 7.1 of this Agreement.

2. CONDITIONS TO CLOSING. This Amendment shall be effective as of December 31, 2005 upon the completion of each of the following:

a. Execution of this Amendment by the Borrower and the Bank and delivery of executed originals to the Bank.

b. Update to any Schedules to the Credit Agreement not previously provided to the Bank by the Borrower.

c. Such additional documents, certificates and other assurances that Bank or its counsel may require.

3. NO DEFAULT; REPRESENTATIONS AND WARRANTIES, ETC. The Borrower hereby confirms that: (a) the representations and warranties of the Borrower contained in the Credit Agreement as modified hereby are true on and as of the date hereof as if made on such date (except to the extent that such representations and warranties expressly relate to an earlier date), as modified by any amendment of Schedules presented herewith; (b) the Borrower is in compliance in all material respects with all of the terms and provisions set forth in the Credit Agreement on their part to be observed or performed; and (c) after giving effect to this Amendment, no Event of Default, nor any event which with the giving of notice or expiration of any applicable grace period or both would constitute such an Event of Default, shall have occurred and be continuing.

4. MISCELLANEOUS.

a. Except to the extent specifically amended hereby, the Credit Agreement, the Loan Documents and all related documents shall remain in full force and effect. Whenever the terms or sections amended hereby shall be referred to in the Credit Agreement, Loan Documents or such other documents (whether directly or by incorporation into other defined terms), such defined terms shall be deemed to refer to those terms or sections as amended by this Amendment.

b. This Amendment may be executed in any number of counterparts, each of which, when executed and delivered, shall be an original, but all counterparts shall together constitute one instrument.

c. This Amendment shall be governed by the laws of the State of Connecticut and shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

[SIGNATURES ON THE NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment which is a sealed instrument as of the date first above written.

BANKNORTH, N.A.

By: /s/ James Hickson

James Hickson
It's Vice President

TRANSACT TECHNOLOGIES INCORPORATED.

By: /s/ Steven A. DeMartino

Name: Steven A. DeMartino
Title: Executive Vice President and
Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-116656) and Form S-8 (Nos. 333-32703, 333-32705, 333-49532, 333-49530, 333-49540, 333-49570 and 333-62269) of TransAct Technologies Incorporated of our report dated March 15, 2006 relating to the financial statements, financial statement schedules, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Hartford, CT
March 15, 2006

Exhibit 31.1

CERTIFICATION

I, Bart C. Shuldman, certify that:

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

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

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

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

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

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

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

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

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

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

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/s/ Bart C. Shuldman

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Bart C. Shuldman
Chairman, President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Steven A. DeMartino, certify that:

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

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

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

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

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

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

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

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

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

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 15, 2006

/s/ Steven A. DeMartino

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Steven A. DeMartino
Executive Vice President,
Chief Financial Officer,
Treasurer and Secretary

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TransAct Technologies Incorporated (the "Company") on Form 10-K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Bart C. Shuldman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: March 15, 2006

/s/ Bart C. Shuldman
- -------------------------------------
Bart C. Shuldman
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of TransAct Technologies Incorporated (the "Company") on Form 10-K for the period ending December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven A. DeMartino, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

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

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

Date: March 15, 2006

/s/ Steven A. DeMartino
- -------------------------------------
Steven A. DeMartino
Chief Financial Officer