

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2022

or

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

For the transition period from _____ to _____.

Commission file number: 0-21121

TRANSACT
Technologies Incorporated

(Exact name of registrant as specified in its charter)

Delaware

06-1456680

(State or Other Jurisdiction of Incorporation or Organization)

(I.R.S. Employer Identification No.)

One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT

06518

(Address of Principal Executive Offices)

(Zip Code)

(203) 859-6800

(Registrant's Telephone Number, Including Area Code)

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

As of July 31, 2022, the number of shares outstanding of the Company's common stock, \$0.01 par value, was 9,910,008.

TRANSACT TECHNOLOGIES INCORPORATED

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited, as adjusted)

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> |
|---|----------------------|------------------------------|
| Assets: | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,893 | \$ 19,457 |
| Accounts receivable, net | 11,991 | 7,593 |
| Employee retention credit receivable | 1,500 | 1,500 |
| Inventories | 10,907 | 7,711 |
| Prepaid income taxes | 188 | 137 |
| Other current assets | 794 | 738 |
| Total current assets | <u>29,273</u> | <u>37,136</u> |
| Fixed assets, net of accumulated depreciation of \$17,216 and \$16,736, respectively | 2,838 | 2,684 |
| Right-of-use asset | 2,937 | 2,553 |
| Goodwill | 2,621 | 2,621 |
| Deferred tax assets | 7,325 | 5,143 |
| Intangible assets, net of accumulated amortization of \$1,286 and \$1,209, respectively | 319 | 397 |
| Other assets | 230 | 400 |
| | <u>16,270</u> | <u>13,798</u> |
| Total assets | <u>\$ 45,543</u> | <u>\$ 50,934</u> |
| Liabilities and Shareholders' Equity: | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,017 | \$ 4,308 |
| Accrued liabilities | 3,649 | 3,894 |
| Lease liability | 789 | 789 |
| Deferred revenue | 887 | 805 |
| Total current liabilities | <u>10,342</u> | <u>9,796</u> |
| Deferred revenue, net of current portion | 169 | 186 |
| Lease liability, net of current portion | 2,170 | 1,781 |
| Other liabilities | 190 | 187 |
| | <u>2,529</u> | <u>2,154</u> |
| Total liabilities | <u>12,871</u> | <u>11,950</u> |
| Shareholders' equity: | | |
| Common stock, \$0.01 par value, 20,000,000 shares authorized; 13,954,850 and 13,917,731 shares issued, respectively; 9,910,008 and 9,872,889 shares outstanding, respectively | 139 | 139 |
| Additional paid-in capital | 55,708 | 55,246 |
| Retained earnings | 8,842 | 15,566 |
| Accumulated other comprehensive income, net of tax | 93 | 143 |
| Treasury stock, at cost, 4,044,842 shares | (32,110) | (32,110) |
| Total shareholders' equity | <u>32,672</u> | <u>38,984</u> |
| Total liabilities and shareholders' equity | <u>\$ 45,543</u> | <u>\$ 50,934</u> |

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited, as adjusted)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|-------------------|------------------------------|-------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>(In thousands, except per share data)</i> | | | |
| Net sales | \$ 12,623 | \$ 9,325 | \$ 22,325 | \$ 17,626 |
| Cost of sales | 7,189 | 5,893 | 14,325 | 10,855 |
| Gross profit | <u>5,434</u> | <u>3,432</u> | <u>8,000</u> | <u>6,771</u> |
| Operating expenses: | | | | |
| Engineering, design and product development | 2,172 | 1,804 | 4,455 | 3,607 |
| Selling and marketing | 3,293 | 1,767 | 5,976 | 3,210 |
| General and administrative | 2,923 | 2,509 | 6,127 | 5,118 |
| | <u>8,388</u> | <u>6,080</u> | <u>16,558</u> | <u>11,935</u> |
| Operating loss | <u>(2,954)</u> | <u>(2,648)</u> | <u>(8,558)</u> | <u>(5,164)</u> |
| Interest and other expense: | | | | |
| Interest, net | (28) | (29) | (92) | (42) |
| Other, net | (264) | (17) | (299) | (100) |
| | <u>(292)</u> | <u>(46)</u> | <u>(391)</u> | <u>(142)</u> |
| Loss before income taxes | <u>(3,246)</u> | <u>(2,694)</u> | <u>(8,949)</u> | <u>(5,306)</u> |
| Income tax benefit | 870 | 664 | 2,225 | 1,187 |
| Net loss | <u>\$ (2,376)</u> | <u>\$ (2,030)</u> | <u>\$ (6,724)</u> | <u>\$ (4,119)</u> |
| Net loss per common share: | | | | |
| Basic | \$ (0.24) | \$ (0.23) | \$ (0.68) | \$ (0.46) |
| Diluted | \$ (0.24) | \$ (0.23) | \$ (0.68) | \$ (0.46) |
| Shares used in per-share calculation: | | | | |
| Basic | 9,910 | 8,976 | 9,898 | 8,962 |
| Diluted | 9,910 | 8,976 | 9,898 | 8,962 |

See notes to Condensed Consolidated Financial Statements.

TRANSACT TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(unaudited, as adjusted)

| | Three Months Ended | | Six Months Ended | |
|---|-----------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| | <i>(In thousands)</i> | | | |
| Net loss | \$ (2,376) | \$ (2,030) | \$ (6,724) | \$ (4,119) |
| Foreign currency translation adjustment, net of tax | (8) | 32 | (50) | 85 |
| Comprehensive loss | \$ (2,384) | \$ (1,998) | \$ (6,774) | \$ (4,034) |

See notes to Condensed Consolidated Financial Statements.

TRANSACTION TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, as adjusted)

| | Six Months Ended | |
|---|-------------------------|-----------------|
| | June 30, | |
| | 2022 | 2021 |
| | <i>(In thousands)</i> | |
| Cash flows from operating activities: | | |
| Net loss | \$ (6,724) | \$ (4,119) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Share-based compensation expense | 581 | 695 |
| Depreciation and amortization | 625 | 486 |
| Deferred income taxes | (2,227) | (1,153) |
| Gain on the sale of fixed assets | - | (8) |
| Foreign currency transaction losses | 298 | 107 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (4,547) | (2,350) |
| Inventories | (3,250) | 2,334 |
| Prepaid income taxes | (51) | (90) |
| Other current and long-term assets | 77 | 29 |
| Accounts payable | 789 | 1,012 |
| Accrued liabilities and other liabilities | (159) | (862) |
| Net cash used in operating activities | <u>(14,588)</u> | <u>(3,919)</u> |
| Cash flows from investing activities: | | |
| Capital expenditures | (744) | (159) |
| Proceeds from the sale of fixed assets | - | 8 |
| Collection of note receivable | - | 1,598 |
| Net cash (used in) provided by investing activities | <u>(744)</u> | <u>1,447</u> |
| Cash flows from financing activities: | | |
| Proceeds from stock option exercises | - | 277 |
| Withholding taxes paid on stock issuances | (119) | (100) |
| Payment of bank financing costs | (10) | (31) |
| Net cash (used in) provided by financing activities | <u>(129)</u> | <u>146</u> |
| Effect of exchange rate changes on cash and cash equivalents | <u>(103)</u> | <u>(73)</u> |
| Decrease in cash and cash equivalents | <u>(15,564)</u> | <u>(2,399)</u> |
| Cash and cash equivalents, beginning of period | 19,457 | 10,359 |
| Cash and cash equivalents, end of period | <u>\$ 3,893</u> | <u>\$ 7,960</u> |
| Supplemental schedule of non-cash investing activities: | | |
| Capital expenditures included in accounts payable | \$ 7 | \$ 100 |

See notes to Condensed Consolidated Financial Statements.

TRANSACTION TECHNOLOGIES INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited, as adjusted)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|------------------|------------------------------|------------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>(In thousands)</i> | | | |
| Equity beginning balance | \$ 34,771 | \$ 28,369 | \$ 38,984 | \$ 30,125 |
| Common stock | | | | |
| Balance, beginning and end of period | 139 | 130 | 139 | 130 |
| Additional paid-in capital | | | | |
| Balance, beginning of period | 55,423 | 42,816 | 55,246 | 42,536 |
| Share-based compensation expense | 285 | 431 | 581 | 695 |
| Issuance of shares from exercise of stock options | – | 186 | – | 277 |
| Relinquishment of stock awards and restricted stock units to pay for withholding taxes | – | (25) | (119) | (100) |
| Balance, end of period | 55,708 | 43,408 | 55,708 | 43,408 |
| Retained earnings | | | | |
| Balance, beginning of period | 11,218 | 17,518 | 15,566 | 19,607 |
| Net loss | (2,376) | (2,030) | (6,724) | (4,119) |
| Balance, end of period | 8,842 | 15,488 | 8,842 | 15,488 |
| Treasury stock | | | | |
| Balance, beginning and end of period | (32,110) | (32,110) | (32,110) | (32,110) |
| Accumulated other comprehensive income (loss), net of tax | | | | |
| Balance, beginning of period | 101 | 15 | 143 | (38) |
| Foreign currency translation adjustment, net of tax | (8) | 32 | (50) | 85 |
| Balance, end of period | 93 | 47 | 93 | 47 |
| Equity ending balance | \$ 32,672 | \$ 26,963 | \$ 32,672 | \$ 26,963 |
| Supplemental share information | | | | |
| Issuance of shares from stock awards | – | 27 | 63 | 92 |
| Relinquishment of stock awards to pay withholding taxes | – | 1 | 26 | 32 |

See notes to Condensed Consolidated Financial Statements.

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

1. Basis of presentation

The accompanying unaudited financial statements of TransAct Technologies Incorporated (“TransAct”, the “Company”, “we”, “us”, or “our”) have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP to be included in full year financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the periods presented have been included. The December 31, 2021 Condensed Consolidated Balance Sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. These interim financial statements should be read in conjunction with the audited financial statements in our Annual Report on Form 10-K for the year ended December 31, 2021.

The financial position and results of operations of our U.K. subsidiary are measured using the local currency as the functional currency. Assets and liabilities of such subsidiary have been translated at the end-of-period exchange rates, and related revenues and expenses have been translated at the exchange rate as of the date the transaction was recognized, with the resulting translation gain or loss recorded in “Accumulated other comprehensive income, net of tax” in the Condensed Consolidated Balance Sheets and “Accumulated other comprehensive income (loss)” in the Condensed Consolidated Statements of Changes in Shareholders’ Equity. Transaction gains and losses are included in “Other, net” in the Condensed Consolidated Statements of Operations.

The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the full year ending December 31, 2022.

See Note 9 for a discussion of a change in accounting principle which occurred in the second quarter of 2022. TransAct changed its method of inventory valuation from standard costing which approximates first-in first-out “FIFO” to the average costing methodology. All prior periods presented have been retrospectively adjusted to apply the new method of accounting. Certain prior period amounts have been adjusted to conform with the current year presentation.

Impact of the COVID-19 pandemic

In the first quarter of 2020, the COVID-19 pandemic and the resulting social distancing measures, including closures and restricted openings of restaurants and casinos implemented by federal, state and local authorities, negatively impacted customer demand and disrupted portions of our supply chain, including delayed product shipments from our two manufacturers located in Thailand and China. Our inventory levels decreased significantly during 2021 due to these supply chain disruptions, and although we have been able to increase inventory levels during the first six months of 2022, continuing delays and further disruptions have led to an increased backlog and increased freight costs, which have impacted our ability to deliver products to our customers on time or at all. While we began to experience a modest recovery starting in the second half of 2020 and continuing through 2021, the recovery slowed again in the first quarter of 2022 due to a resurgence resulting from the Omicron variant and other variants. We began to see a resumption of the recovery in the second quarter of 2022 which we expect to continue during the remainder of 2022, though the exact timing and pace of recovery are unknown given uncertainty surrounding responsive measures to the spread of virus variants or any potential future resurgences of the virus and the significant disruption that we and our customers have already experienced and may continue to experience. We are monitoring indicators of demand recovery, including our sales pipeline, customer orders and product shipments to ascertain an estimate of the ultimate impact of the COVID-19 pandemic on our business; but, the length and ultimate severity of the reduction in demand and supply chain disruptions due to the COVID-19 pandemic remains uncertain.

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

- Public Offering – On October 16, 2020 and August 16, 2021, the Company raised net proceeds of \$8.7 million and \$11.2 million (including the exercise of the underwriters overallotment options on October 16, 2020 and August 20, 2021), respectively, after deducting underwriting discounts, commissions and offering expenses, through underwritten public offerings in which we sold an aggregate of 1,380,000 and 842,375 shares of common stock, respectively.
- PPP Loan – On May 1, 2020, the Company was granted a \$2.2 million loan (the “PPP Loan”) under the Paycheck Protection Program (the “PPP”) administered by the Small Business Administration (“SBA”) established under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. On July 8, 2021, we received notice that the PPP Loan had been forgiven as of July 1, 2021. See Note 5 for further details regarding the PPP Loan.
- Employee Retention Credit – Under the provisions of the CARES Act, the Company was eligible for a refundable employee retention credit subject to certain criteria. In connection with the CARES Act, the Company recognized the employee retention credit during the fourth quarter of 2021 as a \$1.5 million “Gain from employee retention credit” in the Consolidated Statement of Operations for the year ended December 31, 2021 and recorded a \$1.5 million “Employee retention credit receivable” in the Condensed Consolidated Balance Sheets as of June 30, 2022 and December 31, 2021. We expect to receive these funds during 2022.
- Credit Facility – On March 13, 2020, we entered into a new credit facility with Siena Lending Group LLC (the “Lender”) that provides a revolving credit line of up to \$10.0 million, subject to a borrowing base, and on July 19, 2022, we entered into an amendment to extend the maturity of the facility to March 13, 2025. See Note 5 and Note 10 for further details regarding this facility.
- Reduced Capital Expenditures – We limited capital expenditures during 2020 and 2021, and are gradually increasing expenditures during 2022 as sales improve.

We continue to implement additional expense management measures as circumstances warrant. In addition to the planned expense management actions, we may also further modify or supplement the actions we have taken to increase liquidity as the timing and extent of customer demand recovery develops and supply chains normalize.

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

Use of Assumptions and Estimates

Management's belief that the Company will be able to fund its planned operations over the 12 months following the date on which the Condensed Consolidated Financial Statements were issued is based on assumptions which involve significant judgment and estimates of future revenues, capital expenditures and other operating costs. Our current assumptions are that casinos and restaurants will remain open and consumer traffic will continue to increase during the balance of 2022, but that casinos and restaurants may delay purchases of new slot machines and our BOHA! products, respectively, due to labor shortages, supply issues and inflation caused by the COVID-19 pandemic. Based on these assumptions, we anticipate that sales in casino and gaming and food service technology may continue to be negatively impacted for the foreseeable future. We have performed a sensitivity analysis on these assumptions to forecast the potential impact of a slower-than-anticipated recovery and believe that we are positioned to withstand the impact of lower-than-anticipated sales and that we will be able to take additional financial and operational actions to cut costs and/or increase liquidity, if necessary. These actions may include additional expense reductions and capital raising activities.

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

2. Revenue

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

Disaggregation of revenue

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

| | Three Months Ended June 30, | | | | | |
|-------------------------|--------------------------------|---------------|-----------|---------------|---------------|----------|
| | 2022 | | | 2021 | | |
| | United States | International | Total | United States | International | Total |
| | <i>(In thousands)</i> | | | | | |
| Food service technology | \$ 3,281 | \$ 151 | \$ 3,432 | \$ 2,987 | \$ 87 | \$ 3,074 |
| POS automation | 1,172 | – | 1,172 | 1,252 | 4 | 1,256 |
| Casino and gaming | 3,929 | 2,596 | 6,525 | 2,438 | 1,029 | 3,467 |
| Printrex | – | – | – | 25 | 87 | 112 |
| TransAct Services Group | 1,345 | 149 | 1,494 | 1,252 | 164 | 1,416 |
| Total net sales | \$ 9,727 | \$ 2,896 | \$ 12,623 | \$ 7,954 | \$ 1,371 | \$ 9,325 |

| | Six Months Ended June 30, | | | | | |
|-------------------------|------------------------------|---------------|-----------|---------------|---------------|-----------|
| | 2022 | | | 2021 | | |
| | United States | International | Total | United States | International | Total |
| | <i>(In thousands)</i> | | | | | |
| Food service technology | \$ 5,227 | \$ 335 | \$ 5,562 | \$ 5,551 | \$ 270 | \$ 5,821 |
| POS automation | 2,472 | – | 2,472 | 2,412 | 8 | 2,420 |
| Casino and gaming | 6,717 | 4,570 | 11,287 | 4,402 | 1,930 | 6,332 |
| Printrex | – | – | – | 52 | 219 | 271 |
| TransAct Services Group | 2,413 | 591 | 3,004 | 2,532 | 250 | 2,782 |
| Total net sales | \$ 16,829 | \$ 5,496 | \$ 22,325 | \$ 14,949 | \$ 2,677 | \$ 17,626 |

Contract balances

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

Contract liabilities consist of customer pre-payments and deferred revenue. Customer prepayments are reported as “Accrued liabilities” in current liabilities in the Condensed Consolidated Balance Sheets and represent customer payments made in advance of performance obligations in instances where credit has not been extended and are recognized as revenue when the performance obligation is complete. Deferred revenue is reported separately in current liabilities and non-current liabilities and consists of our extended warranty contracts, technical support for our food service technology terminals, EPICENTRAL® maintenance contracts and prepaid software subscriptions for our BOHA! software applications and is recognized as revenue as (or when) we perform under the contract. For the six months ended June 30, 2022, we recognized revenue of \$0.6 million related to our contract liabilities at December 31, 2021. Total net contract liabilities consisted of the following:

| | <u>June 30, 2022</u> | <u>December 31,</u> <u>2021</u> |
|-----------------------------------|-----------------------|------------------------------------|
| | <i>(In thousands)</i> | |
| Unbilled receivables, current | \$ 342 | \$ 314 |
| Unbilled receivables, non-current | 185 | 308 |
| Customer pre-payments | (320) | (99) |
| Deferred revenue, current | (887) | (805) |
| Deferred revenue, non-current | (169) | (186) |
| Total net contract liabilities | <u>\$ (849)</u> | <u>\$ (468)</u> |

Remaining performance obligations

Remaining performance obligations represent the transaction price of firm orders for which a good or service has not been delivered to our customer. As of June 30, 2022, the aggregate amount of transaction prices allocated to remaining performance obligations was \$19.5 million. The Company expects to recognize revenue of \$18.8 million of its remaining performance obligations within the next 12 months following June 30, 2022, \$0.6 million within the next 24 months following June 30, 2022 and the balance of these remaining performance obligations recognized within the next 36 months following June 30, 2022.

3. Inventories

The components of inventories were:

| | <u>June 30, 2022</u> | <u>December 31, 2021</u> |
|---|-----------------------|--------------------------|
| | <i>(In thousands)</i> | |
| Raw materials and purchased component parts | \$ 9,242 | \$ 6,470 |
| Work-in-process | – | 11 |
| Finished goods | 1,665 | 1,230 |
| | <u>\$ 10,907</u> | <u>\$ 7,711</u> |

4. Accrued product warranty liability

We generally provide hardware warranties on 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 the six months ended June 30, 2022 and 2021:

| | Six Months Ended | |
|------------------------------|-------------------------|---------------|
| | June 30, | |
| | 2022 | 2021 |
| | <i>(In thousands)</i> | |
| Balance, beginning of period | \$ 101 | \$ 140 |
| Warranties issued | 12 | 19 |
| Warranty settlements | (33) | (45) |
| Balance, end of period | <u>\$ 80</u> | <u>\$ 114</u> |

As of June 30, 2022, \$63 thousand of the accrued product warranty liability was classified as current in “Accrued liabilities” in the Condensed Consolidated Balance Sheets and the remaining \$17 thousand was classified as non-current in “Other liabilities”.

5. Debt

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

The Siena Credit Facility imposes a financial covenant on the Company and borrowings are subject to a borrowing base based on (i) 85% of eligible accounts receivable plus the lesser of (a) \$5.0 million and (b) 50% of eligible raw material and 60% of finished goods inventory. The three-month period from April 1, 2020 to June 30, 2020 was the first period we were subject to the financial covenant, which required the Company to maintain a minimum EBITDA and continued through the 12-month period from April 1, 2020 to March 31, 2021. On July 21, 2021, the Company entered into an amendment (the “Credit Facility Amendment”) to the Siena Credit Facility. The Credit Facility Amendment changed the financial covenant under the Siena Credit Facility from a minimum EBITDA covenant to an excess availability covenant requiring that the Company maintain excess availability of at least \$750 thousand under the Siena Credit Facility, tested as of the end of each calendar month, beginning with the calendar month ending July 31, 2021. From July 31, 2021 to June 30, 2022, we have been in compliance with our excess availability covenant. As of June 30, 2022, we had no outstanding borrowings under the Siena Credit Facility and \$4.5 million of borrowing capacity available under the Siena Credit Facility, excluding the excess availability covenant. This agreement was further amended in the third quarter of 2022 – see Note 10.

On May 1, 2020 (the “Loan Date”), the Company was granted the PPP Loan from Berkshire Bank in the aggregate amount of \$2.2 million, pursuant to the PPP. Under the terms of the PPP, the PPP Loan would be forgiven to the extent that funds from the PPP Loan were used for payroll costs and costs to continue group health care benefits, as well as for interest on mortgage obligations incurred before February 15, 2020, rent under lease agreements in effect before February 15, 2020, utilities for which service began before February 15, 2020, and interest on debt obligations incurred before February 15, 2020, subject to conditions and limitations provided in the CARES Act. At least 60% (under the PPP terms, as amended) of the proceeds from the PPP Loan were required to be used for eligible payroll costs for the PPP Loan to be forgiven.

On July 8, 2021, the Company received notifications from Berkshire Bank and the SBA that its PPP Loan (including all interest accrued thereon) of \$2.2 million had been fully forgiven by the SBA and that the forgiveness payment date was July 1, 2021. The forgiveness of the PPP Loan was reported as “Gain on forgiveness of long-term debt” in the Consolidated Statement of Operations during the year ended December 31, 2021.

6. Earnings per share

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--|------------|------------------------------|------------|
| | 2022 | 2021 | 2022 | 2021 |
| | <i>(In thousands, except per share data)</i> | | | |
| Net loss | \$ (2,376) | \$ (2,030) | \$ (6,724) | \$ (4,119) |
| Shares: | | | | |
| Basic: Weighted average common shares outstanding | 9,910 | 8,976 | 9,898 | 8,962 |
| Add: Dilutive effect of outstanding options and restricted stock units as determined by the treasury stock method | — | — | — | — |
| Diluted: Weighted average common and common equivalent shares outstanding | 9,910 | 8,976 | 9,898 | 8,962 |
| Net loss per common share: | | | | |
| Basic | \$ (0.24) | \$ (0.23) | \$ (0.68) | \$ (0.46) |
| Diluted | \$ (0.24) | \$ (0.23) | \$ (0.68) | \$ (0.46) |

The computation of diluted earnings per share excludes the effect of the potential exercise of stock awards, including stock options and restricted stock units, when the average market price of the common stock is lower than the exercise price of the related stock award during the period, as the inclusion of these stock awards in the computation of diluted earnings would be anti-dilutive. For the three months ended June 30, 2022 and 2021, there were 1.5 million and 0.3 million, respectively, of potentially dilutive shares consisting of stock awards that were excluded from the calculation of earnings per diluted share. For the six months ended June 30, 2022 and 2021, there were 1.2 million and 0.7 million, respectively, of potentially dilutive shares consisting of stock awards that were excluded from the calculation of earnings per diluted share. In periods for which a net loss is reported, such as the three and six months ended June 30, 2022 and 2021, basic and diluted net loss per common share are calculated using the same method.

7. Leases

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

We enter into lease agreements for the use of real estate space and certain equipment under operating leases and we have no financing leases. Our leases are included in “Right-of-use-assets” and “Lease liabilities” in our Condensed Consolidated Balance Sheet. Our leases have remaining lease terms of two to four years, some of which include options to extend. Our leases with options to extend provide for extensions of two to five years with the ability to terminate the lease within one year. Lease expense is recognized on a straight-line basis over the lease term.

On April 30, 2021, we entered into an amendment to modify the expiration date of our lease on our Hamden, Connecticut facility. The lease, which was last amended on January 3, 2017, was scheduled to expire on April 30, 2027. The lease amendment modified the expiration date to October 31, 2023 with an option to extend the lease for an additional two-year period, extending the expiration date to October 31, 2025. The modification resulted in reducing the right-of-use-asset and lease liability by \$0.3 million.

On April 26, 2022, we entered into an amendment to modify the expiration date of our lease on our Las Vegas, Nevada facility. The lease was set to expire on November 1, 2022 and the amendment extended the lease term to November 30, 2025. The lease amendment resulted in an increase to the right-of-use-asset and lease liability of \$0.8 million. The lease amendment modified the base rent and extended the lease term from October 31, 2022 to November 30, 2025.

Operating lease expense for the three months ended June 30, 2022 and 2021 was \$250 thousand and \$239 thousand, respectively, and is reported as “Cost of sales”, “Engineering, design and product development expense”, “Selling and marketing expense”, and “General and administrative expense” in the Condensed Consolidated Statements of Operations. Operating lease expense for the six months ended June 30, 2022 and 2021 was \$487 thousand and \$482 thousand, respectively. Operating lease expenses include short-term lease costs, which were immaterial during the periods presented.

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

| | Six Months Ended | |
|-------------------------------------|------------------|--------|
| | June 30, | |
| | 2022 | 2021 |
| Operating cash outflows from leases | \$ 456 | \$ 522 |

The following summarizes additional information related to our leases as of June 30, 2022 and December 31, 2021:

| | June 30, 2022 | December 31, 2021 |
|--|---------------|-------------------|
| Weighted average remaining lease term (in years) | 3.2 | 3.5 |
| Weighted average discount rate | 4.5% | 4.4% |

The maturity of the Company's operating lease liabilities as of June 30, 2022 and December 31, 2021 were as follows (in thousands):

| | June 30, 2022 | December 31, 2021 |
|-----------------------------------|---------------|-------------------|
| 2022 | \$ 461 | \$ 886 |
| 2023 | 972 | 721 |
| 2024 | 1,023 | 721 |
| 2025 | 711 | 426 |
| 2026 | 21 | 23 |
| Total undiscounted lease payments | 3,188 | 2,777 |
| Less imputed interest | 229 | 207 |
| Total lease liabilities | \$ 2,959 | \$ 2,570 |

8. Income taxes

We recorded an income tax benefit for the second quarter of 2022 of \$870 thousand at an effective tax rate of (26.8%), compared to an income tax benefit for the second quarter of 2021 of \$664 thousand at an effective tax rate of (24.6%). For the six months ended June 30, 2022, we recorded an income tax benefit of \$2.2 million at an effective tax rate of (24.9%), compared to an income tax benefit for the six months ended June 30, 2021 of \$1.2 million at an effective tax rate of (22.4%).

We are subject to U.S. federal income tax, as well as income tax in certain U.S. states and foreign jurisdictions. We have substantially concluded all U.S. federal, state and local income tax, and foreign tax regulatory examination matters through 2017. However, our federal tax returns for the years 2018 through 2021 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the Condensed Consolidated Financial Statements.

As of June 30, 2022, we had \$144 thousand of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

We recognize interest and penalties related to uncertain tax positions in the income tax provision reported as "Deferred Tax Assets" in the Condensed Consolidated Balance Sheet. As of June 30, 2022, we had \$29 thousand of accrued interest and penalties related to uncertain tax positions. The Company maintains a valuation allowance against certain deferred tax assets where realization is not likely.

9. Change in accounting principle

Effective April 1, 2022, TransAct changed its method of inventory valuation from standard costing which approximates FIFO to the average costing methodology. We believe this methodology is preferable because it reflects a better measurement estimate of inventory cost as we do not typically perform intensive manufacturing of our finished products which are therefore better measured under average cost. In addition, our business is projected to include an increasing sales volume of software going forward, which better aligns with average costing. Comparative financial statements of prior periods have been adjusted to apply the new method retrospectively. Tax effects are calculated at the Company's marginal tax rate, or the tax impact of incremental income changes rather than the average tax rate applied to our total net loss before income taxes. The following financial statement line items for the periods presented were impacted by the change in accounting principle.

The effect of the changes made to the Company's Condensed Consolidated Balance Sheets follows:

| | December 31, 2021 | | |
|---------------------|--------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change |
| Inventories | \$ 7,720 | \$ 7,711 | \$ (9) |
| Deferred tax assets | 5,141 | 5,143 | 2 |
| Retained earnings | 15,573 | 15,566 | (7) |

The ending balance in retained earnings as of December 31, 2020 was adjusted from \$19,718 to \$19,607.

The effect of the changes made to the Company's Condensed Consolidated Statements of Operations follows:

| | Three months ended March 31, 2022 | | | Three months ended June 30, 2021 | | |
|--------------------------|-----------------------------------|-----------------------|---------------------|----------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change | Under FIFO Cost | Under Average Cost | Effect of Change |
| Cost of sales | \$ 6,708 | \$ 7,136 | \$ 428 | \$ 6,000 | \$ 5,893 | \$ (107) |
| Gross profit | 2,994 | 2,566 | (428) | 3,325 | 3,432 | 107 |
| Operating loss | (5,176) | (5,604) | (428) | (2,755) | (2,648) | 107 |
| Loss before income taxes | (5,275) | (5,703) | (428) | (2,801) | (2,694) | 107 |
| Income tax benefit | 1,262 | 1,355 | 93 | 687 | 664 | (23) |
| Net loss | (4,013) | (4,348) | (335) | (2,114) | (2,030) | 84 |

Net loss per common share:

| | | | | | | |
|---------|-----------|-----------|-----------|-----------|-----------|---------|
| Basic | \$ (0.41) | \$ (0.44) | \$ (0.03) | \$ (0.24) | \$ (0.23) | \$ 0.01 |
| Diluted | \$ (0.41) | \$ (0.44) | \$ (0.03) | \$ (0.24) | \$ (0.23) | \$ 0.01 |

Shares used in per-share calculation:

| | | | | |
|---------|-------|-------|-------|-------|
| Basic | 9,886 | 9,886 | 8,976 | 8,976 |
| Diluted | 9,886 | 9,886 | 8,976 | 8,976 |

| | Six months ended June 30, 2021 | | |
|--------------------------|--------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change |
| Cost of sales | \$ 11,112 | \$ 10,855 | \$ (257) |
| Gross profit | 6,514 | 6,771 | 257 |
| Operating loss | (5,421) | (5,164) | 257 |
| Loss before income taxes | (5,563) | (5,306) | 257 |
| Income tax benefit | 1,243 | 1,187 | (56) |
| Net loss | (4,320) | (4,119) | 201 |

Net loss per common share:

| | | | |
|---------|-----------|-----------|---------|
| Basic | \$ (0.48) | \$ (0.46) | \$ 0.02 |
| Diluted | \$ (0.48) | \$ (0.46) | \$ 0.02 |

Shares used in per-share calculation:

| | | |
|---------|-------|-------|
| Basic | 8,962 | 8,962 |
| Diluted | 8,962 | 8,962 |

The effect of the changes made to the Company's Condensed Consolidated Statements of Comprehensive Loss follows:

| | Three months ended March 31, 2022 | | | Three months ended June 30, 2021 | | |
|--------------------|-----------------------------------|-----------------------|---------------------|----------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change | Under FIFO Cost | Under Average Cost | Effect of Change |
| Net loss | \$ (4,013) | \$ (4,348) | \$ (335) | \$ (2,114) | \$ (2,030) | \$ 84 |
| Comprehensive loss | (4,055) | (4,390) | (335) | (2,082) | (1,998) | 84 |

| | Six months ended June 30, 2021 | | |
|--------------------|--------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change |
| Net loss | \$ (4,320) | \$ (4,119) | \$ 201 |
| Comprehensive loss | (4,235) | (4,034) | 201 |

The effect of the changes made to the Company's Condensed Consolidated Statements of Cash Flows follows:

| | Three months ended March 31, 2022 | | | Six months ended June 30, 2021 | | |
|-----------------------|-----------------------------------|-----------------------|---------------------|--------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change | Under FIFO Cost | Under Average Cost | Effect of Change |
| Net loss | \$ (4,013) | \$ (4,348) | \$ (335) | \$ (4,320) | \$ (4,119) | \$ 201 |
| Deferred income taxes | (1,262) | (1,355) | (93) | (1,209) | (1,153) | 56 |
| Inventories | (1,344) | (916) | 428 | 2,591 | 2,334 | (257) |

The effect of the changes made to the Company's Condensed Consolidated Statements of Changes in Shareholders' Equity follows:

| | Three months ended March 31, 2022 | | | Three months ended June 30, 2021 | | |
|--|-----------------------------------|-----------------------|---------------------|----------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change | Under FIFO Cost | Under Average Cost | Effect of Change |
| Equity beginning balance | \$ 38,991 | \$ 38,984 | \$ (7) | \$ 28,363 | \$ 28,369 | \$ 6 |
| Retained earnings -- beginning of period | 15,573 | 15,566 | (7) | 17,512 | 17,518 | 6 |
| Net loss | (4,013) | (4,348) | (335) | (2,114) | (2,030) | 84 |
| Retained earnings -- end of period | 11,560 | 11,218 | (342) | 15,398 | 15,488 | 90 |
| Equity ending balance | 35,113 | 34,771 | (342) | 26,873 | 26,963 | 90 |

| | Six months ended June 30, 2021 | | |
|--|--------------------------------|-----------------------|---------------------|
| | Under FIFO Cost | Under Average Cost | Effect of Change |
| Equity beginning balance | \$ 30,236 | \$ 30,125 | \$ (111) |
| Retained earnings -- beginning of period | 19,718 | 19,607 | (111) |
| Net loss | (4,320) | (4,119) | 201 |
| Retained earnings -- end of period | 15,398 | 15,488 | 90 |
| Equity ending balance | 26,873 | 26,963 | 90 |

10. Subsequent events

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

On July 19, 2022, the Company and the Lender entered into Amendment No. 2 (the "Credit Facility Amendment No. 2") to the Loan and Security Agreement, dated as of March 13, 2020, between the Lender and the Company, as amended by Amendment No. 1, dated as of July 21, 2021, between the Lender and the Company. Also on July 19, 2022, the Company and the Lender entered into an Amended and Restated Fee Letter (the "Amended Fee Letter") in connection with the Credit Facility Amendment No. 2. The Credit Facility Amendment No. 2 did not modify the aggregate amount of the revolving commitment or the interest rate applicable to the loans.

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

- (i) The extension of the maturity date from March 13, 2023 to March 13, 2025; and
- (ii) The termination of the existing blocked account control agreement and entry into a new "springing" deposit account control agreement, permitting the Company to direct the use of funds in its deposit account until such time as (a) the sum of excess availability under Siena Credit Facility (as amended by the Credit Facility Amendment) and unrestricted cash is less than \$5 million for 3 consecutive business days or (b) an event of default occurs and is continuing.

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

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

Forward Looking Statements

Certain statements included in this Quarterly Report on Form 10-Q for the period ended June 30, 2022 (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 the U.S. federal securities laws, including the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “project”, “plan” or “continue” or the negative thereof or other similar words. The Company cautions readers not to place undue reliance on any such forward-looking statements, each of which involves certain risks and uncertainties, including, but not limited to, those listed in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 (our “2021 Form 10-K”), and in our other filings with the Securities and Exchange Commission (the “SEC”). Such risks and uncertainties could cause actual results to differ materially from those discussed in, or implied by, the forward-looking statements. Any such risks and uncertainties may also be exacerbated by the ultimate impact of the COVID-19 pandemic and the re-emergence of virus variants, supply chain disruptions, inflation which is unknown at this time and the Russia/Ukraine conflict and its impact on freight costs. In addition, statements made in this Report about the COVID-19 pandemic and the potential effects and impacts of the COVID-19 pandemic on the Company’s business, financial condition, liquidity and results of operations may constitute forward-looking statements due to factors and future developments that are uncertain, unpredictable and, in many cases, beyond our control, including the scope, duration and extent of the COVID-19 pandemic, actions taken by governmental authorities and businesses in response to the COVID-19 pandemic and any further resurgences or variants, vaccination rates and the direct and indirect impact of the COVID-19 pandemic on our employees, customers and third parties with which we conduct business, including difficulties or delays in manufacturing or delivery of inventory or other supply chain disruptions. Although management has taken steps to mitigate any negative effect of such risks and uncertainties, including the impact of the COVID-19 pandemic, significant unfavorable changes could severely impact the assumptions used. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them to reflect the impact of subsequent events or circumstances, except as required by law. As used in this Report, unless the context otherwise requires, references to “we”, “us”, “our”, the “Company” and “TransAct” refer to the consolidated operations of TransAct Technologies Incorporated and its consolidated subsidiaries.

Overview

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

Impact of the COVID-19 pandemic

In the first quarter of 2020, the COVID-19 pandemic and the resulting social distancing measures, including closures and restricted openings of restaurants and casinos implemented by federal, state and local authorities, negatively impacted customer demand and disrupted portions of our supply chain, including delayed product shipments from our two manufacturers located in Thailand and China. Our inventory levels decreased significantly during 2021 due to these supply chain disruptions, and although we have been able to increase inventory levels during the first six months of 2022, continuing delays and further disruptions have led to an increased backlog, increased freight costs, and impacted our ability to deliver products to our customers on time or at all. While we began to experience a modest recovery starting in the second half of 2020 and continuing through 2021, the recovery slowed again in the first quarter of 2022 due to a resurgence resulting from the Omicron variant and other variants. We again are beginning to see a resumption of the recovery in the second quarter of 2022 which we expect to continue during the remainder of 2022, though the exact timing and pace of recovery are unknown given uncertainty surrounding responsive measures to the spread of virus variants or any potential future resurgences of the virus and the significant disruption that we and our customers have already experienced and may continue to experience. We are monitoring indicators of demand recovery, including our sales pipeline, customer orders and product shipments to ascertain an estimate of the ultimate impact of the COVID-19 pandemic on our business, but the length and ultimate severity of the reduction in demand and supply chain disruptions due to the COVID-19 pandemic remains uncertain.

Below is a discussion of the impact we have experienced from the COVID-19 pandemic, and that we believe will continue to experience for the foreseeable future in each of our markets.

Food service technology and POS automation. In both our food service technology and POS automation markets, many restaurants and food service establishments that were closed during much of the second quarter of 2020 started to reopen in the third quarter of 2020 as state and local governments began to ease restrictions put in place in response to the COVID-19 pandemic. Many of our customers initially opened under restrictions that limited them to providing drive-through, take-out or delivery service without dine-in options, as well as limiting the volume of customers and employees on site at any one time. During the second half of 2020 and throughout 2021 and the first six months of 2022, as these food service customers reopened for business, we experienced sales improvement compared to the second quarter of 2020. Notwithstanding the gradual resumption of operations that began in the third quarter of 2020, our food service technology customers continue to recover from the financial impact of the COVID-19 pandemic, and we expect new capital expenditures to be a lower priority for them in the near term, which we believe will continue to negatively impact sales of BOHA! hardware, software and label products. However, food service providers have been and are likely to continue to be required to develop and implement new or enhanced policies and operating procedures regarding cleaning, sanitizing and social distancing to ensure the safety of their employees and customers. Additionally, our markets have experienced labor shortages and inflation in their food and labor costs. We believe that our BOHA! hardware, software and label products could prove to be helpful to our food service customers in efficiently and effectively managing and complying with these new procedures, while also helping to overcome staffing issues and inflation, especially as many establishments are and will likely continue to be operating with reduced staff levels due to the continuing labor shortage.

Casino and gaming. In the casino and gaming market, most casinos and other gaming establishments were closed worldwide during most of the second quarter of 2020. Many casinos began to reopen in late May and early June 2020, but similar to restaurants, casino openings were slow and measured, starting with reduced capacity and limited gameplay based on social distancing guidelines. During the fourth quarter of 2020, some casinos re-closed due to a resurgence of the COVID-19 pandemic. However, many casinos in the U.S. reopened during the first quarter of 2021 with limited capacity and continued to remain open and further expand capacity during the remainder of 2021. We anticipate that casinos world-wide will continue to increase capacity over time, barring any new closures or reduced capacity requirements in response to any new resurgence of the COVID-19 pandemic, including the emergence of variants. Though sales of our casino and gaming products increased during 2021 and the first six months of 2022, and we expect this trend to continue for the remainder of 2022, casinos continue to recover from the financial impact of the COVID-19 pandemic, and therefore we expect that certain casinos' appetite for purchases of new slot machines may be diminished, which may negatively impact sales of casino and gaming printers purchased by slot manufacturers for use in slot machines at casinos during the balance of 2022.

Printrex. We made a strategic decision to exit the Printrex market as of December 31, 2021 and expect to have no future sales in this market beyond 2021.

TSG. Due to closures and reduced operating capacity of restaurants, food service establishments, casinos and other gaming establishments resulting from the COVID-19 pandemic, sales of spare parts, service and consumable products have declined, and we expect full year sales to remain at reduced levels, due to lower usage while the COVID-19 pandemic persists.

Although we have seen improvement in the second quarter of 2022, our gross margin has been negatively impacted by the COVID-19 pandemic and we expect our gross margin to continue to be negatively impacted while the COVID-19 pandemic and its economic effects on the markets we serve persists. As a result of significantly lower sales levels, which were expected, as well as increased material and shipping costs resulting from worldwide supply disruptions caused by the COVID-19 pandemic, we believe our gross margin may continue to be impacted due to fixed manufacturing overhead expenses (such as facility costs, depreciation, etc.) that cannot be reduced or eliminated even with the lower sales level.

We have also experienced supply chain disruptions, including delayed product shipments from our two contract manufacturers located in China and Thailand that conduct almost all of our printer and terminal manufacturing, due to reduced operations and parts shortages at these facilities. To date, these disruptions have only minimally impacted deliveries to customers due to our high inventory levels and reduced demand for our products. Our inventory levels have increased during the first half of 2022 as we have made adjustments to the COVID-19 pandemic-related supply chain problems.

In light of the uncertainty around the ultimate impact of the COVID-19 pandemic and the resulting economic impacts, we implemented a number of cost saving measures during 2020 to help mitigate the impact on our financial position and operations and continued to limit discretionary spending during the first nine months of 2021.

Since the onset of the COVID-19 pandemic, our top priority has been to ensure the health and safety of our employees while continuing to provide our customers with high-quality, personalized service. On March 20, 2020, we instituted work-from-home practices for the majority of our employees to reduce the spread of COVID-19 and to comply with government mandates. Because most of our employees already had laptop computers with remote access into our IT systems, we experienced only minor reductions in productivity and minimal costs related to the implementation of our work-from-home practices. In 2022, we have transitioned to a more hybrid and flexible model to accommodate both our employees and the needs of the business. In addition, even with the transition to a hybrid model, our internal control structure remains operational and unchanged.

We have evaluated the recoverability of the assets on our unaudited condensed consolidated balance sheet as of June 30, 2022 in accordance with relevant authoritative accounting literature. We considered the disruptions caused by the COVID-19 pandemic, including lower than previously forecasted sales and customer demand and macroeconomic factors potentially impacting accounts receivable, inventory, investments, intangible assets, goodwill and other assets and liabilities. Where forward-looking estimates are required, we made a good-faith estimate based on information available as of the balance sheet date. We have continued to monitor for indicators of impairment through the date of this Report.

Notwithstanding the foregoing, there is no assurance that the actions we have taken in response to the COVID-19 pandemic are sufficient or adequate, and we may be required to take additional preventive or responsive measures, as the ultimate extent of the effects of the COVID-19 pandemic on the Company, our financial condition, results of operations, liquidity, and cash flows are uncertain and are dependent on evolving developments which cannot be predicted at this time. See Part I, Item 1A, Risk Factors, of Form 10-K for the year ended December 31, 2021, and other filings we make with the SEC from time to time, for further discussion of risks related to COVID-19.

Critical Accounting Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and the disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, accounts receivable, inventory obsolescence, goodwill and intangible assets, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, warranty obligations, share-based compensation and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. There have been no material changes in our critical accounting judgements and estimates from the information presented in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” in our 2021 Form 10-K

Results of Operations: Three months ended June 30, 2022 compared to the three months ended June 30, 2021

Net Sales. Net sales, which include printer, terminal, software and label sales, as well as sales of replacement parts, consumables and maintenance and repair services, by market for the three and six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended | | Three Months Ended | | \$ Change | % Change |
|------------------------------------|--------------------|---------------|--------------------|---------------|-----------------|---------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Food service technology ("FST") | \$ 3,432 | 27.2% | \$ 3,074 | 33.0% | \$ 358 | 11.6% |
| POS automation | 1,172 | 9.3% | 1,256 | 13.4% | (84) | (6.7%) |
| Casino and gaming | 6,525 | 51.7% | 3,467 | 37.2% | 3,058 | 88.2% |
| Printrex | – | 0.0% | 112 | 1.2% | (112) | (100.0%) |
| TSG | 1,494 | 11.8% | 1,416 | 15.2% | 78 | 5.5% |
| | <u>\$ 12,623</u> | <u>100.0%</u> | <u>\$ 9,325</u> | <u>100.0%</u> | <u>\$ 3,298</u> | <u>35.4%</u> |
| International * | <u>\$ 2,896</u> | <u>22.9%</u> | <u>\$ 1,371</u> | <u>14.7%</u> | <u>\$ 1,525</u> | <u>111.2%</u> |

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

Net sales for the second quarter of 2022 increased \$3.3 million, or 35%, from the same period in 2021. Printer, terminal and other hardware sales unit volume increased 27% year-over-year to approximately 25,000 units for the second quarter of 2022 due primarily to a 69% increase in casino and gaming sales unit volume. The average selling price of our printers, terminals and other hardware increased 18% in the second quarter of 2022 compared to the second quarter of 2021 due primarily to price increases instituted on most of our products in the latter part of the first quarter of 2022. In addition to the sales unit volume increases, FST software, labels and other recurring revenue increased \$0.1 million, or 6%, in the second quarter of 2022 compared to the second quarter of 2021 due in part to increased sales of BOHA! terminals.

International sales for the second quarter of 2022 increased \$1.5 million, or 111%, from the same period in 2021, primarily due to a 152% increase in sales in the international casino and gaming market driven largely by an increase in sales of our thermal casino printers.

Food service technology. Our primary offering in the food service technology market is our BOHA! ecosystem, which combines our latest generation terminal and workstation, cloud-based software applications and related hardware into a unique solution to automate back-of-house operations in restaurants, convenience stores and food service operations. The software component of BOHA! consists of a suite of software-as-a-service ("SaaS")-based applications for both Android and iOS operating systems, including applications for temperature monitoring of food and equipment, timers, food safety labeling, media libraries, checklists and task lists, and equipment service management. These applications can be sold separately or combined into a single platform with the associated hardware, which includes the BOHA! terminal and workstation, handheld devices, tablets, temperature probes and temperature sensors. The BOHA! terminal combines the software and hardware components in a device that includes an operating system, touchscreen and one or two thermal print mechanisms that print easy-to-read food rotation labels, grab-and-go labels and nutritional labels for prepared foods, and "enjoy by" date labels. The BOHA! workstation uses an iPad or Android tablet instead of an integrated touchscreen. Both the BOHA! terminal and workstation are equipped with the TransAct Enterprise Management System to ensure that only approved applications and functions are available on the device and allows over-the-air updates to the applications and operating system. BOHA! helps food service establishments and restaurants (including fine dining, casual dining, fast casual and quick-serve restaurants, convenience stores, hospitality establishments and contract food service providers) effectively manage food safety and grab-and-go initiatives, as well as automate and manage back-of-house operations. Recurring revenue from BOHA! is generated by software sales, including software subscriptions that are typically charged to customers annually on a per-application basis, as well as sales of labels, extended warranty and service contracts, and technical support services. Sales of our worldwide food service technology products for the three months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended | | Three Months Ended | | \$ Change | % Change |
|------------------------------------|--------------------|---------------|--------------------|---------------|---------------|--------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Domestic | \$ 3,281 | 95.6% | \$ 2,987 | 97.2% | \$ 294 | 9.8% |
| International | 151 | 4.4% | 87 | 2.8% | 64 | 73.6% |
| | <u>\$ 3,432</u> | <u>100.0%</u> | <u>\$ 3,074</u> | <u>100.0%</u> | <u>\$ 358</u> | <u>11.6%</u> |

| (In thousands, except percentages) | Three Months Ended | | Three Months Ended | | \$ Change | % Change |
|--|--------------------|---------------|--------------------|---------------|---------------|--------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Hardware | \$ 1,253 | 36.5% | \$ 1,008 | 32.8% | \$ 245 | 24.3% |
| Software, labels and other recurring revenue | 2,179 | 63.5% | 2,066 | 67.2% | 113 | 5.5% |
| | <u>\$ 3,432</u> | <u>100.0%</u> | <u>\$ 3,074</u> | <u>100.0%</u> | <u>\$ 358</u> | <u>11.6%</u> |

The increase of \$0.4 million, or 12%, in food service technology sales for the second quarter of 2022 compared to the second quarter of 2021 was driven by an increase in sales of both hardware as well as software, labels and other recurring revenue. FST hardware sales increased 24% due to higher sales of our Accudate 9700 terminal (largely for use at McDonald's) and to a lesser extent, higher sales of our BOHA! terminal and work station to new and existing customers. BOHA! software (recognized on a SaaS subscription basis), labels and other recurring revenue increased by 5%, primarily due to increased label and software sales due to the growth of the installed base of our BOHA! terminal and workstation.

POS automation. Revenue from the POS automation market includes sales of our Ithaca 9000 thermal printer used primarily by McDonalds and other quick-serve restaurants located either at the checkout counter or within self-service kiosks to print receipts for consumers or print on liner-less labels. Sales of our worldwide POS automation products for the three months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-------------------------------------|---------------|-------------------------------------|---------------|----------------|---------------|
| | | | | | | |
| Domestic | \$ 1,172 | 100.0% | \$ 1,252 | 99.7% | \$ (80) | (6.4%) |
| International | – | 0.0% | 4 | 0.3% | (4) | (100.0%) |
| | <u>\$ 1,172</u> | <u>100.0%</u> | <u>\$ 1,256</u> | <u>100.0%</u> | <u>\$ (84)</u> | <u>(6.7%)</u> |

The decrease in POS automation product revenue for the second quarter of 2022 compared to the second quarter of 2021 of 7% was driven primarily by printer production limitations caused by the worldwide supply chain slowdown. As a result, we could not produce enough POS automation printers to fulfill customer orders during the second quarter of 2022. However, we expect production to ramp up in the second half of 2022 and sales of our POS automation printers to be significantly higher in the second half of 2022 compared to the first half of 2022 based on the backlog of orders we have received for McDonald's.

Casino and gaming. Revenue from the casino and gaming market includes sales of thermal ticket printers used in slot machines, video lottery terminals, and other gaming machines that print tickets or receipts instead of issuing coins at casinos and racetracks and other gaming venues worldwide. Revenue from this market also includes sales of thermal roll-fed printers used in the international off-premise gaming market in gaming machines such as Amusement with Prizes, Skills with Prizes and Fixed Odds Betting Terminals and kiosks for sports betting at non-casino gaming and sports betting establishments. Revenue from this market also includes royalties related to our patented casino and gaming technology. In addition, casino and gaming market revenue includes sales of the EPICENTRAL print system, our software solution (including annual software maintenance), that enables casino operators to create promotional coupons and marketing messages and to print them in real time at the slot machine. Sales of our worldwide casino and gaming products for the three months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-------------------------------------|---------------|-------------------------------------|---------------|-----------------|--------------|
| | | | | | | |
| Domestic | \$ 3,929 | 60.2% | \$ 2,438 | 70.3% | \$ 1,491 | 61.2% |
| International | 2,596 | 39.8% | 1,029 | 29.7% | 1,567 | 152.3% |
| | <u>\$ 6,525</u> | <u>100.0%</u> | <u>\$ 3,467</u> | <u>100.0%</u> | <u>\$ 3,058</u> | <u>88.2%</u> |

The increase in domestic sales of our casino and gaming products for the second quarter of 2022 compared to the second quarter of 2021 of \$1.5 million, or 61%, was primarily due to an across-the-board increase in OEM printer sales and price increases as we continue to experience continued recovery and believe we are increasing our market share compared to the second quarter of 2021 when the casino and gaming market was negatively impacted by the COVID-19 pandemic. This increase was somewhat tempered by a continued global chip shortage that limited our printer production during the second quarter of 2022. We also completed an installation of Epicentral software at a new casino during the second quarter of 2022 that contributed to the overall increase in domestic sales.

Similar to the domestic sales increase, the international sales increase of our casino and gaming products for the second quarter of 2022 was \$1.6 million compared to the second quarter of 2021 and was primarily due to a 157% increase in sales of our thermal casino printers. Though sales in Asia remain weak due to closures related to the COVID-19 pandemic, we experienced a sales recovery primarily in Europe and Australia during the second quarter of 2022 compared to the second quarter of 2021 when the international casino and gaming market was negatively impacted by the COVID-19 pandemic.

We expect production to continue to ramp up in the second half of 2022 and sales of our casino printers to be higher in the second half of 2022 compared to the first half of 2022 based on the backlog of orders we have received.

Printrex. Printrex branded printers were sold into markets that include wide format, desktop and rack mounted and vehicle mounted black/white thermal printers used by customers to log and plot oil field, seismic and down hole well drilling data in the oil and gas exploration industry. Sales of our worldwide Printrex printers for the three months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-------------------------------------|-------------|-------------------------------------|---------------|-----------------|-----------------|
| | | | | | | |
| Domestic | \$ – | 0.0% | \$ 25 | 22.3% | \$ (25) | (100.0%) |
| International | – | 0.0% | 87 | 77.7% | (87) | (100.0%) |
| | <u>\$ –</u> | <u>0.0%</u> | <u>\$ 112</u> | <u>100.0%</u> | <u>\$ (112)</u> | <u>(100.0%)</u> |

We made a strategic decision to exit the Printrex market as of December 31, 2021 and have had no sales, and expect to have no future sales in this market beyond 2021.

TSG. Revenue generated by TSG includes sales of consumable products (POS receipt paper, inkjet cartridges, ribbons and other printing supplies for legacy products), replacement parts, maintenance and repair services, refurbished printers, and shipping and handling charges. Sales in our worldwide TSG market for the three months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Three Months Ended June 30, 2022 | | Three Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-------------------------------------|---------------|-------------------------------------|---------------|--------------|-------------|
| | | | | | | |
| Domestic | \$ 1,345 | 90.0% | \$ 1,252 | 88.4% | \$ 93 | 7.4% |
| International | 149 | 10.0% | 164 | 11.6% | (15) | (9.1%) |
| | <u>\$ 1,494</u> | <u>100.0%</u> | <u>\$ 1,416</u> | <u>100.0%</u> | <u>\$ 78</u> | <u>5.5%</u> |

Domestic revenue from TSG for the second quarter of 2022 increased \$0.1 million, or 7%, compared to the second quarter of 2021. The increase was primarily due to increased sales of replacement parts and accessories for lottery and POS printers. This increase was partially offset by a reduction of legacy consumables that are no longer a focus for the Company.

Internationally, TSG revenue decreased \$0.1 million, or 9%, in the second quarter of 2022 compared to the second quarter of 2021.

Gross Profit. Gross profit for the three months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, | | Percent Change | Percent of Total Sales - 2022 | Percent of Total Sales - 2021 |
|-----------------------------|----------|-------------------|----------------------------------|----------------------------------|
| 2022 | 2021 | | | |
| \$ 5,434 | \$ 3,432 | 58.3% | 43.0% | 36.8% |

Gross profit is measured as revenue less cost of sales, which includes primarily the cost of all raw materials and component parts, direct labor, manufacturing overhead expenses, cost of finished products purchased directly from our contract manufacturers, expenses associated with installations and support of our EPICENTRAL® print system and BOHA! ecosystem and royalty payments to third parties, including to the third-party licensor of our food service technology software products. For the second quarter of 2022, gross profit increased \$2.0 million, or 58% due largely to a sales increase of 35% for the second quarter of 2022 compared to the second quarter of 2021. During the second quarter of 2022, our gross margin increased 620 basis points, to 43.0%, compared to 36.8% in the second quarter of 2021. The increase in gross margin resulted primarily from higher sales volume, a more favorable product mix and the effect of price increases instituted in the latter part of the first quarter of 2022.

Operating Expenses - Engineering, Design and Product Development. Engineering, design and product development expense for the three months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| Three Months Ended June 30, | | Percent Change | Percent of Total Sales - 2022 | Percent of Total Sales - 2021 |
|-----------------------------|----------|-------------------|----------------------------------|----------------------------------|
| 2022 | 2021 | | | |
| \$ 2,172 | \$ 1,804 | 20.4% | 17.2% | 19.3% |

Engineering, design and product development expenses primarily include salary and payroll related expenses for our hardware and software engineering staff, depreciation and design expenses (including prototype printer expenses, outside design, development and testing services, supplies and contract software development expenses including those to the third-party licensor of our food service technology software products). Such expenses increased \$0.4 million, or 20%, for the second quarter of 2022 compared to the second quarter of 2021, as we gradually return to more normalized pre-COVID-19 spending levels and continue development of our food service technology products which we expect to continue during the second half of 2022. In addition, we incurred higher design expenses related to incorporating alternate electronic parts into our products in response to the worldwide chip shortage in an effort minimize disruptions to our printer and terminal production.

Operating Expenses - Selling and Marketing. Selling and marketing expense for the three months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Three Months Ended June 30,</u> | | <u>Percent</u> <u>Change</u> | <u>Percent of</u> <u>Total Sales - 2022</u> | <u>Percent of</u> <u>Total Sales - 2021</u> |
|------------------------------------|-------------|---------------------------------|--|--|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 3,293 | \$ 1,767 | 86.4% | 26.1% | 18.9% |

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, public relations, e-commerce and other promotional marketing expenses. Such expenses increased \$1.5 million, or 86%, for the second quarter of 2022 compared to the second quarter of 2021, primarily due to investment spending for our FST sales and marketing groups. During the second quarter of 2022, we continued BOHA! market studies we began in the first quarter 2022, increased marketing programs and hired additional sales staff to support our BOHA! products. In addition to these investments, we incurred higher sales commissions, travel expenses and tradeshow expense, as we returned to pre-COVID-19 spending levels, compared to the lower level of spending during the second quarter of 2021 resulting from the negative impacts of COVID-19. Despite the strategic investments we have made in our FST sales and marketing groups, we expect overall selling and marketing expenses to be lower in the second half of 2022 compared to the first half of 2022 due to cost cutting measures we have implemented in other areas.

Operating Expenses - General and Administrative. General and administrative expense for the three months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Three Months Ended June 30,</u> | | <u>Percent</u> <u>Change</u> | <u>Percent of</u> <u>Total Sales - 2022</u> | <u>Percent of</u> <u>Total Sales - 2021</u> |
|------------------------------------|-------------|---------------------------------|--|--|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 2,923 | \$ 2,509 | 16.5% | 23.2% | 26.9% |

General and administrative expenses primarily include salaries, incentive compensation, and other payroll related expenses for our executive, finance, human resources, business development and information technology staff, corporate headquarters, professional and legal expenses, information technology expenses, and other expenses related to being a publicly-traded company. General and administrative expenses were up \$0.4 million, or 17%, compared to the second quarter of 2021 due to higher professional fees, salary increases, and depreciation and other expenses related to the implementation of a new ERP system that was completed in April 2022. These increases were partially offset by a reduction in incentive compensation expense.

Operating Loss. Operating loss for the three months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Three Months Ended June 30,</u> | | <u>Percent</u> <u>Change</u> | <u>Percent of</u> <u>Total Sales - 2022</u> | <u>Percent of</u> <u>Total Sales - 2021</u> |
|------------------------------------|-------------|---------------------------------|--|--|
| <u>2022</u> | <u>2021</u> | | | |
| \$ (2,954) | \$ (2,648) | 11.6% | (23.4%) | (28.4%) |

Our operating loss increased \$0.3 million, or 12%, for the second quarter of 2022 compared to the second quarter of 2021 due to a \$2.0 million, or 58%, increase in gross profit on 35% higher sales and 620 basis point improvement in gross margin was more than offset by a \$2.3 million, or 38%, increase in operating expenses during the second quarter of 2022 compared to the second quarter of 2021.

Interest, net. Net interest expense remained consistent at \$28 thousand for the second quarter of 2022 compared to \$29 thousand for the second quarter of 2021. We expect interest expense to increase during the second half of 2022 compared to the first half of 2022 due to required minimum borrowings pursuant to the terms of the July 2022 Amendment No. 2 to the Siena Credit Facility.

Other, net. We recorded other expense of \$264 thousand for the second quarter of 2022 compared to other expense of \$17 thousand for the second quarter of 2021, primarily due to higher foreign exchange losses recorded by our U.K. subsidiary resulting largely from the weakening of the British pound against the U.S. dollar during the second quarter of 2022.

Income Taxes. We recorded an income tax benefit for the second quarter of 2022 of \$870 thousand at an effective tax rate of (26.8%), compared to an income tax benefit for the second quarter of 2021 of \$664 thousand at an effective tax rate of (24.6%).

Net Loss. As a result of the above, we reported a net loss for the second quarter of 2022 of \$2.4 million, or (\$0.24) per diluted share, compared to a net loss of \$2.0 million, or (\$0.23) per diluted share for the second quarter of 2021.

Results of Operations: Six months ended June 30, 2022 compared to six months ended June 30, 2021

Net Sales. Net sales, which include printer, terminal and software sales, as well as sales of replacement parts, consumables and maintenance and repair services, by market for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-----------------------------------|---------------|-----------------------------------|---------------|-----------------|--------------|
| | | | | | | |
| FST | \$ 5,562 | 24.9% | \$ 5,821 | 33.0% | \$ (259) | (4.4%) |
| POS automation | 2,472 | 11.1% | 2,420 | 13.7% | 52 | 2.1% |
| Casino and gaming | 11,287 | 50.6% | 6,332 | 35.9% | 4,955 | 78.3% |
| Printrex | – | 0.0% | 271 | 1.6% | (271) | (100.0%) |
| TSG | 3,004 | 13.4% | 2,782 | 15.8% | 222 | 8.0% |
| | <u>\$ 22,325</u> | <u>100.0%</u> | <u>\$ 17,626</u> | <u>100.0%</u> | <u>\$ 4,699</u> | <u>26.7%</u> |
| International * | \$ 5,496 | 24.6% | \$ 2,677 | 15.2% | \$ 2,819 | 105.3% |

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

Net sales for the first six months of 2022 increased \$4.7 million, or 27%, from the same period in 2021. Printer, terminal and other hardware sales unit volume increased by 26% to approximately 48,000, units for the six months of 2022 driven primarily by a 65% increase in unit in our casino and gaming market. The average selling price of our printers, terminals and other hardware increased 5% for the first six months of 2022 compared to the first six months of 2021 due primarily to price increases instituted on most of our products in the latter part of the first quarter of 2022. FST software, labels and other recurring revenue increased \$0.5 million, or 15%, in the first six months of 2022 compared to the first six months of 2021.

International sales for the first six months of 2022 increased \$2.8 million, or 105%, from the same period in 2021 due primarily to a 137% increase in the international casino and gaming market.

Food service technology. Sales of our worldwide food service technology products for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | | \$ Change | % Change |
|------------------------------------|-----------------------------------|---------------|-----------------------------------|---------------|-----------------|---------------|
| | | | | | | |
| Domestic | \$ 5,227 | 94.0% | \$ 5,551 | 95.4% | \$ (324) | (5.8%) |
| International | 335 | 6.0% | 270 | 4.6% | 65 | 24.1% |
| | <u>\$ 5,562</u> | <u>100.0%</u> | <u>\$ 5,821</u> | <u>100.0%</u> | <u>\$ (259)</u> | <u>(4.4%)</u> |

| (In thousands, except percentages) | Six Months Ended June 30, 2022 | | Six Months Ended June 30, 2021 | | \$ Change | % Change |
|--|-----------------------------------|---------------|-----------------------------------|---------------|-----------------|---------------|
| | | | | | | |
| Hardware | \$ 1,816 | 32.7% | \$ 2,550 | 43.8% | \$ (734) | (28.8%) |
| Software, labels and other recurring revenue | 3,746 | 67.3% | 3,271 | 56.2% | 475 | 14.5% |
| | <u>\$ 5,562</u> | <u>100.0%</u> | <u>\$ 5,821</u> | <u>100.0%</u> | <u>\$ (259)</u> | <u>(4.4%)</u> |

The decrease in food service technology sales of \$0.3 million, or 4%, in the first six months of 2022 compared to the first six months of 2021 was driven by a decrease in hardware sales, partially offset by an increase in sales of BOHA! software, labels and other recurring revenue. Hardware sales decreased 29% in the first half of 2022 compared to the first half of 2021 due largely to lower sales to a national convenience store customer and an initial sale to a new national travel center customer completed in the first quarter of 2021 that did not reoccur in the first half of 2022. FST software, labels and other recurring revenue sales increased 15% in the first six months of 2022 compared to the first six months of 2021. This increase was primarily due to increased label sales and, to a lesser extent, increased software sales, compared to the prior year period due principally to the growth of the installed base of our BOHA! terminals and workstations

POS automation. Sales of our worldwide POS automation products for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended | | Six Months Ended | | \$ Change | % Change |
|------------------------------------|------------------|---------------|------------------|---------------|--------------|-------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Domestic | \$ 2,472 | 100.0% | \$ 2,412 | 99.7% | \$ 60 | 2.5% |
| International | – | 0.0% | 8 | 0.3% | (8) | (100.0%) |
| | <u>\$ 2,472</u> | <u>100.0%</u> | <u>\$ 2,420</u> | <u>100.0%</u> | <u>\$ 52</u> | <u>2.1%</u> |

Sales of POS automation printers remained consistent, increasing \$0.1 million, or 2%, for the first six months of 2022 compared to the first six months of 2021.

Casino and gaming. Sales of our worldwide casino and gaming products for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended | | Six Months Ended | | \$ Change | % Change |
|------------------------------------|------------------|---------------|------------------|---------------|-----------------|--------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Domestic | \$ 6,717 | 59.5% | \$ 4,402 | 69.5% | \$ 2,315 | 52.6% |
| International | 4,570 | 40.5% | 1,930 | 30.5% | 2,640 | 136.8% |
| | <u>\$ 11,287</u> | <u>100.0%</u> | <u>\$ 6,332</u> | <u>100.0%</u> | <u>\$ 4,955</u> | <u>78.3%</u> |

The increase in domestic sales of our casino and gaming products of \$2.3 million, or 53%, for the first six months of 2022 compared to the first six months of 2021 was primarily due to an increase in domestic sales and price increases in our gaming and thermal casino printers, as we have experienced a positive recovery and believe we are increasing our market share during the first six months of 2022 compared to the same period in 2021 which was impacted by the COVID-19 pandemic. This increase was somewhat tempered by a continued global chip shortage that limited our printer production during the second quarter of 2022. We also completed an installation of EPICENTRAL software at a new casino during the second quarter of 2022 that contributed to the overall increase in domestic sales.

International sales of our casino and gaming products increased by \$2.6 million, or 137%, in the first six months of 2022 compared to the first six months of 2021. Sales of our thermal casino printers increased 118% and sales of our off-premise gaming printers increased 273%. These increases are attributable to the recovery of the international markets after significant negative impacts from the COVID-19 pandemic during the 2021 period.

Printrex. Sales of our worldwide Printrex printers for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended | | Six Months Ended | | \$ Change | % Change |
|------------------------------------|------------------|-------------|------------------|---------------|-----------------|-----------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Domestic | \$ – | 0.0% | \$ 52 | 19.2% | \$ (52) | (100.0%) |
| International | – | 0.0% | 219 | 80.8% | (219) | (100.0%) |
| | <u>\$ –</u> | <u>0.0%</u> | <u>\$ 271</u> | <u>100.0%</u> | <u>\$ (271)</u> | <u>(100.0%)</u> |

We made a strategic decision to exit the Printrex market as of December 31, 2021 and have had no sales, and expect to have no future sales in this market beyond 2021.

TSG. Sales in our worldwide TSG market for the six months ended June 30, 2022 and 2021 were as follows:

| (In thousands, except percentages) | Six Months Ended | | Six Months Ended | | \$ Change | % Change |
|------------------------------------|------------------|---------------|------------------|---------------|---------------|-------------|
| | June 30, 2022 | | June 30, 2021 | | | |
| Domestic | \$ 2,413 | 80.3% | \$ 2,532 | 91.0% | \$ (119) | (4.7%) |
| International | 591 | 19.7% | 250 | 9.0% | 341 | 136.4% |
| | <u>\$ 3,004</u> | <u>100.0%</u> | <u>\$ 2,782</u> | <u>100.0%</u> | <u>\$ 222</u> | <u>8.0%</u> |

The decrease in domestic revenue from TSG of \$0.1 million, or 5%, for the first six months of 2022 as compared to the first six months of 2021 was primarily due to lower service revenue and sales of consumable products. Service revenue declined 35%, primarily related to declining revenue from a service contract with a legacy banking customer that is expected to expire during 2022. Consumable sales declined by 40% due to decreased sales of consumable products for our legacy products on which we are no longer focusing on. These decreases were offset by a 16% increase in sales of replacement parts and accessories.

Internationally, TSG revenue increased \$0.3 million, or 136%, for the first six months of 2022 compared to the first six months of 2021, primarily due to a 205% increase in sales of replacement parts and accessories to international casino and gaming customers.

Gross Profit. Gross profit for the six months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Six Months Ended June 30,</u> | | <u>Percent Change</u> | <u>Percent of Total Sales - 2022</u> | <u>Percent of Total Sales - 2021</u> |
|----------------------------------|-------------|-----------------------|--------------------------------------|--------------------------------------|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 8,000 | \$ 6,771 | 18.2% | 35.8% | 38.4% |

For the first six months of 2022, gross profit increased \$1.2 million, or 18%, due largely to a sales increase of 27% in the first six months of 2022 compared to the first six months of 2021. The decrease in gross margin percentage resulted primarily from higher freight and product costs incurred due to the worldwide supply chain disruption and chip shortage during the first six months of 2022.

Operating Expenses - Engineering, Design and Product Development. Engineering, design and product development expense for the six months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Six Months Ended June 30,</u> | | <u>Percent Change</u> | <u>Percent of Total Sales - 2022</u> | <u>Percent of Total Sales - 2021</u> |
|----------------------------------|-------------|-----------------------|--------------------------------------|--------------------------------------|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 4,455 | \$ 3,607 | 23.5% | 20.0% | 20.5% |

Engineering, design and product development expenses increased \$0.8 million, or 24%, during the first six months of 2022 compared to first six months of 2021, as we gradually return to more normalized pre-COVID-19 spending levels, as well as the impact from the hiring of additional engineering staff in late 2021 and the first quarter of 2022 for continued development for our food service technology products.

Operating Expenses - Selling and Marketing. Selling and marketing expense for the six months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Six Months Ended June 30,</u> | | <u>Percent Change</u> | <u>Percent of Total Sales - 2022</u> | <u>Percent of Total Sales - 2021</u> |
|----------------------------------|-------------|-----------------------|--------------------------------------|--------------------------------------|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 5,976 | \$ 3,210 | 86.2% | 26.8% | 18.2% |

Selling and marketing expenses increased \$2.8 million, or 86%, for the first six months of 2022 compared to the first six months of 2021 primarily due to investment spending for our FST sales and marketing groups. During the first half of 2022, we initiated BOHA! market studies, increased marketing programs and hired additional sales staff to support our BOHA! products. In addition to these investments, we incurred higher sales commissions, travel expenses and tradeshow expense, as we returned to pre-COVID-19 spending levels, compared to the lower level of spending during the first half of 2021 resulting from the negative impacts of the COVID-19 pandemic.

Operating Expenses - General and Administrative. General and administrative expense for the six months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Six Months Ended June 30,</u> | | <u>Percent Change</u> | <u>Percent of Total Sales - 2022</u> | <u>Percent of Total Sales - 2021</u> |
|----------------------------------|-------------|-----------------------|--------------------------------------|--------------------------------------|
| <u>2022</u> | <u>2021</u> | | | |
| \$ 6,127 | \$ 5,118 | 19.7% | 27.4% | 29.0% |

General and administrative expenses increased \$1.0 million, or 20%, for the first six months of 2022 compared to first six months of 2021 due to higher professional fees (including legal fees related to a shareholder matter that was resolved in March 2022 when we entered into a Cooperation Agreement with two shareholders), salary increases and depreciation and other expenses related to the implementation of a new ERP system that was completed in April 2022. These increases were partially offset by a reduction in incentive compensation expense during the first half of 2022.

Operating Loss. Operating loss for the six months ended June 30, 2022 and 2021 is summarized below (in thousands, except percentages):

| <u>Six Months Ended June 30,</u> | | <u>Percent Change</u> | <u>Percent of Total Sales - 2022</u> | <u>Percent of Total Sales - 2021</u> |
|----------------------------------|-------------|-----------------------|--------------------------------------|--------------------------------------|
| <u>2022</u> | <u>2021</u> | | | |
| \$ (8,558) | \$ (5,164) | 65.7% | (38.3%) | (29.3%) |

Our operating loss increased \$3.4 million, or 66%, for the first six months of 2022 compared to the first six months of 2021 as a \$1.2 million, or 18%, increase in gross profit on 27% higher sales was more than offset by a \$4.6 million, or 39%, increase in operating expenses during the first half of 2022 compared to the first half of 2021.

Interest, net. We recorded net interest expense of \$92 thousand for the first six months of 2022 compared to net interest expense of \$42 thousand for the first six months of 2021. The increase in net interest expense was primarily due to lower interest income earned from the note receivable to a third-party software developer that was collected in March 2021. We expect interest expense to increase during the second half of 2022 due to required minimum borrowings pursuant to the terms of the July 2022 Credit Facility Amendment No. 2.

Other, net. We recorded other expense of \$299 thousand for the first six months of 2022 compared to other expense of \$100 thousand for the first six months of 2021 primarily due to increased foreign exchange losses recorded by our U.K. subsidiary largely due to a weakening of the British pound against the U.S. dollar in the second quarter of 2022.

Income Taxes. We recorded an income tax benefit for the first six months of 2022 of \$2.2 million at an effective tax rate of 24.9%, compared to an income tax benefit for the first six months of 2021 of \$1.2 million at an effective tax rate of 22.4%.

Net Loss. As a result of the above, we reported a net loss for the first six months of 2022 of \$6.7 million, or \$0.68 per diluted share, compared to a net loss of \$4.1 million, or \$0.46 per diluted share for the first six months of 2021.

Liquidity and Capital Resources

Cash Flow

For the first six months of 2022, our cash and cash equivalents balance decreased by \$15.6 million to \$3.9 million as of June 30, 2022 due primarily to higher accounts receivable associated with higher sales volumes, increased inventory related to strategic inventory purchases in response to the global supply chain crisis and a reported net loss for the period.

Operating activities: The following significant factors affected our cash used in operating activities of \$14.6 million for the first six months of 2022 as compared to cash used in operating activities of \$3.9 million for the first six months of 2021:

During the first six months of 2022:

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

During the first six months of 2021:

- We reported a net loss of \$4.1 million.
- We recorded depreciation and amortization of \$0.5 million and share-based compensation expense of \$0.7 million.
- Accounts receivable increased \$2.4 million primarily due to increased sales volume during the second quarter of 2021.
- Inventories decreased \$2.3 million due to the utilization of inventory on hand to fulfill sales.
- Accounts payable increased \$1.0 million due primarily to the timing of payments during the second quarter of 2021.
- Accrued liabilities and other liabilities decreased \$0.9 million, or 11%, due primarily to the payment of 2020 annual bonuses in March 2021.

Investing activities: Our capital expenditures were \$0.7 million for the first six months of 2022 compared to \$0.2 million for the first six months of 2021. Expenditures in 2022 were primarily related to the implementation of a new ERP system. Expenditures in 2021 were primarily related to computer and networking equipment and new product tooling equipment. During the first six months of 2021, we limited our capital expenditures to help preserve liquidity amidst the height of the COVID-19 pandemic. Investing activities also provided \$1.6 million in the first six months of 2021 for the collection of the remaining \$1.6 million note receivable balance from an unaffiliated third party.

Financing activities: Financing activities used \$0.1 million of cash in the first six months of 2022. During the first six months of 2021, financing activities provided \$0.1 million of cash primarily from the exercise of stock options, net of withholding taxes paid.

Credit Facility and Borrowings

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

The Siena Credit Facility imposes a financial covenant on the Company and restricts, among other things, our ability to incur additional indebtedness and the creation of other liens. The three-month period from April 1, 2020 to June 30, 2020 was the first period we were subject to the financial covenant, which required the Company to maintain a minimum EBITDA and continued through the 12-month period from April 1, 2020 to March 31, 2021. On July 21, 2021, the Company entered into an amendment (the “Credit Facility Amendment”) to the Siena Credit Facility. The Credit Facility Amendment changed the financial covenant under the Siena Credit Facility from a minimum EBITDA covenant to an excess availability covenant requiring that the Company maintain excess availability of at least \$750 thousand under the Siena Credit Facility, tested as of the end of each calendar month, beginning with the calendar month ending July 31, 2021. From July 31, 2021 to June 30, 2022, we have been in compliance with our excess availability covenant. As of June 30, 2022, we had no outstanding borrowings under the Siena Credit Facility and \$4.5 million of available borrowing capacity under the Siena Credit Facility, excluding the excess availability covenant.

On July 19, 2022, the Company and the Lender entered into Amendment No. 2 (the “Credit Facility Amendment No. 2”) to the Loan and Security Agreement, dated as of March 13, 2020, between the Lender and the Company, as amended by Amendment No. 1, dated as of July 21, 2021, between the Lender and the Company. Also on July 19, 2022, the Company and the Lender entered into an Amended and Restated Fee Letter (the “Amended Fee Letter”) in connection with the Credit Facility Amendment No. 2. The Credit Facility Amendment No. 2 did not modify the aggregate amount of the revolving commitment or the interest rate applicable to the loans.

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

- (i) The extension of the maturity date from March 13, 2023 to March 13, 2025; and
- (ii) The termination of the existing blocked account control agreement and entry into a new “springing” deposit account control agreement, permitting the Company to direct the use of funds in its deposit account until such time as (a) the sum of excess availability under the Siena Credit Facility and unrestricted cash is less than \$5 million for 3 consecutive business days or (b) an event of default occurs and is continuing.

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

On May 1, 2020 (the “Loan Date”), the Company was granted the PPP Loan from Berkshire Bank in the aggregate amount of \$2.2 million, pursuant to the PPP which is administered by the SBA and was established under Division A, Title I of the CARES Act, enacted March 27, 2020. Under the terms of the PPP, the PPP Loan would be forgiven to the extent that funds from the PPP Loan were used for payroll costs and costs to continue group health care benefits, as well as for interest on mortgage obligations incurred before February 15, 2020, rent payments under lease agreements in effect before February 15, 2020, utilities for which service began before February 15, 2020 and interest on debt obligations incurred before February 15, 2020, subject to conditions and limitations provided in the CARES Act. At least 60% (under the PPP terms, as amended) of the proceeds of the PPP Loan needed to have been used for eligible payroll costs for the PPP Loan to be forgiven.

On July 8, 2021, the Company received notifications from Berkshire Bank and the SBA that its PPP loan (including all interest accrued thereon) of \$2.2 million had been fully forgiven by the SBA and that the forgiveness payment date was July 1, 2021. The forgiveness of the PPP Loan was reported as “Gain on forgiveness on long-term debt” in the Consolidated Statement of Operations during the year ended December 31, 2021.

Resource Sufficiency

Given the unprecedented uncertainty related to the impact of the COVID-19 pandemic on the food service and casino industries, the Company is closely monitoring its cash generation, usage and preservation including the management of working capital to generate cash. The Company does not currently anticipate requiring any additional credit facilities within the next twelve months beyond our Siena Credit Facility which is discussed above.

We believe that our cash and cash equivalents on hand, our expected cash flows generated from operating activities and borrowings available under our Siena Credit Facility will provide sufficient resources to meet our working capital needs, finance our capital expenditures and meet our liquidity requirements through at least the next twelve months. Notwithstanding this belief, the duration and extent of the COVID-19 pandemic remain uncertain, and its ultimate impact is unknown. Further, the availability under the Siena Credit Facility depends in part on inventory levels, which have been impacted, and will continue to be impacted, by supply chain disruptions due to the COVID-19 pandemic. As a result, we continue to evaluate several different strategies to enhance our liquidity position as a result of the significant financial and operational impacts due to the COVID-19 pandemic. These strategies may include, but are not limited to, seeking to raise additional capital through an equity or debt financing.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4. CONTROLS AND PROCEDURES***Evaluation of Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2022. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2022, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

During the second quarter of 2022, the Company completed the implementation of a new ERP system, NetSuite. We believe the implementation did not materially change our internal control over financial reporting.

No other change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company may, in the ordinary course of business, become a party to litigation involving collection matters, contract claims and other legal proceedings relating to the conduct of its business. As of June 30, 2022, we are unaware of any material pending legal proceedings, or of any material legal proceedings contemplated by government authorities.

Item 1A. RISK FACTORS

Information regarding risk factors appears under Part I, Item 1A, "Risk Factors", of our 2021 Form 10-K. There have been no material changes from the risk factors previously disclosed in our 2021 Form 10-K. The risks factors described in our 2021 Form 10-K are not the only risks facing our Company. Additional risks and uncertainties, not currently known to us or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition or future results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

| | |
|-------------------------|--|
| 3.1 | Certificate of Amendment to Certificate of Incorporation of TransAct Technologies Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K (SEC File No. 000-21121) filed with the SEC on June 2, 2022). |
| 3.2* | Certificate of Incorporation of TransAct Technologies Incorporated, as amended (conformed copy). |
| 3.3 | Amended and Restated Bylaws of TransAct Technologies Incorporated (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K (SEC File No. 000-21121) filed with the SEC on June 2, 2022). |
| 10.1 | Third Amendment to Lease Agreement by and between Columbia Nevada Paradise Industrial, LLC and TransAct dated April 26, 2022. |
| 18.1 | Audit Preference Letter. |
| 31.1 * | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 * | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 ** | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document). |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

TRANSACT TECHNOLOGIES INCORPORATED
(Registrant)

Dated: August 18, 2022

By: /s/ Steven A. DeMartino

Steven A. DeMartino
President, Chief Financial Officer, Treasurer and Secretary
(Principal Financial Officer)

Dated: August 18, 2022

By: /s/ William J. DeFrances

William J. DeFrances
Vice President and Chief Accounting Officer
(Principal Accounting Officer)

CERTIFICATE OF INCORPORATION
OF
TRANSACT TECHNOLOGIES INCORPORATED
(Conformed copy as of May 31, 2022)

The undersigned, in order to form a corporation for the purpose hereinafter stated, under and pursuant to the provisions of the General Corporation Law of Delaware, hereby certifies that:

1. The name of the Corporation is TransAct Technologies Incorporated.
2. The registered office and registered agent of the Corporation is The Corporation Trust Company, County of New Castle, 1209 Orange Street, Wilmington, Delaware 19801.
3. The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware.
4. The total number of shares of stock that the Corporation is authorized to issue is 5,000,000 shares of Preferred Stock and 20,000,000 shares of Common Stock, par value \$.01 each.
5. The name and address of the incorporator is Paul Bork, Hinckley, Allen & Snyder, One Financial Center, Boston, Massachusetts 02111.
6. The Board of Directors of the Corporation, acting by majority vote, may alter, amend or repeal the By-Laws of the Corporation.
7. The Directors may be elected by resolution or consent of a majority of stockholders, without separate written ballots as such.
8. Directors elected prior to the 2023 annual meeting of stockholders of the Corporation shall be divided into three classes (Classes I, II and III), as nearly equal in numbers as the then total number of directors constituting the entire Board of Directors permits, with the term of office of one Class expiring each year. Except as otherwise provided in this Section 8, each director in each Class shall hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of his or her election. The directors whose terms expire at the 2023 annual meeting of stockholders of the Corporation are members of Class I, the directors whose terms expire at the 2024 annual meeting of stockholders of the Corporation are members of Class II and the directors whose terms expire at the 2025 annual meeting of stockholders of the Corporation are members of Class III.

Commencing with the 2023 annual meeting of stockholders of the Corporation, each director elected shall hold office for a term expiring at the next annual meeting of stockholders, such that from and after the election of directors at the 2025 annual meeting of stockholders of the Corporation, the Board of Directors shall cease to be classified; provided, however, that each director shall hold office until the next election of the Class, if any, for which such director shall have been chosen (or, if the Board of Directors is not divided into Classes, until the next annual meeting of stockholders for the election of directors) and until such director's successor shall have been duly elected and qualified, or until such director's earlier death, resignation or removal.

9. The Board of Directors may provide for the issuance of additional shares of Common and Preferred Stock from time to time, which may have such rights, designations and references as the Board may adopt pursuant to its authority duly granted hereunder.

10. The Corporation shall be governed by Section 203 of the General Corporation Law of Delaware.

11. No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of his or her fiduciary duty as a director, provided that nothing contained in this Article shall eliminate or limit the liability of a director (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law, (iii) under Section 174 of the General Corporation Law of the State of Delaware or (iv) for any transaction from which the director derived an improper personal benefit.

12. Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this Corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors and/or of the stockholders or class of stockholders of this Corporation as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this Corporation, as the case may be, and also on this Corporation.

13. Any person who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative, or investigative (whether or not by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, incorporator, employee, or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, incorporator, employee, partner, trustee or agent of another corporation, partnership, joint venture, trust, or other enterprise (including an employee benefit plan), shall be entitled to be indemnified by the Corporation to the full extent then permitted by law against expenses (including attorneys' fees), judgments, fines (including excise taxes assessed on a person with respect to an employee benefit plan), and amounts paid in settlement incurred by him in connection with such action, suit, or proceeding. Such right of indemnification shall continue as to a person who has ceased to be a director, officer, incorporator, employee, partner, trustee, or agent and shall inure to the benefit of the heirs and personal representatives of such a person. The indemnification provided by this Article 13 shall not be deemed exclusive of any other rights which may be provided now or in the future under any provision currently in effect or hereafter adopted of the By-Laws, by any agreement, by vote of stockholders, by resolution of disinterested directors, by provision of law, or otherwise.

14. Stockholders may take action only by a vote taken at a meeting held pursuant to prior notice and may not act by written consent in lieu of a meeting.

CERTIFICATE OF DESIGNATION
OF THE VOTING POWERS, DESIGNATION,
PREFERENCES AND RELATIVE, PARTICIPATING,
OPTIONAL OR OTHER SPECIAL RIGHTS AND QUALIFICATIONS,
LIMITATIONS AND RESTRICTIONS OF THE
SERIES A PREFERRED STOCK

Pursuant to Section 151 of the
General Corporation Law of
the State of Delaware

I, Bart C. Shuldman, President and Chief Executive Officer of TransAct Technologies Incorporated, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), DO HEREBY CERTIFY:

that, pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation (the "Certificate"), and, pursuant to the provisions of Section 151 of the General Corporation Law of the State of Delaware, said Board of Directors, at a duly called meeting held on December 2, 1997, at which a quorum was present and acted throughout, adopted the following resolutions, which resolutions remain in full force and effect on the date hereof creating a series of 200,000 shares of Preferred Stock having a par value of \$.01 per share, designated as Series A Preferred Stock (the "Series A Preferred Stock") out of the class of 5,000,000 shares of preferred stock (the "Preferred Stock"):

RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Certificate, the Board of Directors does hereby create, authorize and provide for the issuance of the Series of Preferred Stock having the voting powers, designation, relative, participating, optional and other special rights, preferences, and qualifications, limitations and restrictions thereof that are set forth as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series A Preferred Stock" and the number of shares constituting such series shall be 200,000.

Section 2. Dividends and Distributions. (A) Subject to the prior and superior rights of the holders of any shares of any other series of Preferred Stock or any other shares of preferred stock of the Corporation ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, each holder of one one-thousandth (1/1,000) of a share (a "Unit") of Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors out of funds legally available for that purpose, (i) quarterly dividends payable in cash on the last day of March, June, September and December in each year (each such date being a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of such Unit of Series A Preferred Stock, in an amount per Unit (rounded to the nearest cent) equal to the greater of (a) \$.01 or (b) subject to the provision for adjustment hereinafter set forth, the aggregate per share amount of all cash dividends declared on shares of the Common Stock since the immediately preceding Quarterly Dividend Payment Date, or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of a Unit of Series A Preferred Stock, and (ii) subject to the provision for adjustment hereinafter set forth, quarterly distributions (payable in kind) on each Quarterly Dividend Payment Date in an amount per Unit equal to the aggregate per share amount of all non-cash dividends or other distributions (other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock, by reclassification or otherwise) declared on shares of Common Stock since the immediately preceding Quarterly Dividend Payment Date, or with respect to the first Quarterly Dividend Payment Date, since the first issuance of a Unit of Series A Preferred Stock. In the event that the Corporation shall at any time after December 2, 1997 (the "Rights Declaration Date") (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case the amount to which the holder of a Unit of Series A Preferred Stock was entitled immediately prior to such event pursuant to the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) The Corporation shall declare a dividend or distribution on Units of Series A Preferred Stock as provided in paragraph (A) above immediately after it declares a dividend or distribution on the shares of Common Stock (other than a dividend payable in shares of Common Stock); provided, however, that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of \$.01 per Unit on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

(C) Dividends shall begin to accrue and shall be cumulative on each outstanding Unit of Series A Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issuance of such Unit of Series A Preferred Stock, unless the date of issuance of such Unit is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such Unit shall begin to accrue from the date of issuance of such Unit, or unless the date of issuance is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of Units of Series A Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on Units of Series A Preferred Stock in an amount less than the aggregate amount of all such dividends at the time accrued and payable on such Units shall be allocated pro rata on a unit-by-unit basis among all Units of Series A Preferred Stock at the time outstanding. The Board of Directors may fix a record date for the determination of holders of Units of Series A Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be no more than 30 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of Units of Series A Preferred Stock shall have the following voting rights:

(A) Subject to the provision for adjustment hereinafter set forth, each Unit of Series A Preferred Stock shall entitle the holder thereof to one vote on all matters submitted to a vote of the stockholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock or (iii) combine the outstanding shares of Common Stock into a smaller number of shares, then in each such case the number of votes per Unit to which holders of Units of Series A Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction the numerator of which shall be the number of shares of Common Stock outstanding immediately after such event and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

(B) Except as otherwise provided herein or by law, the holders of Units of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(C) (i) If at any time dividends on any Units of Series A Preferred Stock shall be in arrears in an amount equal to six quarterly dividends thereon, then during the period (a "default period") from the occurrence of such event until such time as all accrued and unpaid dividends for all previous quarterly dividend periods and for the current quarterly dividend period on all Units of Series A Preferred Stock then outstanding shall have been declared and paid or set apart for payment, all holders of Units of Series A Preferred Stock, voting separately as a class, shall have the right to elect two Directors.

(ii) During any default period, such voting rights of the holders of Units of Series A Preferred Stock may be exercised initially at a special meeting called pursuant to subparagraph (iii) of this Section 3(C) or at any annual meeting of stockholders, and thereafter at annual meetings of stockholders, provided that neither such voting rights nor any right of the holders of Units of Series A Preferred Stock to increase, in certain cases, the authorized number of Directors may be exercised at any meeting unless one-third of the outstanding Units of Preferred Stock shall be present at such meeting in person or by proxy. The absence of a quorum of the holders of Common Stock shall not affect the exercise by the holders of Units of Series A Preferred Stock of such rights. At any meeting at which the holders of Units of Series A Preferred Stock shall exercise such voting rights initially during an existing default period, they shall have the right, voting separately as a class, to elect Directors to fill up to two vacancies in the Board of Directors, if any such vacancies may then exist, or, if such right is exercised at an annual meeting, to elect two Directors. If the number which may be so elected at any special meeting does not amount to the required number, the holders of the Series A Preferred Stock shall have the right to make such increase in the number of Directors as shall be necessary to permit the election by them of the required number. After the holders of Units of Series A Preferred Stock shall have exercised their right to elect Directors during any default period, the number of Directors shall not be increased or decreased except as approved by a vote of the holders of Units of Series A Preferred Stock as herein provided or pursuant to the rights of any equity securities ranking senior to the Series A Preferred Stock.

(iii) Unless the holders of Series A Preferred Stock shall, during an existing default period, have previously exercised their right to elect Directors, the Board of Directors may order, or any stockholder or stockholders owning in the aggregate not less than 25% of the total number of the Units of Series A Preferred Stock outstanding may request, the calling of a special meeting of the holders of Units of Series A Preferred Stock, which meeting shall thereupon be called by the Secretary of the Corporation. Notice of such meeting and of any annual meeting at which holders of Units of Series A Preferred Stock are entitled to vote pursuant to this paragraph (C)(iii) shall be given to each holder of record of Units of Series A Preferred Stock by mailing a copy of such notice to him at his last address as the same appears on the books of the Corporation. Such meeting shall be called for a time not earlier than 20 days and not later than 60 days after such order or request or in default of the calling of such meeting within 60 days after such order or request, such meeting may be called on similar notice by any stockholder or stockholders owning in the aggregate not less than 25% of the total number of outstanding Units of Series A Preferred Stock. Notwithstanding the provisions of this paragraph (C)(iii), no such special meeting shall be called during the 60 days immediately preceding the date fixed for the next annual meeting of the stockholders.

(iv) During any default period, the holders of shares of Common Stock and Units of Series A Preferred Stock, and other classes or series of stock of the Corporation, if applicable, shall continue to be entitled to elect all the Directors until holders of the Units of Series A Preferred Stock shall have exercised their right to elect two Directors voting as a separate class, after the exercise of which right (x) the Directors so elected by the holders of Units of Series A Preferred Stock shall continue in office until their successors shall have been elected by such holders or until the expiration of the default period, and (y) any vacancy in the Board of Directors may (except as provided in paragraph (C)(ii) of this Section 3) be filled by vote of a majority of the remaining Directors theretofore elected by the holders of the class of capital stock which elected the Director whose office shall have become vacant. References in this paragraph (C) to Directors elected by the holders of a particular class of capital stock shall include Directors elected by such Directors to fill vacancies as provided in clause (y) of the foregoing sentence.

(v) Immediately upon the expiration of a default period, (x) the right of the holders of Units of Series A Preferred Stock as a separate class to elect Directors shall cease, (y) the term of any Directors elected by the holders of Units of Series A Preferred Stock as a separate class shall terminate, and (z) the number of Directors shall be such number as may be provided for in the Certificate or by-laws irrespective of any increase made pursuant to the provisions of paragraph (C)(ii) of this Section 3 (such number being subject, however, to change thereafter in any manner provided by law or in the Certificate or by-laws). Any vacancies in the Board of Directors effected by the provisions of clauses (y) and (z) in the preceding sentence may be filled by a majority of the remaining Directors.

(vi) The provisions of this paragraph (C) shall govern the election of Directors by holders of Units of Preferred Stock during any default period notwithstanding any provisions of the Certificate to the contrary, including, without limitation, the provisions of Article EIGHTH of the Certificate.

(D) Except as set forth herein, holders of Units of Series A Preferred Stock shall have no special voting rights and their consents shall not be required (except to the extent they are entitled to vote with holders of shares of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions. (A) Whenever quarterly dividends or other dividends or distributions payable on Units of Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on outstanding Units of Series A Preferred Stock shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of junior stock;

(ii) declare or pay dividends on or make any other distributions on any shares of parity stock, except dividends paid ratably on Units of Series A Preferred Stock and shares of all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of such Units and all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any parity stock, provided, however, that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any junior stock;

(iv) purchase or otherwise acquire for consideration any Units of Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such Units.

(B) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (A) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any Units of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such Units shall, upon their cancellation, become authorized but unissued Units of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

Section 6. Liquidation, Dissolution or Winding Up. (A) Upon any voluntary or involuntary liquidation, dissolution or winding up of the Corporation, no distribution shall be made (i) to the holders of shares of junior stock unless the holders of Units of Series A Preferred Stock shall have received, subject to adjustment as hereinafter provided in paragraph (B), the greater of either (a) \$.01 per Unit plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not earned or declared, to the date of such payment, or (b) the amount equal to the aggregate per share amount to be distributed to holders of shares of Common Stock, or (ii) to the holders of shares of parity stock, unless simultaneously therewith distributions are made ratably on Units of Series A Preferred Stock and all other shares of such parity stock in proportion to the total amounts to which the holders of Units of Series A Preferred Stock are entitled under clause (i)(a) of this sentence and to which the holders of shares of such parity stock are entitled, in each case upon such liquidation, dissolution or winding up.

(B) In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding shares of Common Stock into a smaller number of shares, then in each such case the aggregate amount to which holders of Units of Series A Preferred Stock were entitled immediately prior to such event pursuant to clause (i)(b) of paragraph (A) of this Section 6 shall be adjusted by multiplying such amount by a fraction the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or converted into other stock or securities, cash and/or any other property, then in any such case Units of Series A Preferred Stock shall at the same time be similarly exchanged for or converted into an amount per Unit (subject to the provision for adjustment hereinafter set forth) equal to the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is converted or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date (i) declare any dividend on outstanding shares of Common Stock payable in shares of Common Stock, (ii) subdivide outstanding shares of Common Stock, or (iii) combine outstanding Common Stock into a smaller number of shares, then in each such case the amount set forth in the immediately preceding sentence with respect to the exchange or conversion of Units of Series A Preferred Stock shall be adjusted by multiplying such amount by a fraction the numerator of which shall be the number of shares of Common Stock that are outstanding immediately after such event and the denominator of which shall be the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. Redemption. The Units of Series A Preferred Stock shall not be redeemable.

Section 9. Ranking. The Units of Series A Preferred Stock shall rank junior to all other series of the Preferred Stock and to any other class of preferred stock that hereafter may be issued by the Corporation as to the payment of dividends and the distribution of assets, unless the terms of any such series or class shall provide otherwise.

Section 10. Amendment. The Certificate, including, without limitation, this resolution, shall not hereafter be amended, either directly or indirectly, or through merger or consolidation with another corporation in any manner that would alter or change the powers, preferences or special rights of the Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding Units of Series A Preferred Stock, voting separately as a class.

Section 11. Fractional Shares. The Series A Preferred Stock may be issued in Units or other fractions of a share, which Units or fractions shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock.

Section 12. Certain Definitions. As used herein with respect to the Series A Preferred Stock, the following terms shall have the following meanings:

(A) The term "Common Stock" shall mean the class of stock designated as the common stock, par value \$.01 per share, of the Corporation at the date hereof or any other class of stock resulting from successive changes or reclassification of such common stock.

(B) The term "junior stock" (i) as used in Section 4, shall mean the Common Stock and any other class or series of capital stock of the Corporation hereafter authorized or issued over which the Series A Preferred Stock has preference or priority as to the payment of dividends and (ii) as used in Section 6, shall mean the Common Stock and any other class or series of capital stock of the Corporation over which the Series A Preferred Stock has preference or priority in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

(C) The term "parity stock" (i) as used in Section 4, shall mean any class or series of stock of the Corporation hereafter authorized or issued ranking pari passu with the Series A Preferred Stock as to the payment of dividends and (ii) as used in Section 6, shall mean any class or series of capital stock ranking pari passu with the Series A Preferred Stock in the distribution of assets on any liquidation, dissolution or winding up of the Corporation.

IN WITNESS WHEREOF, TransAct Technologies Incorporated has caused this Certificate to be signed by its President and Chief Executive Officer and attested by its Secretary this 2nd day of December, 1997.

TRANSACT TECHNOLOGIES INCORPORATED

By /s/ Bart C. Shuldman

Attest:

/s/ Richard L. Cote

CERTIFICATE OF DESIGNATION
OF THE VOTING POWERS, DESIGNATION,
PREFERENCES AND RELATIVE, PARTICIPATING,
OPTIONAL OR OTHER SPECIAL RIGHTS AND QUALIFICATIONS,
LIMITATIONS AND RESTRICTIONS OF THE
SERIES B PREFERRED STOCK

Pursuant to Section 151 of the
General Corporation Law of
the State of Delaware

I, Bart C. Shuldman, President and Chief Executive Officer of TransAct Technologies Incorporated, a corporation organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), DO HEREBY CERTIFY:

that, pursuant to authority conferred upon the Board of Directors of the Corporation by its Certificate of Incorporation (the "Certificate"), and, pursuant to the provisions of Section 151 of the General Corporation Law of the State of Delaware, said Board of Directors, at duly called meetings held on March 3, 2000 and March 17, 2000, respectively, at each of which a quorum was present and acted throughout, adopted the following resolutions, which resolutions remain in full force and effect on the date hereof creating a series of 8,000 shares of Preferred Stock having a par value of \$.01 per share, designated as Series B Preferred Stock (the "Series B Preferred") out of the class of 5,000,000 shares of preferred stock:

RESOLVED, that pursuant to the authority vested in the Board of Directors in accordance with the provisions of the Certificate, the Board of Directors does hereby create, authorize and provide for the issuance of the Series of Preferred Stock having the voting powers, designation, relative, participating, optional and other special rights, preferences, and qualifications, limitations and restrictions thereof that are set forth as follows:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series B Preferred Stock" and the initial number of shares constituting such series shall be 8,000.

Section 2. Dividends.

2A. General Obligation. When and as declared by the Corporation's Board of Directors and to the extent permitted under the General Corporation Law of Delaware, the Corporation shall pay preferential dividends, quarterly in cash, to the holders of the Series B Preferred as provided in this Section 2. Except as otherwise provided herein, dividends on each share of the Series B Preferred (a "Share") shall accrue, whether or not declared or paid, on a daily basis at the rate of 7% per annum of the sum of the Stated Value thereof plus all accumulated and unpaid dividends thereon from and including the date of issuance of such Share to and including the first to occur of (i) the date on which the Liquidation Preference Price of such Share (plus all accrued and unpaid dividends thereon) is paid to the holder thereof in connection with the liquidation of the Corporation or the redemption of such Share by the Corporation, (ii) the date on which such Share is converted into shares of Conversion Stock hereunder or (iii) the date on which such Share is otherwise acquired by the Corporation. Such dividends shall accrue whether or not they have been declared and whether or not there are profits, surplus or other funds of the Corporation legally available for the payment of dividends, and such dividends shall be cumulative such that all accrued and unpaid dividends shall be fully paid before any dividends, distributions, redemptions or other payments may be made with respect to any Junior Securities. The date on which the Corporation initially issues any Share shall be deemed to be its "date of issuance" regardless of the number of times transfer of such Share is made on the stock records maintained by or for the Corporation and regardless of the number of certificates which may be issued to evidence such Share.

2B. Dividend Payment Dates. Dividends shall accrue on the Series B Preferred Stock from and after the date of issuance thereof and shall be payable on January 1, April 1, July 1 and October 1 of each year, beginning (on a prorated basis) on April 1, 2000 (the "Dividend Payment Dates"); provided, however, that incremental dividends over and above the rate of 7% per annum payable pursuant to clause (i) of Paragraph 10B hereof need not be paid on the Dividend Payment Dates and shall accrue until otherwise payable pursuant to the terms hereof.

2C. Distribution of Partial Dividend Payments. Except as otherwise provided herein, if at any time the Corporation pays less than the total amount of dividends then accrued with respect to the Series B Preferred, such payment shall be distributed pro rata among the holders thereof based upon the aggregate accrued but unpaid dividends on the Shares held by each such holder.

2D. Payment of Dividends with Shares. Notwithstanding any other provision of this Section 2, in the sole discretion of the Corporation, any dividends accruing on the Series B Preferred may be paid in lieu of cash dividends by the issuance of additional Shares of Series B Preferred (including fractional Shares) having an aggregate Stated Value at the time of such payment equal to the amount of the dividend to be paid; provided that if the Corporation chooses to pay dividends in the form of additional Shares of Series B Preferred pursuant to this paragraph 2D, then the rate at which dividends are paid shall be calculated as if the rate specified in paragraph 2A above were 9% per annum; provided further that if the Corporation pays less than the total amount of dividends then accrued on the Series B Preferred in the form of additional Shares, such payment in Shares shall be made pro rata among the holders of Series B Preferred based upon the aggregate accrued but unpaid dividends on the Shares held by each such holder. If and when any Shares are issued under this paragraph 2D for the payment of accrued dividends, such Shares shall be deemed to be validly issued and outstanding and fully paid and nonassessable.

2E. Participating Dividends. In the event that the Corporation declares or pays any dividends upon the Common Stock (whether payable in cash, securities or other property) other than dividends payable solely in shares of Common Stock, the Corporation shall also declare and pay to the holders of the Series B Preferred at the same time that it declares and pays such dividends to the holders of the Common Stock, the dividends which would have been declared and paid with respect to the Common Stock issuable upon conversion of the Series B Preferred had all of the outstanding Series B Preferred been converted immediately prior to the record date for such dividend, or if no record date is fixed, the date as of which the record holders of Common Stock entitled to such dividends are to be determined.

Section 3. Liquidation.

Upon any liquidation, dissolution or winding up of the Corporation (whether voluntary or involuntary), each holder of Series B Preferred shall be entitled to be paid, before any distribution or payment is made upon any Junior Securities, an amount in cash equal to the aggregate Liquidation Preference Price of all Shares held by such holder, and the holders of Series B Preferred shall not be entitled to any further payment. If upon any such liquidation, dissolution or winding up of the Corporation the Corporation's assets to be distributed among the holders of the Series B Preferred are insufficient to permit payment to such holders of the aggregate amount which they are entitled to be paid under this Section 3, then the entire assets available to be distributed to the Corporation's stockholders shall be distributed pro rata among such holders based upon the aggregate Liquidation Preference Price of the Series B Preferred held by each such holder. Prior to the liquidation, dissolution or winding up of the Corporation, the Corporation shall declare for payment all accrued and unpaid dividends with respect to the Series B Preferred, but only to the extent of funds of the Corporation legally available for the payment of dividends. Not less than sixty (60) days prior to the payment date stated therein, the Corporation shall mail written notice of any such liquidation, dissolution or winding up to each record holder of Series B Preferred, setting forth in reasonable detail the amount of proceeds to be paid with respect to each Share and each share of Common Stock in connection with such liquidation, dissolution or winding up.

Section 4. Priority of Series B Preferred on Dividends and Redemptions.

4A. No Payments With Respect to Junior Securities.

So long as fifty percent (50%) or more of the Series B Preferred issued pursuant to the Purchase Agreement remains outstanding, subject to approval by a representative designated in writing by a majority of the holders of Series B Preferred (such approval not to be unreasonably withheld in the event the holders of Series B Preferred determine that such action would not have an adverse impact on the creditworthiness of the Series B Preferred), the Corporation will not pay any dividend or other distribution on any shares of Junior Securities (other than dividends paid or distributions made in shares of Junior Securities) or make any purchase, redemption, retirement or other acquisition of any shares of Junior Securities, or of any option, warrant or other right to acquire its capital stock (a "Restricted Payment").

4B. No Issuance of Senior or pari passu Securities.

So long as fifty percent (50%) or more of the Series B Preferred issued pursuant to the Purchase Agreement remains outstanding, without the prior written consent of the holders of a majority of the outstanding shares of the Series B Preferred, the Corporation shall not (i) effect a voluntary liquidation, dissolution or winding up of the Corporation; or (ii) amend its Certificate of Incorporation, as amended, or take any other action to approve or issue any capital stock of the Corporation that is, or reclassify stock into stock of the Corporation that is, senior or pari passu in right to the payment of dividends, payment upon liquidation, redemption or otherwise to the Series B Preferred; (iii) increase the authorized number of shares of Series B Preferred; or (iv) amend its Certificate of Incorporation, as amended, or take any other action that would alter the rights, preferences or privileges of the Series B Preferred as in effect on the date of the original issuance of the Series B Preferred.

Section 5. Redemptions.

5A. Scheduled Redemption. On April 7, 2007 (the "Scheduled Redemption Date"), the Corporation shall have the right to redeem all outstanding shares of Series B Preferred at a price per Share equal to the Liquidation Preference Price thereof.

5B. Mandatory Redemption. On or after April 7, 2005, the holders of a majority of the outstanding shares of the Series B Preferred shall have the right to require the Corporation to redeem all, but not less than all, of the outstanding Series B Preferred in Cash at the Liquidation Preference Price.

5C. Redemption Payments. For each Share which is to be redeemed hereunder, the Corporation shall be obligated on the Redemption Date to pay to the holder thereof (upon surrender by such holder at the Corporation's principal office of the certificate representing such Share) an amount in cash in immediately available funds equal to the Liquidation Preference Price of such Share. If the funds of the Corporation legally available for redemption of Shares on any Redemption Date are insufficient to redeem the total number of Shares to be redeemed on such date, those funds which are legally available shall be used to redeem the maximum possible number of Shares pro rata among the holders of the Shares to be redeemed based upon the aggregate Liquidation Preference Price of such Shares held by each such holder. At any time thereafter when additional funds of the Corporation are legally available for the redemption of Shares, such funds shall immediately be used to redeem the balance of the Shares which the Corporation has become obligated to redeem on any Redemption Date but which it has not redeemed. Prior to any redemption of Series B Preferred, the Corporation shall declare for payment all accrued and unpaid dividends with respect to the Shares which are to be redeemed, but only to the extent of funds of the Corporation legally available for the payment of dividends.

5D. Notice of Redemption. The Corporation shall mail written notice of each redemption of any Series B Preferred (other than a redemption at the request of a holder or holders of Series B Preferred) to each record holder thereof not more than sixty (60) nor less than thirty (30) days prior to the date on which such redemption is to be made. In case fewer than the total number of Shares represented by any certificate are redeemed, a new certificate representing the number of unredeemed Shares shall be issued to the holder thereof without cost to such holder within five (5) business days after surrender of the certificate representing the redeemed Shares.

5E. Dividends After Redemption Date. No Share shall be entitled to any dividends accruing after the date on which the Liquidation Preference Price of such Share is paid to the holder of such Share. On such date, all rights of the holder of such Share shall cease, and such Share shall no longer be deemed to be issued and outstanding.

5F. Redeemed or Otherwise Acquired Shares. Any Shares which are redeemed or otherwise acquired by the Corporation shall be canceled and retired to authorized but unissued shares and shall not be reissued, sold or transferred.

5G. Other Redemptions or Acquisitions. The Corporation shall not, nor shall it permit any Subsidiary to, redeem or otherwise acquire any Shares of Series B Preferred, except as expressly authorized herein or pursuant to a purchase offer made pro rata to all holders of Series B Preferred on the basis of the number of Shares owned by each such holder.

5H. Payment of Accrued Dividends. The Corporation may not redeem any Series B Preferred unless all dividends accrued on the outstanding Series B Preferred through the immediately preceding Dividend Payment Date have been declared and paid in full.

5I. Change of Control.

(i) If a Change of Control has occurred or the Corporation enters into a binding agreement or a non-binding letter of intent, memorandum of understanding or similar document that contemplates a Change of Control, the Corporation shall give prompt written notice of such Change of Control (or anticipated Change of Control, as the case may be) describing in reasonable detail the material terms and date (or anticipated date, as the case may be) of consummation thereof to each holder of Series B Preferred, but in any event such notice shall not be given later than five days after the occurrence of such Change of Control, and the Corporation shall give each holder of Series B Preferred prompt written notice of any material change in the terms or timing of such transaction. Any holder of Series B Preferred may require the Corporation to redeem all, but not less than all, of the Series B Preferred owned by such holder for an amount in cash per share equal to the sum of (a) all accrued but unpaid cash dividends (whether or not declared), and (b) two hundred percent (200%) of the Stated Value by giving written notice to the Corporation of such election prior to the later of (i) fourteen (14) days after receipt of the Corporation's notice and (ii) ten (10) business days prior to the consummation of the Change of Control (the "Expiration Date"). The Corporation shall give prompt written notice of any such election to all other holders of Series B Preferred within five (5) days after the receipt thereof, and each such holder shall have until the later of (a) the Expiration Date or (b) ten days after receipt of such second notice to request redemption hereunder (by giving written notice to the Corporation) of all or any portion of the Series B Preferred owned by such holder.

Upon receipt of such election(s), the Corporation shall be obligated to redeem the aggregate number of Shares specified therein on the occurrence of the Change of Control. If any proposed Change of Control does not occur, all requests for redemption in connection therewith shall be automatically rescinded, or if there has been a material change in any of the pricing terms or the timing of the transaction, any holder of Series B Preferred may rescind such holder's request for redemption by giving written notice of such rescission to the Corporation.

The term "Change of Control" means (a) any sale, transfer or issuance or series of sales, transfers and/or issuances of Common Stock by the Corporation or any holders thereof which results in any Person or group of Persons (as the term "group" is used under the Securities Exchange Act of 1934), beneficially owning (as such term is used in the Securities Exchange Act of 1934) more than fifty (50%) of the Common Stock outstanding at the time of such sale, transfer or issuance or series of sales, transfers and/or issuances, or acquiring the power to vote more than fifty (50%) of the Common Stock then outstanding, and (b) any sale or transfer of more than fifty (50%) of the assets of the Corporation and its Subsidiaries on a consolidated basis (measured either by book value in accordance with generally accepted accounting principles consistently applied or by fair market value determined in the reasonable good faith judgment of the Corporation's Board of Directors) in any transaction or series of transactions (other than sales in the ordinary course of business) to any Person or group of Persons and (c) any merger or consolidation to which the Corporation is a party, except (i) for a merger in which the Corporation is the surviving corporation, the terms of the Series B Preferred are not changed and the Series B Preferred is not exchanged for cash, securities or other property, and after giving effect to such merger, the holders of the Corporation's outstanding capital stock possessing more than fifty percent (50%) of the voting power to elect a majority of the Corporation's Board of Directors immediately prior to the merger shall continue to own the Corporation's outstanding capital stock possessing more than fifty percent (50%) of the voting power to elect a majority of the Corporation's Board of Directors or (ii) a merger or consolidation in which the holders of the Corporation's outstanding Common Stock are entitled to receive securities which are listed on the New York Stock Exchange or NASDAQ with a value of greater than \$18.00 per share of Common Stock and such securities are not subject to any restrictions on transfer other than those imposed by law.

(ii) Redemptions of any Shares made pursuant to this paragraph 5I shall not relieve the Corporation of its obligation to redeem any Shares that are not redeemed pursuant to this Section 5 on the Scheduled Redemption Date pursuant to paragraph 5A above.

(iii) Notwithstanding the foregoing provisions of this paragraph 5I, the Corporation shall not be required to redeem any Shares under this paragraph 5I from and after the date on which the Corporation shall have given notice pursuant to paragraph 5A above, or paragraph 7B below, that it has elected to redeem or convert such shares.

Section 6. Voting Rights.

6A. Election of Directors. Subject to the provisions of paragraph 6C below, in the election of directors of the Corporation, the holders of the Series B Preferred, voting separately as a single class to the exclusion of all other classes of the Corporation's capital stock and with each Share of Series B Preferred entitled to one vote, shall be entitled to elect one (1) director to serve on the Corporation's Board of Directors who will have the right to serve on any committee of the Board of Directors until his or her successor is duly elected by the holders of the Series B Preferred or he or she is removed from office by the holders of the Series B Preferred. If the holders of the Series B Preferred for any reason fail to elect anyone to fill any such directorship, such position shall remain vacant until such time as the holders of the Series B Preferred elect a director to fill such position and shall not be filled by resolution or vote of the Corporation's Board of Directors or the Corporation's other stockholders.

6B. Other Voting Rights. The holders of the Series B Preferred shall be entitled to notice of all stockholders' meetings in accordance with the Corporation's bylaws, except as otherwise required by applicable law. Except to the extent that voting as a separate class or series is required by law, and except as described in paragraph 4B, hereof, the holders of Series B Preferred will be entitled to vote on all matters submitted to the stockholders for a vote together with the holders of Common Stock and all other series of preferred stock voting together as a single class with each share of Common Stock entitled to one vote per share and each Share of Series B Preferred entitled to one vote for each share of Common Stock issuable upon conversion of such Share of Series B Preferred as of the record date for such vote or, if no record date is specified, as of the date of such vote.

6C. Loss of Voting Rights. The holders of the Series B Preferred shall cease to have the right to elect a member of the Corporation's Board of Directors when the shares of Common Stock into which the then-outstanding shares of Series B Preferred held by Advance Capital Partners, L.P., a Delaware limited partnership and Advance Capital Offshore Partners, L.P., a Cayman Islands limited partnership (together, "Advance"), are convertible, when added to the then-outstanding shares of Common Stock held by Advance that were issued upon conversions of Series B Preferred, in each case not including any shares distributed to its partners, represent (a) fifty percent (50%) or less of the number of shares of Common Stock into which all of the Series B Preferred issued pursuant to the Purchase Agreement were convertible on the date of issuance of the Series B Preferred and (b) five percent (5%) or less of the number of shares of Common Stock then outstanding (on a fully-diluted basis). At any time after the holders of the Series B Preferred cease to have the right to elect a member of the Corporation's Board of Directors, promptly (and in any event not more than ten (10) business days) after a majority of the other directors request the resignation of the director elected by the holders of the Series B Preferred, such director shall resign from the Corporation's Board of Directors.

Section 7. Conversion.

7A. Conversion Procedure.

(i) At any time and from time to time, any holder of Series B Preferred may convert all or any portion of the shares of Series B Preferred (including any fraction of a share of Series B Preferred) held by such holder into a number of shares of Conversion Stock computed by multiplying the number of shares of Series B Preferred to be converted by one thousand dollars (\$1,000) and dividing the result by the Series B Conversion Price then in effect.

(ii) Except in the case of a mandatory conversion pursuant to Section 7B hereof and as otherwise provided herein, each conversion of Series B Preferred shall be deemed to have been effected as of the close of business on the date on which the certificate or certificates representing the Series B Preferred to be converted have been surrendered for conversion at the principal office of the Corporation. At the time any conversion has been effected, the rights of the holder of the Shares converted as a holder of Series B Preferred shall cease and the Person or Persons in whose name or names any certificate or certificates for shares of Conversion Stock are to be issued upon such conversion shall be deemed to have become the holder or holders of record of the shares of Conversion Stock represented thereby.

(iii) The conversion rights of any Share subject to redemption hereunder shall terminate on the Redemption Date for such Share unless the Corporation has failed to pay to the holder thereof the Liquidation Preference Price of such Share.

(iv) Notwithstanding any other provision hereof, if a conversion of Series B Preferred is to be made in connection with a Change of Control or other transaction affecting the Corporation, the conversion of any Shares of Series B Preferred may, at the election of the holder thereof, be conditioned upon the consummation of such transaction, in which case such conversion shall not be deemed to be effective until such transaction has been consummated.

(v) As soon as possible after a conversion has been effected (but in any event within three (3) business days after conversion pursuant to paragraph 7B, below or within three (3) business days after notice of conversion has been delivered to the Corporation, provided that such conversion has been effected by such date, in the case of subparagraph (a) below), the Corporation shall deliver to the converting holder:

(a) a certificate or certificates representing the number of shares of Conversion Stock issuable by reason of such conversion in such name or names and such denomination or denominations as the converting holder has specified;

(b) payment in an amount equal to all accrued dividends with respect to each Share converted which have not been paid prior thereto, plus the amount payable under subparagraph (x) below with respect to such conversion; and

(c) a certificate representing any Shares which were represented by the certificate or certificates delivered to the Corporation in connection with such conversion but which were not converted.

(vi) The Corporation shall declare the payment of all dividends payable under subparagraph (v)(b) above. If the Corporation is not permitted under applicable law to pay any portion of the accrued and unpaid dividends on the Series B Preferred being converted, the Corporation shall pay such dividends to the converting holder as soon thereafter as funds of the Corporation are legally available for such payment. At the request of any such converting holder, the Corporation shall provide such holder with written evidence of its obligation to such holder. If for any reason the Corporation is unable to pay any portion of the accrued and unpaid dividends on Series B Preferred being converted, such dividends may, at the converting holder's option, be converted into an additional number of shares of Conversion Stock determined by dividing the amount of the unpaid dividends to be applied for such purpose, by the lesser of (a) the Conversion Price then in effect and (b) the Market Price of a share of Common Stock.

(vii) The issuance of certificates for shares of Conversion Stock upon conversion of the Series B Preferred shall be made without charge to the holders of such Series B Preferred for any issuance tax in respect thereof or other cost incurred by the Corporation in connection with such conversion and the related issuance of shares of Conversion Stock. Upon conversion of each Share, the Corporation shall take all such actions as are necessary in order to insure that the Conversion Stock issuable with respect to such conversion shall be validly issued, fully paid and nonassessable, free and clear of all taxes, liens, charges and encumbrances with respect to the issuance thereof (other than customary securities legends and any restrictions on transfer applicable thereto pursuant to the Purchase Agreement).

(viii) The Corporation shall not close its books against the transfer of Series B Preferred or of Conversion Stock issued or issuable upon conversion of Series B Preferred in any manner which interferes with the timely conversion of Series B Preferred. The Corporation shall assist and cooperate with any holder of Shares required to make any governmental filings or obtain any governmental approval prior to or in connection with any conversion of Shares hereunder (including, without limitation, making any filings required to be made by the Corporation).

(ix) The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Conversion Stock, solely for the purpose of issuance upon the conversion of Series B Preferred, such number of shares of Conversion Stock issuable upon the conversion of all outstanding Series B Preferred. All shares of Conversion Stock which are so issuable shall, when issued, be duly and validly issued, fully paid and nonassessable and free from all taxes, liens and charges. The Corporation shall take all such actions as may be necessary to assure that all such shares of Conversion Stock may be so issued without violation of any applicable law or governmental regulation or any requirements of any domestic securities exchange upon which shares of Conversion Stock may be listed (except for official notice of issuance which shall be immediately delivered by the Corporation upon each such issuance). The Corporation shall not take any action which would cause the number of authorized but unissued shares of Conversion Stock to be less than the number of such shares required to be reserved hereunder for issuance upon conversion of Series B Preferred.

(x) If any fractional interest in a share of Conversion Stock would, except for the provisions of this subparagraph, be delivered upon any conversion of Series B Preferred, the Corporation, in lieu of delivering the fractional share therefor, shall pay an amount to the holder thereof equal to the Market Price of such fractional interest as of the date of conversion.

(xi) If the shares of Conversion Stock issuable by reason of conversion of Series B Preferred are convertible into or exchangeable for any other stock or securities of the Corporation, the Corporation shall, at the converting holder's option, upon surrender of the Shares to be converted by such holder as provided herein together with any notice, statement or payment required to effect such conversion or exchange of Conversion Stock, deliver to such holder or as otherwise specified by such holder a certificate or certificates representing the stock or securities into which the shares of Conversion Stock issuable by reason of such conversion are so convertible or exchangeable, registered in such name or names and in such denomination or denominations as such holder has specified.

7B. Mandatory Conversion. Each share of Series B Preferred will automatically convert into shares of the Corporation's Common Stock (on the conversion terms described in this Section 7) without any action on the part of the holders of Series B Preferred if at any time the average closing bid prices of the Common Stock quoted in the NASDAQ system is thirty five dollars (\$35) per share or more for a thirty (30) consecutive day trading period ending on or after the third anniversary of the date of issuance of the Series B Preferred or for a sixty (60) consecutive day trading period beginning on or after the second anniversary of the date of issuance of the Series B Preferred. If the Series B Preferred is converted to Common Stock pursuant to this Section 7B, dividends on the Series B Preferred will accrue and be paid as though the Series B Preferred had remained outstanding until the later of (i) the date of conversion or (ii) the third anniversary of the date of issuance of the Series B Preferred. Additionally, on April 7, 2007, the Corporation shall have the right to convert the Preferred Shares into shares of Common Stock on the conversion terms described in this Section 7.

7C. Conversion Price.

(i) The initial Series B Conversion Price ("Conversion Price") shall be nine dollars (\$9.00). In order to prevent dilution of the conversion rights granted under this Section 7, the Conversion Price shall be subject to adjustment from time to time pursuant to this paragraph 7C.

(ii) If and whenever on or after the original date of issuance of the Series B Preferred the Corporation issues or sells, or in accordance with paragraph 7D is deemed to have issued or sold, any shares of its Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale, then immediately upon such issue or sale or deemed issue or sale the Conversion Price shall be reduced to the Conversion Price determined by dividing (a) the sum of (1) the product derived by multiplying the Conversion Price in effect immediately prior to such issue or sale by the number of shares of Common Stock Deemed Outstanding immediately prior to such issue or sale, plus (2) the consideration, if any, received by the Corporation upon such issue or sale, by (b) the number of shares of Common Stock Deemed Outstanding immediately after such issue or sale.

(iii) Notwithstanding the foregoing, there shall be no adjustment in the Conversion Price as a result of (a) the exercise of any options outstanding on the date of original issuance of the Series B Preferred issued to directors, officers or employees of, or consultants to, the Corporation and its Subsidiaries pursuant to stock option plans and stock ownership plans approved by the Corporation's Board of Directors or (b) any issue or sale (or deemed issue or sale) of up to an aggregate of 1,046,098 shares of Common Stock to directors, officers or employees of, or consultants to, the Corporation and its Subsidiaries pursuant to stock option plans and stock ownership plans approved by the Corporation's Board of Directors (as such number of shares is proportionately adjusted for subsequent stock splits, combinations and dividends affecting the Common Stock).

7D. Effect on Conversion Price of Certain Events. For purposes of determining the adjusted Conversion Price under paragraph 7C, the following shall be applicable:

(i) Issuance of Rights or Options. If the Corporation in any manner grants or sells any Options and the price per share for which Common Stock is issuable upon the exercise of such Options, or upon conversion or exchange of any Convertible Securities issuable upon exercise of such Options, is less than the Conversion Price in effect immediately prior to the time of the granting or sale of such Options, then the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total maximum amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to be outstanding and to have been issued and sold by the Corporation at the time of the granting or sale of such Options for such price per share. For purposes of this paragraph, the "price per share for which Common Stock is issuable" shall be determined by dividing (A) the total amount, if any, received or receivable by the Corporation as consideration for the granting or sale of such Options, plus the minimum aggregate amount of additional consideration payable to the Corporation upon exercise of all such Options, plus in the case of such Options which relate to Convertible Securities, the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the issuance or sale of such Convertible Securities and the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options. No further adjustment of the Conversion Price shall be made when Convertible Securities are actually issued upon the exercise of such Options or when Common Stock is actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. If the Corporation in any manner issues or sells any Convertible Securities and the price per share for which Common Stock is issuable upon conversion or exchange thereof is less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the maximum number of shares of Common Stock issuable upon conversion or exchange of such Convertible Securities shall be deemed to be outstanding and to have been issued and sold by the Corporation at the time of the issuance or sale of such Convertible Securities for such price per share. For the purposes of this paragraph, the “price per share for which Common Stock is issuable” shall be determined by dividing (A) the total amount received or receivable by the Corporation as consideration for the issue or sale of such Convertible Securities, plus the minimum aggregate amount of additional consideration, if any, payable to the Corporation upon the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities. No further adjustment of the Conversion Price shall be made when Common Stock is actually issued upon the conversion or exchange of such Convertible Securities, and if any such issue or sale of such Convertible Securities is made upon exercise of any Options for which adjustments of the Conversion Price had been or are to be made pursuant to other provisions of this Section 7, no further adjustment of the Conversion Price shall be made by reason of such issue or sale.

(iii) Change in Option Price or Conversion Rate. If the purchase price provided for in any Options, the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities or the rate at which any Convertible Securities are convertible into or exchangeable for Common Stock changes at any time, the Conversion Price in effect at the time of such change shall be immediately adjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold; provided that if such adjustment would result in an increase of the Conversion Price then in effect, such adjustment shall not be effective until thirty (30) days after written notice thereof has been given by the Corporation to all holders of the Series B Preferred. For purposes of paragraph 7D, if the terms of any Option or Convertible Security which was outstanding as of the date of issuance of the Series B Preferred are changed in the manner described in the immediately preceding sentence, then such Option or Convertible Security and the Common Stock deemed issuable upon exercise, conversion or exchange thereof shall be deemed to have been issued as of the date of such change.

(iv) Treatment of Expired Options and Unexercised Convertible Securities. Upon the expiration of any Option or the termination of any right to convert or exchange any Convertible Security without the exercise of any such Option or right, the Conversion Price then in effect hereunder shall be adjusted immediately to the Series B Conversion Price which would have been in effect at the time of such expiration or termination had such Option or Convertible Security, to the extent outstanding immediately prior to such expiration or termination, never been issued; provided that if such expiration or termination would result in an increase in the Conversion Price then in effect, such increase shall not be effective until thirty (30) days after written notice thereof has been given to all holders of the Series B Preferred. For purposes of paragraph 7D, the expiration or termination of any Option or Convertible Security which was outstanding as of the date of issuance of the Series B Preferred shall not cause the Conversion Price hereunder to be adjusted unless, and only to the extent that, a change in the terms of such Option or Convertible Security caused it to be deemed to have been issued after the date of issuance of the Series B Preferred.

(v) Calculation of Consideration Received. If any Common Stock, Option or Convertible Security is issued or sold or deemed to have been issued or sold for cash, the consideration received therefor shall be deemed to be the amount received by the Corporation therefor (net of discounts, commissions and related expenses). If any Common Stock, Option or Convertible Security is issued or sold for a consideration other than cash, the amount of the consideration other than cash received by the Corporation shall be the fair value of such consideration, except where such consideration consists of securities, in which case the amount of consideration received by the Corporation shall be the Market Price thereof as of the date of receipt. If any Common Stock, Option or Convertible Security is issued to the owners of the non-surviving entity in connection with any merger in which the Corporation is the surviving corporation, the amount of consideration therefor shall be deemed to be the fair value of such portion of the net assets and business of the non-surviving entity as is attributable to such Common Stock, Option or Convertible Security, as the case may be. The fair value of any consideration other than cash and securities shall be determined jointly by the Corporation and the holders of a majority of the outstanding Series B Preferred. If such parties are unable to reach agreement within a reasonable period of time, the fair value of such consideration shall be determined by an independent appraiser experienced in valuing such type of consideration jointly selected by the Corporation and the holders of a majority of the outstanding Series B Preferred.

The determination of such appraiser shall be final and binding upon the parties, and the fees and expenses of such appraiser shall be borne by the Corporation.

(vi) Treasury Shares. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Corporation or any Subsidiary, and the disposition of any shares so owned or held shall be considered an issue or sale of Common Stock.

(vii) Record Date. If the Corporation takes a record of the holders of Common Stock for the purpose of entitling them (a) to receive a dividend or other distribution payable in Common Stock, Options or in Convertible Securities or (b) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or upon the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be.

7E. Subdivision or Combination of Common Stock. If the Corporation at any time subdivides (by any stock split, stock dividend, recapitalization or otherwise) one or more classes of its outstanding shares of Common Stock into a greater number of shares, the Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and if the Corporation at any time combines (by reverse stock split or otherwise) one or more classes of its outstanding shares of Common Stock into a smaller number of shares, the Conversion Price in effect immediately prior to such combination shall be proportionately increased.

7F. Reorganization, Reclassification, Consolidation, Merger or Sale. Any recapitalization, reorganization, reclassification, consolidation, merger, sale of all or substantially all of the Corporation's assets or other transaction, in each case which is effected in such a manner that the holders of Common Stock are entitled to receive (either directly or upon subsequent liquidation) stock, securities or assets with respect to or in exchange for Common Stock, is referred to herein as an "Organic Change". Prior to the consummation of any Organic Change, the Corporation shall make appropriate provisions (in form and substance satisfactory to the holders of a majority of the Series B Preferred then outstanding) to insure that each of the holders of Series B Preferred shall thereafter have the right to acquire and receive, in lieu of or in addition to (as the case may be) the shares of Conversion Stock immediately theretofore acquirable and receivable upon the conversion of such holder's Series B Preferred, such shares of stock, securities or assets as such holder would have received in connection with such Organic Change if such holder had converted its Series B Preferred immediately prior to such Organic Change. In each such case, the Corporation shall also make appropriate provisions (in form and substance satisfactory to the holders of a majority of the Series B Preferred then outstanding) to insure that the provisions of this Section 7 and Sections 8 and 9 hereof shall thereafter be applicable to the Series B Preferred (including, in the case of any such consolidation, merger or sale in which the successor entity or purchasing entity is other than the Corporation, an immediate adjustment of the Conversion Price to the value for the Common Stock reflected by the terms of such consolidation, merger or sale, and a corresponding immediate adjustment in the number of shares of Conversion Stock acquirable and receivable upon conversion of Series B Preferred, if the value so reflected is less than the Conversion Price in effect immediately prior to such consolidation, merger or sale). The Corporation shall not effect any such consolidation, merger or sale, unless prior to the consummation thereof, the successor entity (if other than the Corporation) resulting from consolidation or merger or the entity purchasing such assets assumes by written instrument (in form and substance satisfactory to the holders of a majority of the Series B Preferred then outstanding), the obligation to deliver to each such holder such shares of stock, securities or assets as, in accordance with the foregoing provisions, such holder may be entitled to acquire.

7G. Certain Events. If any event occurs of the type contemplated by the provisions of this Section 7 but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights, phantom stock rights or other rights with equity features), then the Corporation's Board of Directors shall make an appropriate adjustment in the Conversion Price so as to protect the rights of the holders of Series B Preferred; provided that no such adjustment shall increase the Conversion Price as otherwise determined pursuant to this Section 7 or decrease the number of shares of Conversion Stock issuable upon conversion of each Share.

7H. Notices.

(i) Immediately upon any adjustment of the Conversion Price, the Corporation shall give written notice thereof to all holders of Series B Preferred, setting forth in reasonable detail and certifying the calculation of such adjustment.

(ii) The Corporation shall give written notice to all holders of Series B Preferred at least twenty (20) days prior to the date on which the Corporation closes its books or takes a record (a) with respect to any dividend or distribution upon Common Stock, (b) with respect to any pro rata subscription offer to holders of Common Stock or (c) for determining rights to vote with respect to any Organic Change, dissolution or liquidation.

(iii) The Corporation shall also give written notice to the holders of Series B Preferred at least twenty (20) days prior to the date on which any Organic Change shall take place.

Section 8. Liquidating Dividends.

If the Corporation declares or pays a dividend upon the Common Stock payable otherwise than in cash out of earnings or earned surplus (determined in accordance with generally accepted accounting principles, consistently applied) except for a stock dividend payable in shares of Common Stock (a "Liquidating Dividend"), then the Corporation shall pay to the holders of Series B Preferred at the time of payment thereof the Liquidating Dividends which would have been paid on the shares of Conversion Stock had such Series B Preferred been converted immediately prior to the date on which a record is taken for such Liquidating Dividend, or, if no record is taken, the date as of which the record holders of Common Stock entitled to such dividends are to be determined.

Section 9. Purchase Rights.

If at any time the Corporation grants, issues or sells any Options, Convertible Securities or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of Common Stock (the "Purchase Rights"), then each holder of Series B Preferred shall be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which such holder could have acquired if such holder had held the number of shares of Conversion Stock acquirable upon conversion of such holder's Series B Preferred immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

Section 10. Events of Noncompliance.

10A. Definition. An Event of Noncompliance shall have occurred if:

(i) the Corporation fails to pay on any two consecutive Dividend Payment Dates the full amount of dividends then accrued on the Series B Preferred, either in cash or in additional Shares of Series B Preferred, whether or not such payments are legally permissible or are prohibited by any agreement to which the Corporation is subject;

(ii) the Corporation fails to make any redemption payment with respect to the Series B Preferred which it is required to make hereunder, whether or not such payment is legally permissible or is prohibited by any agreement to which the Corporation is subject;

(iii) the Corporation or any material Subsidiary makes an assignment for the benefit of creditors or admits in writing its inability to pay its debts generally as they become due; or an order, judgment or decree is entered adjudicating the Corporation or any material Subsidiary bankrupt or insolvent; or any order for relief with respect to the Corporation or any material Subsidiary is entered under the Federal Bankruptcy Code; or the Corporation or any material Subsidiary petitions or applies to any tribunal for the appointment of a custodian, trustee, receiver or liquidator of the Corporation or any material Subsidiary or of any substantial part of the assets of the Corporation or any material Subsidiary, or commences any proceeding (other than a proceeding for the voluntary liquidation and dissolution of a Subsidiary) relating to the Corporation or any material Subsidiary under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction; or any such petition or application is filed, or any such proceeding is commenced, against the Corporation or any material Subsidiary and either (a) the Corporation or any such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein or (b) such petition, application or proceeding is not dismissed within sixty (60) days;

(iv) a judgment in excess of \$2,000,000 is rendered against the Corporation or any material Subsidiary and, such judgment is not (a) discharged, bonded or otherwise satisfied within 60 days from the entry thereof, (b) covered by adequate insurance, or (c) the execution of such judgment is not stayed pending appeal or, within 60 days after the expiration of such stay, discharged or otherwise satisfied; or

(v) the Corporation or any material Subsidiary defaults in the performance of any obligation or agreement, and such default is continuing for a period of seven (7) days, if the effect of such default is to cause an amount exceeding \$2,000,000 to become due prior to its stated maturity or the holder or holders of any obligation causes an amount exceeding \$2,000,000 to become due prior to its stated maturity.

10B. Consequences of Events of Noncompliance.

(i) If an Event of Noncompliance of the type described in subparagraphs 10A(i), 10A(ii) or 10A(iii) has occurred and is continuing, the dividend rate on the Series B Preferred shall increase immediately by an increment of two percentage point(s). Thereafter, until such time as no Event of Noncompliance exists, the dividend rate shall increase automatically at the end of each succeeding ninety-day (90-day) period by an additional increment of two (2) percentage point(s) (but in no event shall the dividend rate exceed 17%). Any increase of the dividend rate resulting from the operation of this subparagraph shall terminate as of the close of business on the date on which no Event of Noncompliance exists, subject to subsequent increases pursuant to this paragraph.

(ii) If an Event of Noncompliance of the type described in subparagraphs 10A(ii), 10A(iv) or 10A(v) has occurred and is continuing, the holders of a majority of the Series B Preferred then outstanding may demand (by written notice delivered to the Corporation) immediate redemption of all or any portion of the Series B Preferred owned by such holder or holders at a price per Share equal to the Liquidation Preference Price thereof. The Corporation shall give prompt written notice of such election to the other holders of Series B Preferred (but in any event within five (5) days after receipt of the initial demand for redemption), and each such other holder may demand immediate redemption of all or any portion of such holder's Series B Preferred by giving written notice thereof to the Corporation within seven days after receipt of the Corporation's notice. The Corporation shall, to the extent permitted by applicable law, redeem all Series B Preferred as to which rights under this paragraph have been exercised within fifteen (15) business days after receipt of the initial demand for redemption.

(iii) If an Event of Noncompliance of the type described in subparagraph 10A(iii) has occurred, all of the Series B Preferred then outstanding shall be subject to immediate redemption by the Corporation (without any action on the part of the holders of the Series B Preferred) at a price per Share equal to the Liquidation Preference Price thereof. The Corporation shall, to the extent permitted by applicable law, immediately redeem all Series B Preferred upon the occurrence of such Event of Noncompliance.

(iv) If any Event of Noncompliance exists, each holder of Series B Preferred shall also have any other rights which such holder is entitled to under the Purchase Agreement or any other contract or agreement with such holder at any time and any other rights which such holder may have pursuant to applicable law.

Section 11. Registration of Transfer.

The Corporation shall keep at its principal office a register for the registration of Series B Preferred. Upon the surrender of any certificate representing Series B Preferred at such place, the Corporation shall, at the request of the record holder of such certificate, execute and deliver (at the Corporation's expense) a new certificate or certificates in exchange therefor representing in the aggregate the number of Shares represented by the surrendered certificate. Each such new certificate shall be registered in such name and shall represent such number of Shares as is requested by the holder of the surrendered certificate and shall be substantially identical in form to the surrendered certificate, and dividends shall accrue on the Series B Preferred represented by such new certificate from the date to which dividends have been fully paid on such Series B Preferred represented by the surrendered certificate.

Section 12. Replacement.

Upon receipt of evidence reasonably satisfactory to the Corporation (an affidavit of the registered holder shall be satisfactory) of the ownership and the loss, theft, destruction or mutilation of any certificate evidencing Series B Preferred, and in the case of any such loss, theft or destruction, upon receipt of indemnity reasonably satisfactory to the Corporation (provided that if the holder is a financial institution or other institutional investor its own agreement shall be satisfactory), or, in the case of any such mutilation upon surrender of such certificate, the Corporation shall (at its expense) execute and deliver in lieu of such certificate a new certificate of like kind representing the number of Shares of such class represented by such lost, stolen, destroyed or mutilated certificate and dated the date of such lost, stolen, destroyed or mutilated certificate, and dividends shall accrue on the Series B Preferred represented by such new certificate from the date to which dividends have been fully paid on such lost, stolen, destroyed or mutilated certificate.

Section 13. Information Rights. So long as fifty percent (50%) or more of the Series B Preferred issued pursuant to the Purchase Agreement remains outstanding, the Company will deliver to the holders of the Series B Preferred the Company's Form 10-K, Form 10-Q, proxy statement, annual report, any filings that the Company makes from time to time with the Securities and Exchange Commission and any information distributed to the board of directors. The holders of the Preferred Stock agree to maintain the confidentiality of all Confidential Information received from the Company.

Section 14. Definitions.

"Change of Control" has the meaning set forth in paragraph 5H hereof.

"Common Stock" means, collectively, the Corporation's Common Stock, \$0.01 par value per share, and any capital stock of any class of the Corporation hereafter authorized which is not limited to a fixed sum or percentage of par or stated value in respect to the rights of the holders thereof to participate in dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation.

"Common Stock Deemed Outstanding" means, at any given time, the number of shares of Common Stock actually outstanding at such time, plus the number of shares of Common Stock deemed to be outstanding pursuant to subparagraphs 7D(i) and 7D(ii) hereof whether or not the Options or Convertible Securities are actually exercisable at such time.

“Confidential Information” means any information concerning the Company’s business other than information that (i) was already known to the Person having a duty to keep confidential such information on a nonconfidential basis prior to the time of disclosure, (ii) is or becomes generally available to the public through no act or omission of such Person or (iii) becomes available to such Person on a nonconfidential basis from a source other than any party hereto (or any agent or representative thereof) if such source was not under a prohibition against disclosing the information to such Person.

“Conversion Stock” means shares of the Corporation’s Common Stock, par value \$0.01 per share; provided that if there is a change such that the securities issuable upon conversion of Series B Preferred are issued by an entity other than the Corporation or there is a change in the type or class of securities so issuable, then the term “Conversion Stock” shall mean one share of the security issuable upon conversion of Series B Preferred if such security is issuable in shares, or shall mean the smallest unit in which such security is issuable if such security is not issuable in shares.

“Convertible Securities” means any stock or securities directly or indirectly convertible into or exchangeable for Common Stock.

“Junior Securities” means any capital stock or other equity securities of the Corporation, except for the Series B Preferred.

“Liquidation Preference Price” of any Share as of any particular date shall be equal to one thousand dollars (\$1,000), plus any accrued but unpaid dividends, whether or not declared.

“Market Price” of any security means the average of the closing prices of such security’s sales on all securities exchanges on which such security may at the time be listed, or, if there has been no sales on any such exchange on any day, the average of the highest bid and lowest asked prices on all such exchanges at the end of such day, or, if on any day such security is not so listed, the average of the representative bid and asked prices quoted in the NASDAQ System as of 4:00 P.M., New York time, or, if on any day such security is not quoted in the NASDAQ System, the average of the highest bid and lowest asked prices on such day in the domestic over-the-counter market as reported by the National Quotation Bureau, Incorporated, or any similar successor organization, in each such case averaged over a period of twenty one (21) days consisting of the day as of which “Market Price” is being determined and the twenty (20) consecutive business days prior to such day. If at any time such security is not listed on any securities exchange or quoted in the NASDAQ System or the over-the-counter market, the “Market Price” shall be the fair value thereof determined jointly by the Corporation and the holders of a majority of the Series B Preferred. If such parties are unable to reach agreement within a reasonable period of time, such fair value shall be determined by an independent appraiser experienced in valuing securities jointly selected by the Corporation and the holders of a majority of the Series B Preferred. The determination of such appraiser shall be final and binding upon the parties, and the Corporation shall pay the fees and expenses of such appraiser.

“Options” means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities.

“Person” means an individual, a partnership, a corporation, a limited liability company, a limited liability partnership, an association, a joint stock company, a trust, a joint venture, an unincorporated organization and a governmental entity or any department, agency or political subdivision thereof.

“Purchase Agreement” means the Purchase Agreement, dated as of March __, 2000, by and among the Corporation and certain investors, as such agreement may from time to time be amended in accordance with its terms.

“Redemption Date” as to any Share means the date specified in the notice of any redemption at the Corporation’s option or at the holder’s option or the applicable date specified herein in the case of any other redemption; provided that no such date shall be a Redemption Date unless the Liquidation Preference Price of such Share (plus all accrued and unpaid dividends thereon and any required premium with respect thereto) is actually paid in full on such date, and if not so paid in full, the Redemption Date shall be the date on which such amount is fully paid.

“Series B Conversion Price” means nine dollars (\$9.00), subject to adjustment as provided in Section 7C hereof.

“Stated Value” means one thousand dollars (\$1,000) per Share.

“Subsidiary” means, with respect to any Person, any corporation, limited liability company, partnership, association or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof, or (ii) if a limited liability company, partnership, association or other business entity, a majority of the partnership or other similar ownership interest thereof is at the time owned or controlled, directly or indirectly, by any Person or one or more Subsidiaries of that person or a combination thereof. For purposes hereof, a Person or Persons shall be deemed to have a majority ownership interest in a limited liability company, partnership, association or other business entity if such Person or Persons shall be allocated a majority of limited liability company, partnership, association or other business entity gains or losses or shall be or control the managing general partner of such limited liability company, partnership, association or other business entity.

Section 15. Amendment and Waiver.

No amendment, modification or waiver shall be binding or effective with respect to any provision of Sections 1 to 16 hereof without the prior written consent of the holders of greater than fifty percent (50%) of the Series B Preferred outstanding at the time such action is taken; provided that no such action shall change (a) the rate at which or the manner in which dividends on the Series B Preferred accrue or the times at which such dividends become payable or the amount payable on redemption of the Series B Preferred or the times at which redemption of Series B Preferred is to occur, without the prior written consent of the holders of at least seventy-five percent (75%) of the Series B Preferred then outstanding, (b) the Conversion Price of the Series B Preferred or the number of shares or class of stock into which the Series B Preferred is convertible, without the prior written consent of the holders of at least seventy-five percent (75%) of the Series B Preferred then outstanding, or (c) the percentage required to approve any change described in clauses (a) and (b) above, without the prior written consent of the holders of at least seventy-five percent (75%) of the Series B Preferred then outstanding; and provided further that no change in the terms hereof may be accomplished by merger or consolidation of the Corporation with another corporation or entity unless the Corporation has obtained the prior written consent of the holders of the applicable percentage of the Series B Preferred then outstanding.

Section 16. Notices.

Except as otherwise expressly provided hereunder, all notices referred to herein shall be in writing and shall be delivered by registered or certified mail, return receipt requested and postage prepaid, or by reputable overnight courier service, charges prepaid, and shall be deemed to have been given when so mailed or sent (i) to the Corporation, at its principal executive offices and (ii) to any stockholder, at such holder's address as it appears in the stock records of the Corporation (unless otherwise indicated by any such holder).

IN WITNESS WHEREOF, TransAct Technologies Incorporated has caused this Certificate to be signed by its President and Chief Executive Officer and attested by its Secretary this 5th day of April, 2000.

TRANSACT TECHNOLOGIES INCORPORATED

By /s/ Bart C. Shuldman

Attest:

/s/ Richard L. Cote

B-18

THIRD AMENDMENT TO INDUSTRIAL REAL ESTATE LEASE

THIS THIRD AMENDMENT TO INDUSTRIAL REAL ESTATE LEASE (the “**Third Amendment**”) is entered into this 26th day of April, 2022, by and between **COLUMBIA NEVADA PARADISE INDUSTRIAL, LLC**, a Delaware limited liability company (the “**Landlord**”) and **TRANSACT TECHNOLOGIES INCORPORATED**, a Delaware corporation (“**Tenant**”).

WITNESSETH

A. Landlord (as successor-in-interest to The Realty Associates Fund IX, L.P., in turn successor-in-interest to CIP Hughes Center LLC, in turn successor-in-interest to Las Vegas Airport Properties LLC) and Tenant are parties to that certain Industrial Real Estate Lease dated December 12, 2004, as amended by that First Amendment to Lease dated August 31, 2009, and that Second Amendment to Lease dated June 30, 2015 (collectively, as amended, the “**Lease**”), pursuant to which Tenant leased from Landlord approximately 19,575 rentable square feet known as Suites C and D (the “**Premises**”) in the building located at 6700 Paradise Road, Las Vegas, Nevada, as more particularly described in the Lease. Any and all capitalized terms not specifically defined in this Third Amendment shall have the definitions set forth in the Lease.

B. Landlord and Tenant now desire to further amend the Lease in accordance with the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the foregoing recitals, which are true and correct and are incorporated herein by reference, and for the mutual terms and conditions set forth herein, the receipt and sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. **Term.** The Lease Term is hereby extended by thirty-seven (37) months commencing on November 1, 2022 and expiring on November 30, 2025. Notwithstanding anything to the contrary contained in the Lease, Tenant shall have no further right to extend the Lease Term.

2. **Base Rent.** Effective as of November 1, 2022, Tenant shall pay to Landlord, at the times and in the manner set forth in the Lease, Base Rent in the following amounts:

| Period | Monthly Base Rent |
|--------------------------------------|-------------------|
| November 1, 2022 – November 30, 2022 | \$0.00* |
| December 1, 2022 – October 31, 2023 | \$24,468.75 |
| November 1, 2023 – October 31, 2024 | \$25,325.16 |
| November 1, 2024 – October 31, 2025 | \$26,211.54 |
| November 1, 2025 – November 30, 2025 | \$27,128.94 |

* Notwithstanding that Tenant shall not be obligated to pay Base Rent during the period commencing on November 1, 2022 and expiring on November 30, 2022 (the “**Rent Abatement**”), during such period Tenant shall remain obligated to pay all Additional Rent due under the Lease. In the event of any default by Tenant under the Lease after the date hereof (following any required notice to Tenant and following the expiration of any applicable cure period), Tenant shall be obligated to immediately repay the Rent Abatement to Landlord, which Rent Abatement equals \$24,468.75.

3. **Tenant's Work.**

(a) If Tenant desires to perform any work in the Premises, Tenant shall, at Tenant's sole cost and expense, submit to Landlord for Landlord's written approval, detailed construction and working drawings of the work to be performed by Tenant to the Premises (collectively, the "**Tenant's Work**"), which drawings shall be to the extent and nature required by the municipality in order to obtain a building permit (or, if no permit is required, such drawings and/or plans shall contain such detail as is reasonably necessary for Landlord's consent therefor). Tenant may not commence Tenant's Work unless and until Landlord has approved such plans in writing (which approval shall not be unreasonably withheld, conditioned or delayed), and Tenant obtains all necessary permits and approvals therefor. Tenant shall perform all of the Tenant's Work in a good and workmanlike manner, employing materials of good quality and in compliance with all applicable permits and authorizations and building and zoning laws and with all other applicable laws, ordinances, orders, rules, regulations and requirements of all federal, state, county and municipal governments, departments, commissions, boards and offices, and in compliance with the terms and conditions of the Lease. Furthermore, Tenant agrees that upon completion of the Tenant's Work, Tenant shall furnish Landlord with releases of lien(s) from all contractors and materialmen having performed work or supplied material within the Premises, in a form reasonably approved by Landlord. All contractors performing Tenant's Work shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed.

(b) Provided that Tenant is not in default in the performance of any of its obligations under the Lease (as amended hereby), Landlord shall provide Tenant with a construction allowance (the "**Tenant Improvement Allowance**") of up to \$156,600.00 (based upon a rate of Eight Dollars (\$8.00) per rentable square foot of the Premises), which shall be used to reimburse Tenant for Tenant's Costs (hereinafter defined) for the Tenant's Work, which work must be actual cosmetic work, remodeling, or improvements to the Premises. "**Tenant's Costs**" shall mean Tenant's out-of-pocket contract or purchase price(s) for materials, components, labor and services for the Tenant's Work, including any architectural and engineering fees, but excluding any costs for furniture, fixtures, or equipment. Prior to payment of the Tenant Improvement Allowance, the total amount of Tenant's Costs shall be subject to examination by Landlord, and Tenant shall provide Landlord with copies of all invoices and other backup documentation reasonably requested by Landlord relative thereto. The Tenant Improvement Allowance shall be payable within thirty (30) days after the latest to occur of the following: (i) Tenant has completed Tenant's Work; (ii) Tenant has submitted to Landlord paid invoices from the contractors and subcontractors performing the work and such other supporting documentation as Landlord may reasonably require; and (iii) Tenant has delivered to Landlord releases of lien(s), in a form reasonably approved by Landlord, from all contractors, subcontractors and materialmen having performed work or supplied material in connection with Tenant's Work. If Tenant is in default of any of its obligations under the Lease at the time the Tenant Improvement Allowance would otherwise be due to Tenant hereunder, and Tenant subsequently cures such default, then Landlord shall pay to Tenant the portion of the Tenant Improvement Allowance requested by Tenant within thirty (30) days after such cure, so long as the same occurs within twelve (12) months after the date hereof as required by this Section. In the event Tenant fails to utilize the entire Tenant Improvement Allowance, Tenant shall be entitled to credit up to Thirty-Nine Thousand One Hundred Fifty Dollars (\$39,150.00) (based upon a rate of Two Dollars (\$2.00) per rentable square foot of the Premises) of such excess portion of the Tenant Improvement Allowance against the Base Rent due under the Lease. In the event Tenant's Costs for the Tenant's Work exceed the amount of the Tenant Improvement Allowance, Tenant shall be solely responsible for such excess costs. All requests for the Tenant Improvement Allowance (and the satisfaction of the foregoing conditions) shall be made no later than the date that is twelve (12) months after the date hereof, or the same shall be forfeited by Tenant. Lincoln Property Company Commercial, Inc. shall be entitled to receive a construction supervision fee equal to Landlord's out-of-pocket expenses incurred in connection therewith, not to exceed five percent (5%) of Tenant's Costs, which construction supervision fee shall be paid for from the Tenant Improvement Allowance.

4. **Brokers.** Landlord and Tenant each represent and warrant that they have had no dealings with any agents or brokers in connection with the negotiation or execution of this Third Amendment, except for CBRE, Inc. (whose commission shall be paid by Landlord pursuant to separate agreement), and Landlord and Tenant each agree to indemnify the other against all claims, reasonable attorneys' fees, and other liability for commissions or other compensation arising out of a breach of such representations.

5. **OFAC.** Tenant is not (i) acting, directly or indirectly for, or on behalf of, any person, group, entity or nation named by any Executive Order (including the September 24, 2001, Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or other banned or blocked person, entity, or nation pursuant to any Law that is enforced or administered by the Office of Foreign Assets Control, and is not engaging in this transaction, directly or indirectly, on behalf of, or instigating or facilitating this transaction, directly or indirectly, on behalf of, any such person, group, entity or nation, nor (ii) engaged in any dealings or transactions, directly or indirectly, in contravention of any United States, international or other applicable money laundering regulations or conventions, including, without limitation, the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, Trading with the Enemy Act (50 U.S.C. § 1 et seq., as amended), or any foreign asset control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto. Tenant shall, within five (5) days after Landlord's request, provide such information as Landlord may require to verify the foregoing representations or as may be required in order to enable Landlord to comply with any reporting requirements or applicable laws pertaining to the foregoing representations.

6. **Miscellaneous.** This Third Amendment shall be: (a) governed by the laws of the State of Nevada, and (b) binding upon and shall inure to the benefit of the parties and their respective successors and assigns.

7. **Entire Agreement.** This Third Amendment represents the entire understanding of the parties with respect to the subject matter hereof, and the Lease may not be amended further except in writing executed by the parties to be bound thereby. Unless expressly modified herein, the terms and conditions of the Lease shall remain in full force and effect, and the parties hereby confirm and ratify the same.

-SIGNATURE PAGE TO FOLLOW-

IN WITNESS WHEREOF, the parties have executed this Third Amendment on the date first written above.

LANDLORD:

COLUMBIA NEVADA PARADISE INDUSTRIAL, LLC, a Delaware limited liability company

By: Columbia Industrial Properties, LLC,
its sole member

By: Lincoln Industrial Manager, LLC,
its manager

By: Lincoln Advisory Group, Ltd.,
its manager

By: Lincoln GP Advisory Group, Inc.,
its sole general partner

By: /s/ Gary F. Kobus
Gary F. Kobus, President

TENANT:

**TRANSACT TECHNOLOGIES
INCORPORATED**, a Delaware corporation

By: /s/ Bart C. Shuldman
Name: Bart C. Shuldman
Title: CEO

August 18, 2022

Board of Directors
TransAct Technologies Incorporated
One Hamden Center
2319 Whitney Avenue, Suite 3B
Hamden, CT 06518

Dear Directors:

We are providing this letter for inclusion as an exhibit to the Company's Form 10-Q filing pursuant to Item 601 of Regulation S-K.

Note 9 to the condensed consolidated financial statements of TransAct Technologies Incorporated included in its Quarterly Report on Form 10-Q for the three and six months ended June 30, 2022, describes a change in accounting principle for inventory valuation from standard cost (which approximated actual cost on a first-in, first-out basis) to the average cost method of inventory accounting. It should be understood that the preferability of one acceptable method of accounting over another for inventory accounting has not been addressed in any authoritative accounting literature, and there is no authoritative criteria for determining a "preferable" inventory method based on particular circumstances. In expressing our concurrence below, we have relied on management's determination that this change in accounting principle is preferable. Based on our reading of management's stated reasons and justification for this change in accounting principle in the Form 10-Q, and our discussions with management as to their judgment regarding the relevant business planning factors relating to the change, we concur with management that such change in the method of accounting is to an acceptable alternative method and represents, in the Company's circumstances, the adoption of a preferable accounting principle.

We have not conducted an audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) of any financial statements of the Company as of any date or for any period subsequent to December 31, 2021, and, therefore, we do not express any opinion on any financial statements of the Company subsequent to that date.

Very truly yours,

/s/ Marcum LLP

Hartford, Connecticut

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

I, Bart C. Shuldman, certify that:

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

Date: August 18, 2022

/s/ Bart C. Shuldman

Bart C. Shuldman

Chairman and Chief Executive Officer

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

I, Steven A. DeMartino, certify that:

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

Date: August 18, 2022

/s/ Steven A. DeMartino

Steven A. DeMartino

President, Chief Financial Officer, Treasurer and Secretary

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

In connection with the Quarterly Report of TransAct Technologies Incorporated (the "Company") on Form 10-Q for the period ended June 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company, certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 18, 2022

/s/ Bart C. Shuldman

Bart C. Shuldman
Chairman and Chief Executive Officer

Date: August 18, 2022

/s/ Steven A. DeMartino

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