

SECURITIES AND EXCHANGE COMMISSION  
 Washington, DC. 20549  
 FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 1998

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 (I.R.S. Employer Identification No.)  
 of incorporation or organization)

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

Registrant's telephone number,  
 including area code 203-269-1198

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

NONE

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

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

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

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

As of MARCH 19, 1999 the aggregate market value of the registrant's issued and  
 outstanding voting stock held by non-affiliates of the registrant was  
 \$15,400,000.

As of MARCH 19, 1998 the registrant had outstanding 5,558,700 shares of common  
 stock, \$0.01 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the Annual Meeting of Shareholders to be held on May 6, 1999  
 - - Part III.

## GENERAL

TransAct Technologies Incorporated ("TransAct" or the "Company") designs, develops, manufactures and markets transaction-based printers and related products under the ITHACA(R) and MAGNETEC(R) brand names. The Company's printers are used to provide transaction records such as receipts, tickets, coupons, register journals and other documents. The Company focuses on four vertical markets: point-of-sale ("POS") (from which the Company derived approximately 53% of its net sales in the year ended December 31, 1998); gaming and lottery (approximately 39% of net sales); kiosk (approximately 3% of net sales); and financial services (approximately 5% of net sales). The Company sells its products directly to end users, original equipment manufacturers ("OEMs"), value added resellers ("VARs") and selected distributors, primarily in the United States, Canada, Europe and Latin America. TransAct has two operating facilities located in Wallingford, Connecticut and Ithaca, New York, and six sales offices, five located in the United States and one in the United Kingdom.

## ITEM 1. BUSINESS.

## (A) GENERAL DEVELOPMENT OF BUSINESS

In November 1995, the Board of Directors of Tridex Corporation ("Tridex") approved a plan to combine the business operations of two of its wholly-owned subsidiaries, Magnetec Corporation ("Magnetec") and Ithaca Peripherals Incorporated ("Ithaca"), under unified management. TransAct was incorporated in Delaware on June 17, 1996 as a wholly-owned subsidiary of Tridex. Following the incorporation, Tridex, TransAct, Magnetec and Ithaca entered into a Plan of Reorganization, pursuant to which: (i) Ithaca merged into Magnetec; (ii) TransAct transferred to Tridex certain assets of Magnetec used in manufacturing a printer ribbon product line; (iii) TransAct issued 5,400,000 shares of its common stock to Tridex in exchange for all the outstanding shares of Magnetec; (iv) TransAct sold in an initial public offering 1,322,500 shares or approximately 19.7% of its common stock; (v) TransAct repaid \$8,500,000 of intercompany indebtedness to Tridex; (vi) Tridex applied to the Internal Revenue Service (the "IRS") for a ruling that the distribution of the 5,400,000 shares of TransAct owned by Tridex to Tridex stockholders (the "Distribution") would constitute a tax-free reorganization for federal income tax purposes; and (vii) Tridex agreed to effect the Distribution promptly after receipt of a favorable ruling from the IRS and the satisfaction of certain other conditions.

On August 22, 1996, the Company sold 1,150,000 shares of its common stock at a price of \$8.50 per share in an initial public offering (the "Offering"). On September 18, 1996, the Company sold an additional 172,500 shares upon exercise of the underwriters' over-allotment option. Net proceeds from the Offering (including the exercise of the underwriters' over-allotment option) were approximately \$9 million after payment of approximately \$2.3 million of Offering expenses.

On February 12, 1997, Tridex received a favorable ruling from the IRS confirming the tax-free nature of the Distribution. On March 31, 1997 Tridex distributed its 5,400,000 shares, or 80.3%, of TransAct's common stock, pro rata to persons who were Tridex stockholders of record on March 14, 1997, on the basis of approximately one share of TransAct for each share of Tridex. Upon completion of the Distribution, Tridex no longer owned any shares of TransAct common stock.

## (B) FINANCIAL INFORMATION ABOUT INDUSTRY SEGMENTS

TransAct has assessed its operating and reportable segments and determined that it operates in one reportable segment, the design, development, manufacture and marketing of transaction-based printers and printer peripheral products.

## (C) NARRATIVE DESCRIPTION OF BUSINESS

## (i) PRINCIPAL PRODUCTS AND SERVICES

TransAct designs, develops, manufactures and markets a broad array of transaction-based printers utilizing dot matrix and thermal printing technology for applications requiring up to 60 character columns in each of its four vertical markets: POS, gaming and lottery, kiosk and financial services. The Company also sells an 80 column laser printer for kiosk applications. The Company's printers are configurable, which offer customers the ability to choose from a variety of features and functions. Options typically include paper cutting devices, paper handling capacities and number of print stations. In addition to its configurable printers, TransAct manufactures custom printers for certain OEM customers. In collaboration with these customers, the Company provides engineering and manufacturing expertise for the design and development of specialized printers.

The Company also manufactures and sells document transport mechanisms which deliver the finished printed output to the consumer in unattended applications, such as ATMs and kiosks. The Company also offers printer ribbons, paper and replacement parts for all of its products.

The Company provides customers with telephone sales and technical support, a personal account representative for orders, shipping and general information and expedited shipping for orders of its customizable and custom products. Technical and sales support personnel receive training in all of the Company's products and services manufactured at their facility. The Company's printers generally carry a one- or two-year limited warranty; extended warranties are available for purchase on selected printers to supplement the original warranty.

## (ii) STATUS OF PRODUCT REQUIRING MATERIAL INVESTMENT

None.

## (iii) SOURCES AND AVAILABILITY OF RAW MATERIALS

The principal materials used in manufacturing are copper wire, magnetic metals, injection molded plastic parts, formed metal parts and electronic components. Although the Company could experience temporary disruption if certain suppliers ceased doing business with the Company, the Company's requirements generally are available from a number of sources. However, the Company is dependent upon Okidata, Division of Oki America, Inc. ("Okidata") for a printer component kit consisting of a printhead, control board and carriage (the "Oki Kit"), which is used in all of the Company's ITHACA brand impact printers. The loss of the supply of Oki Kits would have a material adverse effect on the Company. TransAct has a supply agreement with Okidata to provide Oki Kits until February 2000. Pricing for the Oki Kits is fixed through August 1999. TransAct believes its relations with Okidata are good and has received no indication that the supply agreement will not be renewed beyond the expiration of the current contract. TransAct cannot be certain, however, that the supply agreement will be renewed, or if renewed, that the terms will be as favorable as those under the current contract.

## (iv) PATENTS AND PROPRIETARY INFORMATION

The Company owns several patents, one of which it considers material. That patent covers an automated paper cut-off device, which is a feature offered on certain of the Company's POS printers. The Company regards certain manufacturing processes and designs to be proprietary and attempts to protect them through employee and third-party nondisclosure agreements and similar means. It may be possible for unauthorized third parties to copy certain portions of the Company's products or to reverse engineer or otherwise obtain and use, to the Company's detriment, information that the Company regards as proprietary. Moreover, the laws of some foreign countries do not afford the same protection to the Company's proprietary rights as do United States laws. There can be no assurance that legal protections relied upon by the Company to protect its proprietary position will be adequate or that the Company's competitors will not independently develop technologies that are substantially equivalent or superior to the Company's technologies.

## (v), (vi) SEASONALITY AND PRACTICES RELATING TO WORKING CAPITAL ITEMS

Retailers typically reduce purchases of new POS equipment in the fourth quarter, due to the increased volume of consumer transactions in that period, and the Company's sales of printers in the POS market historically have increased in the third quarter and decreased in the fourth quarter. However, the Company has not experienced material seasonality in its total net sales, due to offsetting sales in other markets.

## (vii) CERTAIN CUSTOMERS

The Company has an OEM purchase agreement with GTECH Corporation ("GTECH") to provide on-line lottery printers and spare parts, at prices to be negotiated, through October 2001. The Company also sells printers to GTECH for use in in-lane lottery terminals. Sales to GTECH accounted for approximately 31.8%, 29.1% and 16.0% of net sales for the years ended December 31, 1998, 1997 and 1996, respectively.

## (viii) BACKLOG

The Company's backlog of firm orders was approximately \$16,100,000 as of March 19, 1999 and \$26,700,000 as of March 13, 1998. Based on customers' current delivery requirements, TransAct expects to fill approximately \$6,300,000 of its backlog during 1999, and the remainder during 2000.

## (ix) MATERIAL PORTION OF BUSINESS SUBJECT TO RENEGOTIATION OF PROFITS

None.

## (x) COMPETITION

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

Three of the Company's competitors, Epson America, Inc., Axiohm Transaction Solutions and Star Micronics America, Inc. together control approximately 70% of the United States market for POS printers, a market in which the Company's strategy calls for increased market share. Another principal competitor in the POS market is Citizen -- CBM America Corporation. Certain competitors of the Company have lower costs, attributable to higher volume production and off-shore manufacturing locations, and offer lower prices than the Company from time to time.

In the gaming and lottery, financial services and kiosk markets, no single supplier holds a dominant position. Certain of the Company's products sold for gaming and lottery, kiosk and financial service applications compete based upon the Company's ability to provide highly specialized products, custom engineering and ongoing technical support.

The Company's strategy for competing in its markets is to continue to develop new products and product line extensions, to increase its geographic market penetration, and to take advantage of strategic relationships. Although the Company has historically maintained or increased sales with this strategy and believes that its products, operations and relationships provide a competitive foundation, there can be no assurance that the Company will compete successfully in the future.

(xi) RESEARCH AND DEVELOPMENT ACTIVITIES

The Company spent approximately \$3,642,000 in the year ended December 31, 1998, \$2,773,000 in the year ended December 31, 1997 and \$2,467,000 in the year ended December 31, 1996 on engineering, design and product development efforts in connection with specialized engineering and design to introduce new products and to customize existing products.

(xii) ENVIRONMENT

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

(xiii) EMPLOYEES

As of March 19, 1999, TransAct Technologies and its subsidiaries employed 224 persons, of which 212 were full-time and 12 were temporary employees. None of the Company's employees is unionized and the Company considers its relationships with its employees to be good.

(D) FINANCIAL INFORMATION ABOUT FOREIGN AND DOMESTIC OPERATIONS AND EXPORT SALES

The Company has foreign operations primarily from Ithaca Peripherals Ltd., a wholly-owned subsidiary located in the United Kingdom, which had sales to its customers of \$4,990,000, \$4,204,000 and \$397,000 in 1998, 1997 and 1996, respectively. The Company had export sales to its customers from its domestic operations of approximately \$3,396,000, \$5,618,000 and \$1,622,000 in 1998, 1997 and 1996, respectively.

(E) EXECUTIVE OFFICERS OF THE REGISTRANT AS OF DECEMBER 31, 1998

Name ----	Age ---	Position -----
Thomas R. Schwarz	62	Chairman of the Board
Bart C. Shuldman	41	President, Chief Executive Officer and Director
Richard L. Cote	57	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director
David A. Ritchie	39	Executive Vice President - Sales
Lucy H. Staley	48	Senior Vice President - General Manager (Ithaca, NY facility)
John Cygielnik	54	Senior Vice President - General Manager (Wallingford, CT facility)
Michael S. Kumpf	49	Senior Vice President - Engineering
Steven A. DeMartino	29	Corporate Controller

THOMAS R. SCHWARZ, Chairman of the Board, has been a Director of the Company since its formation in June 1996. Mr. Schwarz was Chairman and Chief Executive Officer of Grossman's Inc., a retailer of building materials, from 1990 until his retirement in 1994. Mr. Schwarz is a Director of Tridex, Foilmark, Inc., Tanaka Growth Fund, Lebhar-Friedman Publishing Company and A&W Restaurants.

BART C. SHULDMAN has been Chief Executive Officer, President and a Director of the Company since its formation in June 1996. Previously, Mr. Shuldman was Vice President of Sales and Marketing of Magnetec from April 1993 to August 1993, and served as President of Magnetec and later the combined operations of Magnetec and Ithaca from August 1993 until June 1996.

RICHARD L. COTE has been Executive Vice President, Chief Financial Officer, Treasurer, Secretary and a Director of the Company since its formation in June 1996. Prior thereto, he served as Senior Vice President and Chief Financial Officer of Tridex from September 1993 to June 1996 and as Vice President of Tridex from June 1993 to September 1993.

DAVID A. RITCHIE, was appointed Executive Vice President of Sales of the Company in July 1997, and served as Vice President of Sales at TransAct's Ithaca division from March 1996 to July 1997. Mr. Ritchie joined Ithaca in April 1995 as Southeast National Sales Manger. Prior to joining TransAct's Ithaca division, Mr. Ritchie held several sales management positions including Regional Sales Manager at Medintell Systems Corporation from March 1994 to April 1995 and Manager of Distribution Channels at AT&T from January 1992 to February 1994.

LUCY H. STALEY, Senior Vice President-General Manager (Ithaca, NY facility) since June 1996, served as a Vice President of Ithaca from 1984 until June 1996.

JOHN CYGIELNIK, Senior Vice President-General Manager (Wallingford, CT facility) since June 1996, joined Magnetec as Controller in 1992, and served as Vice President of Finance of Magnetec from 1993 until June 1996.

MICHAEL S. KUMPF, Senior Vice President-Engineering since June 1996, served as Vice President of Engineering of Ithaca from 1991 until June 1996.

STEVEN A. DEMARTINO, joined TransAct as Corporate Controller in August 1996 and was appointed an officer of the Company in January 1998. Prior to joining TransAct, Mr. DeMartino was a self-employed financial consultant from May 1996 to August 1996. Prior thereto, Mr. DeMartino, served as Controller of NER/Copart, Inc. from September 1994 to May 1996, and senior accountant with Price Waterhouse LLP from August 1991 to September 1994.

## ITEM 2. PROPERTIES.

The Company's operations are currently conducted at the facilities described below:

Location	Operations Conducted	Size (Approx. Sq. Ft.)	Owned or Leased	Lease Expiration Date
Wallingford, Connecticut	Manufacturing facility and executive offices	49,000	Leased	March 31, 2008
Ithaca, New York	Manufacturing facility	59,000	Leased	June 30, 2007
Georgia (2), New Jersey, New York, Texas and the United Kingdom	Six (6) regional sales offices	1,600	Leased	Various

The Company believes that its facilities generally are in good condition, adequately maintained and suitable for their present and currently contemplated uses.

## ITEM 3. LEGAL PROCEEDINGS.

None.

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

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

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's common stock is traded on the Nasdaq National Market under the symbol TACT. As of March 19, 1999, there were 1,133 holders of record of the common stock. The high and low sales prices of the common stock reported during each quarter of the years ended December 31, 1998 and 1997 were as follows:

	Year Ended		Year Ended	
	December 31, 1998		December 31, 1997	
	High	Low	High	Low
First Quarter	12-1/4	8-1/2	15-1/2	10
Second Quarter	10-5/8	7-3/4	14	10-3/4
Third Quarter	8-7/8	4-1/2	20	13-1/2
Fourth Quarter	7-1/2	1-3/4	20-1/4	10

No dividends on the common stock have been declared and the Company does not anticipate declaring dividends in the foreseeable future. The Company's credit agreement with Fleet National Bank restricts the payment of cash dividends for the term of the agreement.

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

	Year Ended			Nine Months Ended		Year Ended
	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	April 1, 1995
					(Unaudited)	
<b>Statement of Income Data:</b>						
Net sales	\$52,239	\$58,400	\$42,134	\$25,497	\$25,426	\$33,362
Gross profit	13,826	18,173	13,933	7,968	8,391	11,013
Operating income	2,148	7,831	5,233	1,579	3,030	3,705
Net income	1,206	4,893	3,340	916	1,883	2,304
<b>Earnings per share (pro forma prior to 1997):</b>						
Basic	0.20	0.72	0.57	0.17	0.35	0.43
Diluted	0.20	0.71	0.57	0.17	0.35	0.43
	December 31, 1998	December 31, 1997	December 31, 1996	December 31, 1995	December 31, 1994	April 1, 1995
					(Unaudited)	
<b>Balance Sheet Data:</b>						
Total assets	\$23,788	\$24,699	\$20,784	\$15,969	\$14,392	\$15,358
Long term debt	5,075	-	-	-	-	-
Shareholders' equity	12,177	17,903	14,407	11,645	10,591	11,280

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

Because the Company was wholly-owned by Tridex until August 22, 1996, the Selected Financial Data which appear in Item 6 and the Consolidated Financial Statements which appear in Item 8 of this report with respect to periods prior to the year ended December 31, 1997 may not necessarily reflect the results of operations or financial position of the Company or what the results of operations would have been if the Company had been a stand alone entity during the periods presented. This discussion should be read in conjunction with those Consolidated Financial Statements and notes thereto. See Note 1 of Notes to Consolidated Financial Statements (Basis of Presentation).

Certain statements included in this report, including without limitation statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements involve risks and uncertainties, including, but not limited to, customer acceptance and market share gains, both domestically and internationally, in the face of substantial competition from competitors that have broader lines of products and greater financial resources; successful product development; dependence on significant customers; dependence on third parties for sales in Europe and Latin America; economic conditions in the United States, Europe and Latin America; marketplace acceptance of new products; risks associated with foreign operations; availability of third-party components at reasonable prices; and the absence of price wars or other significant pricing pressures affecting the Company's products in the United States or abroad. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements.



General. The Year 2000 Issue is the result of computer programs being written using two digits rather than four to define the applicable year. Any of the Company's computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, send invoices, or engage in similar normal business activities.

Program. The Company has begun a program to resolve its Year 2000 issue. This program consists of four phases; assessment, remediation, testing and contingency planning. The Company completed the assessment phase in December 1998 and is currently in the remediation and testing phases. During the assessment phase, the Company assessed its products, key financial and operating systems and other systems for Year 2000 compliance. The assessment included identifying all critical information management systems and other critical systems on which the Company relies, testing Year 2000 compliance of such systems, and recommending steps for replacing/making corrective fixes to noncompliant systems. Additionally, as part of the assessment phase, the Company obtained compliance verification from third party vendors supplying critical parts or services to the Company in order to determine their plans to address their own Year 2000 issues.

Upon completion of the detailed assessment, the Company concluded that substantially all its critical financial operating systems and other systems are Year 2000 compliant. However, certain software and hardware components were identified as noncompliant. The Company has established a plan to replace this software and hardware by March 1999. Also, the Company believes that its products will be unaffected by the Year 2000 Issue, as none of its products contain embedded date information.

The testing phase of the program has been ongoing, and will continue to be conducted as noncompliant software and hardware are replaced. The Company estimates that the testing phase is approximately 90% completed as of December 31, 1998.

The Company has begun to develop a contingency plan to address third party factors which are out of its control, and expects completion of this plan by June 1999.

Costs. The Company plans completion of all phases, including contingency planning, of the Year 2000 program by June 1999. All costs associated with the Company's Year 2000 program are being expensed as incurred. The Company's total cost associated with the Year 2000 program has not been, and based on results of its detailed assessment, is not expected to be, material to the Company's business, financial position, results of operations or cash flows. The estimated total cost of the Year 2000 Program is approximately \$50,000, which primarily includes the cost of replacing/upgrading noncompliant software identified during the assessment phase with compliant software. Costs incurred through December 31, 1998 have been de minimus.

Risks. The Company presently believes that with modifications to existing software and conversions to new software, the Year 2000 Issue can be mitigated. However, the Company may not timely identify and remediate all significant Year

2000 problems and remedial efforts may involve significant time and expense. If such modifications and conversions are not made, or are not completed timely, the Year 2000 Issue could have a material impact on the results of operations, financial position or cash flows of the Company.

The Company is currently identifying and analyzing the most reasonably likely worst case scenarios for third party relationships affected by the Year 2000 Issue. These scenarios could include the inability of certain suppliers to supply critical parts on a timely basis or the inability of customers to place orders. Either of these scenarios, which is outside of the Company's control, could result in a delay or an inability to ship product in the year 2000, depending on the nature and severity of the problems. Furthermore, there can be no assurance that any Year 2000 compliance problems of the Company or its customers or suppliers will not have a material adverse effect on the results of operations, financial position or cash flows of the Company.

The estimates and conclusions herein contain forward-looking statements and are based on management's best estimates of future events. Risks to completing the remaining portions of the program include the availability of outside resources, the Company's ability to discover and correct potential Year 2000 problems which could have an impact on the Company's operations and the ability of suppliers or customers to bring their systems into Year 2000 compliance.

(A) RESULTS OF OPERATIONS

(i) YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

NET SALES. Net sales into each of the Company's four vertical markets for the years ended December 31, 1998 and 1997 were as follows:

(In thousands)	Year ended December 31, 1998		Year ended December 31, 1997	
	-----		-----	
Point of sale	\$27,778	53.2 %	\$23,342	40.0 %
Gaming and lottery	20,113	38.5	23,584	40.4
Kiosk	1,629	3.1	6,349	10.8
Financial services	2,719	5.2	5,125	8.8
	-----		-----	
	\$52,239	100.0 %	\$58,400	100.0 %
	=====		=====	

Net sales for the year ended December 31, 1998 decreased \$6,161,000, or 11%, to \$52,239,000 from \$58,400,000 in 1997 due to decreased shipments into the gaming and lottery, kiosk and financial services markets, partially offset by an increase in shipments into the point of sale ("POS") market. In addition, for the reasons discussed below, the Company expects that net sales will decrease for the year ended December 31, 1999 compared to the year ended December 31, 1998.

Point of sale: Sales of the Company's POS printers increased approximately \$4,436,000, or 19%, due largely to increased international printer shipments (an increase of approximately \$2,515,000), including increased printer shipments into Europe and Latin America, and more shipments of printers for use in the British Post Office project. Shipments of printers to the British Post Office project were approximately \$4,600,000 in 1998 compared to approximately \$3,600,000 in 1997. The Company does not anticipate making any further printer shipments related to this project until 2000. In addition to increased international printer shipments, domestic POS printer shipments increased approximately \$1,921,000.

Gaming and lottery: Sales of the Company's gaming and lottery printers decreased approximately \$3,471,000, or 15%, from 1997. The overall decrease primarily reflects a decrease of approximately \$3,000,000 in shipments of printers for use in video lottery terminals ("VLT"), due largely to the uncertainty and litigation in South Carolina's video poker industry for most of 1998. However, VLT printer shipments resumed during the fourth quarter of 1998. In addition to a decrease in printer shipments for use in VLTs, shipments of the Company's on-line lottery printers and related spare parts declined \$1,200,000 due to lower shipments to one customer in 1998 than in 1997. Shipments of on-line lottery printers and spares to this customer were approximately \$15,800,000, or 30% of net sales in 1998, compared to approximately \$17,000,000, or 29% of net sales, in the prior year. The Company does not anticipate making any further on-line lottery printer shipments, other than spares, to this customer until 2000. The decrease in sales of printers for on-line lottery terminals in 1998 was largely offset by an increase of approximately \$800,000 of printer shipments to the same customer for new in-lane lottery terminals. The Company expects to continue making shipments of in-lane lottery printers to this customer during 1999.

Kiosk: Kiosk printer sales decreased \$4,720,000, or 74%, to \$1,629,000 from \$6,349,000 in 1997, which included shipments totaling approximately \$3,600,000 of the Company's thermal kiosk printers for use in a Canadian government application. Additional shipments of these thermal kiosk printers are expected to occur during 1999. The remaining decrease primarily reflects shipments of other kiosk printers to various customers in 1997 that did not repeat in 1998.

Financial services: Sales of the Company's printers into the financial services market decreased \$2,406,000, or 47%, primarily due to decreased shipments to one customer of printers used in automated teller machines. The Company expects slightly higher sales of its financial services printers for 1999 compared to 1998.

GROSS PROFIT. Gross profit decreased \$4,347,000, or 24%, to \$13,826,000 from \$18,173,000 in 1997 due primarily to lower sales volume and, to a lesser extent, non-recurring product discontinuance charges of \$290,000 recorded during 1998. The gross margin declined to 26.5% from 31.1% largely due to lower sales volume, non-recurring product discontinuance charges, and an unfavorable change in sales mix, as certain customers at volume discount prices represented a larger proportion of sales in 1998 compared to 1997. Due to lower expected sales volume in 1999 compared to 1998, the Company expects its gross margin in 1999 to be slightly lower than that of 1998.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development costs increased \$869,000, or 31%, to \$3,642,000 from \$2,773,000 in 1997, and increased as a percentage of net sales to 7.0% from 4.7%. This increase reflects the Company's continued focus on new product development and design expense, primarily for products in the POS and gaming and lottery markets, including increased expenses related to additional engineering staff.

SELLING AND MARKETING. Selling and marketing expenses increased \$252,000, or 8%, to \$3,280,000 from \$3,028,000 in 1997, and increased as a percentage of net sales to 6.3% from 5.2%. Such expenses increased due to additional sales staff, increased sales commissions and additional marketing staff related to the establishment of a corporate marketing department during 1998.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased slightly by \$85,000 to \$4,456,000 in 1998 from \$4,541,000 in 1997. General and administrative expenses increased as a percentage of net sales to 8.5% from 7.8%, due to lower volume of sales in 1998 compared to 1997.

PROVISION FOR RESTRUCTURING. During the year ended December 31, 1998, the Company recorded a provision for restructuring of \$300,000 to cover severance costs related to the downsizing and reorganization of the Company's manufacturing facility in Wallingford, Connecticut.

OPERATING INCOME. Operating income decreased \$5,683,000, or 73%, to \$2,148,000 from \$7,831,000 in 1997. Operating income as a percentage of net sales declined to 4.1% from 13.4%, due to (1) lower gross margin on lower sales volume and an unfavorable change in sales mix, (2) increased engineering, design and product development expense, (3) increased selling and marketing expense and (4) non-recurring charges of \$590,000, consisting of \$300,000 for restructuring and \$290,000 for product discontinuance.

INTEREST. During 1998, the Company incurred net interest expense of \$353,000 compared to net interest income of \$16,000 in 1997. The increase in interest expense is due to increased borrowings on the Company's line of credit during 1998 primarily to fund stock repurchases and also for working capital requirements. See "Liquidity and Capital Resources" below.

INCOME TAXES. The provision for income taxes for the year ended December 31, 1998 reflects an effective tax rate of 34.0% compared to 37.5% in the prior year. The decline in the Company's effective tax rate is largely due to tax benefits derived from certain tax credits and its foreign sales corporation.

NET INCOME. Net income for the year ended December 31, 1998 was \$1,206,000, or \$0.20 per share (basic and diluted), as compared to \$4,893,000, or \$0.72 per share basic and \$0.71 per share diluted, in 1997.

(ii) YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

NET SALES. Net sales into each of the Company's four vertical markets for the years ended December 31, 1997 and 1996 were as follows:

(In thousands)	Year ended December 31, 1997		Year ended December 31, 1996	
	-----		-----	
Point of sale	\$23,342	40.0 %	\$21,414	50.8 %
Gaming and lottery	23,584	40.4	12,217	29.0
Kiosk	6,349	10.8	3,379	8.0
Financial services	5,125	8.8	5,124	12.2
	-----		-----	
	\$58,400	100.0 %	\$42,134	100.0 %
	=====		=====	

Net sales for the year ended December 31, 1997 increased \$16,266,000, or 39%, to \$58,400,000 from \$42,134,000 in 1996, substantially due to increased shipments into the gaming and lottery market. Shipments of the Company's on-line lottery printers increased approximately \$10,200,000, to approximately \$17,000,000, or 29% of net sales, in 1997, from approximately \$6,800,000, or 16%, in 1996. Additionally, shipments of the Company's gaming printers for use in video lottery terminals increased approximately \$1,800,000 from 1996. Sales into the kiosk market increased by approximately \$2,970,000, or 88%, substantially due to increased shipments of the Company's thermal kiosk printers. Shipments of the

Company's financial services printers during 1997 were essentially unchanged from 1996. Sales of the Company's POS printers during 1997 increased approximately \$1,928,000, or 9%, from 1996 due largely to an increase in printer shipments into the international POS market, largely offset by a decline in domestic POS printer shipments. The Company's international sales during 1997 were \$9,822,000, or 17% of net sales, compared to \$2,019,000, or 5% of net sales in the prior year.

**GROSS PROFIT.** Gross profit increased \$4,240,000, or 30%, to \$18,173,000 from \$13,933,000 in 1996 due primarily to the higher volume of sales. The gross margin declined to 31.1% from 33.1%, due primarily to a larger proportion of printer sales at lower average selling prices resulting from volume discount pricing, particularly in the gaming and lottery market. Operating income as a percentage of net sales increased in 1997 from 1996 (see "Operating Income" below).

**ENGINEERING AND PRODUCT DEVELOPMENT.** Engineering, design and product development costs increased \$306,000, or 12%, to \$2,773,000 from \$2,467,000 for 1996, but decreased as a percentage of net sales to 4.7% from 5.9%. This increase was due primarily to increased product development and design costs, primarily for new products and enhancements to existing products in the POS and kiosk markets.

**SELLING AND MARKETING.** Selling and marketing expenses increased \$442,000, or 17%, to \$3,028,000 from \$2,586,000 in 1996, primarily due to increases in the level of sales staff and increased commissions resulting from a higher volume of sales principally in the kiosk and POS markets. Selling expenses decreased as a percentage of net sales to 5.2% from 6.1% due primarily to management's ability to control these expenses while increasing sales.

**GENERAL AND ADMINISTRATIVE.** General and administrative expenses increased \$894,000, or 25%, over 1996, primarily reflecting an increase of general and administrative expenses incurred by the Company as a stand alone, public company. In 1996, such expenses were allocated from Tridex, its former parent. Additionally, the increase reflects increased incentive compensation and, to a lesser extent, additional administrative staff expenses to support higher business volumes. General and administrative expenses decreased as a percentage of net sales to 7.8% from 8.7% due primarily to management's ability to control these expenses while increasing sales.

**OPERATING INCOME.** Operating income increased \$2,598,000, or 50%, to \$7,831,000 from \$5,233,000 in 1996. Operating income improved as a percentage of net sales, increasing to 13.4% from 12.4%, due primarily to the Company's ability to control operating expenses while increasing sales.

**OTHER INCOME.** Other income (expense) for the year ended December 31, 1996 included a gain of \$285,000 from the sale of securities acquired in the sale of the Company's solenoid product line in 1994.

**INCOME TAXES.** The provision for income taxes for the year ended December 31, 1997 reflects an effective tax rate of 37.5%. The effective rate in 1996 was 39.6%. The decline in the Company's effective tax rate is largely due to tax benefits derived from the establishment of a foreign sales corporation and certain tax credits.

NET INCOME. Net income for 1997 was \$4,893,000, or \$0.72 per share (basic) and \$0.71 per share (diluted). Net income for 1996 was \$3,340,000, or \$0.57 per share (basic and diluted).

(B) LIQUIDITY AND CAPITAL RESOURCES

The Company generated cash flow from operations of \$4,047,000, \$3,835,000 and \$1,972,000 in 1998, 1997 and 1996, respectively. The Company's working capital declined to \$10,107,000 at December 31, 1998 from \$11,438,000 at December 31, 1997. The current ratio also declined to 2.69 to 1 at December 31, 1998 from 2.87 to 1 at December 31, 1997. The decrease in the Company's working capital and current ratio at December 31, 1998 was the result of short-term financing for stock repurchases.

During November 1997, the Board of Directors approved the repurchase of up to 500,000 shares of the Company's common stock at a price of no more than \$12 per share. During May, August and October 1998, the Board approved the repurchase of an additional 500,000, 250,000 and 250,000 shares, respectively, bringing the total authorized to 1.5 million shares. As of December 31, 1997, the Company had acquired 200,000 shares of its common stock for \$2,251,000. During 1998, the Company repurchased an additional 1,003,000 shares of its common stock for \$7,170,000. Since the Company began the stock repurchase program in December 1997 through December 31, 1998, it has repurchased 1,203,000 shares for \$9,421,000 (an average cost of \$7.83 per share). See Note 18 of Notes to Consolidated Financial Statements concerning repurchases since December 31, 1998. Further repurchases of the Company's common stock will depend upon future cash flow of the Company and stock market conditions.

On August 29, 1996, the Company entered into an agreement with Fleet National Bank ("Fleet") to provide the Company with a \$5,000,000 revolving credit facility (the "Credit Facility"). The Credit Facility bore interest on outstanding borrowings at Fleet's prime rate and bore a commitment fee of 0.25% on any unused portion of the Credit Facility. The Credit Facility also permitted the Company to designate a LIBOR rate on outstanding borrowings with a margin of 1.5 percentage points over the market rate. The Credit Facility was secured by a lien on substantially all of the assets of the Company, imposed certain financial covenants and restricted the payment of cash dividends. The Company had \$300,000 of outstanding borrowings under the Credit Facility at December 31, 1997.

On January 29, 1998, the Company replaced its existing \$5,000,000 Credit Facility with a new \$15,000,000 revolving credit facility (the "New Credit Facility"). The New Credit Facility, also with Fleet, provides the Company with a \$5,000,000 revolving working capital facility, and a \$10,000,000 revolving credit facility that may be used for activities such as acquisitions and repurchases of the Company's common stock. Borrowings under the \$10,000,000 revolving credit facility may, at the Company's election, be converted to a four-year term loan commencing on June 30, 1999, the expiration date of the New Credit Facility. Any term loan borrowings mature on June 30, 2003. Borrowings under the New Credit Facility bear interest on outstanding borrowings at Fleet's prime rate (7.75% at December 31, 1998) and bear a commitment fee ranging from 0.25% to 0.50% on any unused portion of the New Credit Facility. The New Credit Facility also permits the Company to designate a LIBOR rate on outstanding borrowings with a margin ranging from 1.25 to 1.75 percentage points over the market rate, depending on the Company meeting certain ratios. The New Credit Facility is secured by a lien

on substantially all of the assets of the Company, imposes certain financial covenants and restricts the payment of cash dividends and the creation of liens.

During 1998, the Company borrowed \$13,400,000 under the New Credit Facility, with \$5,800,000 outstanding at December 31, 1998. The Company intends to convert the outstanding borrowings to a four-year term loan at the expiration of the New Credit Facility. In accordance with that intent, \$5,075,000 (\$5,800,000, less the current maturity of \$725,000) has been classified as long-term debt at December 31, 1998. Although the current credit facility expires on June 30, 1999, the Company expects to obtain a replacement facility to provide working capital beyond such expiration date. The Company is currently discussing with Fleet alternative financing arrangements, including a long-term revolving credit facility.

The Company's capital expenditures were approximately \$2,232,000, \$2,266,000 and \$1,836,000 in 1998, 1997 and 1996, respectively. These expenditures primarily included new product tooling, computer equipment, and factory machinery and equipment. The Company's capital expenditures for 1999 are expected to be approximately \$3,500,000, a majority for new product tooling.

The Company believes that cash flows generated from operations and borrowings available under its current and future credit facilities, as necessary, will provide sufficient resources to meet the Company's working capital needs, finance its capital expenditures and common stock repurchases, and meet its liquidity requirements through December 31, 1999.

(C) IMPACT OF INFLATION

TransAct believes that its business has not been affected to a significant degree by inflationary trends because of the low rate of inflation during the past three years.

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

Not applicable.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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## REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders  
of TransAct Technologies Incorporated

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of changes in shareholders' equity present fairly, in all material respects, the financial position of TransAct Technologies Incorporated and its subsidiaries, as described in Note 1, at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PricewaterhouseCoopers LLP  
Hartford, Connecticut  
February 8, 1999

## TRANSACT TECHNOLOGIES INCORPORATED

CONSOLIDATED BALANCE SHEETS  
(In thousands)

	December 31, 1998	December 31, 1997
	-----	-----
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 546	\$ 391
Receivables, net (Note 4)	5,153	7,235
Inventories (Note 5)	8,744	8,570
Other current assets	1,651	1,365
	-----	-----
Total current assets	16,094	17,561
	-----	-----
Plant and equipment, net (Note 6)	5,664	4,989
Excess of cost over fair value of net assets acquired, net (Note 2)	1,900	2,073
Other assets	130	76
	-----	-----
	7,694	7,138
	-----	-----
	\$ 23,788	\$ 24,699
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Bank loans payable (Note 9)	\$ 725	\$ 300
Accounts payable	2,188	3,043
Accrued liabilities (Note 7)	3,074	2,780
	-----	-----
Total current liabilities	5,987	6,123
	-----	-----
Long term debt (Note 9)	5,075	--
Other liabilities	549	673
	-----	-----
	5,624	673
	-----	-----
Commitments and contingencies (Note 10)		
Shareholders' equity (Notes 11 and 12):		
Common stock, \$0.01 par value; 20,000,000 authorized; 5,629,500 and 6,810,300 issued	56	68
Preferred stock, 5,000,000 authorized, no issued and outstanding	--	--
Additional paid-in capital	5,763	14,975
Retained earnings	7,268	6,062
Unamortized restricted stock compensation	(903)	(942)
Accumulated other comprehensive income	(7)	(9)
	-----	-----
	12,177	20,154
Less: Treasury stock, at cost, 200,000 shares (Note 15)	--	(2,251)
	-----	-----
Total shareholders' equity	12,177	17,903
	-----	-----
	\$ 23,788	\$ 24,699
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
Net sales	\$52,239	\$58,400	\$42,134
Cost of sales	38,413	40,227	28,201
	-----	-----	-----
Gross profit	13,826	18,173	13,933
	-----	-----	-----
Operating expenses:			
Engineering, design and product development costs	3,642	2,773	2,467
Selling and marketing expenses	3,280	3,028	2,586
General and administrative expenses	4,456	4,541	3,647
Provision for restructuring (Note 15)	300	--	--
	-----	-----	-----
	11,678	10,342	8,700
	-----	-----	-----
Operating income	2,148	7,831	5,233
	-----	-----	-----
Other income (expense):			
Interest, net	(353)	16	(17)
Other, net	32	(19)	312
	-----	-----	-----
	(321)	(3)	295
	-----	-----	-----
Income before income taxes	1,827	7,828	5,528
Income tax provision (Note 13)	621	2,935	2,188
	-----	-----	-----
Net income	\$1,206	\$4,893	\$3,340
	=====	=====	=====
Net income per share (pro forma for 1996):			
Basic	\$0.20	\$0.72	\$0.57
	=====	=====	=====
Diluted	0.20	0.71	0.57
	=====	=====	=====
Weighted average common shares outstanding (pro forma for 1996):			
Basic	6,163	6,767	5,864
	=====	=====	=====
Diluted	6,170	6,932	5,884
	=====	=====	=====

See accompanying notes to consolidated financial statements.

TransAct Technologies Incorporated  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (In thousands)

	Year Ended December 31,		
	1998	1997	1996
<b>Cash flows from operating activities:</b>			
Net income	\$1,206	\$4,893	\$3,340
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,030	1,591	1,135
Deferred income taxes	(415)	(51)	(82)
Gain on sale of securities available for sale	--	--	(285)
Loss on disposal of equipment	8	8	6
Changes in operating assets and liabilities:			
Receivables	2,082	(1,790)	(2,199)
Inventories	(174)	(1,200)	(1,017)
Other current assets	173	(623)	30
Other assets	(134)	(50)	(27)
Accounts payable	(855)	580	(248)
Accrued liabilities and other liabilities	126	477	1,319
	4,047	3,835	1,972
<b>Cash flows from investing activities:</b>			
Purchases of plant and equipment	(2,232)	(2,266)	(1,836)
Proceeds from sale of securities available for sale	--	--	508
Proceeds from sale of equipment	3	3	13
Other	--	--	(5)
	(2,229)	(2,263)	(1,320)
<b>Cash flows from financing activities:</b>			
Bank line of credit borrowings	13,400	1,500	--
Bank line of credit repayments	(7,900)	(1,200)	--
Purchases of treasury stock	(7,170)	(2,251)	--
Proceeds from option exercises	2	76	--
Tax benefit related to employee stock sales	3	647	--
Payment of intercompany debt	--	(1,000)	(7,500)
Net proceeds from issuance of stock	--	--	8,991
Net transactions with Tridex prior to the initial public offering	--	--	(1,087)
	(1,665)	(2,228)	404
Effect of exchange rate changes on cash	2	6	(15)
Increase (decrease) in cash and cash equivalents	155	(650)	1,041
Cash and cash equivalents at beginning of period	391	1,041	--
Cash and cash equivalents at end of period	\$546	\$391	\$1,041
<b>Supplemental cash flow information:</b>			
Interest paid	\$351	\$52	\$28
Income taxes paid	561	2,775	592

See accompanying notes to consolidated financial statements.

## TransAct Technologies Incorporated

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(In thousands, except share data)

	Common Shares	Stock Amount	Additional Paid-in Capital	Retained Earnings	Unamortized Restricted Stock Compensation	Accumulated Other Comprehensive Income	Treasury Stock	Tridex Investment in the Company
	-----	-----	-----	-----	-----	-----	-----	-----
Balance, December 31, 1995	--	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 11,645
Net transactions with Tridex:								
Allocation of general and administrative expenses from Tridex	--	--	--	--	--	--	--	(869)
Sales to affiliates	--	--	--	--	--	--	--	1,998
Net transfers to Tridex	--	--	--	--	--	--	--	(2,216)
Reclassification of note payable to Tridex	--	--	--	--	--	--	--	(8,500)
Issuance of shares to Tridex in exchange for all outstanding shares of Magnetec	5,400,000	54	4,207	--	--	--	--	(4,229)
Issuance of Offering shares	1,322,500	13	8,978	--	--	--	--	--
Purchase of warrants	--	--	1	--	--	--	--	--
Comprehensive income:								
Net income prior to Offering	--	--	--	--	--	--	--	2,171
Net income subsequent to Offering	--	--	--	1,169	--	--	--	--
Foreign currency translation adjustment	--	--	--	--	--	(15)	--	--
Balance, December 31, 1996	6,722,500	67	13,186	1,169	--	(15)	--	--
Issuance of restricted stock	78,800	1	1,066	--	(1,066)	--	--	--
Issuance of shares from exercise of stock options	9,000	--	76	--	--	--	--	--
Amortization of restricted stock compensation	--	--	--	--	124	--	--	--
Tax benefit related to employee stock sales	--	--	647	--	--	--	--	--
Purchase of treasury shares	(200,000)	--	--	--	--	--	(2,251)	--
Comprehensive income:								
Foreign currency translation adjustments	--	--	--	--	--	6	--	--
Net income	--	--	--	4,893	--	--	--	--
Balance, December 31, 1997	6,610,300	68	14,975	6,062	(942)	(9)	(2,251)	--
Issuance of restricted stock	25,000	--	228	--	(228)	--	--	--
Cancellation of restricted stock	(3,000)	--	(36)	--	36	--	--	--
Issuance of shares from exercise of stock options	200	--	2	--	--	--	--	--
Amortization of restricted stock compensation	--	--	--	--	231	--	--	--
Tax benefit related to employee stock sales	--	--	3	--	--	--	--	--
Purchase of treasury shares	(1,003,000)	--	--	--	--	--	(7,170)	--
Retirement of treasury shares	--	(12)	(9,409)	--	--	--	9,421	--
Comprehensive income:								
Foreign currency translation adjustment	--	--	--	--	--	2	--	--
Net income	--	--	--	1,206	--	--	--	--
Balance, December 31, 1998	5,629,500	\$ 56	\$ 5,763	\$ 7,268	\$ (903)	\$ (7)	\$ --	\$ --
	=====	=====	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

TransAct Technologies Incorporated ("TransAct" or the "Company") was incorporated on June 17, 1996, as a wholly-owned subsidiary of Tridex Corporation ("Tridex"). Following the incorporation, TransAct and two of Tridex's wholly-owned subsidiaries, Magnetec Corporation ("Magnetec") and Ithaca Peripherals Incorporated ("Ithaca"), entered into a Plan of Reorganization (the "Plan of Reorganization"), pursuant to which: (i) Ithaca merged into Magnetec; (ii) TransAct transferred to Tridex certain assets of Magnetec used in manufacturing a printer ribbon product line; (iii) TransAct issued 5,400,000 shares of its common stock to Tridex in exchange for all the outstanding shares of Magnetec; (iv) TransAct sold in an initial public offering (the "Offering") 1,322,500 shares or approximately 19.7% of its common stock; (v) TransAct repaid \$8,500,000 of intercompany indebtedness to Tridex; (vi) Tridex applied to the Internal Revenue Service (the "IRS") for a ruling that the distribution of the 5,400,000 shares of TransAct owned by Tridex to Tridex stockholders (the "Distribution") would constitute a tax-free reorganization for federal income tax purposes; and (vii) Tridex agreed to effect the Distribution promptly after receipt of a favorable ruling from the IRS and the satisfaction of certain other conditions.

On February 12, 1997, Tridex received a favorable ruling from the IRS confirming the tax-free nature of the Distribution. On March 31, 1997 Tridex distributed its 5,400,000 shares, or 80.3% of TransAct's common stock, pro rata to persons who were Tridex stockholders of record on March 14, 1997, on the basis of approximately one share of TransAct for each share of Tridex. Upon completion of the Distribution, Tridex no longer owned any shares of TransAct capital stock.

The financial statements of the Company have been prepared principally on the basis of items (i) and (ii) of the Plan of Reorganization outlined above and include the financial position and consolidated (combined prior to the implementation of the Plan of Reorganization) results of operations and cash flows of the business described. The term consolidated as used herein refers to both the consolidated and combined financial statements. The Company carries its assets and liabilities at historical cost. The financial results in these financial statements are not necessarily indicative of results that would have occurred if the Company had been a separate stand alone entity during the periods presented or of future results of the Company.

Certain prior year amounts have been reclassified to conform to the current year's presentation.

## 2. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BUSINESS AND PRODUCTS:** TransAct, through its two operations, one in Wallingford, CT and the other in Ithaca, NY, operates in one industry segment, transaction-based printers and printer peripheral products. TransAct designs, develops, manufactures and markets transaction-based printers and related products under the ITHACA and MAGNETEC brand names. The Company's printers are used to provide transaction records such as receipts, tickets, coupons, register journals and other documents. The Company focuses on four vertical markets: point-of-sale ("POS") (from which the Company derived approximately 53% of net sales for the year ended December 31, 1998); gaming and lottery (approximately 39% of net sales); kiosk (approximately 3% of net sales); and financial services (approximately 5% of net sales). The Company sells its products directly to end users, original equipment manufacturers ("OEM"), value-added resellers and selected distributors, primarily in the United States, Canada, Europe and Latin America.

TransAct designs, develops, manufactures and markets a broad array of transaction-based printers utilizing dot matrix and thermal printing technology for applications requiring up to 60 character columns in each of its four vertical markets. The Company also sells an 80 column laser printer for kiosk applications. The Company's printers are configurable, which offer customers the ability to choose from a variety of features and functions. Options typically include paper cutting devices, paper handling capacities and number of print stations. In addition to its configurable printers, TransAct manufactures custom printers for certain OEM customers. In collaboration with these customers, the Company provides engineering and manufacturing expertise for the design and development of specialized printers.

**PRINCIPLES OF CONSOLIDATION:** The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, after elimination of all material intercompany accounts and transactions.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

**USE OF ESTIMATES:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**FOREIGN CURRENCY:** The financial position and results of operations of the Company's foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of such subsidiaries have been translated at end of period exchange rates, and related revenues and expenses have been translated at weighted average exchange rates. The aggregate effect of translation adjustments so calculated for periods prior to the Offering, which would be ordinarily included as a separate component of shareholders' equity, is de minimis. Transaction gains and losses are included in other income.

**INVENTORIES:** Inventories are stated at the lower of cost (principally standard cost which approximates actual cost on a first-in, first-out basis) or market.

**PLANT AND EQUIPMENT AND DEPRECIATION:** Plant and equipment and leasehold improvements are stated at cost. Depreciation is provided for primarily by the straight-line method over the estimated useful lives. The estimated useful life of machinery, furniture and equipment is three to ten years. Leasehold improvements are amortized over the shorter of the term of the lease or the useful life of the asset. Depreciation amounted to \$1,546,000, \$1,227,000 and \$905,000 in the year ended December 31, 1998, 1997 and 1996, respectively.

**EXCESS OF COST OVER FAIR VALUE OF NET ASSETS ACQUIRED:** The excess of cost over fair value of net assets acquired (goodwill) resulted from the acquisition of Ithaca in 1991. The original amount applicable to this acquisition totaled \$3,536,000 and is being amortized on the straight-line method over 20 years. Accumulated amortization of goodwill was \$1,636,000 and \$1,463,000 at December 31, 1998 and 1997, respectively. The Company periodically reviews goodwill to assess recoverability based upon expectations of non-discounted cash flows from operations for Ithaca. The Company believes that no impairment of goodwill exists at December 31, 1998.

**REVENUE RECOGNITION:** Sales are recognized when the product is shipped. Revenue from extended warranty and maintenance agreements is recognized over the term of such agreements as services are performed. Sales to one customer accounted for approximately 32%, 29% and 16% of net sales for the year ended December 31, 1998, 1997 and 1996, respectively.

**INCOME TAXES:** Through the date of the Distribution, the Company was included in the consolidated federal and certain state income tax returns of Tridex. The income tax amounts reflected in the accompanying financial statements are accounted for under the liability method in accordance with FAS 109 "Accounting for Income Taxes," and for the periods presented through the date of the Distribution are an allocation of Tridex's consolidated balances, and are computed as if a separate return had been filed for the Company, using those elements of income and expense as reported in the consolidated statements of income. Subsequent to the Distribution, the Company files federal and state income tax returns separately from Tridex. See Note 13.

**EARNINGS PER SHARE:** TransAct adopted FAS 128 "Earnings per Share," effective December 15, 1997, which requires the dual presentation of basic and diluted earnings per share for complex capital structures. In accordance with FAS 128, earnings per share presented in the accompanying financial statements for periods prior to adoption have been restated. For the year ended December 31, 1996, pro forma basic and diluted earnings per share are based on the weighted average number of shares outstanding during the period, as if all shares issued to Tridex prior to the Offering had been outstanding throughout the period.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 2. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

STOCK-BASED COMPENSATION: The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations in accounting for its stock options. Under APB 25, because the exercise price of employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). See Note 11.

SEGMENT REPORTING: FASB Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("FAS 131") requires that a public business enterprise report financial and descriptive information about its reportable operating segments. Generally, financial information is required to be reported on the basis that it is used internally for evaluating segment performance and allocating resources. The Company has assessed its operating and reportable segments and determined that it operates in one reportable segment as defined in FAS 131.

## 3. RELATED PARTY TRANSACTIONS

Prior to the Offering, Tridex provided certain general and administrative services to the Company, including tax, treasury, risk management and insurance, legal, marketing, accounting, auditing, human resources and executive management. For periods prior to the Offering, these expenses were allocated to the Company based upon actual usage for those expenses directly attributable to the Company, and otherwise allocated based upon other methods which management believes to be reasonable. The allocation amounted to \$869,000 for the year ended December 31, 1996. These costs may have been different had the Company operated as a separate stand-alone entity during the periods presented.

On July 31, 1996, the Company entered into a Corporate Services Agreement with Tridex. Under the terms of this agreement, Tridex agreed to provide the Company with certain services, including employee benefit administration, human resource and related services, administrative services, risk management, regulatory compliance, preparation of tax returns and certain financial and other services. Such services were provided and reimbursed at actual cost, which amounted to approximately \$96,000 and \$91,000 for the year ended December 31, 1997 and 1996, respectively. Certain services ceased to be provided after March 31, 1997. Also, pursuant to the terms of the agreement, Tridex agreed to pay 15% of the direct employment costs of the Company's chief financial officer through March 31, 1997, which amounted to approximately \$7,000 and \$8,000 for the year ended December 31, 1997 and 1996, respectively. The Corporate Services Agreement expired on December 31, 1997.

On July 31, 1996, the Company entered into a Tax Sharing Agreement with Tridex. The agreement provides for the treatment of certain tax attributes of the Company including the method of allocating tax obligations, treatment of tax carryforwards and the computation of income tax provisions for the Company between the date of the Offering and the Distribution. In addition, tax benefits related to certain tax carryforwards arising prior to the Distribution will be paid to Tridex as the carryforwards are utilized. For the year ended December 31, 1997 and December 31, 1996, the Company paid, net of refunds from Tridex, approximately \$410,000 and \$527,000, respectively, to Tridex pursuant to the agreement.

The Company and Tridex also entered into an Asset Transfer Agreement dated July 31, 1996, under which the Company agreed to transfer to Tridex certain assets used in the manufacturing process of the printer ribbon product line. Additionally, on September 28, 1996, the Company and Tridex entered into a Manufacturing Support Services Agreement. Under this agreement, the Company agrees to provide Tridex with space within its Wallingford, CT manufacturing facility and certain support services for the ribbon business through September 28, 1998. This agreement was amended on June 1, 1998 to extend the term of the agreement to June 1, 2000. Pursuant to this agreement, Tridex agrees to pay the Company a monthly fee calculated to compensate the Company for the direct and indirect costs incurred by the Company to provide the space and render such services. These fees amounted to approximately \$254,000 and \$67,000 during 1997 and 1996, respectively. The Company also purchased approximately \$4,000 and \$5,000 of ribbons from Tridex during the same periods.



## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 3. RELATED PARTY TRANSACTIONS (CONTINUED)

The Company sells certain POS printers to a wholly-owned subsidiary of Tridex. Revenues from the sale of such printers amounted to \$2,675,000 and \$3,178,000 during 1997 and 1996, respectively.

Subsequent to 1997, Tridex is no longer a related party.

## 4. RECEIVABLES

Receivables are net of the allowance for doubtful accounts. The reconciliation of the allowance for doubtful accounts is as follows:

	Year Ended December 31,		
	1998	1997	1996
	-----	-----	-----
(In thousands)			
Balance at beginning of period	\$ 102	\$ 106	\$ 40
Provision for doubtful accounts	41	18	66
Accounts written off, net of recoveries	(4)	(22)	--
	-----	-----	-----
Balance at end of period	\$ 139	\$ 102	\$106
	=====	=====	=====

## 5. INVENTORIES

The components of inventories are:

(In thousands)	December 31,	
	1998	1997
	-----	-----
Raw materials and component parts	\$7,754	\$7,482
Work-in-process	495	588
Finished goods	495	500
	-----	-----
	\$8,744	\$8,570
	=====	=====

## 6. PLANT AND EQUIPMENT

The components of plant and equipment, net are:

(In thousands)	December 31,	
	1998	1997
	-----	-----
Tooling, machinery and equipment	\$ 9,533	\$ 8,399
Furniture, office and computer equipment	3,276	2,545
Leasehold improvements	551	339
	-----	-----
	13,360	11,283
Less: accumulated depreciation	(7,696)	(6,294)
	-----	-----
	\$ 5,664	\$ 4,989
	=====	=====

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 7. ACCRUED LIABILITIES

The components of accrued liabilities are:

(In thousands)	December 31,	
	1998	1997
Payroll and fringe benefits	\$ 522	\$1,225
Income taxes payable	757	415
Customer advances, deferred revenue and warranty	850	436
Restructuring	300	--
Other	645	704
	-----	-----
	\$3,074	\$2,780
	=====	=====

## 8. RETIREMENT SAVINGS PLAN

On April 1, 1997, the Company established the TransAct Technologies Retirement Savings Plan (the "Plan"), a defined contribution plan under Section 401(k) of the Internal Revenue Code. Prior to the Distribution, the Company's employees participated in the Tridex Corporation Retirement Savings Plan. All full-time employees are eligible to participate in the Plan at the beginning of the calendar quarter immediately following their date of hire. The Company matches employees' contributions at a rate of 50% of employees' contributions up to the first 4% of the employees' compensation contributed to the Plan. The Company's matching contributions were \$159,000, \$101,000 and \$80,000 in 1998, 1997 and 1996, respectively, and are included in general and administrative expense. Prior to January 1, 1998, the Company's rate of matching contributions was 37.5% of the employees' contributions up to the first 4% of the employees' compensation contributed to the Plan.

## 9. BANK CREDIT AGREEMENT

On August 29, 1996, the Company entered into an agreement with Fleet National Bank ("Fleet") to provide the Company with a \$5,000,000 revolving credit facility (the "Credit Facility"). The Credit Facility bore interest on outstanding borrowings at Fleet's prime rate and bore a commitment fee of 0.25% on any unused portion of the Credit Facility. The Credit Facility also permitted the Company to designate a LIBOR rate on outstanding borrowings with a margin of 1.5 percentage points over the market rate. The Credit Facility was secured by a lien on substantially all of the assets of the Company, imposed certain financial covenants and restricted the payment of cash dividends. The Company had \$300,000 of borrowings outstanding under the Credit Facility at December 31, 1997.

On January 29, 1998, the Company replaced its existing \$5,000,000 Credit Facility with a new \$15,000,000 facility (the "New Credit Facility"). The New Credit Facility, also with Fleet, provides the Company with a \$5,000,000 revolving working capital facility, and a \$10,000,000 revolving credit facility that may be used for activities such as acquisitions and repurchases of the Company's common stock. Borrowings under the \$10,000,000 revolving credit facility may, at the Company's election, be converted to a four-year term loan commencing on June 30, 1999, the expiration date of the New Credit Facility. Any term loan borrowings mature on June 30, 2003. Borrowings under the New Credit Facility bear interest at Fleet's prime rate and bear a commitment fee ranging from 0.25% to 0.50% on any unused portion of the New Credit Facility (0.375% at December 31, 1998). The New Credit Facility also permits the Company to designate a LIBOR rate on outstanding borrowings with a margin ranging from 1.25 to 1.75 percentage points over the market rate, depending on the Company meeting certain ratios. The New Credit Facility is secured by a lien on substantially all of the assets of the Company, imposes certain financial covenants and restricts the payment of cash dividends and the creation of liens. The Company had \$5,800,000 of borrowings outstanding under the New Credit Facility at December 31, 1998. The Company intends to convert the outstanding borrowings to a four-year term loan at the expiration of the New Credit Facility. In accordance with that intent, \$5,075,000 (\$5,800,000, less the current maturity of \$725,000) has been classified as long-term debt at December 31, 1998.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 10. COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Company was lessee on operating leases for equipment and real property. The terms of certain leases provide for escalating rent payments in later years of the lease as well as payment of minimum rent and real estate taxes. Rent expense amounted to approximately \$957,000, \$713,000 and \$682,000 in the year ended December 31, 1998, 1997 and 1996, respectively. Minimum aggregate rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 1998 are as follows: \$864,000 in 1999; \$856,000 in 2000; \$844,000 in 2001; \$841,000 in 2002; \$843,000 in 2003 and \$3,268,000 thereafter.

The Company has a long-term purchase agreement for certain printer components. Under the terms of the agreement, the Company receives favorable pricing for volume purchases over the life of the contract. In the event anticipated purchase levels are not achieved, the Company would be subject to retroactive price increases on previous purchases. Management currently anticipates achieving sufficient purchase levels to maintain the favorable prices.

In conjunction with the Plan of Reorganization, as described in Note 1, Tridex indemnified the Company from any liabilities, including environmental liabilities, which could arise in connection with a manufacturing facility owned by Tridex and formerly operated by the Company.

## 11. STOCK OPTIONS AND WARRANTS

**STOCK OPTIONS.** On July 30, 1996, the Company adopted the 1996 Stock Plan which provides for the grant of awards to officers and other key employees of the Company, and the Directors' Stock Plan which provides for non-discretionary awards to non-employee directors. The plans provide for awards in the form of: (i) incentive stock options, (ii) non-qualified stock options, (iii) shares of restricted stock, (iv) restricted units, (v) stock appreciation rights or (vi) limited stock appreciation rights. Options granted are at prices equal to 100% of the fair market value of the common stock at the date of grant. Options granted have a ten-year term and vest over a five-year period, unless automatically accelerated. At December 31, 1998, the Company has reserved 960,000 shares of common stock for issuance under the 1996 Stock Plan and Directors' Stock Plan.

During the fourth quarter of 1998, the Company approved the cancellation and reissuance of certain outstanding options under the 1996 Stock Plan. Under the program, holders of outstanding options as of December 10, 1998, excluding the Company's executive officers, obtained in substitution for existing options new options for the same number of shares. The new options, totaling 190,600, are exercisable at a price of \$4.75 per share, the fair market value of the common stock on the reissue date. The new options maintain the vesting schedule established by the canceled option. These 190,600 options have been treated as canceled and granted in 1998 in the table below.

The 1996 Stock Plan and Directors' Stock Plan option activity is summarized below:

	1998		Year Ended December 31, 1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of Period	542,600	\$10.97	339,300	\$ 8.50	--	--
Granted	428,100	5.75	227,500	14.45	339,300	\$ 8.50
Exercised	(200)	8.50	(9,000)	8.50	--	--
Canceled	(218,200)	10.83	(15,200)	10.04	--	--
Outstanding at end of period	752,300	8.04	542,600	10.97	339,300	8.50
Options exercisable at end of period	165,360	\$ 8.28	57,060	\$ 8.50	--	\$ --

TRANSACT TECHNOLOGIES INCORPORATED  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. STOCK OPTIONS AND WARRANTS (CONTINUED)

The Company applies APB 25 and related interpretations in accounting for its long-term incentive stock plans. Accordingly, no compensation cost has been recognized for its stock options.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding at December 31, 1998	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (In years)	Exercisable at December 31, 1998	Weighted- Average Exercise Price
\$ 3.00 - \$ 7.50	299,600	\$4.38	8.3	53,640	\$4.75
7.51 - 10.00	327,000	8.72	8.2	86,220	8.50
10.01 - 12.50	8,500	11.66	8.4	1,500	11.75
12.51 - 15.00	51,200	13.75	8.0	10,800	13.74
15.01 - 17.50	66,000	16.38	8.6	13,200	16.38

Had compensation expense been recognized based on the fair value of the options at their grant dates, as prescribed in FAS 123, the Company's net income and net income per share would have been as follows:

	Year Ended December 31,		
	1998	1997	1996
(In thousands, except per share data)			
Net income:			
As reported	\$ 1,206	\$ 4,893	\$ 3,340
Pro forma under FAS 123	747	4,422	3,248
Net income per share:			
Basic:			
As reported	0.20	0.72	0.57
Pro forma under FAS 123	0.12	0.65	0.55
Diluted:			
As reported	0.20	0.71	0.57
Pro forma under FAS 123	0.12	0.64	0.55

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for the grants made during the years ended December 31, 1998, 1997 and 1996.

	Year Ended December 31,		
	1998	1997	1996
Risk-free interest rate	4.9%	6.4%	5.1%
Dividend yield	0%	0%	0%
Expected volatility factor	78.1%	60.0%	59.5%
Expected option term	10 years	10 years	10 years
Weighted average fair value of options granted during period	\$ 4.69	\$ 10.97	\$ 6.25

## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 11. STOCK OPTIONS AND WARRANTS (CONTINUED)

RESTRICTED STOCK: Under the 1996 Stock Plan, the Company has granted shares of restricted common stock, for no consideration, to its Chairman of the Board, officers and certain key employees. The 1996 Stock Plan and Directors' Stock Plan restricted stock activity is summarized below:

	Year Ended December 31,	
	1998	1997
	----	----
Outstanding shares at beginning of period	78,800	--
Granted	25,000	78,800
Canceled	(3,000)	--
	-----	-----
Outstanding shares at end of period	100,800	78,800
	=====	=====
Vested shares at end of period	9,360	--
	=====	=====

Of the 100,800 shares of restricted stock outstanding at December 31, 1998, 46,800 shares vest over a five-year period, while 54,000 shares vest at the end of a five-year period. Under certain conditions vesting may be automatically accelerated. Upon issuance of the restricted stock, unearned compensation equivalent to the market value at the date of grant is charged to shareholders' equity and subsequently amortized over the vesting period. Amortization expense of \$231,000 and \$124,000 was recorded during 1998 and 1997, respectively.

WARRANTS: On August 22, 1996, the Company sold to the underwriters of the Offering, for nominal consideration, a warrant to purchase from the Company up to 115,000 shares of common stock at an exercise price of \$10.20 per share. The warrant is exercisable for a period of five years beginning April 1, 1998.

## 12. STOCKHOLDER RIGHTS PLAN

In December 1997, the Board of Directors adopted a stockholder rights plan declaring a distribution of one right (the "Rights") for each outstanding share of the Company's common stock to shareholders of record at December 15, 1997. Initially, each of the Rights will entitle the registered holder to purchase from the Company one one-thousandth of a share of Series A Preferred Stock, \$0.01 par value, at a price of \$69 per one one-thousandth of a share. The Rights, however, will not become exercisable unless and until, among other things, any person or group of affiliated persons acquires beneficial ownership of 15 percent or more of the then outstanding shares of the Company's Common Stock. If a person, or group of persons, acquires 15 percent or more of the outstanding Common Stock of the Company (subject to certain conditions and exceptions more fully described in the Rights Agreement), each Right will entitle the holder (other than the person, or group of persons, who acquired 15 percent or more of the outstanding Common Stock) to purchase Preferred Stock of the Company having a market value equal to twice the exercise price of the Right. The Rights are redeemable, under certain circumstances, for \$0.0001 per Right and will expire, unless earlier redeemed, on December 2, 2007. The stockholders rights plan was amended on February 18, 1999. See Note 18.

## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 13. INCOME TAXES

The components of the income tax provision are as follows:

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
(In thousands)			
Current:			
Federal	\$ 779	\$ 2,461	\$ 1,934
State	126	525	336
Foreign	131	--	--
	-----	-----	-----
	1,036	2,986	2,270
	-----	-----	-----
Deferred:			
Federal	(371)	(46)	(73)
State	(44)	(5)	(9)
	-----	-----	-----
	(415)	(51)	(82)
	-----	-----	-----
Total income tax provision	\$ 621	\$ 2,935	\$ 2,188
	=====	=====	=====

The Company had foreign income before taxes of \$435,000 in 1998, \$131,000 in 1997 and a loss before taxes of \$51,000 in 1996.

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

(In thousands)	December 31,	
	1998	1997
	----	----
Gross deferred tax assets:		
Liabilities and reserves	\$1,187	\$710
	=====	=====
Gross deferred tax liabilities:		
Depreciation	\$ 425	\$363
	=====	=====

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

	Year Ended December 31,		
	1998	1997	1996
	----	----	----
Federal statutory tax rate	34.0%	34.0%	34.0%
State income taxes, net of federal income taxes	6.0	4.4	4.0
Non-deductible purchase accounting adjustments	4.4	0.9	1.1
Tax benefit from foreign sales corporation	(2.2)	(1.0)	--
Tax benefit from tax credits	(5.8)	(1.6)	--
Foreign rate differential	(0.9)	--	--
Other	(1.5)	0.8	0.5
	-----	-----	-----
Effective tax rate	34.0%	37.5%	39.6%
	=====	=====	=====

## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 14. DISCLOSURE REGARDING FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of trade accounts receivable, other current assets, trade accounts payable, accrued expenses and bank loans approximate fair value because of the short maturity of those instruments.

## 15. SIGNIFICANT TRANSACTIONS

During the fourth quarter of 1998, the Company recorded a restructuring charge of \$300,000 for severance costs related to the downsizing and reorganization of its manufacturing facility in Wallingford, CT.

During November 1997, the Board of Directors approved the repurchase of up to 500,000 shares of the Company's common stock at a price of no more than \$12 per share. During May, August and October 1998, the Board approved the repurchase of an additional 500,000, 250,000 and 250,000 shares, respectively, bringing the total authorized to 1.5 million shares. As of December 31, 1997, the Company acquired 200,000 shares of its common stock for \$2,251,000. During 1998, the Company repurchased an additional 1,003,000 shares of its common stock for \$7,170,000. Since the Company began the stock repurchase program in December 1997 through December 31, 1998, it has repurchased 1,203,000 shares for \$9,421,000 (an average cost of \$7.83 per share). See Note 18 concerning repurchases since December 31, 1998.

## 16. INTERNATIONAL OPERATIONS

The Company has foreign operations primarily from Ithaca Peripherals Ltd., a wholly-owned subsidiary, which had sales to its customers of \$4,990,000, \$4,204,000 and \$397,000 in the year ended December 31, 1998, 1997 and 1996, respectively. The Company had export sales to its customers from the United States of approximately \$3,396,000, \$5,618,000 and \$1,622,000 in the year ended December 31, 1998, 1997 and 1996, respectively.

## 17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The Company's quarterly results of operations for the years ended December 31, 1998, 1997 and 1996 (unaudited) are as follows:

(In thousands, except per share amounts)	Quarter Ended			
	March 28	June 27	September 26	December 31
1998:				
Net sales	\$ 13,280	\$ 12,500	\$ 13,600	\$12,859
Gross profit	3,746	3,435	3,778	2,867
Net income (loss)	634	231	533	(192)
Net income (loss) per share:				
Basic	0.10	0.04	0.09	(0.03)
Diluted	0.10	0.04	0.09	(0.03)

## TRANSACT TECHNOLOGIES INCORPORATED

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 17. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)(CONTINUED)

	Quarter Ended			
	March 29	June 28	September 27	December 31
1997:				
Net sales	\$ 14,014	\$ 15,569	\$ 16,040	\$ 12,777
Gross profit	4,352	4,963	5,065	3,793
Net income	1,087	1,360	1,582	864
Net income per share:				
Basic	0.16	0.20	0.23	0.13
Diluted	0.16	0.20	0.23	0.12

	March 30	June 29	September 28	December 31
	1996:			
Net sales	\$ 10,463	\$ 9,762	\$ 10,794	\$ 11,115
Gross profit	3,479	3,328	3,655	3,471
Net income	865	868	927	680
Net income per share:				
Basic	0.16	0.16	0.16	0.10
Diluted	0.16	0.16	0.16	0.10

## 18. SUBSEQUENT EVENTS (UNAUDITED)

As of February 8, 1999 the Company had purchased an additional 70,800 shares of its common stock on the open market for approximately \$229,000.

On February 23, 1999, with the Board of Directors' approval, the Company provided a \$330,000 loan to an officer of the Company. The loan proceeds were used to purchase 104,000 shares of the Company's common stock on the open market during January and February 1999. The loan is payable on February 23, 2004, and is a full recourse obligation to the officer secured by 154,000 shares of the Company's common stock, which includes 50,000 shares of restricted stock. The loan bears interest at a rate equivalent to the Company's average borrowing rate under the New Credit Facility with Fleet Bank, and is payable annually. The principal amount of the loan will be deducted from shareholders' equity.

On February 16, 1999, the Company amended its Stockholder Rights Plan that was originally adopted in December 1997. The amendment removed that provision in the plan that stipulated that the plan may be modified or redeemed only by those members of the Board of Directors that are defined as continuing directors. A continuing director as generally defined under the plan is a member of the Board of Directors prior to the commencement of a hostile takeover of the Company.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information contained in "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" of the Company's Proxy Statement (the "Proxy Statement") for its Annual Meeting of Shareholders which is scheduled to be held on May 6, 1999 is hereby incorporated herein by reference. Also, see information under "Executive Officers of Registrant" in Item 1.

ITEM 11. EXECUTIVE COMPENSATION.

The information contained in "Executive Compensation" other than the Compensation Committee Report on Executive Compensation of the Proxy Statement is hereby incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information contained in "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is hereby incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information contained in "Certain Relationships and Related Transactions" of the Proxy Statement is hereby incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(A) THE FOLLOWING FINANCIAL STATEMENTS AND EXHIBITS ARE FILED AS PART OF THIS REPORT:

(i) Financial statements

See Item 8.

(ii) Financial statement schedules

All schedules are omitted since the required information is either (a) not present or not present in amounts sufficient to require submission of the schedule or (b) included in the financial statements or notes thereto.

## (iii) List of exhibits

3.1(a)	Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 17, 1996.	(2)
3.1(b)	Certificate of Amendment of Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on May 30, 1997.	(5)
3.2	Amended and Restated By-laws of the Company.	(1)
4.1	Specimen Common Stock Certificate.	(2)
4.2	Amended and Restated Rights Agreement between TransAct and American Stock Transfer & Trust Company dated February 16, 1998	(8)
10.1	Plan of Reorganization dated as of June 24, 1996 among Tridex, Magnetec, TransAct and Ithaca.	(2)
10.2	Amendment to Plan of Reorganization dated as of August 30, 1996 among Tridex, Magnetec, TransAct and Ithaca.	(3)
10.3	Agreement and Plan of Merger dated as of July 16, 1996 between Magnetec and Ithaca.	(2)
10.4	Asset Transfer Agreement dated as of July 31, 1996 between Magnetec and Tridex.	(2)
10.5	Manufacturing Support Services Agreement between Magnetec and Tridex, dated as of September 28, 1996.	(3)
10.6	Corporate Services Agreement dated as of July 30, 1996 between Tridex and TransAct.	(3)
10.7	Printer Supply Agreement dated as of July 31, 1996 between Magnetec and Ultimate Technology Corporation.	(2)
10.8	Tax Sharing Agreement dated as of July 31, 1996 between Tridex and TransAct.	(3)
10.9	Credit Agreement dated as of August 29, 1996 among TransAct, Magnetec and Fleet National Bank.	(3)
10.10	Purchase Agreement dated as of October 17, 1996 between ICL Pathway Limited, Ithaca Peripherals Limited and TransAct. (Pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(3)
10.11(x)	1996 Stock Plan, effective July 30, 1996.	(3)
10.12(x)	Non-Employee Directors' Stock Plan, effective August 22, 1996.	(3)
10.13	Sales and Marketing Agreement by and between the Company and Oki Europe Limited, dated May 9, 1996. (Pursuant to Rule 477 under the Securities Act of 1993, as amended (the "Securities Act"), the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(2)
10.14	OEM Purchase Agreement by and between GTECH, TransAct and Magnetec, commencing October 1, 1996. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(4)
10.15	OEM Purchase Agreement by and between OKIDATA and Tridex, dated January 21, 1991. (Pursuant to Rule 477 under the Securities Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(2)

10.16	Strategic Agreement by and between OKIDATA and Tridex, dated May 9, 1996. (Pursuant to Rule 477 under the Securities Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(2)
10.17	Lease Agreement by and between Pyramid Construction Company and Magnetec, dated August 1, 1994.	(2)
10.18	Lease Agreement by and between Bomax Properties and Ithaca, dated as of March 23, 1992.	(2)
10.19	First Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated as of October 18, 1993.	(2)
10.20(x)	Employment Agreement, dated July 31, 1996, by and between the Company and Bart C. Shuldman.	(2)
10.21(x)	Employment Agreement, dated July 31, 1996, by and between the Company and Richard L. Cote.	(2)
10.22(x)	Severance Agreement by and between TransAct and Lucy H. Staley, dated September 4, 1996	(3)
10.23(x)	Severance Agreement by and between TransAct and John Cygielnik, dated September 10, 1996.	(3)
10.24(x)	Severance Agreement by and between TransAct and Michael S. Kumpf, dated September 4, 1996.	(3)
10.25(x)	Severance Agreement by and between TransAct and David A. Ritchie, dated July 1, 1997.	(5)
10.26	Credit Agreement dated as of January 29, 1998 among TransAct, Magnetec and Fleet National Bank.	(5)
10.27	Second Amendment to Lease Agreement by and between Bomax Properties and Ithaca, dated December 2, 1996.	(5)
10.28	Lease Agreement by and between Pyramid Construction Company and Magnetec, dated July 30, 1997.	(5)
10.29	Amendment to OEM Purchase Agreement by and between Okidata and Tridex, dated May 31, 1996. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(5)
10.30	Agreement by and between the Company and Seth M. Lukash, dated as of March 19, 1998	(6)
10.31	Amended and Restated Manufacturing Support Services Agreement between Tridex Corporation and Magnetec Corporation, dated June 1, 1998	(7)
10.32(x)	Severance Agreement by and between TransAct and Steven A. DeMartino, dated January 21, 1998.	(1)
10.33	Amendment to OEM Purchase Agreement by and between Okidata and Tridex, dated May 22, 1998. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)	(1)
10.34	Loan Agreement by and between the Company and Bart C. Shuldman, dated February 23, 1999.	(1)
11.1	Computation of earnings per share.	(1)
21.1	Subsidiaries of the Company.	(1)
23.1	Consent of PricewaterhouseCoopers LLP	(1)
27.1	Financial Data Schedule.	(1)

- (1) These exhibits are filed herewith.
  - (2) These exhibits, which were previously filed with the Company's Registration Statement on Form S-1 (No. 333-06895), are incorporated by reference.
  - (3) These exhibits, which were previously filed with the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1996, are incorporated by reference.
  - (4) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed October 11, 1996, is incorporated by reference.
  - (5) These exhibits, which were previously filed with the Company's Annual Report on Form 10-K for the year ended December 31, 1997, is incorporated by reference.
  - (6) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended March 28, 1998, is incorporated by reference.
  - (7) This exhibit, which was previously filed with the Company's Quarterly Report on Form 10-Q for the period ended June 27, 1998, is incorporated by reference.
  - (8) This exhibit, which was previously filed with the Company's Current Report on Form 8-K filed February 18, 1999, is incorporated by reference.
- x Management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c).

(B) REPORTS ON FORM 8-K.

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSACT TECHNOLOGIES INCORPORATED

By: /s/ Bart C. Shuldman

-----  
 Bart C. Shuldman  
 President, Chief Executive Officer and Director  
 Date: March 29, 1999

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature -----	Title -----	Date -----
/s/ Bart C. Shuldman ----- Bart C. Shuldman	President, Chief Executive Officer and Director (Principal Executive Officer)	March 29, 1999
/s/ Richard L. Cote ----- Richard L. Cote	Executive Vice President, Chief Financial Officer, Treasurer, Secretary and Director (Principal Financial Officer)	March 29, 1999
/s/ Steven A. DeMartino ----- Steven A. DeMartino	Corporate Controller (Principal Accounting Officer)	March 29, 1999
/s/ Thomas R. Schwarz ----- Thomas R. Schwarz	Chairman of the Board and Director	March 29, 1999
/s/ Graham Y. Tanaka ----- Graham Y. Tanaka	Director	March 29, 1999
/s/ Charles A. Dill ----- Charles A. Dill	Director	March 29, 1999

## EXHIBIT LIST

The following exhibits are filed herewith.

## Exhibit

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- 3.2 Amended and Restated By-laws of the Company.
- 10.32 Severance Agreement by and between TransAct and Steven A. DeMartino, dated January 21, 1998.
- 10.33 Amendment to OEM Purchase Agreement by and between Okidata and Tridex, dated May 22, 1998. (Pursuant to Rule 24b-2 under the Exchange Act, the Company has requested confidential treatment of portions of this exhibit deleted from the filed copy.)
- 10.34 Loan Agreement by and between the Company and Bart C. Shuldman, dated February 23, 1999.
- 11.1 Computation of earnings per share.
- 21.1 Subsidiaries of the Company.
- 23.1 Consent of PricewaterhouseCoopers LLP
- 27.1 Financial Data Schedule.

## AMENDED AND RESTATED

BY - L A W S

OF

TRANSACT TECHNOLOGIES INC.

(as of February 16, 1999)

## ARTICLE I

## OFFICES

Section 1.01 Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 1.02 Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the board of directors may from time to time determine or the business of the corporation may require.

## ARTICLE II

## MEETINGS OF STOCKHOLDERS

Section 2.01 Meetings of Stockholders. All meetings of the stockholders shall be held in Wallingford, Connecticut, at such place as may be fixed from time to time by the board of directors, or at such other place either within or without the State of Delaware as shall be designated from time to time by the board of directors and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.02 Annual Meetings of Stockholders. Annual meetings of stockholders shall be held on the first Thursday in May, unless such day is a legal holiday, (in which case the meeting will be held on the next secular day following), or on such other date and at such other time as shall be designated from time to time by the board of directors and stated in the notice of the meeting, at which they shall elect by a plurality vote a board of directors, and transact such other business as may properly be brought before the meeting.

Section 2.03 Notice of Annual Meeting. Written notice of the annual meeting stating the place, date and hour of the meeting shall be given to each stockholder entitled

to vote at such meeting not less than ten (10) nor more than sixty (60) days before the date of the meeting.

Section 2.04 List of Stockholders. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

Section 2.05 Special Meetings of Stockholders. Special meetings of the stockholders for any purpose or purposes, unless otherwise prescribed by statute may be called by the Chairman of the Board or the President and shall be called by the Chairman of the Board or Secretary at the request in writing of the board of directors, or at the request in writing of stockholders owning 50% in amount of the entire capital stock of the corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 2.06 Notice of Special Meetings of Stockholders. Written notice of a special meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called, shall be given not less than ten nor more than sixty days before the date of the meeting, to each stockholder entitled to vote at such meeting.

Section 2.07 Quorum. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum at all meetings of the stockholder for the transaction of business except as otherwise provided by statute or by the Certificate of Incorporation. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented any business may be transacted which might have been transacted at the meeting as originally notified if the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 2.08 Majority Voting. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or



represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 2.09 Voting Rights. Unless otherwise provided in the Certificate of Incorporation each stockholder shall at every meeting of the stockholders be entitled to one vote in person or by proxy for each share of the capital stock having voting power held by such stockholder, but no proxy shall be voted on after three years from its date, unless allowed by the laws of the State of Delaware or unless the proxy provides for a longer period.

### ARTICLE III

#### DIRECTORS

Section 3.01 Election of Directors. The number of directors which shall constitute the whole board shall be not less than five, or as the board of directors shall determine by resolution. The directors shall be elected at the annual meeting of the stockholders, except as provided in Section 3.02 of this Article. All nominations by stockholders shall be made pursuant to timely notice in proper written form to the Secretary of the corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not less than 30 days nor more than 60 days prior to the meeting; provided, however, that in the event that less than 40 days notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the tenth day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. To be in proper written form, such stockholder's notice shall set forth in writing (i) as to each person whom the stockholder proposes to nominate for election or reelection as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and (ii) as to the stockholder giving the notice, the (x) name and address, as they appear on the corporation's books, of such stockholder and (y) the class and number of shares of the corporation which are beneficially owned by such stockholder. At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the Secretary of the corporation the information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. In the event that a stockholder seeks to nominate one or more directors, the Secretary shall appoint two inspectors, who shall not be affiliated with the corporation, to determine

whether a stockholder has complied with this Section 3. If the inspectors shall determine that a stockholder has not complied with this Section 3, the inspectors shall direct the chairman of the meeting to declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the By-laws of the corporation, and the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

Section 3.02 Vacancies on Board of Directors. Vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by the affirmative vote of a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the next annual meeting at which the term of office of the class to which such director has been elected expires and until such director's successor has been duly elected and qualified. No decrease in the number of directors constituting the board shall shorten the term of any incumbent director. If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the Certificate of Incorporation or these By-Laws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided by law.

Section 3.03 Powers of Board of Directors. The business of the corporation shall be managed by its board of directors which may exercise all such powers of the corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 3.04 Meetings of Board of Directors. The board of directors of the corporation may hold meetings, both regular and special, either within or without the State of Delaware.

Section 3.05 First Meeting of Board of Directors. The first meeting of each newly elected board of directors shall be held at such time and place as shall be fixed by the vote of the stockholders or incorporators and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event of the failure of the stockholders or the incorporators to fix the time or place of such first meeting of the newly elected board of directors, or in the event such meeting is not held at the time and place so fixed by the stockholders or the incorporators, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the board of directors, or as shall be specified in a written waiver signed by all of the directors.

Section 3.06 Regular Meetings of Board of Directors. Regular meetings of the board of directors may be held without notice at such time and at such place as shall from time to time be determined by the board.

Section 3.07 Special Meetings of Board of Directors. Special meetings of the board may be called by the Chairman of the Board or the President on 24 hours' notice to each director, either personally or by mail, by telegram or by telephone; special meetings shall be called by the Chairman of the Board or Secretary in like manner and on like notice on the written request of two directors unless the board consists of only one director in which case special meetings shall be called by the President or Secretary in like manner and in like notice on the written request of the sole director.

Section 3.08 Quorum. At all meetings of the board, a majority of the directors, but not fewer than one, shall constitute a quorum, unless the board consists of only one director, in which case the sole director shall constitute a quorum, for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation. If a quorum shall not be present at any meeting of the board of directors the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 3.09 Director Consents. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board or committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board or committee.

Section 3.10 Telephone Meetings of Board of Directors. Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or any committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 3.11 Committee of Directors. The board of directors may, by resolution passed by a majority of the whole board, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, shall have

and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority, except as allowed by the laws of the State of Delaware, in reference to:

- (i) Amending the Certificate of Incorporation,
- (ii) adopting an agreement of merger or consolidation, unless the resolution creating such committee expressly so provides,
- (iii) recommending it to the stockholders the sale, lease or exchange of all or substantially all of the corporation's property and assets, unless the resolution creating such committee expressly so provides,
- (iv) recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution,
- (v) amending the By-Laws of the corporation,
- (vi) taking any action with respect to the issuance of the corporation's stock, unless the resolution creating such committee expressly so provides, and
- (vii) declaring a dividend, unless the resolution creating such committee expressly so provides.

Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the board of directors.

Section 3.12 Committee Minutes. Each committee shall keep regular minutes of its meetings and report the same to the board of directors when required.

Section 3.13 Compensation of Directors. Unless otherwise restricted by the Certificate of Incorporation, the board of directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at each meeting of the board of directors or a stated salary as directed. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 3.14 Removal of Directors. Unless otherwise retracted by the Certificate of Incorporation or by statute or law, any director may be removed from

office only for cause by the affirmative vote of the holders of at least 80% of the voting power of all shares of the corporation entitled to vote generally in the election of directors, voting together as a single class.

Section 3.15 Chairman of the Board. The Chairman of the board of directors, if there is one, shall be elected annually by and from the board of directors and shall preside at all meetings of the stockholders and directors at which he shall be present.

#### ARTICLE IV

##### NOTICES

Section 4.01 Notices. Whenever, under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, notice is required to be given to any director or stockholder, it shall not be construed to require personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 4.02 Waiver of Notice. Whenever a notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these By-Laws, a waiver thereof in writing, signed by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

#### ARTICLE V

##### OFFICERS

Section 5.01 Necessary Officers. The officers of the corporation shall be chosen by the board of directors and there shall be elected from among the officers of the corporation, persons having the titles and exercising the duties (as prescribed by the By-Laws or by the Board) President, Vice President, Secretary, and Treasurer. The board of directors may also choose one or more Vice-Presidents, Assistant Secretaries, and Assistant Treasurers. Any number of offices may be held by the same person. No officer need be a stockholder.

Section 5.02 Election of Officers. The board of directors at its first meeting after each annual meeting of stockholders shall choose a Chairman of the Board, a President, a Secretary and a Treasurer.

Section 5.03 Other Officers. The board of directors may appoint such other officers and agents as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the board.

Section 5.04 Officers, Salaries. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

Section 5.05 Term of Office. The officers of the corporation shall hold office until their successors are chosen and qualify. Any officer elected or appointed by the board of directors may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

Section 5.06 Chairman of the Board. The Chairman of the Board shall perform such duties and have such powers additional to the foregoing as the board of directors shall designate.

Section 5.07 President. The President shall be the Chief Executive Officer of the corporation and shall preside at all meetings of the stockholders and of the board of directors in the absence of the Chairman of the Board. It shall be his duty and he shall have the power to see that all orders and resolutions of the board of directors are carried into effect. The President, as soon as reasonably possible after the close of each fiscal year, shall submit to the board of directors a report of the operations of the corporation for such year and a statement of its affairs and shall from time to time report to the board of directors all matters within his knowledge which the interests of the corporation may require to be brought to its notice. The President shall perform such duties and have such powers additional to the foregoing as the board of directors shall designate.

Section 5.08 Vice Presidents. In the absence or disability of the President, his powers and duties shall be performed by the Vice President, if only one, or, if more than one, by the one designated for the purpose by the board of directors. Each vice President shall have such other powers and perform such other duties as the board of directors shall from time to time designate.

Section 5.09 Treasurer. The Treasurer shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as shall be designated by the board of directors or in the absence of such designation in such depositories as he shall from time to time deem proper. He shall disburse the funds of the corporation as shall be ordered by the board of directors, taking proper vouchers for such disbursements. He shall promptly render to the President and to the board of directors such statements of his transactions and accounts as the President and board of directors respectively may from time to time require. The Treasurer shall

perform such duties and have such powers additional to the foregoing as the board of directors may designate.

Section 5.10 Assistant Treasurers. In the absence of disability of the Treasurer, his powers and duties shall be performed by the Assistant Treasurer, if one be elected, or, if more than one, by the one designated for the purpose by the board of directors. Each Assistant Treasurer shall have such other powers and perform such other duties as the board of directors shall from time to time designate.

Section 5.11 Treasurer's Bonds. If required by the board of directors, the treasurer shall give the corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the board of directors, for the faithful performance of the duties of his office and for the restoration to the corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the corporation.

Section 5.12 Secretary. The Secretary shall record in books kept for the purpose all votes and proceedings of the stockholders and of the board of directors at their meetings and shall perform like duties for the standing committees when required. Unless the board of directors shall appoint a transfer agent and/or registrar or other officer or officers for the purpose, the Secretary shall be charged with the duty of keeping, or causing to be kept, accurate records of all stock outstanding, stock certificates issued and stock transfers; and, subject to such other or different rule as shall be adopted from time to time by the board of directors, such records may be kept solely in the stock certificate books. The Secretary shall perform such duties and have such powers additional to the foregoing as the board of directors shall designate.

Section 5.13 Temporary and Assistant Secretaries. In the absence of the Secretary from any meeting of the stockholders or board of directors, if there be no Assistant Secretary, if one be elected, or, if there be more than one, the one designated for the purpose by the board of directors, otherwise a Temporary Secretary designated by the person presiding at the meeting, shall perform the duties of the Secretary. Each Assistant Secretary shall have such other powers and perform such other duties as the board of directors may from time to time designate.

#### ARTICLE VI

##### CERTIFICATES OF STOCK

Section 6.01 Certificates of Stock. Every holder of stock in the corporation shall be entitled to have a certificate certifying the number of shares owned by him in the corporation, signed by or in the name of the corporation by (a) either the Chairman of

the board of directors, the President or a Vice- President and (b) either the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the corporation.

Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares, the total amount of the consideration to be paid therefor, and the amount paid thereon shall be specified.

If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualification, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificates which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the General Corporation Law of Delaware, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

Section 6.02 Signature on Stock Certificates. Where a certificate is countersigned, (1) by a transfer agent other than the corporation or its employee, or (2) by a registrar other than the corporation or its employee, any other signature on the certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 6.03 Lost Certificates. The board of directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorized such issue of a new certificate or certificates, the board of directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or his legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 6.04 Transfers of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied



by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. The board may make such additional rules and regulations as it may deem advisable concerning the issue and transfer of certificates representing shares of the capital stock of the corporation.

Section 6.05 Fixing Record Date. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution of allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the board of directors may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 6.06 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls' and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

## ARTICLE VII

### GENERAL PROVISIONS.

Section 7.01 Dividends. Dividends upon the capital stock of the corporation, subject to the provisions of applicable law, may be declared by the board of directors at any regular or special meeting, and paid either (a) out of its surplus, as defined by law, or (b) in case there shall be no such surplus, out of the corporation's net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. If the capital of the corporation, computed in accordance with law, shall have been diminished by depreciation in the value of its property, or by losses, or otherwise, to an amount less than the aggregate amount of the capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets, the board of directors shall not, except as allowed by the laws of the State of Delaware, declare and pay out of such net profits any dividends upon any shares of any classes of the corporation's capital stock until the deficiency in the amount of capital represented by the issued and outstanding stock of all classes having a preference upon the distribution of assets shall

have been repaired. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 7.02 Reserves. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purpose as the directors may think conducive to the interest of the corporation, and the directors may modify or abolish any such reserve in the manner in which it was created.

Section 7.03 Annual Statement. The board of directors shall present at each annual meeting, and at any special meeting of the stockholders when called for by vote of the stockholders, a full and clear statement of the business and condition of the corporation.

Section 7.04 Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the board of directors may from time to time designate.

Section 7.05 Fiscal Year. The fiscal year of the corporation shall end on December 31.

Section 7.06 Seal. The corporate seal shall have inscribed thereon the name of the corporation, the year of its organization and the word "Delaware." The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

Section 7.07 Indemnification of Officers and Directors. The corporation shall indemnify any director, officer, employee or agent of the corporation 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, to the full extent authorized and permitted by the laws of the State of Delaware. The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under the provisions of the General Corporation Law of the State of Delaware. The corporation's indemnity of any person who is or was a director, officer, employee or agent of the corporation shall be reduced by any amounts such person may collect as indemnification under any policy of insurance purchased and maintained on his behalf by the corporation.

The indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any certificate of

incorporation, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The right of reimbursement for liabilities and expenses so imposed or incurred shall include the right to receive such reimbursement in advance of the final disposition of any such action, suit or proceeding upon the corporation's receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall be ultimately determined that he is not entitled to be indemnified by the corporation pursuant to law or this Section 7.07. Neither the amendment nor repeal of this Section 7.07, nor the adoption of any provisions of the Certificate of Incorporation inconsistent with this Section 7.07, shall eliminate or reduce the effect of this Section 7.07 in respect of any matter occurring, or any cause of action, suit or claim that, but for this Section 7.07 would accrue or arise, prior to such amendment, repeal or adopting of an inconsistent provision.

Section 7.08 Reliance upon Books, Reports and Records. Each director, each member of any committee designated by the board of directors, and each officer of the corporation shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or other records of the corporation, including reports made to the corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care.

Section 7.09 Inspection of Books by Stockholders. Subject to the laws of the State of Delaware, the board of directors shall have the power to determine from time to time and at any time whether and to what extent and at what times and places and under what conditions and regulations the records of account, books and stock ledgers of the corporation, or any of them, shall be open to inspection and copying by stockholders, their agents or attorneys; and no stockholder, his agent or attorney shall have any right to inspect or copy any record of account or book or stock ledger, or any part thereof, of the corporation, except as conferred by the laws of the State of Delaware, unless and until authorized so to do by resolution of the board of directors or of the stockholders and unless and until such stockholder agrees to comply with, and abide by, such conditions and regulations governing inspection and copying thereof, as determined by the board of directors.

Section 7.10 Transactions with Directors, Officers, etc. The corporation may enter into contracts or transactions with one or more of its directors, officers, employees or stockholders, or with any other corporation, partnership, association, or other organization in which one or more of its directors, officers, employees or stockholders are directors, officers, partners, employees or stockholders, or have a financial interest, to the full extent authorized and permitted by the laws of the State of Delaware.

## ARTICLE VIII

Section 8.01 Amendments. These By-Laws may be altered, amended or repealed or new By-Laws may be adopted by the stockholders or by the board of directors at any regular meeting of the stockholders or of the board of directors or at any special meeting of the stockholders or of the board of directors if notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such meeting, or by any consent of the stockholders or directors executed in accordance with the Certificate of Incorporation or these By-Laws.

## SEVERANCE AGREEMENT

This Severance Agreement (the "Agreement") is entered into as of the 21st day of January 1998, by and between Steven A. DeMartino, an individual with a residence address of 68 Seiter Hill Road, Wallingford, CT 06492 (the "Executive"), and TransAct Technologies Incorporated, a Delaware corporation with a mailing address of 7 Laser Lane, Wallingford, Connecticut 06492 (the "Company"). As used in this Agreement, the "Company" shall also include all subsidiaries of the Company, as the context requires.

## INTRODUCTION

1. The Company is in the business of designing, developing, manufacturing and marketing printers for point of sale, gaming and wagering, financial service and kiosk applications (the "Business").

2. The Company desires that the Executive continue to serve in his position with the Company and that the Company be able to rely upon his advice when requested as to the best interests of the Company, and its shareholders.

3. The Board of Directors of the Company believe Executive can best serve the Company without the distractions of personal uncertainties and risks that might be created in the event a change in control of the Company is proposed or his employment by the Company is terminated.

## AGREEMENT

In consideration of the premises and mutual promises hereinbelow set forth, the parties hereby agree as follows:

1. Definitions. The following terms shall have the meanings indicated for the purposes of this Agreement:

(a) "Cause" shall mean: (i) the death or disability of the Executive (For purposes of this Agreement, "disability" shall mean the Executive's incapacity due to physical or mental illness which has caused the Executive to be absent from the full-time performance of his duties with the Company for a period of six (6) consecutive months.) (ii) any action or inaction by the Executive that constitutes larceny, fraud, gross negligence, a willful or negligent misrepresentation to the directors or officers of the Company, their successors or assigns, a crime involving moral turpitude; or (iii) the refusal of the Executive to follow the reasonable and lawful written instructions of the President or the Board of Directors of the Company with respect to the services to be rendered and the manner of rendering such services by Executive, provided such

refusal is material and repetitive and is not justified or excused either by the terms of this Agreement or by actions taken by the Company in violation of this Agreement, and with respect to the first two refusals Executive has been given reasonable written notice and explanation thereof and reasonable opportunity to cure and no cure has been effected within a reasonable time after such notice.

(b) "Change in Control" will be deemed to have occurred if: (1) the Company effectuates a Takeover Transaction; or (2) any election of directors of the Company (whether by the directors then in office or by the stockholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by a vote of two-thirds of the members of the Board of Directors immediately preceding such election; or (3) the Company effectuates a complete liquidation of the Company or a sale or disposition of all or substantially all of its assets. A "Change in Control" shall not be deemed to include, however, a merger or sale of stock, assets or business of the Company if the Executive immediately after such event owns, or in connection with such event immediately acquires (other than in the Executive's capacity as an equity holder of the Company or as a beneficiary of its employee stock ownership plan or profit sharing plan), any stock of the buyer or any affiliate thereof.

(c) A "Takeover Transaction" shall mean (i) a merger or consolidation of the Company with, or an acquisition of the Company or all or substantially all of its assets by, any other corporation, other than a merger, consolidation or acquisition in which the individuals who were members of the Board of Directors of the Company immediately prior to such transaction continue to constitute a majority of the Board of Directors of the surviving corporation (or, in the case of an acquisition involving a holding company, constitute a majority of the Board of Directors of the holding company) for a period of not less than twelve (12) months following the closing of such transaction, or (ii) when any person or entity or group of persons or entities (other than any trustee or other fiduciary holding securities under an employee benefit plan of the Company) either related or acting in concert becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of securities of the Company representing more than fifty percent (50%) of the total number of votes that may be cast for the election of directors of the Company.

(d) "Terminating Event" shall mean: (i) termination by the Company of the employment of the Executive for any reason other than retirement or for Cause occurring within twelve (12) months of a Change of Control; or (ii) resignation of the Executive from the employ of the Company, while the Executive is not receiving payments or benefits from the Company by reason of the Executive's disability, subsequent to any of the following events occurring within twelve (12) months of a Change of Control: (A) a significant reduction in the nature or scope of the Executive's responsibilities, authorities, powers, functions or duties from the responsibilities, authorities, powers, functions or duties exercised by the Executive immediately prior to the Change in Control; (B) a decrease in the salary payable by the Company to the

Executive from the salary payable to the Executive immediately prior to the Change in Control except for across-the-board salary reductions similarly affecting all management personnel of the Company; or (C) the relocation of the Company's facility at which the Executive is currently employed by more than 50 miles from its current location (unless such new location is closer than such facility to the Executive's then residence) provided, however, that a Terminating Event shall not be deemed to have occurred solely as a result of the Executive being an employee of any direct or indirect successor to the business or assets of the Company, rather than continuing as an employee of the Company, following a Change in Control; or (D) elimination or reduction of the Executive's participation in the Company's Executive Incentive Compensation Plan.

2. Severance.

(a) Without Cause. If the Company terminates the employment of the Executive without Cause, other than as a result of a Terminating Event, then commencing on the date of such termination and for a period of six (6) months thereafter, the Company shall provide Executive with a severance package which shall consist of the following: (i) payment on the first business day of each month of an amount equal to one-twelfth of the Executive's then current annual base salary; (ii) payment on the first business day of each month of an amount equal to one-sixth of the Executive's annual target bonus amount under the TransAct Executive Incentive Compensation Plan, pro rated for the portion of the fiscal year occurring prior to termination; and (iii) continuation of all benefits under Section 4.

(b) With A Terminating Event. If the Company terminates the employment of the Executive as a result of a Terminating Event, then commencing on the date of such termination and for a period equal to one (1) year thereafter, the Company shall provide Executive with a severance package which shall consist of the following: (i) payment on the first business day of each month an amount equal to one-twelfth of the Executive's then current annual base salary; (ii) payment on the first business day of each month of an amount equal to one-twelfth of the Executive's annual target bonus amount under the Company's Executive Incentive Compensation Plan; and (iii) continuation of all benefits under Section 4. In addition, if the Company terminates the employment of the Executive as a result of a Terminating Event, then the Company shall cause the immediate vesting of all options granted by the Company to the Executive under the Company's stock plans. At any time when the Company is obligated to make monthly payments under Section 2(b), the Company shall, ten (10) days after receipt of a written request from the Executive, pay the Executive an amount equal to the balance of the amounts payable under Section 2(b)(i)-(ii), provided that the obligation of the Company to continue to provide benefits pursuant to Section 2(b)(iii) or to make monthly payments under 2(b)(i)-(ii) shall cease upon the payment of such amount.

(c) General Release. As a condition precedent to receiving any severance payment, the Executive shall execute a general release of any and all claims which Executive or his heirs, executors, agents or assigns might have against the Company, its subsidiaries, affiliates, successors, assigns and their past, present and future employees, officers, directors, agents and attorneys.

(d) Withholding. All payments made by the Company under this Agreement shall be net of any tax or other amounts required to be withheld by the Employer under applicable law.

3. Non-Competition. During Executive's employment with the Company and the term of this Agreement and (a) in the case of termination other than as a result of a Terminating Event, for six (6) months following the termination of Executive's employment with the Company or (b) in the case of termination as a result of a Terminating Event, for one (1) year following the termination of Executive's employment with the Company, Executive will not directly or indirectly whether as a partner, consultant, agent, employee, co-venturer, greater than two percent owner or otherwise or through any other person (as hereafter defined): (a) be engaged in any business or activity which is competitive with the Business of the Company in any part of the world in which the Company is at the time of the Executive's termination engaged in selling their products directly or indirectly; or (b) attempt to recruit any employee of the Company, assist in their hiring by any other person, or encourage any employee to terminate his or her employment with the Company; or (c) encourage any customer of the Company to conduct with any other person any business or activity which such customer conducts or could conduct with the Company. For purpose of this Section 3, the term "Company" shall include any person controlling, under common control with or controlled by, the Company, provided, however, that with respect to Tridex Corporation ("Tridex") and any subsidiary of Tridex, the provisions of this Section 3 shall cease and be of no force and effect on April 1, 1998.

For purposes of this Section 3, the term "Person" shall mean an individual or corporation, association or partnership in estate or trust or any other entity or organization.

The Executive recognizes and agrees that because a violation by him of this Section 3 will cause irreparable harm to the Company that would be difficult to quantify and for which money damages would be inadequate, the Company shall have the right to injunctive relief to prevent or restrain any such violation, without the necessity of posting a bond.

Executive expressly agrees that the character, duration and scope of this covenant not to compete are reasonable in light of the circumstances as they exist at the date upon which this Agreement has been executed. However, should a determination nonetheless be made by a court of competent jurisdiction at a later date that the character, duration or geographical scope of this covenant not to compete is



unreasonable in light of the circumstances as they then exist, then it is the intention of both Executive and the Company that this covenant not to compete shall be construed by the court in such a manner as to impose only those restrictions on the conduct of Executive which are reasonable in light of the circumstances as they then exist and necessary to provide the Company the intended benefit of this covenant to compete.

4. Confidentiality Covenants. Executive understands that the Company may impart to him confidential business information including, without limitation, designs, financial information, personnel information, strategic plans, product development information and the like (collectively "Confidential Information"). Executive hereby acknowledges Company's exclusive ownership of such Confidential Information.

Executive agrees as follows: (1) only to use the Confidential Information to provide services to the Company; (2) only to communicate the Confidential Information to fellow employees, agents and representatives of the Company on a need-to-know basis; and (3) not to otherwise disclose or use any Confidential Information. Upon demand by the Company or upon termination of Executive's employment, Executive will deliver to the Company all manuals, photographs, recordings, and any other instrument or device by which, through which, or on which Confidential Information has been recorded and/or preserved, which are in Executive's possession, custody or control. Executive acknowledges that for purposes of this Section 4 the term "Company" means any person or entity now or hereafter during the term of this Agreement which controls, is under common control with, or is controlled by, the Company.

The Executive recognizes and agrees that because a violation by him of this Section 4 will cause irreparable harm to the Company that would be difficult to quantify and for which money damages would be inadequate, the Company shall have the right to injunctive relief to prevent or restrain any such violation, without the necessity of posting a bond.

5. Governing Law/Jurisdiction. This Agreement shall be governed by and interpreted and governed in accordance with the laws of the State of Connecticut. The parties agree that this Agreement was made and entered into in Connecticut and each party hereby consents to the jurisdiction of a competent court in Connecticut to hear any dispute arising out of this Agreement.

6. Entire Agreement. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and thereof and supercedes any and all previous agreements, written and oral, regarding the subject matter hereof between the parties hereto. This Agreement shall not be changed, altered, modified or amended, except by a written agreement signed by both parties hereto.

7. Notices. All notices, requests, demands and other communications required or permitted to be given or made under this Agreement shall be in writing and shall be

deemed to have been given if delivered by hand, sent by generally recognized overnight courier service, telex or telecopy, or certified mail, return receipt requested.

(a) to the Company at:

7 Laser Lane  
Wallingford, Connecticut 06492  
Attn: President

(b) to the Executive at:

68 Seiter Hill Road  
Wallingford, CT 06492

Any such notice or other communication will be considered to have been given (i) on the date of delivery in person, (ii) on the third day after mailing by certified mail, provided that receipt of delivery is confirmed in writing, (iii) on the first business day following delivery to a commercial overnight courier or (iv) on the date of facsimile transmission (telecopy) provided that the giver of the notice obtains telephone confirmation of receipt.

Either party may, by notice given to the other party in accordance with this section, designate another address or person for receipt of notices hereunder.

8. Severability. If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law. The invalid or unenforceable provisions shall, to the extent permitted by law, be deemed amended and given such interpretation as to achieve the economic intent of this Agreement.

9. Waiver. The failure of any party to insist in any one instance or more upon strict performance of any of the terms and conditions hereof, or to exercise any right or privilege herein conferred, shall not be construed as a waiver of such terms, conditions, rights or privileges, but same shall continue to remain in full force and effect. Any waiver by any party of any violation of, breach of or default under any provision of this Agreement by the other party shall not be construed as, or constitute, a continuing waiver of such provision, or waiver of any other violation of, breach of or default under any other provision of this Agreement.

10. Successors and Assigns. This Agreement shall be binding upon the Company and any successors and assigns of the Company.

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

TRANSACT TECHNOLOGIES INCORPORATED

By: /s/ Richard L. Cote

Title: Executive Vice President and CFO

EXECUTIVE:

/s/ Steven A. DeMartino

-----  
Steven A. DeMartino

[OKIDATA LOGO]

532 Fellowship Road  
Mount Laurel, NJ 08054  
USA  
Phone 609 235 2600  
Fax 609 778 4184

May 19, 1998

Mr. Bart Shuldman  
Ithaca Peripherals Incorporated  
7 Laser Lane  
Wallingford, CT 06492

RE: OEM Agreement

Dear Bart:

The purpose of this letter is to renew our OEM Agreement for another two (2) years pricing term which will begin August 28, 1997 and expire August 28, 1999 with deliveries to be completed by February 28, 2000, and to replace Exhibit A with the new Exhibit A as attached. The terms and conditions of this renewal will be as stated in the OEM Agreement which we entered in January 21, 1991 and all subsequent agreed upon amendments made thereto.

If you agree to this renewal contract, please indicate your acceptance by signing both originals in the space provided. Retain one duplicate original for your records and return the other to my attention.

Sincerely,

Ithaca Peripherals Incorporated

/s/ David L. Vaughn  
-----  
Manager, Legal Affairs

/s/ Bart C. Shuldman  
-----  
(Signature)

DLV/eap  
enc.

Bart C. Shuldman  
-----  
(Name)

c: T. Donahue  
E. Morris  
J. Rowley  
C. Helm

May 22, 1998  
-----  
(Date)

[OKI LOGO]

## EXHIBIT A

OKIDATA PRODUCT	OKIDATA PART NUMBER	MINIMUM ORDER QUANTITY	ITHACA COST PER UNIT
172P 1 Kit	58221401		
172P 2 Kit	58221402		
172S 1 Kit	58221501		
184T P1 Kit	58236101		
M90 Kit	58238101		
M90 Kit (Meet Comp)*	59238101		
M150P Kit	40248402		
M150S Kit	40248401		
M170 Kit	40248403		
Carriage Shaft	51109111		
Purple Ribbon	52108701		
Black Ribbon	52109401		

\* Requires proof of performance of sales to IPL for the UK postal program.

NOTE: All product listed in this pricing Exhibit "A" are not covered under an Okidata warranty.

February 23, 1999

Mr. Bart C. Shuldman  
28 Bermuda Road  
Westport, Connecticut

Dear Bart:

The Company has agreed to loan you \$330,000.00 to permit the purchase by you of 104,000 shares of the Company's common stock. In order to accomplish this loan transaction, you will need to sign each of the enclosed documents, which are briefly described below. Your signature acknowledging and agreeing to certain additional terms contained in this letter also will be necessary.

Promissory Note

- You will sign a \$330,000 term Note in favor of the Company. The principal (and any unpaid interest) is due in a balloon payment five years after the execution of the Note. The interest rate will be calculated as the greater of (i) an amount based on the Company's average variable lending rate under its primary credit facility for each fiscal year or (ii) the Applicable Federal Rate, as defined in the Note. Interest will be payable by you in arrears on the fifteenth day of March each year.

- The Note describes what happens if your employment with the Company is terminated or in the event of death or disability. Termination by the Company for "Cause" as defined in any employment contract in effect on the date of termination or your voluntary termination will advance the maturity date for the Note to the date that is six months after the date of your termination. Termination without Cause or in the event of death or disability as defined in any employment contract in effect at that time will not affect the maturity date of the Note.

- The occurrence of an Event of Default under the Note will give the Company the ability to accelerate the maturity date, making all amounts due and payable at once.

- Your obligations under the Note will be secured by a stock pledge.

## Stock Pledge Agreement

- You agree to pledge to the Company (i) 104,000 shares purchased with the loan proceeds and (ii) 50,000 shares of the Company's restricted stock. The Company will retain the physical certificates and you will sign stock powers in blank. During the term of the Note, you will be able to vote the shares, and you will receive any cash dividends issued with respect to the shares. If there is a stock split or similar adjustment, you will be required to pledge any such additional shares as you may be entitled to receive.

- If there is an Event of Default and subject to applicable law, the Company is entitled to sell the shares and retain as much of the proceeds as are necessary to satisfy your obligations under the Note.

## Additional Terms

- Continuing Security. Until all amounts due and owing under the Note have been satisfied and regardless of your employment status, you agree that the obligations under the Note will remain secured under and by the stock pledge agreement.

- Selling the Stock to Satisfy the Note. At any time up to and including the maturity date of the Note, if the market value of the stock purchased with the loan proceeds exceeds 150% of the outstanding loan balance under the Note, you may request permission to satisfy, in full or in part, your obligations under the Note by your sale of the pledged shares. If you do not make this request, the loan shall be repaid as set forth in the Note. Any sale permitted by this provision may pay your obligations under the Note in full or in part; provided, however, that for any requested partial payment of the obligations under the Note, you will apply all of the proceeds from the sale of pledged shares to the partial satisfaction of your obligations under the Note.

- Event of Default. Your failure to comply with any of the terms hereunder, which failure is not cured within 30 days of occurrence, or the occurrence of an event of default under the Note or the other agreements executed in connection herewith shall constitute an event of default hereunder. The Note describes the remedies the Company may take upon the occurrence of an event of default.

- Severability. If any provision of this letter agreement or any of the agreements enclosed herewith shall be held by any court or other tribunal of competent jurisdiction to be illegal, void or unenforceable in such jurisdiction, the remainder of such provision and of the letter agreement shall not be affected thereby and shall be given full effect, without regard to the invalid provision. We mutually agree that such court or tribunal, if possible, shall limit such invalid provision or clause in scope so that it shall not be invalid and shall be enforceable as so limited.

- Further Assurances. You agree to execute any and all instruments and documents deemed necessary or desirable by the Company to carry out the provisions of this letter agreement, including financing statements for purposes of filing under the Uniform Commercial Code.

- Entire Agreement. This letter agreement and the attachments hereto contain the entire understanding of the Company and you with respect to the subject matter set forth herein and supersedes any prior agreements between us with respect thereto.

- Governing Law. This letter agreement and the rights of the parties shall be governed by and construed in accordance with the laws of the state of Connecticut without regard to its conflict of laws principles. Each of the parties consents in advance to the jurisdiction of the appropriate state or federal courts located within the state of Connecticut.

Please signify your acceptance and agreement with the terms of this letter agreement by signing in the indicated area below.

TRANSACT TECHNOLOGIES INCORPORATED

By: /s/ Thomas R. Schwarz

-----  
Name: Thomas R. Schwarz  
Title: Chairman

Date: February 23, 1999

/s/ Bart C. Shuldman

-----  
BART C. SHULDMAN

237346 v.02



## TRANSACT TECHNOLOGIES INCORPORATED

## EXHIBIT 11.1

## COMPUTATION OF EARNINGS PER SHARE

	Year Ended December 31,		
	1998	1997	1996
Net Income	\$ 1,206,000 =====	\$ 4,893,000 =====	\$ 3,340,000 =====
SHARES:			
Basic - Weighted average common shares outstanding	6,163,000	6,767,000	5,864,000
Dilutive effect of outstanding options and warrants as determined by the treasury stock method	7,000 -----	165,000 -----	20,000 -----
Diluted - Weighted average common and common equivalent shares outstanding	6,170,000 =====	6,932,000 =====	5,884,000 =====
Net income per common and common equivalent share:			
Basic	\$ 0.20 =====	\$ 0.72 =====	\$ 0.57 =====
Diluted	0.20 =====	0.71 =====	0.57 =====

## TRANSACT TECHNOLOGIES INCORPORATED

## EXHIBIT 21.1

## SUBSIDIARIES OF TRANSACT TECHNOLOGIES INCORPORATED

Name -----	Jurisdiction of Incorporation -----	Owner -----	Percentage Owned -----
Magnetec Corporation	Connecticut	TransAct Technologies Incorporated	100%
Ithaca Peripherals Limited	United Kingdom	Magnetec Corporation	100%
TransAct Technologies International Ltd	Barbados	TransAct Technologies Incorporated	100%

## CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-32703 and No. 333-32705) of TransAct Technologies Incorporated of our report dated February 8, 1999 appearing on page 17 of this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP  
Hartford, Connecticut

March 29, 1999

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM TRANSACT TECHNOLOGIES INCORPORATED ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

12-MOS		
	DEC-31-1998	
	JAN-01-1998	
	DEC-31-1998	546
		0
		5,292
		139
		8,744
	16,094	13,360
	7,696	
	23,788	
	5,987	0
	0	0
		0
		56
23,788		12,121
		52,239
	52,239	38,413
	50,091	
	(32)	
	0	
	353	
	1,827	
		621
	1,206	0
		0
		0
		0
		1,206
		0.20
		0.20