TRANSACT TECHNOLOGIES INC
Form 10-Q
November 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended: September 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from: ______ to: ______

Commission file number: 0-21121

TRANSACT TECHNOLOGIES INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**06-1456680**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**

One Hamden Center, 2319 Whitney Avenue, Suite 3B, Hamden, CT 06518

(Address of principal executive offices)

(Zip Code)

(203) 859-6800

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of November 1, 2008
Common stock, $.01 par value	**9,430,338**

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(In thousands, except per share data)	September 30, 2008	December 31, 2007
Assets:		
Current assets:		
Cash and cash equivalents	**$ 4,078**	$ 2,561
Receivables, net	**8,172**	6,128
Inventories, net	**8,746**	8,665
Refundable income taxes	**50**	51
Deferred tax assets	**1,520**	1,529
Other current assets	**413**	362
Total current assets	**22,979**	19,296
Fixed assets, net	**5,752**	6,338
Goodwill	**1,469**	1,469
Deferred tax assets	**2,588**	3,019
Intangible and other assets, net of accumulated amortization of $285 and $221, respectively	**382**	482
	10,191	11,308
Total assets	**$ 33,170**	$ 30,604
Liabilities and Shareholders Equity:		
Current liabilities:		
Accounts payable	**$ 5,810**	$ 4,688
Accrued liabilities	**2,654**	2,852
Deferred revenue	**439**	522
Total current liabilities	**8,903**	8,062
Deferred revenue, net of current portion	**273**	211
Accrued warranty, net of current portion	**144**	91
Deferred rent	**482**	507
Other liabilities	**125**	125
	1,024	934
Total liabilities	**9,927**	8,996
Commitments and contingencies (Note 11)		
Shareholders equity:		

Common stock, $0.01 par value, 20,000,000 authorized at September 30, 2008 and December 31, 2007; 10,461,838 and 10,399,866 shares issued, respectively; 9,427,838 and 9,365,866 shares outstanding at September 30, 2008 and December 31, 2007, respectively	**105**	104
Additional paid-in capital	**20,778**	19,872
Retained earnings	**10,257**	9,449
Accumulated other comprehensive income, net of tax	**98**	178
Treasury stock, 1,034,000 shares, at cost	**(7,995)**	(7,995)
Total shareholders equity	**23,243**	21,608
Total liabilities and shareholders equity	**$ 33,170**	$ 30,604

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(In thousands, except per share data)	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Net sales	**$ 17,326**	$ 11,737	**$ 47,930**	$ 37,152
Cost of sales	**11,432**	7,852	**31,797**	24,574
Gross profit	**5,894**	3,885	**16,133**	12,578
Operating expenses:				
Engineering, design and product development	**713**	791	**2,119**	2,284
Selling and marketing	**1,430**	1,618	**4,397**	4,968
General and administrative	**1,838**	1,664	**5,335**	5,346
Legal fees associated with lawsuit (See Note 11)		1,525	**3,029**	1,715
Business consolidation and restructuring				12
	3,981	5,598	**14,880**	14,325
Operating income (loss)	**1,913**	(1,713)	**1,253**	(1,747)
Interest and other income (expense):				
Interest, net	**(3)**	20	**(6)**	58
Other, net	**102**	(8)	**96**	4
	99	12	**90**	62
Income (loss) before income taxes	**2,012**	(1,701)	**1,343**	(1,685)
Income tax provision (benefit)	**802**	(685)	**535**	(730)
Net income (loss)	**$ 1,210**	$ (1,016)	**$ 808**	$ (955)
Earnings (loss) per common share:				
Basic	**$ 0.13**	$ (0.11)	**$ 0.09**	$ (0.10)
Diluted	**$ 0.13**	$ (0.11)	**$ 0.08**	$ (0.10)
Shares used in per-share calculation:				
Basic	**9,340**	9,364	**9,309**	9,390
Diluted	**9,630**	9,364	**9,509**	9,390

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(In thousands)	**Nine Months Ended September 30, 2008**	**2007**
Cash flows from operating activities:		
Net income (loss)	**$ 808**	$ (955)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share-based compensation expense	**609**	548
Incremental tax benefits from stock options exercised		(20)
Depreciation and amortization	**1,389**	1,377
Deferred income taxes	**440**	(1,178)
Provision for excess and obsolete inventory	**100**	300
Loss (gain) on sale of fixed assets	**4**	(22)
Changes in operating assets and liabilities:		
Receivables	**(2,044)**	4,178
Inventories	**(181)**	(1,718)
Refundable income taxes	**1**	(164)
Other current assets	**(51)**	98
Other assets	**22**	24
Accounts payable	**1,122**	901
Accrued liabilities and other liabilities	**(191)**	(192)
Accrued restructuring expenses		(315)
Net cash provided by operating activities	**2,028**	2,862
Cash flows from investing activities:		
Purchases of fixed assets	**(729)**	(1,951)
Proceeds from sale of assets		37
Net cash used in investing activities	**(729)**	(1,914)
Cash flows from financing activities:		
Proceeds from option exercises	**298**	149
Purchases of common stock for treasury		(1,266)
Payment of deferred financing costs		(3)
Incremental tax benefits from stock options exercised		20
Net cash provided by (used in) financing activities	**298**	(1,100)
Effect of exchange rate changes on cash and cash equivalents	**(80)**	38
Net increase (decrease) in cash and cash equivalents	**1,517**	(114)
Cash and cash equivalents, beginning of period	**2,561**	3,436
Cash and cash equivalents, end of period	**$ 4,078**	$ 3,322

See notes to condensed consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of business

TransAct Technologies Incorporated (TransAct or the Company), which has its headquarters in Hamden, CT and its primary operating and engineering facility in Ithaca, NY, operates in one industry segment, market-specific printers for transaction-based industries. These industries include casino, gaming, lottery, banking, kiosk and point-of-sale. Our printers are designed based on market specific requirements and are sold under the Ithaca® and Epic product brands. We distribute our products through original equipment manufacturers, value-added resellers, selected distributors, and directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. We also generate revenue from the after-market side of the business, providing printer service, supplies and spare parts.

2. Basis of presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to fairly state TransAct s financial position as of September 30, 2008, the results of our operations for the three and nine months ended September 30, 2008 and 2007, and our cash flows for the nine months ended September 30, 2008 and 2007. The December 31, 2007 condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2007 included in our Annual Report on Form 10-K.

The financial position and results of operations of our two foreign subsidiaries are measured using local currency as the functional currency. Assets and liabilities of such subsidiaries have been translated at the end of period exchange rates, and related revenues and expenses have been translated at the weighted average exchange rates with the resulting translation gain or loss recorded in accumulated other comprehensive income in the condensed consolidated balance sheets. Transaction gains and losses are included in other income in the condensed consolidated statement of operations.

The results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year.

3. Share-based payments

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2007	764,696	$ 6.95		
Granted	167,500	$ 5.85		

Exercised	(62,472)	$ 4.76		
Forfeited	(1,500)	$ 5.24		
Expired	(10,575)	$ 11.25		
Options outstanding at September 30, 2008	857,649	$ 6.85	5.73	$ 2,027
Options exercisable at September 30, 2008	534,649	$ 6.60	3.88	$ 1,635

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. Share-based payments (continued)

As of September 30, 2008, unrecognized compensation cost related to stock options totaled $1,234,000, which is expected to be recognized over a weighted average period of 3.9 years. The total intrinsic value of stock options exercised was $386,000 and $61,000 during the three months ended September 30, 2008 and 2007, respectively. The total intrinsic value of stock options exercised was $397,000 and $62,000, during the nine months ended September 30, 2008 and 2007, respectively.

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

	Restricted Stock	Weighted Average Grant Date Fair Value
Nonvested shares at December 31, 2007	106,683	$ 12.10
Granted		
Vested	(44,583)	12.15
Forfeited	(500)	6.99
Nonvested shares at September 30, 2008	61,600	$ 12.10

As of September 30, 2008, unrecognized compensation cost related to restricted stock totaled $472,000, which is expected to be recognized over a weighted average period of 1.7 years. No restricted stock vested during the three months ended September 30, 2008 and 2007, respectively. The intrinsic value of restricted stock that vested was $274,000 and $280,000, during the nine months ended September 30, 2008 and 2007, respectively.

Share-based compensation expense. During the three months ended September 30, 2008 and 2007, we recognized compensation expense of $91,000 and $64,000, respectively, for stock options and $109,000 and $123,000, respectively, for restricted stock, which was recorded in our condensed consolidated statements of operations in accordance with SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123(R)). The income tax benefits from share-based payments recorded in the condensed consolidated statements of operations totaled $74,000 and $69,000 for the three months ended September 30, 2008 and 2007, respectively. During the nine months ended September 30, 2008 and 2007, we recognized compensation expense of $248,000 and $168,000, respectively, for stock options and $361,000 and $380,000, respectively, for restricted stock. The income tax benefits from share-based payments recorded in the condensed consolidated statements of operations totaled $226,000 and $202,000 for the nine months ended September 30, 2008 and 2007, respectively.

Assumptions for estimating fair value of share-based payments. We use the Black-Scholes option-pricing model to calculate the fair value of share-based awards. The key assumptions for this valuation method include the expected term of the option, stock price volatility, risk-free interest rate, dividend yield and exercise price. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense. In addition, we estimate forfeitures when recognizing compensation expense, and we will adjust our estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures will be recognized through a cumulative true-up adjustment in the period of change and will also impact the amount of compensation expense to be recognized in future periods.

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the nine months ended September 30, 2008 was $3.43. No assumptions have been disclosed for the three months ended September 30, 2008 and 2007, as no stock option grants were made during those periods. The weighted-average fair value of stock option grants for the nine months ended September 30, 2007 was $5.81.

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

3. Share-based payments (continued)

The table below indicates the key assumptions used in the option valuation calculations for options granted in the respective periods:

	Three months ended September 30,		Nine months ended September 30,	
	2008	**2007**	**2008**	**2007**
Expected option term	Not applicable	Not applicable	5.7 years	6.0 years
Expected volatility	Not applicable	Not applicable	61.7%	71.2%
Risk-free interest rate	Not applicable	Not applicable	3.0%	4.5%
Dividend yield	Not applicable	Not applicable	0%	0%

4. Inventories

The components of inventories, net of allowances, are:

(In thousands)	**September 30, 2008**	**December 31, 2007**
Raw materials and purchased component parts	$ 8,558	$ 8,019
Work-in-process	14	57
Finished goods	174	589
	$ 8,746	$ 8,665

5. Accrued product warranty liability

The following table summarizes the activity recorded in the accrued product warranty liability during the three and nine months ended September 30, 2008 and 2007:

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Balance, beginning of period	$ 483	$ 580	$ 500	$ 603
Additions related to warranties issued	18	30	234	246
Warranty costs incurred	(55)	(97)	(288)	(336)
Balance, end of period	$ 446	$ 513	$ 446	$ 513

The current portion of the accrued product warranty liability is included in accrued liabilities in the condensed consolidated balance sheets.

6. Accrued business consolidation and restructuring

In February 2001, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and to close our Wallingford, CT manufacturing facility (the Consolidation). As of December 31, 2001, substantially all Wallingford product lines were successfully transferred to Ithaca, NY. We applied the consensus set forth in EITF 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring) in recognizing the accrued restructuring expenses relating to the Consolidation.

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

6. Accrued business consolidation and restructuring (continued)

In November 2006, we executed an agreement effective May 1, 2007 to terminate the lease agreement for our Wallingford, CT facility (the Release Agreement). Prior to the execution of the Release Agreement, we accrued for the remaining non-cancelable lease payments and other related costs for the unused portion of this facility through the expiration date of the lease (March 31, 2008). As a result of the Release Agreement and the early termination of the lease, we were released from the legal obligation for lease payments after May 1, 2007 and, accordingly, we reversed $479,000 of previously accrued restructuring reserve in the fourth quarter of 2006. During the second quarter of 2007, we recorded an additional $12,000 of expense to finalize the termination of the lease agreement. As of December 31, 2007, all non-cancelable lease payments related to our Wallingford, CT facility had been made.

The following table summarizes the activity recorded in accrued restructuring expenses during the three and nine months ended September 30, 2007:

(In thousands)	Three months ended September 30, 2007	Nine months ended September 30, 2007
Accrual balance, beginning of period	$ 14	$ 315
Business consolidation and restructuring expenses		12
Cash payments	(14)	(327)
Accrual balance, end of period	$	$

7. Earnings per share

Basic and diluted earnings per share are calculated in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, Earnings Per Share.

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

(In thousands, except per share data)	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Net income (loss)	$ 1,210	$ (1,016)	$ 808	$ (955)
Shares:				
Basic: Weighted average common shares outstanding	9,340	9,364	9,309	9,390
Add: Dilutive effect of outstanding options and restricted stock as determined by the treasury stock method	290		200	
	9,630	9,364	9,509	9,390

Diluted: Weighted average common and common equivalent shares outstanding				
Earnings (loss) per common share:				
Basic	$ 0.13	$ (0.11)	$ 0.09	$ (0.10)
Diluted	$ 0.13	$ (0.11)	$ 0.08	$ (0.10)

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

7. Earnings per share (continued)

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

For the three months ended September 30, 2008, potentially dilutive shares that were excluded from the earnings per share calculation, consisting of out-of-the-money stock options, amounted to 37,250 shares.

For the nine months ended September 30, 2008, potentially dilutive shares that were excluded from the earnings per share calculation, consisting of out-of-the-money stock options, amounted to 258,250 shares.

For the three and nine months ended September 30, 2007, there were 881,479 potentially dilutive shares (prior to consideration of the treasury stock method), consisting of stock options and unvested restricted stock, that were excluded from the earnings per share calculation as such shares would be anti-dilutive due to the Company's net loss in those periods.

8. Comprehensive income (loss)

The following table summarizes the Company s comprehensive income (loss):

	Three months ended September 30,		**Nine months ended September 30,**	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Net income (loss)	$ 1,210	$ (1,016)	$ 808	$ (955)
Foreign currency translation adjustment	(71)	22	(80)	38
Total comprehensive income (loss)	$ 1,139	$ (994)	$ 728	$ (917)

9. Stockholder s equity

Changes in stockholders equity for the nine months ended September 30, 2008 were as follows (in thousands):

Balance at December 31, 2007	$ 21,608
Net income	808
Proceeds from issuance of shares from exercise of stock options	298
Share-based compensation expense	609
Foreign currency translation adjustment	(80)
Balance at September 30, 2008	$ 23,243

10. Stock repurchase program

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

On November 1, 2007, our Board of Directors approved an increase in our stock repurchase authorization under the Stock Repurchase Program to $15 million from $10 million. In addition, the Board approved a two-year extension of the Stock Repurchase Program to March 31, 2010. During the three and nine months ended September 30, 2008, we made no repurchases of common stock. As of September 30, 2008, we have repurchased a total of 1,034,000 shares of common stock for $7,995,000, at an average price of $7.73 per share, since the inception of the Stock Repurchase Program.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

11. Commitments and contingencies

We had been involved in patent litigation with FutureLogic with respect to our patents U.S. Patent 6,924,903 and U.S. Patent 7,099,035. On May 13, 2008, we signed a Patent License and Settlement Agreement with FutureLogic that settled the current patent litigation and all other legal matters outstanding between the two parties. Under the Patent License and Settlement Agreement, FutureLogic has agreed to license our dual port technology for printers and upgrade kits that utilize the patented technology. The license granted FutureLogic worldwide, perpetual rights for U.S. Patent 6,924,903, U.S. Patent 7,099,035, related applications and patents, and foreign counterparts.

12. Income taxes

As of September 30, 2008, we had a net deferred tax asset of $4,108,000. In two of the last three years, we have had U.S. taxable losses and there is no assurance that we will generate future taxable income sufficient to realize all of our deferred tax assets. However, based on our current projection of future taxable income as of September 30, 2008, we believe that it is more likely than not that the existing net deferred tax asset will be realized. However, if our future projections of taxable income are less than expected, we may need to establish a valuation allowance for all or a portion of our net deferred tax asset, which may have a material adverse effect on our results of operations and financial condition.

For the first nine months of 2008, our income tax provision and effective tax rate does not include any benefit from the federal research and development credit, as this credit expired at the end of 2007. However, in October 2008 this credit was reinstated retroactive to January 1, 2008, as part of the passage of the Emergency Economic Stabilization Act of 2008. As a result, we expect to recognize the full year 2008 income tax benefit from the federal research and development credit of approximately $100,000 in the fourth quarter of 2008, which will favorably impact our effective tax rate for the fourth quarter and full year 2008. We expect our annual effective tax rate for 2008 to be between 34% and 35% due to the recognition of certain tax credits during the fourth quarter of 2008.

We are subject to U.S. federal income tax as well as income tax of certain state and foreign jurisdictions. We have substantially concluded all U.S. federal income tax, state and local, and foreign tax matters through 2002. Our federal tax returns for the years 2003 2007 remain open to examination, with our 2005 and 2006 federal tax return examinations completed during the three months ended September 30, 2008. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the condensed consolidated financial statements. No state or foreign tax jurisdictions are currently under examination.

As of September 30, 2008, we had $125,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. We are not aware of any events that could occur within the next twelve months that could cause a significant change in the total amount of unrecognized tax benefits.

We do not anticipate that the total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to September 30, 2009.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2008, we have $5,000 of accrued interest related to uncertain tax positions.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

13. Recently issued accounting pronouncements

Fair Value Measurements: In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. FAS 157 defines fair value based upon an exit price model. A fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability, or, in the absence of a principal market, the most advantageous market for the asset or liability. This Statement was effective for the Company beginning on January 1, 2008, except that FSP 157-2 delayed the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until fiscal years beginning after November 15, 2008. The Company adopted FAS 157 on January 1, 2008, with the exception of the application of the Statement to non-recurring nonfinancial assets and liabilities measured at fair value which include: (i) goodwill impairment testing, (ii) initial measurement of the fair value of asset retirement obligations and (iii) measurement of impairment of long-lived assets. The implementation of FAS 157 did not have an effect on the Company s consolidated financial position, results of operations or cash flows during the three months and nine months ended September 30, 2008, and is not expected to have a material effect on the Company upon full adoption in future periods.

Fair Value Option for Financial Assets and Financial Liabilities: In February 2007, the FASB issued Statement of Financial Accounting Standards No.159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 (FAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company adopted FAS 159 on January 1, 2008 and elected not to measure any additional financial instruments and other items at fair value. The adoption did not have a material effect on the Company s consolidated financial position, results of operations or cash flows during the three months and nine months ended September 30, 2008.

Business Combinations: In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141(R)). FAS 141(R) amends Statement of Financial Accounting Standards No. 141, Business Combinations and provides revised guidance requiring the acquirer to recognize and measure, at fair value on the acquisition date, identifiable assets and goodwill acquired, liabilities assumed, and any non-controlling interest in the acquiree. Transaction and restructuring costs generally will be expensed as incurred. The Statement also provides disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective for fiscal years beginning on or after December 15, 2008 and will be applied prospectively. The Company is currently evaluating the potential impact of this Statement.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

Certain statements included in this report, including without limitation statements in this Management s Discussion and Analysis of Financial Condition and Results of Operations, which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All forward-looking statements generally can be identified by the use of forward-looking terminology, such as may , will , expect , intend , estimate , anticipate , believe , project or continue or the negative thereof or other similar words. Forward-looking statements involve risks and uncertainties, including, but not limited to those listed in Item 1A of our most recently filed Form 10-K. Actual results may differ materially from those discussed in, or implied by, the forward-looking statements. The forward-looking statements speak only as of the date of this report and we assume no duty to update them.

Overview

TransAct designs, develops, assembles, markets and services world-class transaction printers under the Epic and Ithaca® brand names. Known and respected worldwide for innovative designs and real-world service reliability, our thermal, inkjet and impact printers generate top-quality transaction records such as receipts, tickets, coupons, register journals and other documents. We focus on the following core markets: banking and point-of-sale, casino and gaming, and lottery. We sell our products to original equipment manufacturers, value-added resellers, selected distributors, as well as directly to end-users. Our product distribution spans across the Americas, Europe, the Middle East, Africa, Asia, Australia, the Caribbean Islands and the South Pacific. In addition, we have a strong focus on the after-market side of the business, with a growing commitment to printer service, supplies and spare parts. We operate in one reportable segment, the design, development, assembly and marketing of transaction printers and printer-related service, supplies and spare parts.

Critical Accounting Judgments and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared by us in accordance with accounting principles generally accepted in the United States of America. The presentation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and disclosure of contingent assets and liabilities. Our estimates include those related to revenue recognition, inventory obsolescence, the valuation of deferred tax assets and liabilities, depreciable lives of equipment, warranty obligations, and contingent liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances.

For a complete description of our accounting policies, see Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates, included in our Form 10-K for the year ended December 31, 2007. We have reviewed those policies and determined that they remain our critical accounting policies for the nine months ended September 30, 2008.

Results of Operations: Three months ended September 30, 2008 compared to three months ended September 30, 2007

Net Sales. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the three months ended September 30, 2008 and 2007 were as follows:

(In thousands)	Three months ended September 30, 2008		Three months ended September 30, 2007		Change $	Change %
Banking and point-of-sale	$ 2,984	17.2%	$ 2,981	25.4%	$ 3	0.1%
Casino and gaming	6,681	38.6%	4,728	40.3%	1,953	41.3%
Lottery	4,728	27.3%	1,073	9.1%	3,655	340.6%
TransAct Services Group	2,933	16.9%	2,955	25.2%	(22)	(0.7)%
	$ 17,326	100.0%	$ 11,737	100.0%	$ 5,589	47.6%
International *	$ 2,982	17.2%	$ 2,824	24.1%	$ 158	5.6%

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

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Net sales for the third quarter of 2008 increased $5,589,000, or 48%, from the same period last year due primarily to higher printer shipments into our lottery (an increase of $3,655,000, or 341%), and casino and gaming markets (an increase of $1,953,000, or 41%). Sales from our TransAct Services Group decreased by $22,000, or 1%, and sales from our banking and point-of-sale market remained consistent. Overall, international sales increased by $158,000, or 6%, due to higher international shipments of our casino and gaming printers largely offset by lower international shipments in our other markets.

Banking and point-of-sale:

Revenue from the banking and point-of-sale (POS) market includes sales of printers used by banks, credit unions, and other financial institutions to print and/or validate receipts and checks at bank teller stations. Revenue from this market also includes sales of inkjet, thermal and impact printers used primarily by retailers in the restaurant (including fine dining, casual dining and fast food), hospitality, and specialty retail industries to print receipts for consumers, validate checks, or print on other inserted media. Sales of our banking and POS printers worldwide increased $3,000, or less than 1%.

(In thousands)	**Three months ended September 30, 2008**		**Three months ended September 30, 2007**		**Change $**	**Change %**
Domestic	$ 2,798	93.8%	$ 2,610	87.6%	$ 188	7.2%
International	186	6.2%	371	12.4%	(185)	(49.9)%
	$ 2,984	100.0%	$ 2,981	100.0%	$ 3	0.1%

Domestic banking and POS revenue increased to $2,798,000, representing an $188,000, or 7%, increase from the third quarter of 2007. Banking printer sales increased by approximately $100,000 due primarily to increasing sales of our new BANKjet® 2500 bank teller printer in the third quarter of 2008 compared to the third quarter of 2007. Although we are currently pursuing several banking opportunities, due to the project-oriented nature of these sales, and the current credit crisis that we believe is negatively impacting the banking industry s level of capital expenditures, we cannot predict if and when future sales may occur. Banking printer sales continued to be complemented by increased sales of our new Ithaca 8000® receipt/label printer for McDonalds, as well as initial sales of our second printer product, the Ithac