TRANSACT TECHNOLOGIES INC
Form 10-Q
November 09, 2007

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, 2007

OR

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

For the transition period from: _________________ to: ___________________

Commission file number: 0-21121

TRANSACT TECHNOLOGIES INCORPORATED
(Exact name of registrant as specified in its charter)

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

ONE HAMDEN CENTER, 2319 WHITNEY AVENUE, SUITE 3B, HAMDEN, CT 06518
(Address of principal executive offices)
(Zip Code)

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

Not applicable
(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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in

Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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 2, 2007
COMMON STOCK, $.01 PAR VALUE	9,412,086

TRANSACT TECHNOLOGIES INCORPORATED

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ITEM 1. FINANCIAL STATEMENTS

TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands)	SEPTEMBER 30, 2007	December 31, 2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 3,322	$ 3,436
Receivables, net	7,244	11,422
Inventories, net	8,985	7,567
Refundable income taxes	206	42
Deferred tax assets	1,650	2,167
Other current assets	408	506
Total current assets	21,815	25,140
Fixed assets, net	6,572	5,938
Goodwill	1,469	1,469
Deferred tax assets	2,342	542
Intangible and other assets, net of accumulated amortization of $200 and $136, respectively	521	617
	10,904	8,566
Total assets	$32,719	$33,706
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 4,898	$ 3,997
Accrued liabilities	3,322	3,796
Accrued restructuring expenses	--	315
Deferred revenue	374	389
Total current liabilities	8,594	8,497
Deferred revenue, net of current portion	261	508
Accrued warranty, net of current portion	102	160
Accrued rent	515	251
Other liabilities	105	--
	983	919
Total liabilities	9,577	9,416
Commitments and contingencies (Note 11)		
Shareholders' equity:		
Common stock	104	104
Additional paid-in capital	19,822	19,105
Retained earnings	10,768	11,405
Accumulated other comprehensive income	206	168

Treasury stock, 987,100 and 801,300 shares at cost	(7,758)	(6,492)
Total shareholders' equity	23,142	24,290
Total liabilities and shareholders' equity	$32,719	$33,706

See notes to condensed consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
(In thousands, except per share data)	2007	2006	2007	2006
Net sales	$11,737	$15,276	$37,152	$48,615
Cost of sales	7,852	9,838	24,574	31,744
Gross profit	3,885	5,438	12,578	16,871
Operating expenses:				
Engineering, design and product development	791	621	2,284	2,151
Selling and marketing	1,618	1,593	4,968	4,884
General and administrative	1,664	1,630	5,346	5,195
Legal fees associated with lawsuit (See Note 11)	1,525	41	1,715	76
Business consolidation and restructuring	--	--	12	--
	5,598	3,885	14,325	12,306
Operating income (loss)	(1,713)	1,553	(1,747)	4,565
Other income (expense):				
Interest, net	20	25	58	62
Other, net	(8)	(55)	4	(137)
	12	(30)	62	(75)
Income (loss) before income taxes	(1,701)	1,523	(1,685)	4,490
Income tax provision (benefit)	(685)	504	(730)	1,557
Net income (loss)	$(1,016)	$ 1,019	$ (955)	$ 2,933
Net income (loss) per common share:				
Basic	$ (0.11)	$ 0.11	$ (0.10)	$ 0.31
Diluted	$ (0.11)	$ 0.10	$ (0.10)	$ 0.30
Shares used in per-share calculation				
Basic	9,364	9,623	9,390	9,588
Diluted	9,364	9,898	9,390	9,898

See notes to condensed consolidated financial statements.

TRANSACT TECHNOLOGIES INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
(In thousands)	2007	2006
Cash flows from operating activities:		
Net income (loss)	$ (955)	$ 2,933
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Share-based compensation expense	548	422
Deferred income taxes	(1,178)	(24)
Incremental tax benefits from stock options exercised	(20)	(275)
Depreciation and amortization	1,377	1,190
Gain on sale of assets	(22)	--
Changes in operating assets and liabilities:		
Receivables	4,178	(2,175)
Inventories	(1,418)	(1,394)
Refundable income taxes	(164)	117
Other current assets	98	(197)
Other assets	24	(76)
Accounts payable	901	409
Accrued liabilities and other liabilities	(192)	1,748
Accrued restructuring expenses	(315)	(306)
Net cash provided by operating activities	2,862	2,372
Cash flows from investing activities:		
Purchases of fixed assets	(1,951)	(2,521)
Proceeds from sale of assets	37	--
Net cash used in investing activities	(1,914)	(2,521)
Cash flows from financing activities:		
Proceeds from stock option exercises	149	674
Purchases of common stock for treasury	(1,266)	(852)
Incremental tax benefits from stock options exercised	20	275
Payment of deferred financing costs	(3)	--
Net cash provided by (used in) financing activities	(1,100)	97
Effect of exchange rate changes on cash	38	102
Increase (decrease) in cash and cash equivalents	(114)	50
Cash and cash equivalents at beginning of period	3,436	4,579

Cash and cash equivalents at end of period	$ 3,322	$ 4,629
	=======	=======

See notes to condensed consolidated financial statements.

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TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. DESCRIPTION OF BUSINESS

TransAct Technologies Incorporated ("TransAct"), which has its headquarters in Hamden, CT and its primary operating 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(R) and Epic product brands. We distribute our products through OEMs, 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, 2006. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly our financial position as of September 30, 2007, the results of our operations for the three and nine months ended September 30, 2007 and 2006, and our cash flows for the nine months ended September 30, 2007 and 2006. The December 31, 2006 condensed consolidated balance sheet data were derived from audited financial statements, but do 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, 2006 included in our Annual Report on Form 10-K. Certain amounts from the December 31, 2006 condensed consolidated balance sheet have been reclassified to conform with the current period presentation.

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

The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results to be expected for the full year.

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

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, 2006:	707,344	$6.67		
Granted	144,500	$8.82		
Exercised	(33,199)	$4.49		
Canceled	(46,849)	$9.85		
Options outstanding at September 30, 2007	771,796	$6.97	5.66	$974
Options exercisable at September 30, 2007	566,296	$6.31	4.43	$974

3. SHARE-BASED PAYMENTS (CONTINUED)

As of September 30, 2007, unrecognized compensation cost related to stock options totaled $1,046,000, which is expected to be recognized over a weighted average period of 4.0 years. The total intrinsic value of stock options exercised was $61,000 and $116,000 during the three months ended September 30, 2007 and 2006, respectively. The total intrinsic value of stock options exercised was $62,000 and $808,000, during the nine months ended September 30, 2007 and 2006, 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:

Weighted
Average Grant

	Restricted Stock	Date Fair Value
Nonvested shares at December 31, 2006	154,116	$12.22
Granted	--	--
Vested	(37,683)	13.01
Canceled	(6,750)	9.74
Nonvested shares at September 30, 2007	109,683	$12.10

As of September 30, 2007, unrecognized compensation cost related to restricted stock totaled $980,000, which is expected to be recognized over a weighted average period of 2.4 years. No restricted stock vested during the three months ended September 30, 2007 and 2006, respectively. The intrinsic value of restricted stock that vested was $280,000 and $338,000, during the nine months ended September 30, 2007 and 2006, respectively.

SHARE-BASED COMPENSATION EXPENSE. During the three months ended September 30, 2007 and 2006, we recognized compensation expense of $64,000 and $26,000, respectively, for stock options and $123,000 and $85,000, 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 statement of operations totaled $69,000 and $39,000 for the three months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007 and 2006, we recognized compensation expense of $168,000 and $81,000, respectively, for stock options and $380,000 and $341,000, respectively, for restricted stock. The income tax benefits from share-based payments recorded in the statement of operations totaled $202,000 and $149,000 for the nine months ended September 30, 2007 and 2006, 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.

3. SHARE-BASED PAYMENTS (CONTINUED)

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the nine months ended September 30, 2007 was $5.81. No assumptions have been disclosed for the three months ended September 30, 2007 and 2006, 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, 2006 was $5.91. 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,	
	2007	2006	2007	2006
Expected option term	Not applicable	Not applicable	6.0 years	5.2 years
Expected volatility	Not applicable	Not applicable	71.2%	78.4%
Risk-free interest rate	Not applicable	Not applicable	4.5%	4.5%
Dividend yield	Not applicable	Not applicable	0%	0%

4. INVENTORIES

The components of inventories are:

(In thousands)	September 30, 2007	December 31, 2006
Raw materials and purchased component parts	$8,444	$7,337
Finished goods	541	230
	$8,985	$7,567

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, 2007 and 2006.

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2007	2006	2007	2006
Balance, beginning of period	$580	$ 602	$ 603	$ 644
Additions related to warranties issued	30	84	246	396
Warranty costs incurred	(97)	(144)	(336)	(498)
Balance, end of period	$513	$ 542	$ 513	$ 542

The current portion of the accrued product warranty liability is included in accrued liabilities in the accompanying 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.

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 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 to make lease payments after May 1, 2007 and, accordingly, we reversed approximately $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 September 30, 2007, all non-cancelable lease payments related to our Wallingford, CT facility have been made.

The following table summarizes the activity recorded in accrued restructuring expenses during the three and nine months ended September 30, 2007 and 2006.

	Three months ended September 30,		Nine months ended September 30,	
(In thousands)	2007	2006	2007	2006
Accrual balance, beginning of period	$ 14	$800	$ 315	$1,007
Business consolidation and restructuring expenses	--	--	12	--
Cash payments	(14)	(99)	(327)	(306)
Accrual balance, end of period	$ --	$701	$ --	$ 701

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: Three months ended Nine months ended

(IN THOUSANDS, EXCEPT PER SHARE DATA)	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income (loss)	$(1,016)	$1,019	$ (955)	$2,933
Shares:				
Basic: Weighted average common shares outstanding	9,364	9,623	9,390	9,588
Add: Dilutive effect of outstanding options and restricted stock as determined by the treasury stock method	--	275	--	310
Diluted: Weighted average common and common equivalent shares outstanding	9,364	9,898	9,390	9,898
Net income (loss) per common share:				
Basic	$ (0.11)	$ 0.11	$(0.10)	$ 0.31
Diluted	$ (0.11)	$ 0.10	$(0.10)	$ 0.30

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 restricted stock under the treasury stock method.

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 nonvested restricted stock, that were excluded from the earnings per share calculation, because such shares would be anti-dilutive due to the Company's net loss in those periods. For the three and nine months ended September 30, 2006, potentially dilutive shares that were excluded from the net income per share calculation, consisting of out-of-the-money stock options, amounted to 101,750 and 49,250 shares, respectively.

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)	2007	2006	2007	2006
Net income (loss)	$(1,016)	$1,019	$(955)	$2,933
Foreign currency translation adjustment	22	44	38	102
Total comprehensive income (loss)	$ (994)	$1,063	$(917)	$3,035

9. STOCKHOLDER'S EQUITY

Changes in stockholders' equity for the nine months ended September 30, 2007 were as follows (in thousands):

Balance at December 31, 2006	$24,290
Net loss	(955)
Proceeds from issuance of shares from exercise of stock options	149
Purchases of treasury stock	(1,266)
Share-based compensation expense	548
Tax benefits from employee stock transactions	20
Adjustment resulting from the adoption of FIN 48	318
Foreign currency translation adjustment	38
Balance at September 30, 2007	$23,142

10. SIGNIFICANT TRANSACTIONS

In March 2005, our Board of Directors approved a stock repurchase program (the "Stock Repurchase Program"). Under the program, we are authorized to repurchase up to $10 million of our outstanding shares of common stock from time to time on the open market over a three year period ending on March 25, 2008, depending on market conditions, share price and other factors. During the three months ended September 30, 2007, we repurchased a total of 115,800 shares of common stock for approximately $745,000 at an average price of $6.43 per share. During the nine months ended September 30, 2007, we repurchased a total of 185,800 shares of common stock for approximately $1,266,000 at an average price of $6.81 per share. As of September 30, 2007, we have repurchased a total of 987,100 shares of common stock for approximately $7,758,000 at an average price of $7.86 per share since the inception of the Stock Repurchase Program.

TRANSACT TECHNOLOGIES INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

11. COMMITMENTS AND CONTINGENCIES

In April 2005, we announced a complaint against FutureLogic, Inc. ("FutureLogic") in Connecticut, which charged FutureLogic with disseminating false and misleading statements. We asserted claims of defamation and certain other charges. In May 2005, FutureLogic filed a complaint against us in California, asserting false advertising, defamation, trade libel and certain other charges. We moved to dismiss FutureLogic's action in California, on the grounds that any claims raised in that action should have been brought as part of the case filed by us in Connecticut. In the alternative, we moved to stay the California action pending the resolution of jurisdictional motions in the Connecticut court. In September 2006, the District of Connecticut dismissed our case because of a lack of jurisdiction. The decision was not on the merits of our claims, but on the jurisdiction of the court in which the suit was brought.

On June 12, 2007, we answered FutureLogic's complaint and filed a counterclaim that FutureLogic infringes U.S. Patent No. 6,924,903 (the "903 Patent"). We also filed a motion for a preliminary injunction to stop infringement by FutureLogic's dual port printers. Our motion for preliminary injunction was heard on July 30, 2007. Through our preliminary injunction motion and hearing, we showed that FutureLogic has constructed a prototype printer, the GEN2 Universal with the ProMatrix system, which the judge ruled has a likelihood of infringing the 903 Patent covering dual port technology. The court denied our motion on August 6, 2007, but the court ruled that "Should TransAct discover that FutureLogic has sold or offered to sell any GEN2 Universal printers with the ProMatrix system that infringe the 903 Patent during the course of this action, it may renew this motion on an expedited ex parte basis and - assuming it shows the requisite likelihood of success on the merits - the court will afford it the relief it seeks."

On August 27, 2007, FutureLogic lodged an amended complaint that sought a declaratory judgment that our U.S. Patent No. 7,099,035 ("the 035 Patent") is invalid and not infringed by FutureLogic, and that the 903 and 035 Patents are unenforceable for inequitable conduct. Concurrently, we filed an amended answer that added a counterclaim that FutureLogic infringes the 035 Patent. Also on August 27, 2007, FutureLogic filed a motion for leave to file a Second Amended Complaint to add monopolization and attempted monopolization claims against us. The proposed claims were each based on "Walker Process fraud" and "sham litigation." The Court held a hearing on this motion on October 29, 2007 and issued an opinion that same day. In its opinion, the Court denied FutureLogic's motion to add a claim for actual monopolization based on either the "Walter Process fraud" theory or the "sham litigation." theory. The Court also denied FutureLogic's motion to add a claim for attempted monopolization based on the "sham litigation" theory. The Court did, however, permit FutureLogic to assert a claim of attempted monopolization based on the "Walker Process fraud" theory. We believe that FutureLogic's claim in this matter is without merit and intend to defend vigorously against it.

We are now in the discovery phase of the case.

We are currently unable to estimate any potential liability or range of loss associated with this litigation. Accordingly, no amounts have been accrued in the financial statements related to this matter.

12. INCOME TAXES

We adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes ("FIN 48"), at the beginning of fiscal year 2007. As a result of the implementation we recognized a decrease to reserves for uncertain tax positions. This decrease was accounted for as a $318,000 adjustment to the beginning balance of retained earnings on the Condensed Consolidated Balance Sheet. Including the cumulative effect decrease, at the beginning of 2007 we had approximately $79,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

At September 30, 2007, we had approximately $105,000 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 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 - 2006 remain open to examination. Various state and foreign tax jurisdiction tax years remain open to examination as well, though we believe that any additional assessment would be immaterial to the consolidated financial statements. No state or foreign tax jurisdiction income tax returns are currently under examination.

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, 2008.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of September 30, 2007, we have approximately $1,000 of accrued interest related to uncertain tax positions.

13. SUBSEQUENT EVENTS

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.

On November 7, 2007, we amended our credit facility with TD Banknorth, N.A. to revise a financial covenant effective September 30, 2007, which resulted in covenant compliance.

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. 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 to reflect new, changing or unanticipated events or circumstances.

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, contingent liabilities and restructuring accruals. 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, 2006. We have reviewed those policies and determined that, in addition to the policies noted below, they remain our critical accounting policies for the nine months ended September 30, 2007.

INCOME TAXES - We adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on January 1, 2007. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position that an entity takes or expects to take in a tax return. Additionally, FIN 48 provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Under FIN 48, an entity may only recognize or continue to recognize tax positions that meet a "more likely than not" threshold. See Footnote No. 12, "Income Taxes," for additional information.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2006

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, 2007 and 2006 were as follows:

(In thousands)	Three months ended September 30, 2007		Three months ended September 30, 2006		Change $	Change %
Banking and point-of-sale	$ 2,981	25.4%	$ 3,606	23.6%	$ (625)	(17.3%)
Gaming and lottery	5,801	49.4%	8,495	55.6%	(2,694)	(31.7%)
TransAct Services Group	2,955	25.2%	3,175	20.8%	(220)	(6.9%)
	$11,737	100.0%	$15,276	100.0%	$(3,539)	(23.2%)
International *	$ 2,824	24.1%	$ 3,790	24.8%	$ (966)	(25.5%)

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

Net sales for the third quarter of 2007 decreased $3,539,000, or 23%, from the same period last year due primarily to lower printer sales in our gaming and lottery market (a decrease of approximately $2,694,000, or 32%), lower

printer sales in our banking and point of sale ("POS") market (a decrease of approximately $625,000, or 17%), and lower sales by the TransAct Services Group ("TSG") (a decrease of $220,000, or 7%). Overall, international sales decreased by $966,000, or 26%, due to lower international shipments of both our POS and gaming printers.

BANKING AND POINT-OF-SALE:

Revenue from the banking and POS market includes sales of inkjet, thermal and legacy impact printers used primarily by retailers in the hospitality, restaurant (including fine dining, casual dining and fast food) and specialty retail industries to print receipts for consumers, validate checks, or print on other inserted media. Revenue from this market also includes sales of printers used by banks, credit unions and other financial institutions to print and/or validate receipts at bank teller stations. Sales of our banking and POS printers worldwide decreased approximately $625,000, or 17%.

(In thousands)	Three months ended September 30, 2007		Three months ended September 30, 2006		Change $	Change %
Domestic	$2,610	87.6%	$3,449	95.6%	$(839)	(24.3%)
International	371	12.4%	157	4.4%	214	136.3%
	$2,981	100.0%	$3,606	100.0%	$(625)	(17.3%)

Domestic banking and POS printer revenue decreased to $2,610,000, representing an $839,000, or 24%, decrease from the third quarter of 2006, due primarily to the non-recurrence of significant sales (approximately $600,000) of our Bankjet(R) line of inkjet bank teller printers to an existing banking customer that were made in the third quarter of 2006. Although we are currently pursuing several banking opportunities, due to the project-oriented nature of these sales, we cannot predict if and when future sales may occur. In addition to lower banking printer sales, we also experienced a decline in sales of our legacy line of POS impact printers. We expect sales of our legacy impact printers to continue to decline for the remainder of 2007 as these printers are being replaced by our newer thermal and inkjet printers. Our sales into the banking and POS market over the last several years have been impacted by a shift in technology in the market from impact printing technology to thermal and inkjet printing technology. This change in technology has resulted in declining sales of our impact printers that were at higher average selling prices and increasing sales of our thermal and inkjet printers that were at lower average selling prices. Decreased sales of our banking printers and legacy impact printers were partly offset by increased printer shipments of our line of thermal printers, primarily through our U.S. distributors.

International banking and POS printer shipments increased by approximately $214,000, or 136%, to $371,000, due primarily to higher sales to our international POS distributors in Latin America and Asia.

GAMING AND LOTTERY:

Revenue from the gaming and lottery market includes sales of printers used in slot machines, video lottery terminals ("VLTs") and other gaming machines that print tickets instead of issuing coins ("ticket-in, ticket-out" or "TITO") at casinos, racetracks ("racinos") and other gaming venues worldwide. Revenue from this market also includes sales of lottery printers to Lottomatica's GTECH Corporation ("GTECH"), the world's largest provider of lottery terminals, for various lottery applications. Sales of our gaming and lottery products decreased by $2,694,000, or 32%, from the third quarter of 2006, primarily due to lower domestic sales of lottery printers to GTECH and lower domestic and international gaming printer sales. These decreases were partially offset by an increase in international sales of our lottery printers to GTECH.

(In thousands)	Three months ended September 30, 2007		Three months ended September 30, 2006		Change $	Change %
Domestic	$3,904	67.3%	$5,727	67.4%	$(1,823)	(31.8%)
International	1,897	32.7%	2,768	32.6%	(871)	(31.5%)
	$5,801	100.0%	$8,495	100.0%	$(2,694)	(31.7%)

Domestic sales of our gaming and lottery printers decreased by $1,823,000, or 32%, due largely to a decrease in sales of our thermal casino printers, which have been impacted by continued softness in the domestic casino market, and, to a lesser extent, a decrease in domestic sales of lottery printers to GTECH.

Domestic and international printer sales to GTECH, which include thermal on-line lottery printers, decreased by approximately $684,000, or 46%, in the third quarter of 2007 compared to the third quarter of 2006. Our quarterly sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations

GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter. Our sales to GTECH are not indicative of GTECH's overall business or revenue. We currently have approximately $7.7 million of lottery printers on order for shipment in 2008, which is approximately 50% more than our expected lottery printer sales for 2007.

International gaming and lottery printer sales decreased $871,000, or 32%, to $1,897,000 in the third quarter of 2007. Such sales represented 33% of total sales into our gaming and lottery market in each of the third quarter of 2007 and the third quarter of 2006. This decrease was due primarily to decreased sales of our casino and gaming printers in Australia resulting from a slower than anticipated conversion to ticket-in, ticket-out slot machines, somewhat offset by an increase in international lottery printer sales to GTECH.

TRANSACT SERVICES GROUP:

Revenue from the TransAct Services Group ("TSG") includes sales of consumable products (inkjet cartridges, ribbons and paper), replacement parts, maintenance and repair services, refurbished printers, and shipping and handling charges. Sales from TSG decreased by approximately $220,000, or 7%.

(In thousands)	Three months ended September 30, 2007		Three months ended September 30, 2006		Change $	Change %
Domestic	$2,399	81.2%	$2,310	72.8%	$ 89	3.9%
International	556	18.8%	865	27.2%	(309)	(35.7%)
	$2,955	100.0%	$3,175	100.0%	$(220)	(6.9%)

Domestic revenue from TSG increased by approximately $89,000, to $2,399,000 largely due to increased sales of consumable products, including higher sales of inkjet cartridges as we continue to benefit from the agreement we signed in August 2006 to supply inkjet cartridges to a leading national office supply chain. The increase in domestic revenue was also due, to a lesser extent, to maintenance and repair services performed as we continue to win new service contracts and expand existing contracts for our service products, including extended warranty contracts and our 24-hour guaranteed replacement product service called TransAct Xpress(TM). These increases were somewhat offset by a decline in the sale of replacement parts for certain legacy impact printers, as the installed base of these legacy printers in the market declines.

Internationally, TSG revenue decreased by approximately $309,000 to $556,000 largely due to a decrease in maintenance and repair services revenue from a service contract with a single customer in the United Kingdom. The primary operations of our United Kingdom subsidiary, a European sales and service center, relate to revenue generated from this service contract with a single customer in the United Kingdom. The service contract, which represents a substantial portion of our U.K. subsidiary's revenue, was renewed in April 2007 through November 2007 at a lower minimum sales value compared to the minimum sales value of the prior year's contract. The customer has begun to replace our printers with newer technology that we were unable to provide. Since the service contract ends in November 2007, we expect international TSG revenue to be lower in the fourth quarter of 2007 and beyond compared to the third quarter of 2007.

GROSS PROFIT. Gross profit is measured as revenue less cost of goods sold. Cost of goods sold includes primarily the cost of all raw materials and component parts, direct labor, and the associated manufacturing overhead expenses. Gross profit decreased $1,553,000, or 29%, and gross margin decreased to 33.1% from 35.6% due primarily to a lower volume of sales and a less favorable sales mix in the third quarter of 2007 compared to the third quarter of 2006.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and design expenses (including prototype printer expenses, outside design and testing services, and supplies). Such expenses increased by $170,000, or 27%, to $791,000, as we incurred increased outside design, prototype and development expenses associated largely with new product development for the banking market, as well as increased professional consulting related expenses. Engineering and product development expenses increased as a percentage of net sales to 6.7% from 4.1%, due primarily to lower sales in the third quarter of 2007 compared to the third quarter of 2006 as well as an increase in expenses for the respective period.

SELLING AND MARKETING. Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expenses, expenses associated with the lease of sales offices, advertising, trade show expenses and other promotional marketing expenses. Selling and marketing

expenses for the third quarter of 2007 increased by $25,000, or 2%, to $1,618,000, due primarily to increased travel, trade show, advertising and other promotional marketing expenses compared with the third quarter of 2006. These increases were partly offset by lower demonstration printer expenses and the non-recurrence of expenses incurred in the third quarter of 2006 related to the redesign of our website that occurred in August 2006. Selling and marketing expenses increased as a percentage of net sales to 13.8% from 10.4%, due primarily to lower sales volume in the third quarter of 2007 compared to the third quarter of 2006.

GENERAL AND ADMINISTRATIVE. General and administrative expenses primarily include salaries and payroll related expenses for our executive, accounting, human resource and information technology staff, expenses for our corporate headquarters, professional and legal expenses, and telecommunication expenses. General and administrative expenses for the third quarter 2007 were relatively consistent with those for the third quarter of 2006, increasing by $34,000, or 2%, to $1,664,000. General and administrative expenses for the third quarter of 2007 included a charge of approximately $110,000 for severance resulting from the termination of certain employees as part of a cost reduction action related to our POS business. We expect to realize cost savings of approximately $600,000, mostly as a reduction in selling and marketing expenses, in 2008 as a result of the action. General and administrative expenses increased as a percentage of net sales to 14.2% from 10.7%, due primarily to lower sales volume in the third quarter of 2007 compared to the third quarter of 2006.

LEGAL FEES ASSOCIATED WITH LAWSUIT. During the third quarter of 2007, we incurred approximately $1,525,000 of legal fees related to our lawsuit with FutureLogic, Inc. compared to approximately $41,000 in the third quarter of 2006. The substantial increase was due primarily to our patent infringement counterclaim against FutureLogic, Inc. We expect to incur $1,000,000 to $1,200,000 of legal fees per quarter related to the FutureLogic lawsuit through the expedited trial date of June 2008. See "Item 1 - Legal Proceedings" in Part II of this quarterly report for more information.

OPERATING INCOME (LOSS). During the third quarter of 2007 we reported operating losses of $1,713,000, or 14.6% of net sales, compared to operating income of $1,553,000, or 10.2% of net sales in the third quarter of 2006. The substantial decrease in our operating income and operating margin was due largely to lower sales and the resulting lower gross profit and higher operating expenses (primarily legal expenses of approximately $1.5 million related to the FutureLogic lawsuit), in the third quarter of 2007 compared to that of 2006.

INTEREST. We recorded net interest income of $20,000 in the third quarter of 2007 compared to $25,000 in the third quarter of 2006. We do not expect to draw on our revolving borrowings as we expect to continue to generate cash from operations during 2007. As a result, we expect to continue to report net interest income for the remainder of 2007. See "Liquidity and Capital Resources" below for more information.

OTHER INCOME (EXPENSE). We recorded other expense of $8,000 in the third quarter of 2007 compared to $55,000 in the third quarter of 2006. In each quarter, these amounts were primarily due to transaction exchange losses recorded by our UK subsidiary resulting from the weakening of the U.S. dollar against the British pound.

INCOME TAXES. We recorded an income tax benefit for the third quarter of 2007 of $685,000 at an effective tax rate of 40.3%, compared to an income tax provision during the third quarter of 2006 of $504,000 at an effective tax rate of 33.1%. The income tax benefit recorded in the third quarter of 2007 versus the income tax provision recorded in the third quarter of 2006 was largely due to an increase in the recognition of certain deferred tax credits. We expect our annual effective tax rate for the full year 2007 to be approximately 40%.

NET INCOME (LOSS). We reported net losses during the third quarter of 2007 of $1,016,000, or $0.11 per diluted share, compared to net income of $1,019,000, or $0.10 per diluted share, for the third quarter of 2006.

NINE MONTHS ENDED SEPTEMBER 30, 2007 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2006

NET SALES. Net sales by market for the current and prior year's nine month period were as follows:

(In thousands)	Nine months ended September 30, 2007		Nine months ended September 30, 2006		Change $	Change %
Banking and point-of-sale	$ 8,705	23.4%	$12,718	26.2%	$ (4,013)	(31.6%)
Gaming and lottery	18,580	50.0%	26,283	54.0%	(7,703)	(29.3%)
TransAct Services Group	9,867	26.6%	9,614	19.8%	253	2.6%
	$37,152	100.0%	$48,615	100.0%	$(11,463)	(23.6%)
International *	$ 8,769	23.6%	$10,667	21.9%	$ (1,898)	(17.8%)

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

Net sales for the first nine months of 2007 decreased $11,463,000, or 24%, from the prior year's first nine months due to sales decreases in two out of three of our markets: banking and POS (a decrease of approximately $4,013,000, or 32%) and gaming and lottery (a decrease of approximately $7,703,000, or 29%). These decreases were somewhat offset by a slight increase in TSG sales (an increase of $253,000, or 3%). Overall, international sales decreased by $1,898,000, or 18%, due largely to lower international shipments of our gaming and lottery printers, and to a lesser extent, decreased TSG sales internationally.

BANKING AND POINT-OF-SALE:

Sales of our banking and POS printers worldwide decreased approximately $4,013,000, or 32%.

(In thousands)	Nine months ended September 30, 2007		Nine months ended September 30, 2006		Change $	Change %
Domestic	$7,675	88.2%	$11,785	92.7%	$(4,110)	(34.9%)
International	1,030	11.8%	933	7.3%	97	10.4%
	$8,705	100.0%	$12,718	100.0%	$(4,013)	(31.6%)

Domestic banking and POS printer sales decreased to $7,675,000, representing a $4,110,000, or 35%, decrease from the first nine months of 2006, due largely to the non-recurrence of significant sales (approximately $2.8 million) of our Bankjet(R) line of inkjet bank teller printers to two large banking customers that were made in the first nine months of 2006. Although we are currently pursuing additional banking opportunities, due to the project-oriented nature of these sales, we cannot predict if and when future sales may occur. In addition to lower banking printer sales, we also experienced a decline in sales from our line of POS thermal printers due primarily to a large hospitality customer that has slowed and deferred equipment purchases while it implements a new point-of-sale software system. We also experienced a decline in sales of our legacy line of POS impact printers as these printers are being replaced by our newer thermal and inkjet printers. We expect sales of our legacy impact printers to continue to decline for the remainder of 2007 as these printers are being replaced by our newer thermal and inkjet printers. Our sales into the banking and POS market over the last several years have been impacted by a shift in technology in the market from impact printing technology to thermal and inkjet printing technology. This change in technology has resulted in declining sales of our impact printers that were at higher average selling prices and increasing sales of our thermal and inkjet printers that were at lower average selling prices.

International banking and POS printer shipments increased by approximately $97,000, or 10%, to $1,030,000, due primarily to higher sales to our international POS distributors in Europe and Asia, offset by lower sales to our international POS distributors in Latin America.

GAMING AND LOTTERY:

Sales of our gaming and lottery printers decreased by $7,703,000, or 29%, from the first nine months of 2007, primarily due to lower sales of lottery printers to GTECH, both domestically and internationally, and lower casino and other gaming printer sales, both domestically and internationally.

(In thousands)	Nine months ended September 30, 2007		Nine months ended September 30, 2006		Change $	Change %
Domestic	$12,943	69.7%	$18,935	72.0%	$(5,992)	(31.6%)
International	5,637	30.3%	7,348	28.0%	(1,711)	(23.3%)
	$18,580	100.0%	$26,283	100.0%	$(7,703)	(29.3%)

Domestic sales of our gaming and lottery printers decreased by $5,992,000, or 32%, due primarily to a decrease in domestic sales of lottery printers to GTECH and, to a lesser extent, a decrease in sales of our thermal casino printers due to continued softness in the domestic casino market during the first nine months of 2007 as compared to the first nine months of 2006.

Domestic and international printer sales to GTECH, which include thermal on-line lottery printers, decreased by approximately $4,580,000, or 51%, in the first nine months of 2007 compared to the first nine months of 2006, with domestic sales declining approximately $4,011,000 and international sales declining approximately $569,000. Our sales to GTECH are directly dependent on the timing and number of new and upgraded lottery terminal installations GTECH performs, and as a result, may fluctuate significantly quarter-to-quarter. Our sales to GTECH are not indicative of GTECH's overall business or revenue. We currently have approximately $7.7 million of lottery printers on order for shipment in 2008, which is approximately 50% more than our expected lottery printer sales for 2007.

International gaming and lottery printer sales decreased $1,711,000, or 23%, to $5,637,000 in the first nine months of 2007 compared to the first nine months of 2006. Such sales represented 30% and 28% of total sales into our gaming and lottery market during the first nine months of 2007 and 2006, respectively. This decrease was primarily due to lower international lottery printer sales to GTECH as well as lower international gaming printer sales, primarily in Australia due to a slower than anticipated conversion to ticket-in, ticket-out slot machines in that region.

TRANSACT SERVICES GROUP ("TSG"):

Sales from TSG increased by approximately $253,000, or 3%.

(In thousands)	Nine months ended September 30, 2007		Nine months ended September 30, 2006		Change $	Change %
Domestic	$7,765	78.7%	$7,228	75.2%	$ 537	7.4%
International	2,102	21.3%	2,386	24.8%	(284)	(11.9%)
	$9,867	100.0%	$9,614	100.0%	$ 253	2.6%

Domestic TSG revenue increased by approximately $537,000, or 7%, to $7,765,000, largely due to increased sales of consumable products, including higher sales of inkjet cartridges as we continue to benefit from the agreement we signed in August 2006 to supply inkjet cartridges to a leading national office supply chain. The increase in domestic revenue was also due, to a lesser extent, to maintenance and repair services performed as we continue to win new service contracts and expand existing contracts for our service products including extended warranty contracts and our 24-hour guaranteed replacement product service called TransAct Xpress(TM). These increases were somewhat offset by a decline in the sale of refurbished printers and replacement parts for certain legacy printers, as the installed base of these legacy printers in the market continues to decline.

Internationally, TSG sales decreased by approximately $284,000, or 12%, to $2,102,000, due largely to a decrease in maintenance and repair services revenue from a service contract with a single customer in the United Kingdom, as well as a decline in sales of consumable products and replacement parts. The primary operations of our United Kingdom subsidiary, a European sales and service center, relate to revenue generated from a service contract with a single customer in the United Kingdom. The service contract, which represents a substantial portion of our U.K. subsidiary's revenue, was renewed in April 2007 through November 2007 at a lower minimum sales value compared to the minimum sales value of the prior year's contract. The customer has begun to replace our printers with newer technology that we were unable to provide. Since the service contract ends in November 2007, we expect international TSG revenue to be lower in the fourth quarter of 2007 and beyond compared to the third quarter of 2007.

GROSS PROFIT. Gross profit decreased $4,293,000, or 25%, to $12,578,000 and gross margin decreased to 33.9% from 34.7%, due primarily to a lower volume of sales and a less favorable sales mix in the first nine months of 2007 compared to the first nine months of 2006, somewhat offset by lower component part and labor costs resulting from our initiatives to increasingly move production to Asia.

ENGINEERING AND PRODUCT DEVELOPMENT. Engineering, design and product development expenses increased by $133,000, or 6%, to $2,284,000, as we incurred increased outside design, prototype and development expenses associated largely with new product development for the banking market, as well as increased professional consulting related expenses. Engineering and product development expenses increased as a percentage of net sales to 6.2% from 4.4%, due primarily to lower sales volume in proportion to a higher level of expenses in the first nine months of 2007 compared to the first nine months of 2006.

SELLING AND MARKETING. Selling and marketing expenses increased by $84,000, or 2%, to $4,968,000, as we incurred increased travel, trade show, advertising and other promotional marketing expenses compared with the first nine months of 2006. These increases were partly offset by lower demonstration printer expenses and the non-recurrence of expenses incurred in the third quarter of 2006 related to the redesign of our website that occurred in August 2006. Selling and marketing expenses increased as a percentage of net sales to 13.4% from 10.0%, due primarily to lower sales volume in proportion to a higher level of expenses in the first nine months of 2007 compared to the first nine months of 2006.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased by $151,000, or 3%, to $5,346,000, due primarily to (1) higher legal expense related to the expansion of our international patent portfolio, (2) higher depreciation and amortization expense associated with the completion of the implementation of new Oracle software at the beginning of 2007 and the purchase of office furniture and leasehold improvements for our new Corporate headquarters in Hamden, CT, and (3) increased compensation-related expenses including annual salary increases, the hiring of our new vice president of human resources, and recruiting and employee relocation expenses largely for our newly-hired gaming sales manager in Macau. These increases were somewhat offset by a decrease in acquisition-related expenses, as we incurred approximately $220,000 of legal and consulting services related to a potential acquisition in the second quarter of 2006 that was not consummated. These expenses did not recur during the first nine months of 2007. General and administrative expenses for the first nine months of 2007 also included a charge of approximately $110,000 for severance resulting from the termination of certain employees as part of a cost reduction action related to our POS business. We expect to realize cost savings of approximately $600,000, mostly as a reduction in selling and marketing expenses, in 2008 as a result of the action. General and administrative expenses increased as a percentage of net sales to 14.4% from 10.7%, due primarily to lower sales volume in proportion to a higher level of expenses in the first nine months of 2007 compared to the first nine months of 2006.

LEGAL FEES ASSOCIATED WITH LAWSUIT. During the first nine months of 2007, we incurred approximately $1,700,000 of legal fees related to our lawsuit with FutureLogic, Inc. compared to approximately $76,000 in the first nine months of 2006. The substantial increase was due primarily to our patent infringement counterclaim against FutureLogic, Inc. We expect to incur $1,000,000 to $1,200,000 of legal fees per quarter related to the FutureLogic lawsuit through the expedited trial date of June 2008. See "Item 1 - Legal Proceedings" in Part II of this quarterly report for more information.

BUSINESS CONSOLIDATION AND RESTRUCTURING. During the second quarter of 2007, we recorded an additional $12,000 in expense to finalize the termination of the lease agreement for our prior corporate headquarters and eastern region service center facility located in Wallingford, CT.

OPERATING INCOME (LOSS). During the first nine months of 2007, we reported an operating loss of $1,747,000, or 4.7% of net sales, compared to operating income of $4,565,000, or 9.4% of net sales in the first nine months of 2006. The substantial decrease in our operating income and operating margin was due largely to lower sales and the resulting lower gross profit and higher operating expenses (largely legal expenses of approximately $1.7 million related to the FutureLogic lawsuit) in the first nine months of 2007 compared to that of 2006.

INTEREST. We recorded net interest income of $58,000 in the first nine months of 2007 compared to net interest income of $62,000 in the first nine months of 2006. We do not expect to draw on our revolving borrowings and we expect to continue to report net interest income for the remainder of 2007. See "Liquidity and Capital Resources" below for more information.

OTHER INCOME (EXPENSE). We recorded other income of $4,000 in the first nine months of 2007 due primarily to gains recorded from the sale of certain assets from our prior Corporate headquarters and Eastern Regional Service Center in Wallingford, CT, partially offset by transaction exchange losses recorded by our UK subsidiary resulting from the weakening of the U.S. dollar against the British pound. We recorded other expense of $137,000 in the first nine months of 2006 due primarily to transaction exchange losses recorded by our UK subsidiary resulting from the weakening of the U.S. dollar against the British pound during that period.

INCOME TAXES. We recorded an income tax benefit for the first nine months of 2007 of $730,000 at an effective tax rate of 43.3%, compared to an income tax provision during the first nine months of 2006 of $1,557,000 at an effective tax rate of 34.7%. The income tax benefit recorded for the first nine months of 2007 versus the income tax provision recorded for the first nine months of 2006 was largely due to an increase in the recognition of certain deferred tax credits. We expect our annual effective tax rate for the full year 2007 to be approximately 40%.

NET INCOME (LOSS). We reported a net loss for the first nine months of 2007 of $955,000, or $0.10 per diluted share, compared to net income of $2,933,000, or $0.30 per diluted share, for the first nine months of 2006.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOW

Overview: In the first nine months of 2007, our cash flows reflected the investment in the build-out of our new, leased Corporate headquarters in Hamden, CT, the continued repurchase of our common stock, and the results of lower sales volume compared to the same period in 2006. However, even with the repurchase of approximately $1,266,000 of our common stock and capital expenditures of approximately $1,951,000 during the first nine months of 2007, our cash balance only decreased by $114,000 from December 31, 2006. We ended the first nine months of 2007 with approximately $3.3 million in cash and cash equivalents and no debt outstanding. We expect to earn interest income on our available cash balance for the remainder of 2007.

Operating activities: The following significant factors affected our cash provided by operations of $2,862,000 in the first nine months of 2007:

- We reported a net loss of $955,000.
- We recorded share-based compensation expense of $548,000.
- We recorded depreciation and amortization expense of $1,377,000.
- Deferred taxes increased by $1,178,000.
- Accounts receivable decreased by $4,178,000 due to lower sales during the first nine months of 2007 and improved collection efforts.
- Inventory increased by $1,418,000 due to an increase in consignment inventory programs with certain of our customers and higher stocking levels resulting from our initiatives to move increased production to Asia.

- Accounts payable increased by $901,000 due to higher inventory purchases and the timing of payments during the first nine months of the year.

- Accrued liabilities decreased by $192,000 due to the following: (1) lower compensation related accruals and (2) a lower income tax accrual based on the decreased level of income before taxes. These decreases were somewhat offset by increases in accrued legal fees, primarily related to our lawsuit with FutureLogic, Inc. and deferred rent related to the lease of our new Corporate headquarters in Hamden, CT.

- As of September 30, 2007 and December 31, 2006, our restructuring accrual amounted to $0 and $315,000, respectively. The decrease of $315,000 is related largely to payments made on our Wallingford lease obligation.

Investing activities: Our capital expenditures were approximately $1,951,000 and $2,521,000 in the first nine months of 2007 and 2006, respectively. Expenditures in 2007 included approximately $1,247,000 for the purchase of leasehold improvements and office furniture for our new Corporate headquarters in Hamden, CT, approximately $121,000 for the purchase of leasehold improvements and office furniture for our new Eastern Region service center in New Britain, CT, approximately $290,000 for the purchase of new computer hardware and software including outside consulting costs related to our Oracle software implementation, and the remaining amount primarily for the purchase of new product tooling.

Financing activities: We used approximately $1,100,000 for financing activities during the first nine months of 2007, largely due to the repurchase of Company stock of approximately $1,266,000 as compared to $852,000 during the first nine months of 2006. The repurchases were offset by proceeds from stock option exercises of approximately $149,000 during the first nine months of 2007.

WORKING CAPITAL

Our working capital decreased to $13,221,000 at September 30, 2007 from $16,643,000 at December 31, 2006. Our current ratio also decreased to 2.5 to 1 at September 30, 2007, compared to 3.0 to 1 at December 31, 2006. The decrease in our working capital and current ratio was largely due to lower accounts receivable balances resulting from decreased sales and improved collection efforts and higher accounts payable resulting from higher inventory purchases and the timing of payments, somewhat offset by higher inventory levels, and lower accrued liabilities.

DEFERRED TAXES

As of September 30, 2007, we had a net deferred tax asset of approximately $3,992,000. In order to utilize this deferred tax asset, we will need to generate approximately $10.3 million of taxable income in future years. Based on future projections of taxable income, we believe that it is more likely than not that the existing net deferred tax asset will be realized.

CREDIT FACILITY AND BORROWINGS

On November 28, 2006, we signed a new, five-year $20 million credit facility (the "New TD Banknorth Credit Facility") with TD Banknorth, N.A. ("TD

Banknorth"). The new credit facility provides for a $20 million revolving credit line expiring on November 28, 2011. The New TD Banknorth Credit facility replaces a previous $11.5 million credit facility also with TD Banknorth. Our New TD Banknorth Credit Facility provides substantially improved terms compared to our prior credit facility. Borrowings under the new revolving credit line bear a floating rate of interest at the prime rate minus one percent and are secured by a lien on all of our assets. We also pay a fee of 0.25% on unused borrowings under the revolving credit line. The total deferred financing costs relating to expenses incurred to complete the New TD Banknorth Credit Facility was $92,000. The New TD Banknorth Credit Facility imposes certain quarterly financial covenants on us and restricts the payment of dividends on our common stock and the creation of other liens. On November 7, 2007, we amended the New TD Banknorth Credit Facility to revise a financial covenant effective September 30, 2007, which resulted in covenant compliance.

As of September 30, 2007, we had no balances outstanding on the revolving credit line. Undrawn commitments under the New TD Banknorth Credit facility were approximately $20,000,000 at September 30, 2007.

STOCK REPURCHASE PROGRAM

In March 2005, our Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, we are authorized to repurchase up to $10 million of our outstanding shares of common stock from time to time in the open market over a three-year period ending March 25, 2008, depending on market conditions, share price and other factors. During the nine months ended September 30, 2007, we repurchased a total of 185,800 shares of common stock for approximately $1,266,000 at an average price of $6.81 per share. As of September 30, 2007, we have repurchased a total of 987,100 shares of common stock for approximately $7,758,000 at an average price of $7.86 per share since the inception of the Stock Repurchase Program.

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.

SHAREHOLDERS' EQUITY

Shareholders' equity decreased by $1,148,000 to $23,142,000 at September 30, 2007 from $24,290,000 at December 31, 2006. The decrease was primarily due to the following for the nine months ended September 30, 2007: (1) net losses of $955,000 and (2) treasury stock purchases of 185,800 shares of common stock for approximately $1,266,000. These decreases were offset by proceeds of approximately $149,000 from the issuance of approximately 33,000 shares of common stock from stock option exercises, an increase in additional paid-in capital of approximately $20,000 resulting from tax benefits resulting from the sale of employee stock from stock option exercises, compensation expense related to stock options and restricted stock of $548,000, foreign currency translation adjustments of approximately $38,000, and a cumulative adjustment to retained earnings due to the implementation of FIN 48 in the amount of $318,000.

CONTRACTUAL OBLIGATIONS / OFF-BALANCE SHEET ARRANGEMENTS

The disclosure of payments we have committed to make under our contractual obligations is set forth under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations--Contractual Obligations" in our 2006 Form 10-K. There have been no material changes in our contractual obligations outside the ordinary course of business since December 31, 2006. We have no material off-balance sheet arrangements as defined in Regulation S-K 303(a)(4)(ii).

RESOURCE SUFFICIENCY

We believe that our cash on hand and cash flows generated from operations and borrowings available under the New TD Banknorth Credit Facility will provide sufficient resources to meet our working capital needs, including legal expenses associated with our lawsuit with FutureLogic, to finance our capital expenditures, to fund our Stock Repurchase Program, and meet our liquidity requirements through at least the next 12 months.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was conducted under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and

procedures were adequate and designed to ensure that information required to be disclosed by the Company in this report is recorded, processed, summarized and reported in a timely manner, including that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in internal controls or in other factors that could be reasonably likely to materially affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses in internal controls, during the period covered by this report.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

The implementation of our new Oracle enterprise resource planning and accounting system, completed effective January 8, 2007, required us to modify and add/remove certain internal controls and processes and procedures. Otherwise, no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the three months ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

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

On September 1, 2006, the District of Connecticut dismissed our case because of a lack of jurisdiction. The decision was not on the merits of our claims, but on the jurisdiction of the court in which the suit was brought. On June 12,

2007, we filed an answer to FutureLogic's amended complaint and filed a counterclaim that FutureLogic infringes the 903 Patent. We also filed a motion for a preliminary injunction to stop infringement by FutureLogic's dual port printers. Our motion for preliminary injunction was heard on July 30, 2007. Through our preliminary injunction motion and hearing, we showed that FutureLogic has constructed a prototype printer, the GEN2 Universal with the ProMatrix system, which the judge ruled has a likelihood of infringing the 903 Patent covering dual port technology. The court denied our motion on August 6, 2007, but the court ruled that "Should TransAct discover that FutureLogic has sold or offered to sell any GEN2 Universal printers with the ProMatrix system that infringe the 903 Patent during the course of this action, it may renew this motion on an expedited ex parte basis and - assuming it shows the requisite likelihood of success on the merits - the court will afford it the relief it seeks."

On August 27, 2007, FutureLogic lodged an amended complaint that sought a declaratory judgment that our U.S. Patent No. 7,099,035 ("the 035 Patent") is invalid and not infringed by FutureLogic, and that the 903 and 035 Patents are unenforceable for inequitable conduct. Concurrently, we filed an amended answer that added a counterclaim that FutureLogic infringes the 035 Patent. Also on August 27, 2007, FutureLogic filed a motion for leave to file a Second Amended Complaint to add monopolization and attempted monopolization claims against us. The proposed claims were each based on "Walker Process fraud" and "sham litigation." The Court held a hearing on this motion on October 29, 2007 and issued an opinion that same day. In its opinion, the Court denied FutureLogic's motion to add a claim for actual monopolization based on either the "Walter Process fraud" theory or the "sham litigation." theory. The Court also denied FutureLogic's motion to add a claim for attempted monopolization based on the "sham litigation" theory. The Court did, however, permit FutureLogic to assert a claim of attempted monopolization based on the "Walker Process fraud" theory. We believe that FutureLogic's claim in this matter is without merit and intend to defend vigorously against it.

We are now in the discovery phase of the case.

We intend to vigorously defend TransAct against FutureLogic's claims, which we believe to be without merit. We also intend to pursue vigorously our claim against FutureLogic for infringement of the 903 and 035 Patents. The case is in the early stages of the discovery process. We are currently unable to estimate any potential or probable liability.

ITEM 1A. RISK FACTORS

Risk factors that may impact future results include those disclosed in our Form 10-K for the year ended December 31, 2006. No changes have occurred during the three and nine months ended September 30, 2007.

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2C. STOCK REPURCHASE

On March 25, 2005 our Board of Directors approved a stock repurchase program ("the Stock Repurchase Program"). Under the Stock Repurchase Program, management is authorized to repurchase up to $10 million of our outstanding shares of common stock from time to time in the open market over a three year period ending March 25, 2008, depending on market conditions, share price and other factors. For the nine months ended September 30, 2007, we had repurchased a total of 185,800 shares of common stock for approximately $1,266,000 at an average price of $6.81 per share. As of September 30, 2007, we had repurchased a total of 987,100 shares of common stock for approximately $7,758,000, at an average price of $7.86 per share since the inception of the Stock Repurchase Program.

The following table summarizes repurchases of our common stock in the three months ended September 30, 2007.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs
July 1, 2007 - July 31, 2007	--	$ --	--	$2,987,000
August 1, 2007 - August 31, 2007	56,600	6.35	56,600	$2,628,000
September 1, 2007 - September 30, 2007	59,200	6.52	59,200	$2,242,000
Total	115,800	$6.43	115,800	

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.

ITEM 6. EXHIBITS

a. Exhibits filed herein

Exhibit 31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 10.20	First Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. effective September 30, 2007

SIGNATURES

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

TRANSACT TECHNOLOGIES INCORPORATED
(Registrant)

November 9, 2007

/s/ Steven A. DeMartino

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

EXHIBIT LIST

The following exhibits are filed herewith.

Exhibit	
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
10.20	First Amendment to Amended and Restated Revolving Credit and Security Agreement between TransAct and TD Banknorth, N.A. effective September 30, 2007