ADT Corp
Form DEFA14A
February 16, 2016

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box;

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

x Soliciting Material Pursuant to Rule 14a-12

The ADT Corporation

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Forward Looking Statements

This communication contains certain information that may constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. While we have specifically identified certain information as being forward-looking in the context of its presentation, we caution you that all statements contained in this communication that are not clearly historical in nature, including statements regarding business strategies, market potential, future financial performance, the effects of the separation of ADT from Tyco International plc (Tyco), and other matters, are forward-looking. Without limiting the generality of the preceding sentence, any time we use the words anticipate, estimate, expect, project, intend, plan, believe, and similar expressions, we intend to clea that the information deals with possible future events and is forward-looking in nature. However, the absence of these words or similar expressions does not mean that a statement is not forward-looking.

Forward-looking information involves risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in, or reasonably inferred from, such statements. Specific factors that could cause actual results to differ from results contemplated by forward-looking statements include, among others, the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the inability to complete the proposed merger due to the failure to obtain stockholder approval for the proposed merger or the failure to satisfy other conditions to completion of the proposed merger, including that a governmental entity may prohibit, delay or refuse to grant approval for the consummation of the transaction; risks regarding the failure of Parent, Parent Inc. or Parent LP to obtain the necessary financing to complete the proposed merger; risks related to disruption of management s attention from the Company s ongoing business operations due to the transaction; the effect of the announcement of the proposed merger on the Company s relationships with its customers, operating results and business generally; the risk that the proposed merger will not be consummated in a timely manner; exceeding the expected costs of the merger; our ability to keep pace with the rapid technological and industry changes in order to develop or acquire new technologies for our products and services that achieve market acceptance with acceptable margins; competition in the markets we serve, including the home automation market, which may result in pressure on our profit margins and limit our ability to maintain the market share of our products and services; an increase in the rate of customer attrition, including impact to our depreciation and amortization expenses or impairment of assets related to our security monitoring services; changes in the housing market and consumer discretionary income; failure to maintain the security of our information and technology networks, including personally identifiable information and other data, our products may be subject to potential vulnerabilities of wireless and Internet of Things devices, and our services may be subject to hacking or other unauthorized access to control or view systems and obtain private information; our dependence on certain software technology that we license from third parties, and failure or interruption in products or services of third-party providers; interruption to our monitoring facilities; failure to realize expected benefits from acquisitions and investments; risks associated with pursuing business opportunities that diverge from our current business model; potential loss of customer generation strategies through our independent, third party authorized dealers and affinity marketing programs; risks associated with acquiring and integrating customer accounts; unauthorized use of our brand name by third parties; risks associated with ownership of the ADT® brand name outside of the United States and Canada by Tyco and other third parties; failure to enforce our intellectual property rights; allegations that we have infringed the intellectual property rights of third parties; failure of our independent, third party authorized dealers to mitigate certain risks; failure to continue to execute a competitive, profitable pricing structure; shifts in consumers choice of, or telecommunication providers support for, telecommunication services and equipment; current and potential securities litigation; increase in government regulation of telemarketing, e-mail marketing and other marketing methods may increase our costs and restrict growth of our business; changes in U.S. and non-U.S. governmental laws and regulations; imposition by local governments of assessments, fines, penalties and limitations on either us or our customers for false alarms; refusal to respond to calls from monitored security service companies, including us, by police departments in certain U.S. and Canadian jurisdictions; our greater exposure to liability for employee acts or omissions or system failures; interference with our customers access to some of our products and services through the Internet by broadband service providers or potential change in government regulations relating to the internet; potential impairment of our deferred tax assets; inability to hire and retain key personnel, including an effective sales force; adverse developments in our relationship with our employees; capital market conditions, including availability of funding sources for us and our suppliers; changes in our credit ratings; risks related to our increased indebtedness, including our ability to meet certain financial covenants in our debt instruments; impact of any material adverse legal judgments, fines, penalties or settlements; exposure to counterparty risk in our hedging agreements; fluctuations in foreign currency exchange rates; potential liabilities for legacy obligations relating to the separation from Tyco; volatility in the market price of our stock; and failure to fully realize expected benefits from the separation from Tyco.

Therefore, caution should be taken not to place undue reliance on any such forward-looking statements. Much of the information in this communication that looks towards future performance of the Company is based on various factors and important assumptions about future events that may or may not actually occur. As a result, our operations and financial results in the future could differ materially and substantially from those we have discussed in the forward-looking statements included in this communication. We assume no obligation (and specifically disclaim any such obligation) to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

For additional discussion of potential risks and uncertainties that could impact our results of operations or financial position, refer to Part I, Item 1A. *Risk Factors* in our 2015 Form 10-K. There have been no material changes to the risk factors disclosed in Part I, Item 1A. *Risk Factors* in our 2015 Form 10-K.

Additional Information and Where to Find It

This communication may be deemed solicitation material in respect of the proposed acquisition of the Company by Parent. In connection with the proposed merger transaction, the Company will file with the SEC and furnish to the Company s stockholders a proxy statement and other relevant documents. This communication does not constitute a solicitation of any vote or approval. Stockholders are urged to read the proxy statement when it becomes available and any other documents to be filed with the SEC in connection with the proposed merger or incorporated by reference in the proxy statement because they will contain important information about the proposed merger.

Investors will be able to obtain free of charge the proxy statement and other documents filed with the SEC at the SEC s website at http://www.sec.gov. In addition, the proxy statement and our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge through our website at www.adt.com. as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC.

The directors, executive officers and certain other members of management and employees of the Company may be deemed participants in the solicitation of proxies from stockholders of the Company in favor of the proposed merger. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the stockholders of the Company in connection with the proposed merger will be set forth in the proxy statement and the other relevant documents to be filed with the SEC. You can find information about the Company s executive officers and directors in its Annual Report on Form 10-K for the fiscal year ended September 25, 2015 and in its definitive proxy statement filed with the SEC on Schedule 14A on January 22, 2016.

ADT
Employee
Update
Naren
Gursahaney
February
16, 2016

Forward
Looking
Statements
ADT
SecurityServicesproprietaryand business confidential.For
internaluse only

not
for
distribution.
FORWARD-LOOKING
STATEMENTS
This
communication
includes "forward-looking statements," as that
term
is
defined by the
federal securities

laws.
The
forward-looking statements
include
statements
concerning
regulatory
approvals
and the expected
timing,
completion
and effects
of
the proposed
merger,
the Company s
outlook
for
the
future, as well
as other
statements
of beliefs, future
plans and strategies or
anticipated events,
and similar
expressions
concerning
matters
that
are
not
historical
facts.
All forward-looking
statements are
based upon
our
current expectations
and various assumptions,
and apply
only
as of
the date
of this
communication.
There
are
a number
of

risks, uncertainties and other important factors that could cause our actual results to differ materially from those suggested by our forward-looking statements.

ADDITIONAL INFORMATION AND WHERE TO FIND IT

This communication may be deemed solicitation material in respect of the proposed acquisition of the Company by Parent. In connection with the proposed merger transaction, the Company will file with the SEC and furnish to the Company s stockholders a proxy statement and other relevant documents. This communication does not constitute a solicitation of any vote or approval. Stockholders are urged to read the proxy statement when it becomes available and any other documents to be filed with the SEC in connection with the proposed merger or incorporated by reference in the proxy statement because they will contain important information about the proposed merger. Investors will be able to obtain free

of
charge
the proxy
statement
and other
documents
filed with
the
SEC
at
the SEC s
website
at http://www.s ec.gov.
In
addition,
the proxy
statement and our
annual
reports
on
Form
10-K, quarterly reports
on
Form
10-Q,
current reports
on
Form
8-K and amendments to
those
reports
filed
or
furnished
pursuant
to section 13(a) or 15(d) of the
Securities
Exchange Act
of
1934 are
available
free
of charge through our
website at
www.adt.com.
as soon
as reasonably practicable after
they
are
electronically

filed with, or furnished to, the SEC.

PARTICIPANTS IN SOLICITATION

The directors, executive officers and certain other members of management and employees of the Company may be deemed participants in the solicitation of proxies from stockholders of the Company in favor of the proposed merger. Information regarding the persons who may, under the rules of the SEC, be considered participants in the solicitation of the stockholders of the Company in connection with the proposed merger will be set forth in the proxy statement and the other relevant documents to be filed with the SEC. You can find information about the Company s executive officers and directors in its Annual Report on Form 10-K for the fiscal year ended September 25, 2015 and in its definitive proxy statement filed with the SEC on Schedule 14A on January 22, 2016.

Today s
Press
Release
Highlights

Apollo
Global
Management
(Apollo) has
entered
into
an
agreement
to
buy
ADT for
$42/share

ADT s

Board
of Directors
has
unanimously
approved
this transaction

This
agreement
is
subject
to
ADT shareholder
and
customary
regulatory
approvals

Pending
these
approvals,
we
expect
the deal
to
close
in
June
of 2016

Apollo
already
owns
and
has
merged
Protection
1
and
ASG
Security
which
operates
under
the
Protection
1 brand

ADT will
merge

with Protection
1 and
the combined
company
will
operate
under
the ADT
brand

Apollo
will
keep the Boca
location
as
the headquarters
of the new combined
company

Tim
Whall,
current
President
&
CEO
of Protection
1, has
been
announced
as
the CEO
of the
new
combined
company

Apollo Overview
Overview
Founded
in
1990,
Apollo
is
a
global
alternative
asset
manager
focusing
on
private
equity,
distressed
debt,
mezzanine

and
real
estate
investing
with
a
total
of
approximately
$162
billion
under
management
of
which
$41
billion
in
assets
in
private
equity
Apollo
focuses
on
opportunities
where it
can
be
a
catalyst
for
business-transforming
events
and
create
significant
value,
and
is
currently
invested
in
over
200
companies
Apollo
has
developed
substantial

expertise
and
valuable
relationships
across
nine
core
industries
that
include:

Table of Contents

CORPORATE PERFORMANCE GRAPH

The following graph compares the cumulative total return on the Company s Common Stock from December 31, 2002 through December 31, 2007, with t

TransAct Technologies Incorporated Common Stock
CRSP Total Return Index for the Nasdaq Stock Market (U.S.)
Nasdaq Computer Manufacturer Stocks Index

Table of Contents

Item 6. Selected Consolidated Financial Data (in thousands, except per share amounts)

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

Consolidated Statement of Operations Data:
Net sales
Gross profit
Operating expenses
Operating income (loss)
Net income (loss)
Net income (loss) available to common shareholders
Net income (loss) per share:
Basic
Diluted

Balance Sheet Data:
Total assets
Working capital
Long-term debt, excluding current portion
Redeemable convertible preferred stock
Shareholders equity

1 Net income per share amount has been r

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

Forward Looking Statements

Certain statements included in this report, including without limitation statements in this Management s Discussion and Analysis of Financial Condition a

Overview

2007 was a difficult year for TransAct as compared to 2006. During 2007, we were affected by decreased sales levels across the majority of our sales units

Table of Contents

We continue to focus on sales growth in our three core markets, banking and POS, casino, gaming and lottery, and in our TransAct Services Group, to driv

(In thousands)
Banking and POS
Casino, gaming and lottery
TransAct Services Group
Total net sales

We experienced a decrease of approximately 35% in sales of Banking and POS printers in 2007. We experienced decreases in sales of our Bankjet® line of

Our focus in the casino, gaming and lottery market is two-fold. On the lottery side, we continue to hold a leading position based on our long-term purchase

On the casino and gaming side, our focus lies primarily in supplying printers for use in slot machines at casinos and racetracks, as well as in other gaming

Our TransAct Services Group (TSG), which sells service, replacement parts and consumable products, including receipt paper, ribbons and inkjet cartri

Table of Contents

months of incremental sales resulting from the signing of an agreement with a leading national office supply chain to supply inkjet cartridges in 2006 as wo

Operationally, our gross margin and operating margin showed the results of a lower volume of sales and the resulting lower gross profit as well as higher o

Overall, we reported a net loss of $2.3 million and loss per share (diluted) of $0.24 per share for 2007. We also utilized cash during 2007 to fund $2.2 milli

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prep

Revenue Recognition Our typical contracts include the sale of printers, which are sometimes accompanied by separately-priced extended warranty contra

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to FASB Technical Bulletin 90-1 (FTB 90-1), Accou

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns and

We offer some of our customer s price protection as an incentive to carry inventory of our product. These price protection plans provide that if we lower p

Table of Contents

they hold. Our customers typically carry limited amounts of inventory, and we infrequently lower prices on current products. As a result, the amounts paid

We charge our customers for shipping and handling services. The amounts billed to customers are recorded as revenue when the product ships. Any costs i

Accounts Receivable We have standardized credit granting and review policies and procedures for all customer accounts, including: credit reviews of all r

Inventory Our inventories are stated at the lower of cost (principally standard cost, which approximates actual cost on a first-in, first-out basis) or market.

Goodwill We test the impairment of goodwill each year or more frequently if events or changes in circumstances indicate that the carrying value may not

Income Taxes In preparing our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operat

Significant judgment is required in determining the provision for income taxes and, in particular, any valuation allowance or tax reserves with respect to ou allowance or tax reserve, in the event we were to determine that we would not be able to realize all or part of our deferred tax assets in the future, an adjust

In July 2006, the Financial Accounting Standards Board (the FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an inter

We adopted FIN 48 with an effective date of January 1, 2007. Retrospective application of FIN 48 was prohibited. As a result of the implementation, we re

As of December 31, 2007, we recorded a net deferred tax asset of approximately $4,548,000 and a tax reserve of $125,000, primarily on portions of certain

Restructuring In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this

In connection with the Consolidation of manufacturing facilities in 2001, we recorded significant accruals. Through December 31, 2007, we have recogniz

Table of Contents

Warranty We generally warrant our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded.

Contingencies We record an estimated liability related to contingencies based on our estimates of the probable outcomes pursuant to FAS 5. On a quarterl

Share-Based Compensation We calculate share-based compensation expense in accordance with SFAS 123(R), Share-Based Payment (as amended) u

Results of Operations: Year ended December 31, 2007 compared to year ended December 31, 2006

Net Sales. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the years ended December 31, 200

(In thousands)
Banking and point of sale
Casino, gaming and lottery
TransAct Services Group
International*

* International sales do not include sales of printers made to domestic distributors or other domestic

Net sales for 2007 decreased $15,562,000, or 24%, from 2006 due to sales decreases in each of our three markets: banking and point of sale (POS) (a de

Banking and point of sale: Revenue from the banking and POS market includes sales of printers used by banks, credit unions and other financial institution

Table of Contents

(In thousands)
Domestic
International

Domestic banking and POS printer sales decreased to $9,775,000, representing a $5,635,000, or 37%, decrease from 2006, due largely to the non-recurrenc

International banking and POS printer shipments decreased by approximately $177,000, or 12%, to $1,271,000, due primarily to lower sales to our internat

Casino, gaming and lottery: Revenue from the casino, gaming and lottery market includes sales of printers used in slot machines, video lottery terminals (

(In thousands)
Domestic
International

Domestic sales of our casino, gaming and lottery printers decreased by $7,103,000, or 28%, due primarily to a decrease in domestic sales of lottery printers

Domestic and international printer sales to GTECH, which include thermal on-line and other lottery printers, decreased by approximately $5,622,000, or 5

Table of Contents

International casino, gaming and lottery printer sales decreased $2,236,000, or 24%, to $7,243,000 in 2007 compared to 2006. Such sales represented 29%

TransAct Services Group: Revenue from the TransAct Services Group (TSG) includes sales of consumable products (inkjet cartridges, ribbons and rece

(In thousands)	
Domestic	
International	

Domestic TSG revenue increased by approximately $519,000, or 5%, to $10,101,000, largely due to increased sales of consumable products, including hig

Internationally, TSG sales decreased by approximately $930,000, or 29%, to $2,281,000, due largely to a decrease in maintenance and repair services reve

Gross Profit. Gross profit information is summarized below (in thousands, except percentages):

Year ended	

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

Table of Contents

Engineering and Product Development. Engineering and product development information is summarized below (in thousands, except percentages):

Year ended

Engineering, design and product development expenses primarily include salary and payroll related expenses for our engineering staff, depreciation and de

Selling and Marketing. Selling and marketing information is summarized below (in thousands, except percentages):

Year ended

Selling and marketing expenses primarily include salaries and payroll related expenses for our sales and marketing staff, sales commissions, travel expense

General and Administrative. General and administrative information is summarized below (in thousands, except percentages):

Year ended

General and administrative expenses primarily include: salaries and payroll related expenses for our executive, accounting, human resource and informatio

Table of Contents

resulting from the termination of certain employees as part of cost reduction actions. We expect to realize cost savings of approximately $600,000, mostly

Legal Fees associated with lawsuit. During 2007, we incurred approximately $2,907,000 of legal fees related to our lawsuit with FutureLogic, Inc. compar

Business Consolidation and Restructuring. During the fourth quarter of 2006, we executed an agreement, effective May 1, 2007, to terminate the lease ag

Operating Income (Loss). Operating income (loss) information is summarized below (in thousands, except percentages):

Year ended

During 2007, the substantial decrease in our operating income and operating margin was due largely to lower sales and the resulting lower gross profit and

Interest. We recorded net interest income of $76,000 in 2007 compared to net interest income of $104,000 in 2006. The decrease in our net interest income

Other Income (Expense). We recorded other income of $21,000 in 2007 due primarily to gains recorded from the sale of certain assets from our prior corp

Income Taxes. We recorded an income tax benefit of $1,384,000, at an effective rate of 37.8% during 2007 compared to an income tax provision of $2,11

Net Income (Loss)**.** We reported a net loss in 2007 of $2,274,000, or ($0.24) per diluted share compared to net income of $3,916,000, or $0.40 per diluted

Table of Contents

Results of Operations: Year ended December 31, 2006 compared to year ended December 31, 2005

Net Sales. Net sales, which include printer sales and sales of spare parts, consumables and repair services, by market for the years ended December 31, 200

(In thousands)
Banking and point of sale
Casino, gaming and lottery
TransAct Services Group
International

* International sales do not include sales of printers made to domestic distributors or other domesti

Net sales for 2006 increased $13,237,000, or 26%, from 2005 due to significantly higher printer shipments into our casino, gaming and lottery market, as w

Banking and point of sale: Sales of our banking and POS printers worldwide increased approximately $448,000, or 3%, from 2005.

(In thousands)
Domestic
International

Domestic banking and POS printer sales increased to $15,410,000, representing a $1,222,000, or 9%, increase from 2005, due primarily to higher sales of (

International POS and banking printer sales decreased by approximately $774,000, or 35%, due primarily to lower sales of our legacy impact printers to ou

Table of Contents

Casino, gaming and lottery: Sales of our casino, gaming and lottery printers increased by $11,043,000, or 47%, from 2005, primarily due to an increase in

(In thousands)
Domestic
International

Domestic sales of our casino, gaming and lottery printers increased by $8,927,000, or 55%, from 2005 due largely to a significant increase in both sales of

Domestic casino and gaming printer sales increased by approximately $4,415,000 driven primarily by increased market share as we benefited from our sal

International casino, gaming and lottery printer sales increased by approximately $2,116,000, or 29%, to $9,479,000 in 2006 compared to 2005. Such sales

TransAct Services Group: Sales by TSG increased by approximately $1,746,000, or 16%.

(In thousands)
Domestic
International

Domestic TSG revenue increased by approximately $1,268,000 or 15%, to $9,582,000 due to revenue generated from service contracts, as well as increase

Gross Profit. Gross profit information is summarized below (in thousands, except percentages):

Year ended

Table of Contents

Gross profit and gross margin increased due primarily to a higher volume of sales and a more favorable sales mix in 2006 compared to 2005, as well as lov

Engineering and Product Development. Engineering and product development information is summarized below (in thousands, except percentages):

Year ended

Engineering, design and product development expenses increased as we incurred higher expenses related to increased engineering staffing and other emplo

Selling and Marketing. Selling and marketing information is summarized below (in thousands, except percentages):

Year ended

Selling and marketing expenses increased as we incurred the full year effect in 2006 of expenses related to the addition of new corporate marketing staff, a

General and Administrative. General and administrative information is summarized below (in thousands, except percentages):

Year ended

General and administrative expenses increased due primarily to (1) the full year effect in 2006 of compensation related expenses associated with the reloca

Table of Contents

compensation expenses based on the Company s improved performance in 2006 and (5) increased telecommunications expenses associated with the imple

Business Consolidation and Restructuring. During the fourth quarter of 2006, we executed an agreement, effective May 1, 2007, to terminate the lease ag

Operating Income. Operating income (loss) information is summarized below (in thousands, except percentages):

Year ended

During 2006, the substantial increase in our operating income and operating margin was due largely to the operating leverage we experienced in 2006 resul

Interest. We recorded net interest income of $104,000 in 2006 compared to net interest income of $73,000 in 2005. Even though our average cash balance

Other Expense. We recorded other expense of $159,000 in 2006 due primarily to transaction exchange losses recorded by our UK subsidiary in 2006 due t

Income Taxes. We recorded an income tax provision of $2,117,000, at an effective rate of 35.1% during 2006 compared to an income tax benefit of $48,0

Net Income. We reported net income in 2006 of $3,916,000, or $0.40 per diluted share compared to net income of $377,000, or $0.04 per diluted share in 2

Liquidity and Capital Resources

During 2007, our cash flows reflected the investment in the build-out of our new, leased corporate headquarters in Hamden, CT, the continued repurchase

Table of Contents

Operating activities: The following significant factors primarily affected our cash provided by operations of $2,604,000 in 2007 as compared to $3,300,00

During 2007:

During 2006:

Investing activities: Our capital expenditures were approximately $2,166,000 and $2,891,000 in 2007 and 2006, respectively. Expenditures in 2007 include

Table of Contents

New Britain, CT, approximately $338,000 for the purchase of new computer hardware and software including outside consulting costs related to our Oracl

Financing activities: We used approximately $1,360,000 for financing activities during 2007, largely due to the repurchase of Company stock of approxim

Working Capital

Our working capital decreased to $11,234,000 at December 31, 2007 from $16,643,000 at December 31, 2006. Our current ratio also decreased to 2.4 to 1

Deferred Taxes

As of December 31, 2007, we had a net deferred tax asset of approximately $4,548,000. In order to utilize this deferred tax asset, we will need to generate

Credit Facility and Borrowings

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

As of December 31, 2007, we had no balances outstanding on the revolving credit line. Undrawn commitments under the TD Banknorth Credit facility we

Stock Repurchase Program

On March 25, 2005, our Board of Directors approved a stock repurchase program (the Stock Repurchase Program). Under the Stock Repurchase Progra

Table of Contents

outstanding shares of common stock from time to time in the open market over a three year period ending on March 25, 2008, depending on market condit

On November 1, 2007, our Board of Directors approved an increase in our stock repurchase authorization under the Stock Repurchase Program to $15 mill

Shareholders Equity

Shareholders equity decreased by $2,682,000 to $21,608,000 at December 31, 2007 from $24,290,000 at December 31, 2006. The decrease was primarily

Consolidation Expenses

During 2001 through 2007, we recognized approximately $5.5 million of business consolidation, restructuring and related expenses as a result of the Conso

In November 2006, we executed an agreement effective May 1, 2007 to terminate the lease agreement for our Wallingford, CT facility (the Release Agre

Contractual Obligations

TransAct s contractual obligations as of December 31, 2007 were as follows:

(In thousands)
Operating lease obligations
Purchase obligations
Total

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

Table of Contents

Recently Issued Accounting Pronouncements

Fair Value Measurements: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (F

Fair Value Option for Financial Assets and Financial Liabilities: In February 2007, the FASB issued Statement of Financial Accounting Standards No.

Business Combinations: In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinati

Resource Sufficiency

We believe that our cash on hand, cash flows generated from operations and borrowings available under the TD Banknorth Credit Facility will provide suf

Impact of Inflation

We believe that our business has not been affected to a significant degree by inflationary trends because of the low rate of inflation during the past three ye

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to the investment of our available cash and cash equivalents. In accordance with

Foreign Currency Exchange Risk

A substantial portion of our sales are denominated in U.S. dollars and, as a result, we have relatively little exposure to foreign currency exchange risk with

Item 8. Financial Statements and Supplementary Data.

The financial statements and schedule of the Company are annexed to this report as pages F-2 through F-25. An index to such materials appears on page F-

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures

Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), which are require

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (Disclosure Controls) as of the

Table of Contents

The evaluation of our Disclosure Controls included a review of the controls objectives and design, the company s implementation of the controls and the

Based upon the evaluation of the controls, our CEO and CFO have concluded that, as of the end of the period covered by this Form 10-K, our Disclosure C

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, ad

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regardi

Management assessed our internal control over financial reporting as of December 31, 2007. Management based its assessment on criteria established in In

Based on our assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2007, based on th

The effectiveness of the Company s internal control over financial reporting as of December 31, 2007, has been audited by PricewaterhouseCoopers LLP,

Table of Contents

Inherent Limitations on Effectiveness of Controls

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives wil

These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple errors or

Item 9B. Other Information

Not applicable.

Table of Contents

Item 10. Directors and Executive Officers of the Registrant

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled   Election of Directors   and   Executive C

Item 11. Executive Compensation

The information in response to this item is incorporated by reference from the Proxy Statement sections entitled   Executive Compensation and Certain Tra

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information in response to this item is incorporated by reference from the Proxy Statement section entitled   Security Ownership of Certain Beneficial

Information regarding our equity compensation plans as of December 31, 2007 is as follows:

Plan category
Equity compensation plans approved by security holders:
1996 Stock Plan
1996 Non-Employee Director Plan
2005 Equity Incentive Plan
Total
Equity compensation plans not approved by security holders:
2001 Employee Stock Plan

The TransAct Technologies Incorporated 2001 Employee Stock Plan (the   2001 Employee Plan) was adopted by our Board of Directors, without approv

In May 2005, our shareholders approved the adoption of the 2005 Equity Incentive Plan. No new awards will be available for future issuance under any ex

Item 13. Certain Relationships and Related Transactions.

The information in response to this item is incorporated by reference from the Proxy Statement section entitled   Certain Relationships and Related Transac

Item 14. Principal Accountant Fees and Services.

The information in response to this item is incorporated by reference from the Proxy Statement section entitled   Independent Registered Public Accountin

Table of Contents

Item 15. Exhibits and Financial Statement Schedules

The financial statements and schedule filed as part of this report are listed in the accompanying Index to Financial Statements and Schedule. The exhibits f

Table of Contents

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its be

Date: March 14, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant

Signature

/s/ Bart C. Shuldman

Bart C. Shuldman

/s/ Steven A. DeMartino

Steven A. DeMartino

/s/ Charles A. Dill

Charles A. Dill

/s/ Thomas R. Schwarz

Thomas R. Schwarz

/s/ Graham Y. Tanaka

Graham Y. Tanaka

Financial Statement Schedule

The following financial statement schedule is included herein:

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

Table of Contents

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Trans

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertain tax positions in 2007

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of

/s/ PricewaterhouseCoopers LLP

Hartford, Connecticut

March 14, 2008

Table of Contents

Assets:
Current assets:
Cash and cash equivalents
Receivables, net
Inventories, net
Refundable income taxes
Deferred tax assets
Other current assets
Total current assets
Fixed assets, net
Goodwill
Deferred tax assets
Intangible and other assets, net of accumulated amortization of $221 and $136, respectively
Total assets
Liabilities and Shareholders Equity:
Current liabilities:
Accounts payable
Accrued liabilities
Accrued restructuring expenses
Deferred revenue
Total current liabilities
Deferred revenue, net of current portion
Accrued warranty, net of current portion
Deferred rent
Other liabilities
Total liabilities
Commitments and contingencies (Note 11)
Shareholders equity:
Preferred stock, $0.01 par value, 4,800,000 authorized, none issued and outstanding
Preferred stock, Series A, $0.01 par value, 200,000 authorized, none issued and outstanding
Common stock, $0.01 par value, 20,000,000 authorized at December 31, 2007 and 2006; 10,399,866 and 10,376,417 shares issued; 9,365,866 and 9,575,11 outstanding, at December 31, 2007 and 2006, respectively

Additional paid-in capital	
Retained earnings	
Accumulated other comprehensive income, net of tax	
Treasury stock, 1,034,000 and 801,300 shares, at cost	
Total shareholders equity	
Total liabilities and shareholders equity	

Table of Contents

Net sales	
Cost of sales	
Gross profit	
Operating expenses:	
Engineering, design and product development	
Selling and marketing	
General and administrative	
Legal fees associated with lawsuit (See Note 11)	
Business consolidation and restructuring	
Operating income (loss)	
Interest and other income (expense):	
Interest expense	
Interest income	
Other, net	
Income (loss) before income taxes	
Income tax provision (benefit)	
Net income (loss)	
Net income (loss) per common share:	
Basic	
Diluted	
Shares used in per-share calculation:	
Basic	
Diluted	

Table of Contents

Balance, December 31, 2004
Cancellation of restricted stock
Issuance of shares from exercise of stock options
Issuance of shares from employee stock purchase plan
Acceleration of outstanding stock options
Issuance of restricted stock
Share-based compensation expense
Tax benefit related to employee stock sales and vesting of restricted stock
Purchase of treasury stock
Expenses related to preferred stock conversion
Comprehensive income:
Foreign currency translation adj.
Net income
Balance, December 31, 2005
Impact of adoption of new accounting pronouncements
Cancellation of restricted stock
Issuance of shares from exercise of stock options
Issuance of restricted stock
Tax benefit related to employee stock sales and vesting of restricted stock
Purchase of treasury stock
Share-based compensation expense
Comprehensive income:
Foreign currency translation adj., net of tax
Net income
Balance, December 31, 2006
Adoption of FASB Interpretation No. 48
Opening balance at January 1, 2007, as adjusted
Cancellation of restricted stock
Issuance of shares from exercise of stock options
Tax charge related to vesting of restricted stock
Purchase of treasury stock
Share-based compensation expense
Comprehensive income (loss):
Foreign currency translation adj., net of tax
Net loss
Balance, December 31, 2007

Table of Contents

Cash flows from operating activities:
Net income (loss)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:
Share-based compensation expense
Incremental tax benefits from stock options exercised
Depreciation and amortization
Deferred income taxes
Provision for excess and obsolete inventory
(Gain) loss on sale of fixed assets
Reversal of accrued restructuring expense
Changes in operating assets and liabilities:
Receivables
Inventories
Refundable income taxes
Other current assets
Other assets
Accounts payable
Accrued liabilities and other liabilities
Accrued restructuring expenses
Net cash provided by operating activities
Cash flows from investing activities:
Purchases of fixed assets
Proceeds from sale of assets
Purchase of intangible assets
Net cash used in investing activities
Cash flows from financing activities:
Payment of deferred financing costs
Proceeds from stock option exercises
Purchases of common stock for treasury
Incremental tax benefits from stock options exercised
Payment of preferred stock conversion and registration expense
Net cash used in financing activities
Effect of exchange rate changes on cash
Decrease in cash and cash equivalents
Cash and cash equivalents, beginning of period
Cash and cash equivalents, end of period

Supplemental cash flow information:	
Interest paid	
Income taxes paid	
Non-cash financing activities:	
Tax benefit related to employee stock sales and restricted stock	
Issuance of restricted stock	

Table of Contents

1. Description of business

TransAct Technologies Incorporated (TransAct or the Company), which has its headquarters in Hamden, CT and its primary operating facility in Itha

2. Summary of significant accounting policies

Principles of consolidation: The accompanying consolidated financial statements were prepared on a consolidated basis to include the accounts of TransA

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

Use of estimates: The accompanying consolidated financial statements were prepared using estimates and assumptions that affect the reported amounts of

Segment reporting: We apply the provisions of Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and

(In thousands)
Banking and POS printers
Casino, gaming and lottery printers
Services, spare parts and consumables
Total net sales

Cash and cash equivalents: We consider all highly liquid investments with a maturity date of three months or less at date of purchase to be cash equivalen

Accounts receivable and allowance for doubtful accounts: We have standardized credit granting and review policies and procedures for all customer acco

We establish an allowance for doubtful accounts to ensure trade receivables are valued appropriately. We maintain an allowance for doubtful accounts bas

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

Fixed assets: Fixed assets are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives. The estimated useful li

Leases: Rent expense under non-cancelable operating leases with scheduled rent increases or free rent periods is accounted for on a straight-line basis over

Goodwill: We account for goodwill in accordance with the provisions of Statement of Financial Accounting Standard No. 142, Goodwill and Other Intan

Revenue recognition: Our typical contracts include the sale of printers, which are sometimes accompanied by separately-priced extended warranty contrac

Revenue related to extended warranty and product maintenance contracts is recognized pursuant to FASB Technical Bulletin 90-1 (FTB 90-1), Accou

Table of Contents

contracts is deferred and recognized over the term of the maintenance period. We record deferred revenue for advance payments received from customers f

Our customers have the right to return products that do not function properly within a limited time after delivery. We monitor and track product returns anc

We offer some of our customer s price protection as an incentive to carry inventory of our product. These price protection plans provide that if we lower p

Concentration of credit risk: Financial instruments that potentially expose TransAct to concentrations of credit risk are limited to cash and cash equivalent

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

Customer A
Customer B
Customer C
Customer D

*- customer balances were less than 10% c

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

Customer A
Customer B
Customer C

*- customer balances were less than 10% c

The primary operations of our United Kingdom subsidiary, a European sales and service center, relate to revenue generated from a service contract with a s

Warranty: We generally warrant our products for up to 24 months and record the estimated cost of such product warranties at the time the sale is recorded.

Table of Contents

The following table summarizes the activity recorded in the accrued product warranty liability:

(In thousands)
Balance, beginning of year
Additions related to warranties issued
Warranty costs incurred
Balance, end of year

Approximately $91,000 and $160,000 of the accrued product warranty liability were classified as long-term at December 31, 2007 and 2006, respectively.

Research and development expenses: Research and development expenses include engineering, design and product development expenses incurred in con

Advertising: Advertising costs are expensed as incurred. Advertising expenses, which are included in selling and marketing expense on the accompanying

Restructuring: In 2001, we undertook a plan to consolidate all manufacturing and engineering into our existing Ithaca, NY facility and close our Wallingfo

Income taxes: The income tax amounts reflected in the accompanying financial statements are accounted for under the liability method in accordance with

On January 1, 2007, we adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48). In accordance with FIN 48, we identifi

Foreign currency translation: The financial position and results of operations of our foreign subsidiary in the United Kingdom are measured using local c

Table of Contents

have been translated at the weighted average exchange rate for the year, and shareholders equity has been translated at historical exchange rates. The resu

Fair value of financial instruments: The carrying amount for cash and cash equivalents approximates fair value because of the short maturity of these inst

Comprehensive income: Statement of Accounting Standard No. 130, Reporting Comprehensive Income (FAS 130), requires that items defined as co

Share-based Payments: In December 2004, the Financial Accounting Standards Board (FASB) revised Statement of Financial Accounting Standards N

Under FAS 123R, share-based compensation expense is measured at the grant date, based on the estimated fair value of the award, and is recognized as exp

In November 2005, the FASB issued FASB Staff Position No. FAS 123(R)-3, Transition Election Related to Accounting for Tax Effects of Share-Based

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 th

Table of Contents

estimates. Changes in estimated forfeitures will be recognized through a cumulative true-up adjustment in the period of change and will also impact the am

On November 2, 2005, the Compensation Committee of the Board of Directors approved the acceleration of the vesting of all outstanding unvested stock o

The Compensation Committee s decision to accelerate the vesting of affected stock options was primarily based upon our required adoption of FAS 123R

Net income and loss per share: We report net income or loss per share in accordance with Financial Standard No. 128, Earnings per Share (EPS) (FA

3. Recently issued accounting pronouncements

Fair Value Measurements: In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (F

Fair Value Option for Financial Assets and Financial Liabilities: In February 2007, the FASB issued Statement of Financial Accounting Standards No.

Business Combinations: In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinati

Table of Contents

changed the method of applying the acquisition method in a number of significant aspects including the following: (i) acquisition costs will generally be ex

4. Inventories

The components of inventories, net of allowances, are:

(In thousands)
Raw materials and purchased componen
Work-in-process
Finished goods

5. Fixed assets

The components of fixed assets are:

(In thousands)
Tooling, machinery and equipment
Furniture and office equipment
Computer software and equipment
Leasehold improvements
Less: accumulated depreciation and amo

6. Intangible assets

On June 30, 2005, we acquired certain intangible assets related to casino ticket printer designs and technology from Bally Gaming, Inc. (Bally) for $475

Table of Contents

The purchase price was allocated, based on management s estimates, to intangible assets based on their relative fair value at the date of acquisition. The fa

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

Purchased technology	
Covenant not to compete	
Consideration paid	

As of December 31, 2007 and 2006, the net intangible asset balance associated with the technology purchased from Bally was $307,000 and $388,000, resp

7. Accrued liabilities

The components of accrued liabilities (current portion) are:

(In thousands)	
Payroll and fringe benefits	
Income taxes	
Warranty	
Professional and consulting	
Other	

8. Accrued business consolidation and restructuring expenses

In February 2001, we announced plans to establish a global engineering and manufacturing center at our Ithaca, NY facility. As part of this strategic decisi

During 2001 through 2004, we recorded expenses of approximately $5,957,000 related to costs associated with the Consolidation, including severance pay

Table of Contents

In November 2006, we executed an agreement effective May 1, 2007 to terminate the lease agreement for our Wallingford, CT facility (the Release Agre

The following table summarizes the activity recorded in the restructuring accrual:

(In thousands)
Accrual balance, beginning of year
Business consolidation and restructurin
Facility closure and consolidation expe
Reversal of lease obligation related to u
Cash payments
Accrual balance, end of year

9. Retirement savings plan

On April 1, 1997, we established the TransAct Technologies Retirement Savings Plan (the 401(k) Plan), a defined contribution plan under Section 401(

10. Borrowings

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

As of December 31, 2007, we had no outstanding borrowings on the revolving credit line. Undrawn commitments under the TD Banknorth Credit Facility

Table of Contents

11. Commitments and contingencies

In April 2005, we announced a complaint against FutureLogic, Inc. (FutureLogic) in Connecticut, which charged FutureLogic with disseminating false

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

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)

On February 20, 2008, we filed an application to renew our preliminary injunction motion. The Court heard our motion on March 3, 2008. The Court denie

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

At December 31, 2007, we were lessee on operating leases for equipment and real property. Rent expense was approximately $1,152,000, $1,330,000 and

Table of Contents

terms in excess of one year as of December 31, 2007 are as follows: $948,000 in 2008; $938,000 in 2009; $777,000 in 2010; $804,000 in 2011; $459,000 i

12. Stock incentive plans

Employee Stock Purchase Plan: In May 2000, our shareholders approved the Employee Stock Purchase Plan (the ESPP), under which 75,000 shares o

Stock incentive plans. We currently have four primary stock incentive plans: the 1996 Stock Plan, which provides for the grant of awards to officers and o

Under the assumptions indicated below, the weighted-average fair value of stock option grants for the years ended December 31, 2007 and 2006 was $5.81

Expected option term
Expected volatility
Risk-free interest rate
Dividend yield

Expected Option Term This is the weighted average period of time over which the options granted are expected to remain outstanding giving consideratio

Expected Volatility The stock volatility for each grant is measured using the weighted average of historical daily price changes of our common stock over

Table of Contents

Risk-Free Interest Rate This is the U.S. Treasury rate in effect at the time of grant having a term approximately equal to the expected term of the option. A

Dividend Yield We have not made any dividend payments on our common stock, and we have no plans to pay dividends in the foreseeable future. An incr

Prior to adopting the provisions of FAS 123R, we recorded estimated compensation expense for employee stock options based upon their intrinsic value or

For purposes of pro forma disclosures under FAS 123 for the year ended December 31, 2005, the estimated fair value of the share-based awards was assum

(In thousands, except per share data)
Net income available to common shareholders:
Net income available to common shareholders, as reported
Add: Stock-based compensation expense included in reported net income, net of tax
Deduct: Stock-based compensation expense determined under fair value based method for all awards, net of tax
Pro forma net (loss) income available to common shareholders
Net income (loss) per common share:
Basic:
As reported
Pro forma
Diluted:
As reported
Pro forma

The fair values used to reflect the pro forma effects of estimated share-based compensation expense on net income and earnings per common share for the

We recognize compensation expense associated with awards granted after January 1, 2006, and the unvested portion of previously granted restricted stock

Table of Contents

During 2007, we recognized compensation expense of $225,000 for stock options and $490,000 for restricted stock, which was recorded in our consolidate

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

Outstanding at beginning of period
Granted
Exercised
Canceled
Outstanding at end of period
Options exercisable at end of period

Range of Exercise Prices	
$2.00	$5.00
5.01	7.50
7.51	10.00
10.01	25.00
25.01	35.00

At December 31, 2007 and 2006, outstanding stock options that are vested or expected to vest were 712,800 and 658,603 at a weighted average exercise pr

In addition, at December 31, 2007 and 2006, exercisable stock options that are vested or expected to vest were 523,028 and 556,417 and had an intrinsic va

The total intrinsic value of stock options exercised was $61,000 and $825,000 for 2007 and 2006, respectively. Approximately 21,000 stock options vested

Table of Contents

Restricted stock: Under the 1996 Stock Plan, 2001 Employee Stock Plan and 2005 Equity Incentive Plan, we have granted shares of restricted common sto

Nonvested shares at December 31, 2006
Granted
Vested
Canceled
Nonvested shares at December 31, 2007

As of December 31, 2007, unrecognized compensation cost related to restricted stock totaled $835,000, which is expected to be recognized over a weighted

13. Stockholder rights plan

In December 1997, our Board of Directors adopted a Stockholder Rights Plan declaring a distribution of one right (the Rights) for each outstanding shar

On February 16, 1999, we amended the Stockholder Rights Plan to remove the provision in the plan that stipulated that the plan may be modified or redeem

14. Income taxes

We adopted FASB Interpretation 48, Accounting for Uncertainty in Income Taxes (FIN 48), at the beginning of 2007. As a result of the implementation

Table of Contents

At December 31, 2007, we had approximately $125,000 of total gross unrecognized tax benefits that, if recognized, would favorably affect the effective in

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

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 limitat

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 31, 2007, we have approximately $2,000 of a

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

(In thousands)
Current:
Federal
State
Foreign
Deferred:
Federal
State
Foreign
Income tax provision (benefit)

Table of Contents

At December 31, 2007, we have $3,535,000 of state net operating loss carryforwards that begin to expire in 2010, and $4,099,000 of federal net operating l

Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statement

(In thousands)
Gross deferred tax assets:
Net operating losses
Accrued restructuring expenses
Capitalized research and development
Inventory reserves
Deferred revenue
Warranty reserve
Foreign tax and other credits
Other liabilities and reserves
Valuation allowance
Net deferred tax assets
Gross deferred tax liabilities:
Depreciation
Other
Net deferred tax liabilities
Net deferred tax assets

During 2007 and 2006, we recorded a valuation allowance of $0 and $64,000 on a portion of our foreign tax credits, research and development credits and

Table of Contents

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

Federal statutory tax rate	
State income taxes, net of federal income taxes	
Tax benefit from tax credits, net of valuation allowance	
Foreign rate differential	
Valuation allowance and tax accruals	
Permanent items	
Other	
Effective tax rate	

15. Earnings per share

For 2007, 2006 and 2005, earnings per share were computed as follows (in thousands, except per share amounts):

Net income (loss)	
Shares:	
Basic: Weighted average common shares outstanding	
Add: Dilutive effect of outstanding options as determined by the treasury stock method	
Diluted: Weighted average common and common equivalent shares outstanding	
Net income (loss) per common share:	
Basic	
Diluted	

For the year ended December 31, 2007, there were 871,379 potentially dilutive shares (prior to consideration of the treasury stock method), consisting of st

For the years ended December 31, 2006 and 2005, potentially dilutive shares that were excluded from the earnings per share calculation, consisting of out-

16. Stock repurchase program

On March 25, 2005, our Board of Directors approved a stock repurchase program (the Stock Repurchase Program). Under the Stock Repurchase Progra

Table of Contents

On November 1, 2007, our Board of Directors approved an increase in our stock repurchase authorization under the Stock Repurchase Program to $15 mill

17. International operations

We have foreign operations primarily from TransAct Technologies Ltd., a wholly-owned subsidiary in the United Kingdom, which had sales to its custome

18. Quarterly results of operations (unaudited)

Our quarterly results of operations for 2007 and 2006 are as follows:

(In thousands, except per share amounts)
2007:
Net sales
Gross profit
Net income (loss)
Net income (loss) per share:
Basic
Diluted
2006:
Net sales
Gross profit
Net income
Net income per share:
Basic
Diluted

Table of Contents

Description
Valuation account for accounts receivable:
Year ended December 31, 2007
Year ended December 31, 2006
Year ended December 31, 2005
Valuation account for inventories:
Year ended December 31, 2007
Year ended December 31, 2006
Year ended December 31, 2005

Table of Contents

3.1(a)
3.1(b)
3.1(c)
3.1(d)
3.2
4.1
4.2
10.1(x)
10.2(x)
10.3(x)
10.4(x)
10.5(x)
10.6(x)
10.7(x)
10.8(x)
10.9(x)
10.10
10.11
10.12
10.13
10.14
10.15
10.16
10.17

Table of Contents

10.18

10.19

10.20

23.1

31.1

31.2

32.1

32.2

(1)	These exhibits are filed herewith.
(2)	These exhibits, which were previously f
(3)	These exhibits, which were previously f
(4)	These exhibits, which were previously f
(5)	These exhibits, which were previously f
(6)	This exhibit, which was previously filed
(7)	This exhibit, which was previously filed
(8)	These exhibits, which were previously f
(9)	This exhibit, which was previously filed
(10)	This exhibit, which was previously filed
(11)	This exhibit, which was previously filed
(12)	This exhibit, which was previously filed
(13)	This exhibit, which was previously filed
(14)	These exhibits, which were previously f
(15)	This exhibit, which was previously filed
(16)	These exhibits, which were previously f
(17)	These exhibits, which were previously f
(18)	This exhibit, which was previously filed
(x)	Management contract or compensatory

Table of Contents

The following exhibits are filed herewith.

Exhibit
10.9(x)
23.1
31.1
31.2
32.1
32.2