TABLE TRAC INC
Form 10-Q
August 11, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

x **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2016 or

¨ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**Commission File Number: 000-28383**

**Table Trac, Inc.**

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| Nevada | 88-0336568 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification Number) |

6101 Baker Road, Suite 206, Minnetonka, Minnesota 55345

(Address of Principal Executive Offices) (Zip Code)

Registrant’s telephone number, including area code: (952) 548-8877

N/A

(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 has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

As of August 11, 2016, the registrant had outstanding 4,510,265 shares of common stock, $.001 par value per share.

**Table Trac, Inc.**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

TABLE TRAC, INC.

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**TABLE TRAC, INC.**

**CONDENSED BALANCE SHEETS**

| | June 30, 2016 (Unaudited) | December 31, 2015 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | $ 36,238 | $ 289,105 |
| Accounts receivable, net of allowance for doubtful accounts of $185,397 at June 30, 2016 and December 31, 2015 | 2,772,011 | 2,494,930 |
| Inventory | 871,695 | 656,137 |
| Prepaid expenses and other current assets | 125,597 | 88,180 |
| Income taxes receivable | 68,101 | 68,101 |
| TOTAL CURRENT ASSETS | 3,873,642 | 3,596,453 |
| | | |
| LONG-TERM ASSETS | | |
| Patent, net | 956 | 1,638 |
| Property and equipment, net | 43,980 | 54,534 |
| Other long-term assets | 1,516,073 | 1,289,786 |
| Deferred tax asset | 337,000 | 331,000 |
| Long-term accounts receivable – financed contracts | 2,506,919 | 1,569,285 |
| TOTAL LONG-TERM ASSETS | 4,404,928 | 3,246,243 |
| TOTAL ASSETS | $ 8,278,570 | $ 6,842,696 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued expenses | $ 689,856 | $ 413,235 |
| Payroll liabilities | 40,560 | 29,444 |
| Current portion of note payable | 7,096 | 7,096 |
| Deferred revenue - short-term | 15,410 | 37,810 |
| Deferred tax liability | 847,000 | 797,000 |
| TOTAL CURRENT LIABILITIES | 1,599,922 | 1,284,585 |
| | | |
| LONG-TERM LIABILITIES | | |
| Note payable, net of current portion | 22,832 | 26,215 |
| Deferred revenue - long-term | 3,949,364 | 2,890,467 |
| TOTAL LIABILITIES | 5,572,118 | 4,201,267 |
| | | |
| STOCKHOLDERS' EQUITY | | |
| Common stock, $0.001 par value; 25,000,000 shares authorized: 4,656,734 shares issued, and 4,520,265 and 4,533,265 shares outstanding at June 30, 2016 and December 31, 2015, respectively | 4,521 | 4,534 |
| Additional paid-in capital | 1,806,143 | 1,806,526 |

| | | |
|---|---|---|
| Retained earnings | 1,032,209 | 953,911 |
| | 2,842,873 | 2,764,971 |
| Treasury stock, 136,469 shares (at cost) at June 30, 2016 and 123,469 at December 31, 2015 | (136,421 ) | (123,542 ) |
| TOTAL STOCKHOLDERS' EQUITY | 2,706,452 | 2,641,429 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 8,278,570 | $ 6,842,696 |

*See notes to condensed unaudited financial statements.*

**TABLE TRAC, INC.**

**CONDENSED STATEMENTS OF OPERATIONS (Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues | $1,921,800 | $726,135 | $2,861,171 | $2,073,619 |
| Cost of sales | 658,899 | 250,322 | 758,486 | 650,846 |
| Gross profit | 1,262,901 | 475,813 | 2,102,685 | 1,422,773 |
| Operating Expenses: | | | | |
| Selling, general and administrative | 954,488 | 795,011 | 2,006,035 | 1,614,397 |
| Income (loss) from operations | 308,413 | (319,198) | 96,650 | (191,624) |
| Loss on currency exchange | (3,060) | 0 | (16,754) | 0 |
| Interest income | 22,851 | 9,416 | 42,402 | 17,004 |
| Income (loss) before taxes | 328,204 | (309,782) | 122,298 | (174,620) |
| Income tax expense (benefit) | 113,000 | (115,000) | 44,000 | (67,000) |
| Net income (loss) | $215,204 | $(194,782) | $78,298 | $(107,620) |
| Net income (loss) per share - basic and diluted | $0.05 | $(0.04) | $0.02 | $(0.02) |
| Weighted-average shares outstanding - basic and diluted | 4,525,457 | 4,614,517 | 4,525,584 | 4,637,187 |

*See notes to condensed unaudited financial statements.*

**TABLE TRAC, INC.**

**CONDENSED STATEMENTS OF CASH FLOW (Unaudited)**

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| OPERATING ACTIVITIES | | |
| Net income (loss) | $ 78,298 | $ (107,620) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 11,236 | 3,087 |
| Deferred income taxes | 44,000 | (59,947) |
| Stock issued for services | 6,375 | 0 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,214,715) | (1,605,372) |
| Inventory | (215,558) | 56,345 |
| Prepaid expenses and other assets | (263,704) | (422,224) |
| Accounts payable and accrued expenses | 276,621 | 282,065 |
| Payroll liabilities | 11,116 | 16,881 |
| Deferred revenue | 1,036,497 | 1,540,028 |
| Income taxes receivable / payable | 0 | (176,458) |
| Net cash used in operating activities | (229,834) | (473,215) |
| INVESTING ACTIVITIES | | |
| Capital expenditures | 0 | (17,207) |
| Net cash used in investing activities | 0 | (17,207) |
| FINANCING ACTIVITIES | | |
| Payments on note payable | (3,383) | 0 |
| Repurchase of common stock | (19,650) | (116,494) |
| Net cash used in financing activities | (23,033) | (116,494) |
| | | |
| NET DECREASE IN CASH | (252,867) | (606,916) |
| | | |
| CASH | | |
| Beginning of year | 289,105 | 1,208,201 |
| End of Period | $ 36,238 | $ 601,285 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for income taxes | $ 0 | $ (150,000) |

*See notes to condensed unaudited financial statements.*

TABLE TRAC, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Nature of Business and Summary of Significant Accounting Policies –

Basis of Presentation

The accompanying unaudited condensed financial statements of Table Trac, Inc. (the "Company," or "Table Trac") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The balance sheet as of June 30, 2016 and the statements of operations for the three and six months ended June 30, 2016 and 2015, and the statement of cash flows for the six months ending June 30, 2016 and 2015 are unaudited but include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position at such date and the operating results and cash flows for those periods. Certain information normally included in financial statements and related footnotes prepared in accordance with generally accepted accounting principles has been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying financial statements should be read in conjunction with the financial statements and notes included in the Table Trac Annual Report on Form 10-K for the year ended December 31, 2015.

Nature of Business

Table Trac was formed under the laws of the State of Nevada in June 1995. The Company has its offices in Minnetonka, Minnesota. The Company has developed and sells an information and management system that automates and monitors various aspects of the operations of casinos.

Table Trac provides system sales and technical support to casinos. System sales include installation, custom casino system configuration, and training. In addition, license and technical support are provided under separate license and service contracts.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company uses estimates and assumptions in accounting for the following significant matters, among others: revenue recognition, realizability of accounts receivable, the valuation of deferred tax assets and liabilities, deferred revenue and costs, and other contingencies. Actual results could differ from those estimates.

Revenue Recognition

The Company derives revenues from the sales of systems, licenses and maintenance fees, and services, and rental agreements.

*System Sales*

Revenue from systems that have been demonstrated to meet customer specifications during installation is recognized when evidence of an arrangement exists, the product has been delivered, title and risk of loss have transferred to the customer and collection of the resulting receivable is reasonably assured. System sales, which are accounted for as multiple-element arrangements, include multiple products and/or services. For multiple-element arrangements, the Company allocates the revenue to each element based on the hierarchy of estimated selling price for the deliverables. The selling price for each deliverable will be based on vendor specific objective evidence (VSOE), Third Party Evidence ("TPE") if VSOE is not available, or estimated selling price if neither VSOE nor TPE is available. The Company recognizes the associated revenue when all revenue recognition criteria have been met for each element. If there are contracts the Company does not have VSOE or TPE of all elements, the Company would follow the selling price hierarchy to allocate arrangement consideration.

The Company does offer its customers contracts with extended payment terms. The Company must evaluate if any extended payment terms in the contract is an indicator of the revenue not being fixed or determinable. Provided all other revenue recognition criteria have been satisfied, the Company recognizes the revenue if payment of a significant portion of the systems sales is due within 12 months of the delivery of the product. The Company also analyzes its standard business practice of using long-term contracts and the history of collecting on extended payment term contracts without making concessions for determining if revenue should be recognized. Revenue and associated costs of sales are deferred if contract terms exceed historical collection results or if a substantial portion of the contract is not due within 12 months after delivery of the product. The Company analyzes each contract for proper revenue recognition based on that contract's facts and circumstances. Interest is recorded upon receipt to "other income" on the statements of operations.

*Maintenance revenue*

Maintenance revenue is recognized ratably over the contract period. The VSOE for maintenance is based upon the renewal rate for contracted services.

*Service revenue*

Service revenue is recognized after the services are performed and collection of the resulting receivable is reasonably assured. The VSOE for service revenue is established based upon actual selling prices for the services.

*Rental revenue*

The Company may offer customers a rental contract. Revenues are billed monthly on a per-game per-day basis. There is an option to purchase the system after the rental contract expires at a pre-determined residual value.

Deferred System Sales Costs

Deferred system sales costs consist of installed system costs incurred on participation-based contracts. These costs are recognized on a straight-line basis over the term of the contract which is generally 18-48 months beginning when revenues are generated. At the end of the contract period, the customer will usually receive title to the system. These costs are included in other long-term assets on the balance sheet and are $1,514,014 as of June 30, 2016.

Accounts Receivable / Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount. Accounts receivable are recorded at net realizable value, which includes foreign currency translation as of each balance sheet date. Accounts receivable include unsecured regular customer receivables and unsecured amounts from financed contracts coming due within 12 months. Amounts from financed contracts due beyond 12 months are recorded as "Long-term accounts receivable – financed contracts."  Interest is recorded upon receipt to other income on the statements of operations. An allowance for doubtful accounts is recorded when the Company believes the amounts may not be collected. Management believes that receivables, net of the allowance for doubtful accounts, are fully collectible. Accounts receivable are written off when management determines collection is no longer likely. While the ultimate result may differ, management believes that any write-off not allowed for will not have a material impact on the Company's financial position.

Major Customers

The following tables summarize major customer information for the six months ended June 30, 2016 and 2015:

| | For the Six Months Ended June 30 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | | | | 2015 | | | |
| | % Revenues | | % AR | | % Revenues | | % AR | |
| A | 5.8 | % | 2.4 | % | 37.1 | % | 14.6 | % |
| B | 6.1 | % | 7.7 | % | 9.6 | % | 3.6 | % |
| C | 11.2 | % | 21.2 | % | 1.5 | % | 36.9 | % |
| D | 0.3 | % | 0.0 | % | 4.6 | % | 2.0 | % |
| E | 27.3 | % | 11.0 | % | 0.0 | % | 0.0 | % |
| All Others | 49.3 | % | 57.7 | % | 47.2 | % | 42.9 | % |
| Total | 100.0 | % | 100.0 | % | 100.0 | % | 100.0 | % |

The Company derives a portion of its revenue from foreign customers. For the six month period ending June 30, 2016 and 2015, sales to customers in South America represent 8.0% and 5.9% of total revenues, respectively.

| | For the Three Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | % Revenues | | % Revenues | |
| A | 4.6 | % | 10.2 | % |
| B | 4.1 | % | 14.4 | % |
| C | 7.6 | % | 4.4 | % |
| D | 0.2 | % | 13.0 | % |
| E | 40.7 | % | 0.0 | % |
| All Others | 42.8 | % | 58.0 | % |
| Total | 100.0 | % | 100.0 | % |

For the three month period ending June 30, 2016 and 2015, sales to customers in South America represent 5.2% and 8.3% of total revenues, respectively.

Inventory

Inventory, consisting of finished goods, is stated at the lower of cost or market. The average cost method, which approximates the first in, first out method, is used to value inventory. Inventory is reviewed annually for the lower of cost or market and obsolescence. Any material cost found to be above market value or considered obsolete is written down accordingly. The inventory value as of June 30, 2016 was $871,695, which included work-in-process of $174,738. The Company had no obsolescence reserve at June 30, 2016 or December 31, 2015.

Research and Development

The Company expenses all costs related to research and development as incurred. Research and development expense was $18,274 and $1,278 for the three months ended June 30, 2016 and 2015, and $22,139 and $12,559 for the six months ended June 30, 2016 and 2015, respectively. Research and development expenses are included in selling, general and administrative expenses on the statements of operations.

2. Accounts Receivable –

Accounts receivable consisted of the following at:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accounts receivable under normal 30 day terms | $ 701,659 | $ 664,938 |
| Financed contracts: | | |
| Current portion of long-term | 2,255,749 | 2,015,389 |
| Long-term, net of current portion | 2,506,919 | 1,569,285 |
| Total accounts receivable | 5,464,327 | 4,249,612 |
| Less allowance for doubtful accounts | (185,397 ) | (185,397 ) |
| Accounts receivable, net | $ 5,278,930 | $ 4,064,215 |
| Presented on the balance sheet as: | | |
| Accounts receivable, net | $ 2,772,011 | $ 2,494,930 |
| Long-term accounts receivable - financed contracts | 2,506,919 | 1,569,285 |

The allowance for financed and trade receivable represents management's estimate of probable losses in our trade and financed receivables as of the date of the financial statements. The allowance provides for probable losses that have been identified with specific customer relationships and for probable losses believed to be inherent of the trade and financed receivables, but that have not been specifically identified.

Accounts receivable includes financed contracts at June 30, 2016 and December 31, 2015 which are $4,762,668 and $3,584,674, respectively, offset by deferred revenues on the balance sheets of $3,949,364 and $2,890,467, respectively.

A roll-forward of the Company's allowance for doubtful accounts is as follows:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Accounts receivable allowance, beginning of year | $ 185,397 | $ 101,079 |
| Provision adjustment during period | 0 | 84,318 |
| Write-off | 0 | 0 |
| Accounts receivable allowance, end of period | $ 185,397 | $ 185,397 |

The allowance for doubtful accounts is $185,397 for the trade receivables and $0 for the financed contracts at both June 30, 2016 and December 31, 2015.

3. Stockholders' Equity –

Stock Repurchase Program

On December 23, 2014, the Company's Board of Directors approved the repurchase of its outstanding shares of up to $100,000 of its common stock from private unsolicited sellers' paper certificate blocks (non-street name) in the open market until September 30, 2015, which was subsequently extended by the Board of Directors. On March 17, 2015, the Company's Board of Directors approved another repurchase of up to $75,000 for the same program. On September 4, 2015, the Company's Board of Directors approved another repurchase of up to $50,000 for the same program. The remaining amount approved for repurchasing common stock is $13,505 as of June 30, 2016. Company insiders are prohibited from participating in the stock repurchase program. Since the beginning of the program, the Company has repurchased 224,469 shares at an average price of $.94 per share through June 30, 2016.

During the six month period ended June 30, 2016, the Company repurchased 20,500 shares totaling $19,650 at an average price of $.96 per share for its treasury. In March 2016, the Company issued 7,500 shares at a price of $.85 per share from its treasury to a director, for services rendered during the period July 1, 2015 through December 31, 2015, for a total expense of $6,375. As of June 30, 2016, the Company holds 136,469 common shares in treasury for future employee issuances for potential bonuses. Such common shares in treasury include shares repurchased pursuant to the stock repurchase program.

4. Income Tax -

The Company accounts for income taxes by following the asset and liability approach to accounting for income taxes. Deferred tax assets and liabilities represent the future tax consequences of the differences between the financial statement carrying amounts of assets and liabilities versus the tax basis of assets and liabilities. Under this method, deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The impact of the tax rate changes on deferred tax assets and liabilities is recognized in the year that the change is enacted. Management believes that any write-off not allowed for will not have a material impact on the Company's financial position.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Based on its evaluation, the Company believes that it has no significant unrecognized tax positions. The Company’s evaluation was performed for the tax years ended December 31, 2012 through 2015, which are the tax years that remain subject to examination by major tax jurisdictions as of June 30, 2016. The Company does not believe there will be any material changes in its unrecognized tax positions over the next 12 months.

The Company may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to its financial results. In accordance with current guidance, the Company classifies interest and penalties as income tax expense is incurred.

5. Earnings (loss) per share

The Company computes earnings (loss) per share under two different methods, basic and diluted, and presents per-share data for all periods in which statements of operations are presented. Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock and common stock equivalents outstanding.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted loss per share for the six months ended June 30, 2016 and 2015:

| | For the Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Basic and diluted earnings per share calculation: | | |
| Net income (loss) to common stockholders | $ 78,298 | $ (107,620) |
| Weighted average number of common shares outstanding | 4,525,584 | 4,637,187 |
| Basic and diluted net income (loss) per share | $ 0.02 | $ (0.02) |

The Company had no common stock equivalents outstanding for the period ending June 30, 2016 or June 30, 2015.

6. Foreign Currency Exchange Rate Risk

The Company is exposed to foreign currency risks that arise from some of its foreign customers in Colombia, transacted in Colombia Pesos. In addition, exchange rate fluctuations may cause our international results to fluctuate when translated into U.S. dollars. These risks may change over time as business practices evolve and could have an impact on the Company’s financial results in the future due to the long term nature of the Company’s accounts receivable in Colombia, which totaled approximately $405,000 at June 30, 2016. The Company monitors its risk associated with the volatility of certain foreign currencies against the U.S. dollar.

7. Commitment and Contingencies

During 2015, the Company entered into an agreement with a contractor to design and execute on a sales and marketing strategy for the Company in key Latin American and Caribbean gaming jurisdictions. The agreement expires July 14, 2016 unless terminated earlier in accordance with the terms of the Agreement. The remaining commitment as of June 30, 2016 is approximately $3,000 and the Company is currently in the process of renewing the Agreement under similar terms.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*Our Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below should be read in conjunction with our audited financial statements, and notes thereto, contained in our Form 10-K filed with the SEC on March 30, 2016 relating to our year ended December 31, 2015.*

**Forward-Looking Statements**

Some of the statements made in this section of our report are forward-looking statements. These forward-looking statements generally relate to and are based upon our current plans, expectations, assumptions and projections about future events. Our management currently believes that the various plans, expectations, and assumptions reflected in or suggested by these forward-looking statements are reasonable. Nevertheless, all forward-looking statements involve risks and uncertainties and our actual actions or future results may be materially different from our plans, objectives or expectations, or our assumptions and projections under