TABLE TRAC INC
Form 10-Q
August 14, 2017

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, 2017 or

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

Commission File Number: 000-32987

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 xNo ¨

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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 14, 2017, the registrant had outstanding 4,511,965 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, 2017 (Unaudited)	**December 31, 2016**
ASSETS		
CURRENT ASSETS		
Cash	$ 247,362	$ 102,689
Accounts receivable, net of allowance for doubtful accounts of $155,101 at June 30, 2017 and $200,266 at December 31, 2016	3,500,748	2,807,323
Inventory	664,523	843,233
Prepaid expenses and other current assets	100,633	151,145
Income taxes receivable	18,290	175,856
TOTAL CURRENT ASSETS	4,531,556	4,080,246
LONG-TERM ASSETS		
Patent, net	0	273
Property and equipment, net	62,274	33,426
Other long-term assets	980,516	1,291,519
Deferred tax asset	0	154,000
Long-term accounts receivable – financed contracts	1,212,619	1,421,330
TOTAL LONG-TERM ASSETS	2,255,409	2,900,548
TOTAL ASSETS	$ 6,786,965	$ 6,980,794
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 343,553	$ 473,336
Payroll liabilities	90,120	27,800
Current portion of notes payable	19,118	7,096
Deferred revenue - short-term	39,360	30,960
Deferred tax liability	0	914,000
TOTAL CURRENT LIABILITIES	492,151	1,453,192
LONG-TERM LIABILITIES		
Notes payable, net of current portion	34,935	18,096
Deferred revenue - long-term	2,661,837	2,745,081
Deferred tax liability	793,000	0
TOTAL LIABILITIES	3,981,923	4,216,369
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 25,000,000 shares authorized: 4,656,734 shares issued, and 4,511,965 shares outstanding at June 30, 2017 and December 31, 2016	4,512	4,512
Additional paid-in capital	1,809,511	1,809,511

Retained earnings	1,137,379	1,096,762
	2,951,402	2,910,785
Treasury stock, 144,769 shares (at cost) at June 30, 2017 and December 31, 2016, respectively	(146,360)	(146,360)
TOTAL STOCKHOLDERS' EQUITY	2,805,042	2,764,425
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,786,965	$ 6,980,794

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,	
	2017	2016	2017	2016
Revenues	$2,183,787	$1,921,800	$3,284,420	$2,861,171
Cost of sales	753,931	658,899	1,074,997	758,486
Gross profit	1,429,856	1,262,901	2,209,423	2,102,685
Operating expenses:				
Selling, general and administrative	1,192,708	954,488	2,192,848	2,006,035
Income from operations	237,148	308,413	16,575	96,650
Loss on currency exchange	(2,911)	(3,060)	(6,049)	(16,754)
Interest income	25,251	22,851	58,591	42,402
Gain on sale of assets	1,500	0	1,500	0
Income before taxes	260,988	328,204	70,617	122,298
Income tax expense	96,000	113,000	30,000	44,000
Net income	$164,988	$215,204	$40,617	$78,298
Net income per share - basic and diluted	$0.04	$0.05	$0.01	$0.02
Weighted-average shares outstanding - basic and diluted	4,511,965	4,525,457	4,511,965	4,525,584

See notes to condensed unaudited financial statements.

TABLE TRAC, INC.

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES		
Net Income	$ 40,617	$ 78,298
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	12,734	11,236
Deferred income taxes	33,000	44,000
Bad debt expense	105,082	0
Gain on sale of asset	(1,500)	0
Stock issued for services	0	6,375
Changes in operating assets and liabilities:		
Accounts receivable	(589,796)	(1,214,715)
Inventory	178,710	(215,558)
Prepaid expenses and other assets	361,515	(263,704)
Accounts payable and accrued expenses	(129,783)	276,621
Payroll liabilities	62,320	11,116
Deferred revenue	(74,844)	1,036,497
Income taxes receivable	157,566	0
Net cash provided by operating activities	155,621	(229,834)
INVESTING ACTIVITIES		
Capital expenditures	(8,875)	0
Proceeds from sale of asset	1,500	0
Net cash provided by (used in) investing activities	(7,375)	0
FINANCING ACTIVITIES		
Payments on note payable	(3,573)	(3,383)
Repurchase of common stock	0	(19,650)
Net cash used in financing activities	(3,573)	(23,033)
NET INCREASE (DECREASE) IN CASH	144,673	(252,867)
CASH		
Beginning of period	102,689	289,105
End of Period	$ 247,362	$ 36,238
Non-cash investing and financing activities:		
Capital expenditure financed with note payable	$ 32,435	$ 0

See notes to condensed unaudited financial statements.

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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, 2017 and the statements of operations for the three and six months ended June 30, 2017 and 2016, and the statement of cash flows for the six months ending June 30, 2017 and 2016 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, 2016.

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 the valuation of inventory. 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 for which 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 "interest 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 or prior similar arrangements.

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.

<u>Deferred System Sales Costs</u>

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 the most significant component of other long-term assets on the balance sheet, and are $980,516 and $1,291,519 as of June 30, 2017 and December 31, 2016, respectively.

Accounts Receivable / Allowance for Doubtful Accounts

Accounts receivable are initially recorded at the invoiced amount and carried on the balance sheet 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, 2017 and 2016:

	For the Six Months Ended June 30			
	2017		**2016**	
	% Revenues	**% AR**	**% Revenues**	**% AR**
A	21.8 %	17.6 %	27.3 %	11.0 %
B	9.9 %	12.2 %	11.2 %	21.2 %
All Others	68.3 %	70.2 %	61.5 %	67.8 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

The Company does derive a portion of its revenue from foreign customers. For the six month periods ending June 30, 2017 and 2016, sales to customers in South America represent 6.5% and 8.0% of total revenues, respectively.

The following tables summarize major customer information for the three months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30			
	2017		2016	
	% Revenues		% Revenues	
A	31.9	%	40.7	%
B	7.5	%	7.6	%
All Others	60.6	%	51.7	%
Total	100.0	%	100.0	%

For the three month periods ending June 30, 2017 and 2016, sales to customers in South America represent 4.6% and 5.2% 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 net realizable value and obsolescence. Any material cost found to be above net realizable value or considered obsolete is written down accordingly. The inventory value as of June 30, 2017 was $664,523, which included work-in-process of $134,635. The Company had no obsolescence reserve at June 30, 2017 or December 31, 2016.

Research and Development

The Company expenses all costs related to research and development as incurred. Research and development expense was $23,972 and $18,274 for the three months ended June 30, 2017 and 2016, and $31,705 and $22,139 for the six months ended June 30, 2017 and 2016, respectively. Research and development expenses are included in selling, general and administrative expenses on the statements of operations.

Recently Adopted Accounting Pronouncements

In July 2015, FASB issued ASU No. 2015-11, which amended Inventory (Topic 330) Related to Simplifying the Measurement of Inventory of the Accounting Standards Codification. The amended guidance applies to all inventory except that which is measured using last-in, first-out (LIFO) or the retail inventory method. Inventory measured using first-in, first-out (FIFO) or average cost is included in the new amendments. Inventory within the scope of the new guidance should be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Subsequent measurement is unchanged for inventory measured using LIFO or the retail inventory method. The Company adopted the guidance on January 1, 2017 and it did not have a material impact on its financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes: Balance Sheet Classification of Deferred Taxes*, which simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. As a result of our prospective adoption of this guidance on January 1, 2017, all deferred tax assets and liabilities have been classified as noncurrent on our condensed balance sheet at June 30, 2017, while our balance sheet at December 31, 2016 reflects classifications of deferred tax assets and liabilities in accordance with previous GAAP. The adoption of this guidance had no impact on our results of operations or cash flows.

2. Accounts Receivable –

Accounts receivable consisted of the following at:

	June 30, 2017	December 31, 2016
Accounts receivable under normal 30 day terms	$ 1,757,619	$ 979,564
Financed contracts:		
Current portion of long-term	1,898,230	2,028,025
Long-term, net of current portion	1,212,619	1,421,330
Total accounts receivable	4,868,468	4,428,919
Less allowance for doubtful accounts	(155,101)	(200,266)
Accounts receivable, net	$ 4,713,367	$ 4,228,653
Presented on the balance sheet as:		
Accounts receivable, net	$ 3,500,748	$ 2,807,323
Long-term accounts receivable - financed contracts	1,212,619	1,421,330

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, 2017 and December 31, 2016 which are $3,110,849 and $3,449,355, respectively, offset by deferred revenues on the balance sheets of $2,661,837 and $2,745,081, respectively.

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

	June 30, 2017	December 31, 2016
Accounts receivable allowance, beginning of year	$ 200,266	$ 185,397
Provision adjustment	(45,165)	14,869
Write-off	0	0
Accounts receivable allowance, end of period	$ 155,101	$ 200,266

The allowance for doubtful accounts is $155,101 and $200,266 for the trade receivables at June 30, 2017 and December 31, 2016, respectively, and $0 for the financed contracts at both June 30, 2017 and December 31, 2016.

In addition, the Company incurred bad debt expense related to a direct write-off for a customer that notified the Company of their inability to pay of approximately $150,000. This customer was not previously included in the allowance. The Company has determined this customer's amount to be fully uncollectable.

3. 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, 2013 through 2016, which are the tax years that remain subject to examination by major tax jurisdictions as of June 30, 2017. 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.

4. Earnings Per Share –

The Company computes earnings 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 per share is computed by dividing net income by the weighted average number of shares of common stock outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of shares of common stock and common stock equivalents outstanding. The Company had no common stock equivalents outstanding for the periods ending June 30, 2017 or 2016.

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the six months ended June 30, 2017 and 2016:

	For the Six Months Ended June 30,	
	2017	2016
Basic and diluted earnings per share calculation:		
Net income	$ 40,617	$ 78,298
Weighted average number of common shares outstanding	4,511,965	4,525,584
Basic and diluted net income per share	$ 0.01	$ 0.02

The following table provides a reconciliation of the numerators and denominators used in calculating basic and diluted earnings per share for the three months ended June 30, 2017 and 2016:

	For the Three Months Ended June 30,	
	2017	2016
Basic and diluted earnings per share calculation:		
Net income	$ 164,988	$ 215,204