

TABLE TRAC INC  
Form 10-Q  
August 15, 2011

---

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2011 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  
(State or Other Jurisdiction of Incorporation or  
Organization)

88-0336568  
(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 ☒ 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 ☒ 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 ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company)

Accelerated filer ☐  
Smaller reporting company ☒

Edgar Filing: TABLE TRAC INC - Form 10-Q

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

As of August 12, 2011, the registrant had outstanding 4,648,305 shares of common stock, \$.001 par value per share.

---

---

Table Trac, Inc.

Index

|   | Page |
|---|------|
| <b>PART I. FINANCIAL INFORMATION</b>  |      |
| Item 1. Financial Statements  | 2    |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 11   |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                            | 17   |
| Item 4. Controls and Procedures   | 18   |
| <b>PART II. OTHER INFORMATION</b>   |      |
| Item 1. Legal Proceedings   | 18   |
| Item 1A. Risk Factors   | 19   |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                           | 19   |
| Item 3. Defaults Upon Senior Securities   | 19   |
| Item 4. Submission of Matters to a Vote of Security Holders                                   | 19   |
| Item 5. Other Information   | 19   |
| Item 6. Exhibits  | 19   |
| <b>SIGNATURES</b>   | 20   |

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

TABLE TRAC, INC.

CONTENTS

|                                       | Page |
|---------------------------------------|------|
| <b>CONDENSED FINANCIAL STATEMENTS</b> |      |
| Condensed Balance Sheets              | 3    |
| Condensed Statements of Operations    | 4    |
| Condensed Statements of Cash Flows    | 5    |



TABLE TRAC, INC.  
CONDENSED BALANCE SHEETS (Unaudited)

|   | June 30, 2011       | December 31, 2010   |
|---|---------------------|---------------------|
| <b>CURRENT ASSETS</b>   |                     |                     |
| Cash  | \$ 812,683          | \$ 935,301          |
| Accounts receivable, net of allowance for doubtful accounts of \$179,416 at June 30, 2011 and December 31, 2010   | 1,551,686           | 1,699,201           |
| Inventory   | 219,031             | 151,254             |
| Prepaid expenses  | 59,350              | 133,262             |
| Other current assets  | 23,593              | 9,954               |
| Income taxes receivable   | 238,755             | 260,618             |
| <b>TOTAL CURRENT ASSETS</b>   | <b>2,905,098</b>    | <b>3,189,590</b>    |
| <b>LONG-TERM ASSETS</b>   |                     |                     |
| Patent, net   | 7,779               | 8,461               |
| Property and equipment, net   | 33,127              | 41,641              |
| System under rental program, net  | 79,830              | 61,214              |
| Other long term asset   | 167,786             | 2,060               |
| Deferred tax asset  | -                   | 18,000              |
| Long-term accounts receivable – financed contracts  | 876,120             | 260,430             |
| <b>TOTAL LONG-TERM ASSETS</b>   | <b>1,164,642</b>    | <b>391,806</b>      |
| <b>TOTAL ASSETS</b>   | <b>\$ 4,069,740</b> | <b>\$ 3,581,396</b> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                     |                     |
| <b>CURRENT LIABILITIES</b>  |                     |                     |
| Accounts payable and accrued expenses   | \$ 205,943          | \$ 93,648           |
| Payroll liabilities   | 27,372              | -                   |
| Deferred revenue - short term   | 97,725              | 25,000              |
| Deferred tax liability  | 508,947             | 639,541             |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>839,987</b>      | <b>758,189</b>      |
| <b>LONG-TERM LIABILITIES</b>  |                     |                     |
| Deferred revenue - long term  | 819,503             | -                   |
| Deferred tax liability  | 13,000              | -                   |
| <b>TOTAL LIABILITIES</b>  | <b>1,672,490</b>    | <b>758,189</b>      |
| <b>STOCKHOLDERS' EQUITY</b>   |                     |                     |
| Common stock, 0.001 par value; 25,000,000 shares authorized: 4,623,305 and 4,586,305 shares issued and outstanding at June 30, 2011 and December 31, 2010 | 4,623               | 4,586               |
| Additional paid-in capital  | 1,737,694           | 1,682,231           |
| Retained earnings   | 656,355             | 1,137,812           |
|   | 2,398,672           | 2,824,629           |
| Treasury stock, 1,000 shares (at cost) at June 30, 2011 and December 31, 2010   | (1,422 )            | (1,422 )            |
| <b>TOTAL STOCKHOLDERS' EQUITY</b>   | <b>2,397,250</b>    | <b>2,823,207</b>    |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   | <b>\$ 4,069,740</b> | <b>\$ 3,581,396</b> |

See notes to condensed financial statements.

Page 3

---

TABLE TRAC, INC.  
CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

|   | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|---|--------------------------------|---------------|------------------------------|---------------|
|   | 2011                           | 2010          | 2011                         | 2010          |
| Revenues                                    | \$470,453                      | \$456,822     | \$791,804                    | \$824,987     |
| Cost of sales                               | 135,114                        | 108,422       | 230,466                      | 183,482       |
| Gross profit                                | 335,339                        | 348,400       | 561,338                      | 641,505       |
| Operating Expenses:                         |                                |               |                              |               |
| Selling, general and administrative         | 733,286                        | 561,145       | 1,363,557                    | 994,793       |
| Loss from operations                        | (397,947 )                     | (212,745 )    | (802,219 )                   | (353,288 )    |
| Interest / Other income                     | 23,598                         | 13,338        | 46,638                       | 35,470        |
| Loss before taxes                           | (374,349 )                     | (199,407 )    | (755,581 )                   | (317,818 )    |
| Income tax benefit                          | (133,124 )                     | (73,424 )     | (274,124 )                   | (118,415 )    |
| Net loss                                    | \$ (241,225 )                  | \$ (125,983 ) | \$ (481,457 )                | \$ (199,403 ) |
| Basic loss per common share                 | \$ (0.05 )                     | \$ (0.03 )    | \$ (0.10 )                   | \$ (0.05 )    |
| Weighted-average basic shares outstanding   | 4,617,206                      | 4,212,727     | 4,601,841                    | 4,187,620     |
| Diluted loss per common share               | \$ (0.05 )                     | \$ (0.03 )    | \$ (0.10 )                   | \$ (0.05 )    |
| Weighted-average diluted shares outstanding | 4,617,206                      | 4,212,727     | 4,601,841                    | 4,187,620     |

See notes to condensed financial statements.

TABLE TRAC, INC.  
CONDENSED STATEMENTS OF CASH FLOW (Unaudited)

|   | For the Six Months Ended June 30, |                |
|---|-----------------------------------|----------------|
|   | 2011                              | 2010           |
| <b>OPERATING ACTIVITIES</b>   |                                   |                |
| Net loss  | \$ (481,457 )                     | \$ (199,403 )  |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                                   |                |
| Depreciation and amortization   | 16,077                            | 9,552          |
| Allowance for other current assets  | 4,815                             | -              |
| Deferred income taxes   | (99,594 )                         | (209,000 )     |
| Non-cash stock compensation expense   | 61,125                            | 47,374         |
| Non-cash stock issued for services  | 20,416                            | -              |
| Changes in operating assets and liabilities:                                    |                                   |                |
| Accounts receivable   | (468,175 )                        | 627,941        |
| Inventory   | (67,777 )                         | (127,937 )     |
| Prepaid expenses and other assets   | (136,309 )                        | 3,230          |
| Accounts payable and accrued expenses   | 112,294                           | (64,036 )      |
| Payroll liabilities   | 27,372                            | -              |
| Deferred revenue  | 892,228                           | 40,000         |
| Income taxes receivable / payable   | 21,864                            | 25,759         |
| Net cash provided by (used in) operating activities                             | (97,121 )                         | 153,480        |
| <b>INVESTING ACTIVITIES</b>   |                                   |                |
| Purchase of domain name   | -                                 | (2,060 )       |
| Purchase of property and equipment  | -                                 | (31,752 )      |
| Purchase of system under rental program   | (25,497 )                         | -              |
| Net cash used in investing activities   | (25,497 )                         | (33,812 )      |
| <b>NET INCREASE (DECREASE) IN CASH</b>  | <b>(122,618 )</b>                 | <b>119,668</b> |
| <b>CASH</b>   |                                   |                |
| Beginning of period   | 935,301                           | 1,320,946      |
| End of period   | \$ 812,683                        | \$ 1,440,614   |
| Cash received from income taxes   | \$ 200,979                        | \$ -           |
| Non-cash investing and financing; Common stock issued for future services       | \$ 55,500                         | \$ -           |

See notes to condensed 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 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, 2011 and the statements of operations and cash flows for the three and six months ended June 30, 2011 and 2010 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, 2010.

Nature of Business

Table Trac, Inc. (the Company) was formed under the laws of the State of Nevada in June 1995. The Corporation has its offices in Minnetonka, Minnesota. The Company has developed and sells an information and management system that automates 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 annual 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 and 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. Actual results could differ from those estimates.

#### Revenue Recognition

The Company derives revenues from the sales of systems, licenses and maintenance fees, services and participation-based 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 installed, 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 their estimated value based on vendor specific objective evidence and recognizes the associated revenue when all revenue recognition criteria have been met for each element.

The Company does offer its customers contracts with extended payment terms. The Company has established a history of successfully collecting on these contracts under the original payment terms without making concessions. Based on past and current collection history, all sales installment contracts are being recognized in revenue following the "system sales" policy noted above. Revenue and associated set-up costs are deferred if contract terms exceed historical collection results.

#### Maintenance Revenue

Maintenance revenue is recognized ratably over the contract period.

#### Service Revenue

Service revenue is recognized after the services are performed and collection of the resulting receivable is reasonably assured.

#### Participation Revenue

In 2010, the Company began offering certain new customers a participation-based contract. Revenues were originally determined and billed monthly based on a percentage of the amount of money processed through the customer's casino gaming system utilizing the Table Trac software. After discussion with the SEC, the Company changed its revenue recognition policy for these contracts and any future contracts, to record revenue at the time of cash collection.

#### Accounts Receivable / Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount. Accounts receivable include regular customer receivables and amounts from financed contracts coming due within 12 months. Amounts from financed contracts coming due

beyond 12 months are recorded as "Long-term accounts receivable - financed contracts". An allowance for doubtful accounts is recorded when the Company believes the amounts will not be collected. Management believes that receivables, net of the allowance for doubtful accounts, are fully collectible. 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 table summarizes significant customer information for the six months ended June 30, 2011 and 2010:

|            |       | For the Six Months Ended June 30, |       |      |       |         |       |      |  |
|------------|-------|-----------------------------------|-------|------|-------|---------|-------|------|--|
|            |       | 2011                              |       |      |       | 2010    |       |      |  |
|            |       | % Sales                           |       | % AR |       | % Sales |       | % AR |  |
| A          | 17.6  | %                                 | 13.5  | %    | 19.6  | %       | 11.9  | %    |  |
| B          | 13.9  | %                                 | 40.6  | %    | 0.0   | %       | 0.0   | %    |  |
| C          | 12.3  | %                                 | 1.1   | %    | 13.7  | %       | 4.0   | %    |  |
| D          | 9.6   | %                                 | 14.7  | %    | 0.0   | %       | 0.0   | %    |  |
| E          | 6.5   | %                                 | 8.9   | %    | 6.3   | %       | 41.3  | %    |  |
| F          | 4.5   | %                                 | 0.0   | %    | 20.1  | %       | 3.0   | %    |  |
| G          | 1.6   | %                                 | 0.0   | %    | 16.2  | %       | 2.9   | %    |  |
| All Others | 34.0  | %                                 | 21.2  | %    | 24.1  | %       | 36.9  | %    |  |
| Total      | 100.0 | %                                 | 100.0 | %    | 100.0 | %       | 100.0 | %    |  |

|            |       | For the Three Months Ended June 30, |   |  |       |         |   |  |  |
|------------|-------|-------------------------------------|---|--|-------|---------|---|--|--|
|            |       | 2011                                |   |  |       | 2010    |   |  |  |
|            |       | % Sales                             |   |  |       | % Sales |   |  |  |
| A          | 18.7  |                                     | % |  | 21.8  |         | % |  |  |
| B          | 23.4  |                                     | % |  | 0.0   |         | % |  |  |
| C          | 10.6  |                                     | % |  | 15.3  |         | % |  |  |
| D          | 12.7  |                                     | % |  | 0.0   |         | % |  |  |
| E          | 3.4   |                                     | % |  | 5.6   |         | % |  |  |
| F          | 3.0   |                                     | % |  | 22.3  |         | % |  |  |
| G          | 0.0   |                                     | % |  | 18.0  |         | % |  |  |
| All Others | 28.2  |                                     | % |  | 17.0  |         | % |  |  |
| Total      | 100.2 |                                     | % |  | 100.0 |         | % |  |  |

## Inventory

Inventory, comprised of finished goods and work-in-process is stated at the lower of cost or market. The first-in, first-out cost 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 Company had no obsolescence reserve at June 30, 2011 and December 31, 2010.

## Research and Development

The Company expenses all costs related to research and development as incurred.

## 2. Accounts Receivable –

Accounts receivable consisted of the following at June 30, 2011 and December 31, 2010

|   | June 30, 2011 | December 31, 2010 |
|---|---------------|-------------------|
| Accounts receivable under normal 30 day terms | \$ 617,525    | \$ 554,963        |
| Financed contracts:                           |               |                   |
| Short-term                                    | 261,984       | 481,289           |
| Current portion of long-term                  | 851,593       | 828,170           |
| Long-term, net of current portion             | 876,120       | 260,430           |
| Total accounts receivable                     | 2,607,222     | 2,124,852         |
| Unbilled accounts receivable                  | -             | 14,195            |
| Less allowance for doubtful accounts          | (179,416 )    | (179,416 )        |
| Accounts receivable, net                      | \$ 2,427,806  | \$ 1,959,631      |

The entire allowance account at June 30, 2011 and December 31, 2010 relates to one international customer contract balance. A roll-forward of the Company's allowance for doubtful is as follows:

|  | For the<br>Six Months Ended<br>June 30, 2011 | For the<br>Year Ended<br>December 31, 2010 |
|--|--|--|
| Accounts receivable allowance, beginning of period | \$ 179,416                                   | \$ 182,054                                 |
| Provision adjustment during period                 | -  | 3,247                                      |
| Write-off of bad debt                              | -  | (5,885 )                                   |
| Accounts receivable allowance, end of period       | \$ 179,416                                   | \$ 179,416                                 |

## 3. Inventory –

Company inventories consisted of the following at:

|                 | June 30, 2011 | December 31, 2010 |
|-----------------|---------------|-------------------|
| Work-in-process | \$ 70,866     | \$ -              |
| Finished goods  | 148,165       | 151,254           |
| Total           | \$ 219,031    | \$ 151,254        |

## 4. Stockholders' Equity –

In April 2010, the Company issued 37,000 shares, at \$1.50 per share for a total cost of \$55,500 to the Board of Directors for annual compensation for the period from April 1, 2011 to March 31, 2012. A total of \$37,500 was recognized as stock compensation expense for the quarter ended June 30, 2011, of which \$31,500 was for an outgoing independent director and \$6,000 was one fourth of the annual stock award for another director. The total for the six months ended June 30, 2011 was \$61,125.

As of June 30, 2011, the Company holds 1,000 common stock shares in treasury at a total cost of \$1,422 for future employee incentives under the bonus program.



## Stock options

In October 2001, the Company implemented an Employee Stock Incentive Plan. This plan provides for the issuance of options to employees to purchase shares of the Company's common stock at an exercise price at least equal to the fair value of the stock at the grant date. These options are exercisable for a period of seven years from the date of grant. Table Trac has reserved 1,000,000 shares of its common stock for potential issuance under this plan. As of June 30, 2011, 300,000 stock options were available for grants.

The Company uses the Black-Scholes-Merton option-pricing model as a method for determining the estimated fair market value for employee stock awards. Compensation expense for employee stock awards is recognized on a straight-line basis over the vesting period of the award. The Company has not recorded any compensation expense for the three and six months ended June 30, 2011 and 2010.

There were 70,000 options outstanding and exercisable at June 30, 2011 and December 31, 2010 with an exercise price of \$1.75, which expire November 2015. The options had an aggregate intrinsic value of \$0 at June 30, 2011 which is equal to the difference in the closing stock price on that date and the exercise price, multiplied by the number of in-the-money options that would have been received had all options been exercised on June 30, 2011.

## 5. 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.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. Based on its evaluation, it has concluded that there are no significant unrecognized tax positions. The Company's evaluation was performed for the tax years ended December 31, 2007 through 2010, the tax years that remain subject to examination by major tax jurisdictions as of June 30, 2011. The Company does not believe there will be any material changes in its unrecognized tax positions over the next twelve 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 a component of operating expense.

## 6. 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 earnings per share for the three and six months ended June 30, 2011 and 2010:





|  | Three Months Ended<br>June 30, |               | Six Months Ended<br>June 30, |               |
|--|--------------------------------|---------------|------------------------------|---------------|
|  | 2011                           | 2010          | 2011                         | 2010          |
| Basic earnings (loss) per share calculation:         |                                |               |                              |               |
| Net loss to common stockholders                      | \$ (241,225 )                  | \$ (125,983 ) | \$ (481,457 )                | \$ (199,403 ) |
| Weighted average number of common shares outstanding | 4,617,206                      | 4,212,727     | 4,601,841                    | 4,187,620     |
| Basic net loss per share                             | \$ (0.05 )                     | \$ (0.03 )    | \$ (0.10 )                   | \$ (0.05 )    |
| Diluted earnings (loss) per share calculation:       |                                |               |                              |               |
| Net loss   | \$ (241,225 )                  | \$ (125,983 ) | \$ (481,457 )                | \$ (199,403 ) |
| Weighted average number of common shares outstanding | 4,617,206                      | 4,212,727     | 4,601,841                    | 4,187,620     |
| Common stock equivalents:                            |                                |               |                              |               |
| Stock options  | (1 )                           | (2 )          | (1 )                         | (2 )          |
| Weighted average diluted shares outstanding          | 4,617,206                      | 4,212,727     | 4,601,841                    | 4,187,620     |
| Diluted net loss per share                           | \$ (0.05 )                     | \$ (0.03 )    | \$ (0.10 )                   | \$ (0.05 )    |

Stock options outstanding of (1) 70,000 and (2) 337,500 were not included in the calculation as they would have been anti-dilutive.

## 7. Subsequent Events –

The Company promoted Glenn Goulet to Chief Executive Officer on July 14, 2011. The Company issued 25,000 shares, at \$1.00 per share for a total cost of \$25,000.00 related to this promotion.

## 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 31, 2011 relating to our year ended December 31, 2010.

## 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 the plans, objectives or expectations, or our assumptions and projections underlying our present plans, objectives and expectations, which are expressed in this report.

In light of the foregoing, prospective investors are cautioned that the forward-looking statements included in this filing may ultimately prove to be inaccurate—even materially inaccurate. Because of the significant uncertainties inherent in such forward-looking statements, the inclusion of such information should not be regarded as a representation or warranty by Table Trac, Inc. or any other person that our objectives, plans, expectations or projections that are contained in this filing will be achieved in any specified time frame, if ever.

## General Overview

Table Trac is a Nevada corporation, formed on June 27, 1995, with principal offices in Minnetonka, Minnesota. It developed and patented (U. S. patent number 5,957,776) a proprietary information and management system (Table Trac) that automates and monitors the operations of casino table games. Since 2000, Table Trac has added functionality, developed related casino system modules for guest rewards and patron management, marketing analysis, guest service, promotion administration/management, vault/cage management and audit/accounting to its existing table games management program.

Table Trac has been aggressively positioning the Company within the gaming industry. In December 2010, it joined the Association of Gaming Equipment Manufacturers (AGEM), the industry's premier trade organization. Since the beginning of the year, the Company has participated in several key trade shows and conferences, including the Caribbean Gaming Show, the National Indian Gaming Association trade show and conference, G2E Asia, CasinoFest, Southern Gaming Show, the Washington Indian Gaming Association trade show and conference and the Casino Marketing Conference. For the remainder of the year, the Company expects to participate in the Oklahoma Indian Gaming Association trade show and conference and the Global Gaming Expo (G2E). In addition to providing speaking and presentation opportunities for the Company, these events provide the Company with opportunities to introduce its products and services to existing customers, as well as prospective customers.

Recently, we expanded our product offerings in the areas of gaming machine on-line accounting and management, customer mailing for tiered pre-encoded promotional marketing, touch screen customer service kiosks, guest service paging and wireless handheld communication devices. The addition of these modalities has transformed Table Trac from a "niche" supplier of peripheral products to one of a full-line single source supplier of casino management systems.

The Company is rolling out two product launches: the latest version of its casino management system and the latest version of its table games management system. These are the first large-scale system enhancements for the Company in several years.

We are able to offer our customers casino management systems with functionality comparable to our larger competitors at a significantly lower price point by utilizing innovative technology and programming resources. We are favorably positioned to compete for a broader cross-section of casinos seeking to reduce their systems cost while improving the reliability and accountability of their operations.

#### Discussion of Critical Accounting Policies

There were no changes to our accounting policies for the quarter. For our existing policies, see Note 1 in our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

## 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 60 months beginning when revenues are generated. At the end of the contract period, the customer will typically receive title to the system.

## Results of Operations - Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

During the three months ended June 30, 2011, loss from operations was (\$397,947) compared to (\$212,745) for the three months ended June 30, 2010. The major components of revenues, cost of sales and selling, general and administrative expenses are discussed below.

## Revenues

Revenues totaled \$470,453 for the three months ended June 30, 2011 compared to \$456,822 for the three months ended June 30, 2010. The following table summarizes our revenues for the three months ended June 30, 2011 and 2010, respectively:

|                              | 2011       | 2010       | Three Months Ended June 30,<br>(percent of revenues) |   |       |   |
|------------------------------|------------|------------|--|---|-------|---|
| System sales                 | \$ 142,818 | \$ 153,226 | 30.4   | % | 33.5  | % |
| License and maintenance fees | 216,932    | 248,285    | 46.1   | % | 54.4  | % |
| Other sales                  | 110,703    | 55,311     | 23.5   | % | 12.1  | % |
| Total revenues               | \$ 470,453 | \$ 456,822 | 100.0  | % | 100.0 | % |

During the three months ended June 30, 2011, revenues from license and maintenance fees decreased for 2010 mainly due to the one customer that dropped its maintenance program. Other sales, which include sales of printers, kiosk software, mailing services, and rental sales improved as a result of increased rental sales compared to the same period in 2010.

## Cost of Sales

Cost of sales for the three months ended June 30, 2011 increased to \$135,114 from \$108,422 for the three months ended June 30, 2010. The following table summarizes our cost of sales for the three months ended June 30, 2011 and 2010, respectively:

|                                | 2011       | 2010       | Three Months Ended June 30,<br>(percent of revenues) |   |      |   |
|--------------------------------|------------|------------|--|---|------|---|
| System sales                   | \$ 55,763  | \$ 23,988  | 11.9   | % | 5.3  | % |
| License and maintenance fees * | 36,150     | 50,593     | 7.7  | % | 11.1 | % |
| Other sales                    | \$ 43,201  | 33,841     | 9.2  | % | 7.4  | % |
| Total cost of sales            | \$ 135,114 | \$ 108,422 | 28.7   | % | 23.7 | % |
| Gross profit                   | \$ 335,339 | \$ 348,400 | 71.3   | % | 76.3 | % |



\* Product support wages were reclassified YTD in September 2010 from operating expenses to cost of sales. To be comparative the quarter wages were reclassified for 2010

The Company's gross profit was 71% and 76% for the three months ended June 30, 2011 and 2010, respectively. This decrease is primarily due to a decrease in system installations completed during the current period compared to the larger system installation completed a year ago. Generally, system sales have a lower gross profit compared to our license and maintenance fee revenue, which has very little associated costs.

#### Selling, General and Administrative Expenses

For the three months ended June 30, 2011, selling, general and administrative expenses were \$733,286 compared to \$561,145 for the same period in 2010. Our most significant changes in operating expenses from the two three-month interim periods related to professional fees, travel costs, gross wages, and HTML programming. A discussion of the various components of our operating expenses for the three months ended June 30, 2011 and 2010 appears below:

Professional fees. Our expenses related to professional fees increased for the three months ended June 30, 2011, to \$57,355 compared to \$1,956 for the same period in 2010 primarily due to increased legal costs associated with the June 15 stockholder meeting and fees related to additional employees.

Travel costs. Travel costs increased for the three months ended June 30, 2011 to \$60,672 compared to \$6,409 for the same period in 2010. This increase is due to the four installations during the quarter for which revenue is being deferred compared to one for the same period in 2010.

Gross wages. Our gross wages increased for the three months ended June 30, 2011, to \$295,480 compared to \$218,723 for the same period in 2010 primarily due to three additional employees and converting one development contractor to an employee.

HTML programming. Our HTML programming costs decreased for the three months ended June 30, 2011, to \$21,598 compared to \$39,210 for the same period in 2010 primarily due to converting one development contractor to an employee.

#### Interest Income

For the three months ended June 30, 2011, interest income was \$23,598 compared to \$13,338 for 2010. This increase is primarily related to the additional contracts financed through the company compared to the same period in 2010.

#### Tax Provision

The benefit for income taxes for the three months ended June 30, 2011 was (\$133,124), which was calculated at a (36%) effective rate, compared to the tax benefit of (\$73,424) for the same period in 2010, which was calculated at a (36%) effective rate.

#### Net Loss

Net loss before taxes for the three months ended June 30, 2011, was (\$374,349) compared to (\$199,407) for same period in 2010. Net loss for the three months ended June 30, 2011 was (\$241,225) compared to (\$125,983) for the same period in 2010. The decrease is primarily due to increased SG&A expenses.



# Results of Operations - Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

During the six months ended June 30, 2011, loss from operations was (\$802,219) compared to (\$353,288) for the six months ended June 30, 2010. The major components of revenues, cost of sales and selling, general and administrative expenses are discussed below.

## Revenues

For the six months ended June 30, 2011, revenues totaled \$791,804 compared to \$824,987 for 2010. The following table summarizes our revenues for the six months ended June 30, 2011 and 2010, respectively:

|                              | 2011       | Six Months Ended June 30,<br>2010 | 2011<br>(percent of revenues) | 2010<br>(percent of revenues) |
|------------------------------|------------|-----------------------------------|-------------------------------|-------------------------------|
| System sales                 | \$ 149,381 | \$ 223,301                        | 18.9 %                        | 27.1 %                        |
| License and maintenance fees | 431,571    | 483,556                           | 54.5 %                        | 58.6 %                        |
| Other sales                  | 210,852    | 118,130                           | 26.6 %                        | 14.3 %                        |
| Total revenues               | \$ 791,804 | \$ 824,987                        | 100.0 %                       | 100.0 %                       |

During the six months ended June 30, 2011, we generated less systems sales revenue than in 2010 because fewer system installations were completed in 2011 as was the case in 2010. Revenues from license and maintenance fees decreased for 2011 mainly due to a large one-time ticket license fees in 2010. Lastly, other sales, which include sales of printers, kiosk software, mailing services, and rental sales increased over 2010 as a result of increased rental sales.

## Cost of Sales

Cost of sales for the six months ended June 30, 2011 increased to \$230,466 from \$183,482 for 2010.

|                                | 2011       | Six Months Ended June 30,<br>2010 | 2011<br>(percent of revenues) | 2010<br>(percent of revenues) |
|--------------------------------|------------|-----------------------------------|-------------------------------|-------------------------------|
| System sales                   | \$ 66,200  | \$ 40,673                         | 8.4 %                         | 4.9 %                         |
| License and maintenance fees * | 70,825     | 94,118                            | 8.9 %                         | 11.4 %                        |
| Other sales                    | 93,441     | 48,691                            | 11.8 %                        | 5.9 %                         |
| Total cost of sales            | \$ 230,466 | \$ 183,482                        | 29.1 %                        | 22.2 %                        |
| Gross profit                   | \$ 561,338 | \$ 641,505                        | 70.9 %                        | 77.8 %                        |

\* Product support wages were reclassified YTD in September 2010 from operating expenses to cost of sales. To be comparative the quarter wages were reclassified for 2010

The Company's gross profit was 71% and 78% for the six months ended June 30, 2011 and 2010, respectively. This decrease is primarily due to a system sale in 2011 which has a significant amount of services. Generally, services have a lower gross profit compared to the other revenues.



## Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six months ended June 30, 2011 were \$1,363,557 compared to \$994,793 for 2010. Our most significant changes in operating expenses from the two interim periods related to professional fees, accounting fees, travel costs, and gross wages. A discussion of the various components of our operating expenses for the six months ended June 30, 2011 appears below.

**Professional fees.** Our expenses related to professional fees increased for the six months ended June 30, 2011, to \$82,498 compared to \$2,882 for the same period in 2010 primarily due to increased legal costs associated with the June 15 stockholder meeting and fees related to additional employees.

**Accounting fees.** Our expenses related to professional fees decreased for the six months ended June 30, 2011, to \$78,522 compared to \$102,974 for the same period in 2010 primarily due to the Sarbanes-Oxley consulting from 2010.

**Travel costs.** Travel costs increased for the six months ended June 30, 2011 to \$95,664 compared to \$9,904 for the same period in 2010. This increase is due to the four installations during 2011 for which revenue is being deferred compared to one for the same period in 2010.

**Gross wages.** Our gross wages increased for the six months ended June 30, 2011, to \$539,717 compared to \$480,606 for the same period in 2010 primarily due to three additional employees and converting one development contractor to an employee.

## Interest Income

For the six months ended June 30, 2011, interest income was \$46,638 compared to \$35,470 for 2010. This increase is primarily related to the additional contracts financed through the company compared to the same period in 2010.

## Tax Provision

For the six months ended June 30, 2011, our income tax benefit was (\$274,124) compared to an income tax benefit of (\$118,415) for 2010. The overall effective rate for 2011 was (36%) compared to (37%) for 2010.

## Net Loss

For the six months ended June 30, 2011, net loss before taxes was (\$755,581) compared to net loss before taxes of (\$317,818) for 2010. Net loss was (\$481,457) for the six months ended June 30, 2011 compared to net loss of (\$199,403) for 2010. The increase in net loss is due to higher SG&A costs compared to the same period for 2010. The basic loss per share was (\$0.10) compared to (\$0.05) for the six months ended June 30, 2011 and 2010, respectively.

## Backlog

The Company's backlog generally consists of future system installations and expansion of offerings for currently installed and supported systems.

The Company has 1 Casino Trac System in its backlog at June 30, 2011.

The Company is currently serving gaming establishments in six US states, as well as countries in Central and South America, as well as the Caribbean. The Company has a pipeline of opportunities and strategic partnerships that it is pursuing.

## Liquidity and Capital Resources

Summary cash flow data is as follows:

|  | For the Six Months Ended June 30, |              |
|--|-----------------------------------|--------------|
|  | 2011                              | 2010         |
| <b>Cash flows provided by (used in):</b> |                                   |              |
| Operating activities                     | \$ (97,121 )                      | \$ 153,480   |
| Investing activities                     | (25,497 )                         | (33,812 )    |
| Financing activities                     | -                                 | -            |
| Net increase (decrease) in cash          | (122,618 )                        | 119,668      |
| Cash, beginning of period                | 935,301                           | 1,320,946    |
| Cash, end of period                      | \$ 812,683                        | \$ 1,440,614 |

At June 30, 2011, the Company had cash of \$812,683 compared to cash of \$1,440,614 on June 30, 2010. The decrease results mainly from an increase in accounts receivable and funding operations at a higher level. Changes in cash flows provided by operating activities related primarily to deferred income taxes, stock compensation expense, and changes in operating assets and liabilities, including accounts receivable, interest receivable, inventory, income taxes receivable, deferred system sales costs, accrued payroll and related withholding liabilities and deferred revenue. Changes in cash flows from investing activities relate to the purchase of a system rental program of (\$25,497).

There are no known trends, events or uncertainties that are likely to have a material impact on our short or long-term liquidity. We expect that our primary source of liquidity in both the short and long-term will be system sales and the resulting license and maintenance fees from existing systems. We anticipate the ability to manage expenses and cash flow so monthly obligations will be satisfied by cash flow from operations. We believe the Company has adequate cash to meet its obligations and continue operations for both existing and future customers as well as ongoing sales efforts and product development.

The Company is rolling out two product launches: the latest version of its casino management system and the latest version of its table games management system. These are the first large-scale system enhancements for the Company in several years.

The Company has hired a Chief Financial Officer, Brian Hinchley and promoted Glenn Goulet to Chief Executive Officer; two positions that were held by Chad Hoehne, who now retains the title of President, Founder and Chief Technology Officer.

## Off-Balance Sheet Arrangements

The Company had no off-balance sheet arrangements as of June 30, 2011.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.



#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Taking into account the material weaknesses previously disclosed, and the number of steps towards remediation that were taken as of the end of the period covered by this report, our CEO and CFO concluded that our disclosure controls and procedures were not effective in providing reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act was recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission's rules and forms and did not ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act was accumulated and communicated to our management, including our CEO/CFO, as appropriate, to allow timely decisions regarding required disclosure.

As a result of this conclusion, the financial statements for the period covered by this report were prepared with particular attention to the material weaknesses previously disclosed, our CEO and CFO concluded that the financial statements included in this Form 10-Q present fairly, the financial position, results of operations and cash flows of the Company as required for interim financial statements.

##### Changes in Internal Control over Financial Reporting

As discussed in Item 9A of our 2010 Annual Report on Form 10-K, as of December 31, 2010, we identified certain material weaknesses relating to our accounting policies and procedures, board of director financial oversight, lack of segregation of duties, financial close and reporting and internal financial expertise. In light of such weaknesses, management made the changes identified below to our internal control over financial reporting during the quarterly period covered by this report to help improve the Company's control structure.

During the entire 2011 year to date, the Company's audit committee, including its chairman, has continued to be actively involved with the Company's financial reporting process. In addition, the Company hired a separate Chief Financial Officer and re-allocated duties during the quarter ended June 30, 2011 to address the previously disclosed weakness resulting from the lack of segregation of duties. Upon his hiring, our Chief Financial Officer further defined financial roles throughout the Company.

The Company continues to work on and enhance its internal control processes and procedures put in place during quarter ended June 30, 2011 and believes it has sufficient personnel resources and technical accounting and reporting expertise within the Company's financial closing and reporting functions at the time of the preparation of this Form 10-Q.

Except as discussed above, there has been no change in our internal control over financial reporting during the quarterly period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None.



Item 1A. Risk Factors

See Risk Factors disclosed in the 2010 Form 10-K filed on March 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

| Exhibit  | Description   |
|----------|---|
| 31.1     | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ( filed herewith ).   |
| 31.2     | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 ( filed herewith ).   |
| 32       | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ( filed herewith ). |
| 101.INS* | XBRL Instance Document  |
| 101.SCH* | XBRL Taxonomy Extension Schema Document   |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF* | XBRL Taxonomy Definition Linkbase Document  |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document  |

\*Furnished herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections



SIGNATURES

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

Dated: August 15, 2011

Table Trac, Inc.  
(Registrant)

By: /s/ Glenn Goulet  
Glenn Goulet (Principal Executive  
Officer)

By: /s/ Brian Hinchley  
Brian Hinchley (Principal Financial  
and Accounting Officer)