

TABLE TRAC INC  
Form 10-K  
March 28, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2012

Commission File No. 0-28383

TABLE TRAC, INC.

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of Incorporation or  
Organization)

**88-0336568**

(IRS Employer Identification No.)

**6101 Baker Road, Suite 206, Minnetonka, Minnesota**

(Address of principal executive office)

**55345**

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, par value \$0.001**

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for a 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 definitions of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2012 was approximately \$2.6 million based on the closing sales price of the registrant's common stock on that date (\$1.00 per share). As of March 28, 2013, the Company had outstanding 4,759,805 shares of common stock, \$0.001 par value.

**DOCUMENTS INCORPORATED IN PART BY REFERENCE**

None.

Table Trac, Inc.

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## **PART I**

### **Item 1. Business.**

#### **GENERAL**

Table Trac, Inc. (the “Company” or “Table Trac”) is a Nevada corporation, formed on June 27, 1995, with principal offices in Minnetonka, Minnesota.

The Company has developed and patented (U.S. patent # 5,957,776) a proprietary information and management system (called our “Table Trac” system) that automates and monitors the operations of casino table games. In addition to table games management, Table Trac has been adding functionality to related casino system modules for guest rewards and loyalty club, marketing analysis, guest service, promotions, administration/management, vault/cage management and audit/accounting tasks. Aggregated together, all of these modules have become the “Casino Trac” product, a full featured Casino Management System (CMS) offering what we believe to be a powerful combination of value, efficiency and reliability for casinos seeking to add or upgrade their casino systems.

The Company sells systems and technical support to casinos. The open-architecture of the Table Trac system is designed to provide operators with a scalable and flexible system that can interconnect and operate with most third-party software or hardware. Key products and services include modules designed to drive player tracking programs and kiosk promotions, as well as vault and cage controls. The Company’s systems meet the strictest auditing, accounting and regulatory requirements. The Company has developed a patented, real-time system that automates and monitors the operations of casino gaming tables.

The Company continues to increase its market share by expanding its product offerings to include new system features and working to open new gaming markets for its products.

#### **TABLE TRAC INSTALLATIONS**

Table Trac currently has casino management systems installed with on-going support and maintenance contracts at forty casinos worldwide in the U.S., Caribbean, Central and South America.

## **AVAILABILITY OF TABLE TRAC**

Table Trac systems are available for purchase from the Company by any legal gambling casino in the U.S. and most legal casinos operating outside the U.S. Systems are purchased, installed and sold with a monthly license and maintenance contract whereby Table Trac performs required maintenance on its systems to assure trouble-free operations.

## **MANUFACTURING CAPABILITIES**

The Company designs and manufactures its own Table Trac table game units and slot machine gaming machine interface boards using the services of third-party electronics assembly firms. The Company has relationships with a host of third-party electronic and gaming equipment manufacturers that can be readily available for hire, as needed.

## **TRADEMARKS AND PATENTS**

The Company filed for its provisional patent application in August 1995, and filed for its final application in August 1996. This application was approved and issued on September 28, 2000, as patent number 5,957,776.

The Company filed to register its trademark ("TABLE TRAC") in September 1996. The trademark was issued on September 7, 2000, as trademark number 2,275,137. A re-application for this mark has been filed.

## **EMPLOYEES**

As of December 31, 2012, the Company had 18 full-time equivalents with an employee headcount of 19, and engaged the full-time services of approximately 4 contract specialists during the course of the year.

## **BUSINESS SEGMENTS**

The Company operates as one reporting segment.

## **RECENT DEVELOPMENTS**

In 2012, Table Trac completed its development efforts on several strategic initiatives, including the completion of having its casino management system reviewed, tested and approved by independent testing laboratories.

The Company signed five new customer contracts in 2012 representing nine casino management system installations, and expanded the Company's presence into one new jurisdiction, Bonaire in the Caribbean.

At its annual shareholder meeting in June 2012, the Company elected Steven A. Browne, Louis Fornetti, and Gary Loebig as its independent board members; along with Chad Hoehne Table Trac's, president and founder, and Glenn Goulet its chief executive officer. The Board elected Mr. Browne as chairman of the board; while Mr. Fornetti and Mr. Loebig were elected to serve as chairmen of the audit and compensation committees, respectively.

In March 2012, the Company signed a dealer agreement with CountR, a worldwide company specializing in cash handling and coinless gaming kiosks for the gaming industry. The dealer agreement allows for Table Trac to represent CountR's cash handling kiosk product lines in several gaming jurisdictions in the U.S., Central and South America. The agreement also allows for Table Trac to represent CountR's latest gaming innovation, the TiTa, a micro ticket redemption machine for casino table games.

In June 2012, one of Table Trac's casino management systems was approved by the Peruvian government, meeting the standards and requirements of the Government's Supreme Decree for a Unified Control System in Real Time (SUCTR). As such, Table Trac is authorized to provide casinos and slot hall operators with an interconnected computerized system in real-time with a connection to the Ministry of Foreign Trade and Tourism (MINCETUR) and the National Superintendence of Tax Administration (SUNAT) to conduct the activity of slot machine operations. Upon the successful licensing of Table Trac's casino management system by the Peruvian government, the company signed an agreement to install this government-approved casino management system at four additional Peru gaming facilities, increasing the Company's presence in this market to five gaming facilities.

Also in June 2012, Table Trac announced that its latest casino management system was reviewed, tested and approved by Gaming Laboratories International (GLI). GLI conducted a comprehensive review of the company's casino management system in relation to the standards, rules and regulations for On-Line Monitoring and Control Systems and Validation Systems in Casinos and Promotional Standards.

During 2012, the Company participated in several key industry trade shows and conferences, including the ICE Gaming Show, the Indian Gaming Marketing Conference, the Caribbean Gaming Show, the National Indian Gaming Association Trade Show and Conference, the Gaming Technology Summit, G2E Asia, the Oklahoma Indian Gaming Association Trade Show and Conference, the Peru Gaming Show, Raving's Casino Marketing Conference and Table Games Conference, and Global Gaming Expo (G2E), the industry's premier event.

In the first quarter of 2013, the Company announced the signing of two new casino management systems contracts in California which opens the California gaming market for Table Trac, Inc.



**Item 1A. Risk Factors.**

*The Company's business is subject to unpredictable order flows, which might cause its results to fluctuate significantly from period to period.*

Individual system sales can have a long sales cycle, resulting in unpredictable revenue from such sales. Other revenue is derived from expansion opportunities at existing customer facilities and, although existing customers have in the past engaged us to provide expanded services and systems, there is no contractual agreement to provide us with any minimum volume or the ability to expand our services and systems. For these reasons, the Company can experience unpredictable order flows for system expansions.

*We are dependent on our intellectual property and we may be unable to protect our intellectual property from infringement, misappropriation, or claims of infringement or invalidity.*

The gaming industry and the software industry are in general characterized by the use of various forms of intellectual property. We are dependent upon patented technologies, trademarked brands and proprietary information for our business. We endeavor to protect our intellectual property rights and our products through a combination of patent, trademark, trade dress, copyright and trade secret laws, as well as licensing agreements and third-party nondisclosure and assignment agreements. We cannot, however, be certain that any trademark, copyright, issued patent or other types of intellectual property will provide competitive advantages for us. Furthermore, we cannot be certain that our efforts to protect our intellectual property rights or products will be successful.

*Our existing patents may be found invalid or unenforceable and any current or future patent applications may not be approved.*

We have patents and trademarks and we utilize patent protection in the United States relating to certain processes and products. We cannot assure you that all of our existing patents would be found valid or enforceable or will continue to be valid or enforceable, or that any pending patent applications will be approved. Our competitors may in the future challenge the validity or enforceability of certain of our patents. The patents we own could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide us with any meaningful protection or commercial advantage. Competitors may infringe our patents and we may not have adequate resources or there may be other reasons we do not enforce our patents. Our patents may not adequately cover a competitor's products. The future interpretation by courts of United States laws regarding the validity of patents could negatively affect the validity or enforceability of our current or future patents.

***Our efforts to protect our unpatented proprietary technology may not be successful.***

We rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements are fully enforceable or will provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, it could have a material adverse effect on our business.

***We may not be able to establish or maintain our trademarks.***

We rely on our trademarks, trade names, trade dress, copyrights and brand names to distinguish our products from the products of our competitors. We have registered or applied to register many of these trademarks. Our trademarks may not remain valid or enforceable. We may not be able to build and maintain goodwill in our trademarks or other intellectual property. Third parties may oppose our trademark applications or challenge our use of the trademarks. Our trademarks may become so well known by the public that their use becomes generic and they lose trademark protection. In the event that our trademarks are successfully challenged, we could be forced to rebrand our products, which could result in loss of brand recognition and could require us to devote resources towards advertising and marketing new brands. Further, our competitors may infringe our trademarks or other intellectual property and we may not have adequate resources or there may be other reasons we do not enforce our trademarks or other types of intellectual property.

***We may not be able to adequately protect our foreign intellectual property rights.***

Because of the differences in foreign patent, trademark, trade dress, copyright and other laws concerning proprietary rights, our intellectual property frequently does not receive the same degree of protection in foreign countries as it would in the United States. Our failure to possess, obtain or maintain adequate protection of our intellectual property rights for any reason could have a material adverse effect on our business, results of operations and financial condition.

***The intellectual property rights of others may limit our ability to make and sell our products.***

The gaming industry is characterized by the rapid development of new technology which requires us to continuously introduce new products using these technologies and innovations, as well as to expand into new markets that may be created. Therefore, our success depends in part on our ability to continually adapt our products and systems to incorporate new technologies and to expand into markets that may be created by new technologies. However, to the extent technologies are protected by the intellectual property rights of others, including our competitors, we may be prevented from introducing products based on these technologies or expanding into markets created by these technologies. If the intellectual property rights of others prevent us from taking advantage of innovative technologies, our financial condition, operating results or prospects may be harmed.

We have many competitors in both the United States and foreign countries, some of which have substantially greater resources and have made substantial investments in competing technologies. Some competitors have applied for and obtained and may in the future apply for and obtain, patents that may prevent, limit or otherwise interfere with our ability to make and sell our products. Any royalty, licensing or settlement agreements, if required, may not be available to us on acceptable terms or at all.

***Significant litigation regarding intellectual property rights exists in our industry.***

There is a significant amount of litigation that occurs in the gaming and technology industry generally. A successful challenge to or invalidation of one of our patents or trademarks, a successful claim of infringement by a third party against us, our products, or one of our licensees in connection with the use of our technology, or an unsuccessful claim of infringement made by us against a third party or its products could adversely affect our business or cause us financial harm. Any such litigation – whether with or without merit – could:

be expensive and time consuming to defend;

- cause one or more of our patents to be ruled or rendered unenforceable or invalid;
- cause us to cease making, licensing or using products that incorporate the challenged intellectual property;
- require us to redesign, reengineer or rebrand our products;
- divert management's attention and resources;
- require us to pay significant amounts in damages;
- require us to enter into royalty, licensing or settlement agreements in order to obtain the right to use a necessary product, process or component;
- limit our ability to bring new products to the market in the future; or
- cause us by way of injunction to have to remove products on lease and/or stop selling or leasing new products.

***The gaming industry is highly regulated and we must adhere to various regulations and maintain applicable licenses to continue our operations. Failure to abide by regulations or maintain applicable licenses could be disruptive to our business and could adversely affect our operations.***

We and our products are subject to extensive regulation under federal, state, local and foreign laws, rules and regulations of the jurisdictions in which we do business and our products are used. Violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. Licenses, approvals or findings of suitability may be revoked, suspended or conditioned. In sum, we may not be able to obtain or maintain all necessary registrations, licenses, permits or approvals. We cannot assure you that the licensing process will not result in delays or adversely affect our operations and our ability to maintain key personnel, or that complying with these regulations will not increase our costs.

***We may be unable to obtain licenses in new jurisdictions where our customers operate.***

We will become subject to regulation in any other jurisdiction where our customers operate in the future. To expand into any such jurisdiction we may need to be licensed, or obtain approvals of our products or services. If we fail to seek, do not receive or receive a revocation of a license in a particular jurisdiction for our products, we would not be able to sell or place on a leased or participation basis our products in that jurisdiction.

***Legislative and regulatory changes could negatively affect our business and the business of our customers.***

Legislative and regulatory changes may affect demand for or place limitations on the placement of our products. Such changes could affect us in a variety of ways. Legislation or regulation may introduce limitations on our products or opportunities for the use of our products and could foster competitive products or solutions at our or our customers' expense. Our business will likely also suffer if our products became obsolete due to changes in laws or the regulatory framework.

Legislative or regulatory changes negatively impacting the gaming industry as a whole or our customers in particular could also decrease the demand for our products. Opposition to gaming could result in restrictions or even prohibitions of gaming operations in any jurisdiction or could result in increased taxes on gaming revenues. Tax matters, including changes in state, federal or other tax legislation or assessments by tax authorities could have a negative impact on our business. A reduction in growth of the gaming industry or in the number of gaming jurisdictions or delays in the opening of new or expanded casinos could reduce demand for our products. Changes in current or future laws or regulations or future judicial intervention in any particular jurisdiction may have a material adverse effect on our existing and proposed foreign and domestic operations. Any such adverse change in the legislative or regulatory environment could have a material adverse effect on our business, results of operations or

financial condition.

***Our growth and ability to access capital markets are subject to a number of economic risks.***

Financial markets worldwide continue to experience disruption, including, among other things, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations. It is possible that the disruption in financial markets will continue or even that there will be a further deterioration in financial markets and confidence in major economies.

These financial market conditions affect our business in a number of ways. The tightening of credit in financial markets adversely affects the ability of our customers to obtain financing for purchases and operations and could result in a decrease in or cancellation of lease and sale orders for our products and services. Current financial market conditions could also affect our ability to raise funds in the capital and lending markets.

***Risks that impact our customers may impact us.***

If fewer players visit our customers' facilities, if such players have less disposable income to spend at our customers' facilities or if our customers are unable to devote resources to purchasing and leasing our products, there could be an adverse effect on our business. Such risks that affect our customers include, but are not limited to:

· adverse economic and market conditions in gaming markets, including recession, economic slowdown, higher interest rates, higher airfares and higher energy and gasoline prices;

· global geopolitical events such as terrorist attacks and other acts of war or hostility; and

natural disasters such as major fires, floods, hurricanes and earthquakes.

***We also have agreements with casinos in Native American and foreign jurisdictions, which may subject us to sovereign immunity risks.***

We may have a difficult time enforcing our contracts with Central America, South America, the Caribbean and Native American tribes and the casinos they operate. These customers may enjoy significant immunity or impracticality from suit. For instance, in order to sue a Native American tribe (or an agency or instrumentality of a Native American tribe), the Native American tribe must have effectively waived its sovereign immunity with respect to the matter in dispute. Approximately 60 percent of Table Trac's business is with Native American tribes. While we always seek the waivers of immunity initially, they may not always become a part of our final contracts with Native American tribes. Without a waiver, limited or otherwise, of the tribe's sovereign immunity, our ordinary rights and remedies (such as our right to enter Native American lands to retrieve our property in the event of a breach of contract by the tribal party to that contract, or our right to enforce any outside judgment against such tribal party) will not likely be enforceable.

***We compete in a single industry and our business may suffer if our products become obsolete or demand for them decreases, including without limitation, as a result of the downturn in the gaming industry.***

We derive substantially all of our revenues from leasing, licensing, selling and other financing arrangements of products for the gaming industry. Consistent demand for and satisfaction with our products by our customers is critical to our financial condition and future success. Problems, issues, defects or dissatisfaction with our products could cause us to lose customers or revenues from leases with minimal notices. Additionally, our success depends on our ability to keep pace with technological advances in our industry and to adapt and improve our products in response to evolving customer needs and industry trends. If demand for our products weakens due to lack of market acceptance, technological change, increased competition, regulatory changes, or other factors, it could have a material adverse effect on our business, results of operations or financial condition.

***Any disruption in our manufacturing processes, any significant increase in manufacturing costs or any inability to manufacture our products to meet demand could adversely affect our business and operating results.***

We manufacture our software and many related products ourselves. Should any of these manufacturing processes be disrupted we may be unable to timely remedy such disruption. In such a case, we may be unable to produce a sufficient quantity of our products to meet the demand of our customers. In addition, manufacturing costs may increase significantly and we may not be able to successfully recover these cost increases with increased pricing to our customers. Either case could have an adverse impact on our business, results of operations or financial condition.

***We operate in a very competitive business environment and if we do not adapt our approach and our products to meet this competitive environment, our business, results of operations or financial condition could be adversely impacted.***

There is intense competition in the gaming management and gaming products industry, which is characterized by dynamic customer demand and rapid technological advances. Today, there are many systems providers, in the U.S. and abroad, offering casinos and gaming operators “total solution” casino management and table games management systems. As a result, we must continually adapt our approach and our products to meet this demand and match technological advances and if we cannot do so, our business, results of operations or financial condition may be adversely impacted. Conversely, the development of new competitive products or the enhancement of existing competitive products in any market in which we operate could have an adverse impact on our business, results of operations or financial condition. If we are unable to remain dynamic in the face of changes in the market, it could have a material adverse effect on our business, results of operations or financial condition.



***We are dependent on the success of our customers and are subject to industry fluctuations.***

Our success depends on our customers leasing or buying our products to expand their existing operations, replace existing gaming management products or equip a new casino. Any slowdown in the replacement cycle on the part of our customers may negatively impact our operations.

***If our products contain defects, our reputation could be harmed and our operating results and financial results could be adversely affected.***

Some of our products and our anticipated future products are complex and may contain defects that we do not detect. The occurrence of defects or malfunctions in one or more of our products could result in financial losses for our customers and in turn termination of leases, cancellation of orders, product returns and diversion of our resources, and could additionally result in lost revenues, civil damages and regulatory penalties, as well as possible rescission of product approvals. Any of these occurrences could also result in the loss of or delay in market acceptance of our products and loss of placements.

***We may not be able to attract, retain, or motivate the management or employees necessary to remain competitive in our industry.***

The competition for qualified personnel in the gaming industry is intense. Our future success depends on the retention and continued contributions of our key management, finance, marketing, development, technical and staff personnel, many of whom would be difficult or impossible to replace. Our success is also tied to our ability to recruit additional key personnel in the future. We may not be able to retain our current personnel or recruit any additional key personnel required. The loss of services of any of our personnel or our inability to recruit additional necessary key personnel could have a material adverse effect on our business, financial condition, results of operations and prospects.

***We are highly dependent on the services provided by certain executives and key personnel.***

Our success depends in a significant part upon the continued service of certain senior management, and other key personnel. In particular, we are materially dependent upon the services of Chad Hoehne, the Company's Chief Technology Officer. If Mr. Hoehne should no longer serve the Company in his present capacities it would likely have a materially adverse impact on our business, financial condition and operations. Presently, the Company does not have an employment agreement with Mr. Hoehne, though the Company has secured "key person" term life insurance covering the life of Mr. Hoehne.

*Our common stock trades only in an illiquid trading market.*

Trading of our common stock is conducted on the over-the-counter markets—specifically on the OTCQB, a middle-tier quotation marketplace administered by OTC Markets (formerly known as The Pink Sheets). This generally has an adverse effect on the liquidity of our common stock, not only in terms of the number of shares that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of our Company and its common stock. This may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock.

*There is currently little trading volume in our common stock, which may make it difficult to sell shares of our common stock.*

In general, there has been very little trading activity in our common stock. The relatively small trading volume will likely make it difficult for our stockholders to sell their shares as and when they choose. Furthermore, small trading volumes generally depress market prices. As a result, you may not always be able to resell shares of our common stock publicly at the time and prices that you feel are fair or appropriate.

## **Item 2. Properties.**

In October 2010, the Company entered into a five-year lease on new corporate office space in Minnetonka, Minnesota and took possession of the leased space in January 2011. The new leased property includes over 4,400 square feet of office and warehouse space. The monthly rent payment is approximately \$2,727 with periodic escalators to approximately \$3,103 per month, excluding operating expenses. The Company believes this space is adequate for its business needs and any future expansion.

**Item 3. Legal Proceedings.**

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Market Information:** The Company's common stock is quoted for trading on the OTCQB over-the-counter quotation service under the symbol "TBTC." The OTCQB is a middle-tier quotation marketplace operated by OTC Markets (formerly known as The Pink Sheets). Prior to February 22, 2011, the Company's common stock had been quoted for trading on the over-the-counter bulletin board (the OTCBB) under the trading symbol TBTC.OB. The following table sets forth the high and low bid prices for our common stock as reported by the OTCBB and OTCQB in 2012 and 2011. These quotations reflect inter-dealer prices, without retail mark-up, markdown, or commission, and may not represent actual transactions. Trading in the Company's common stock during the period represented was sporadic, exemplified by low trading volume and many days during which no trades occurred.

	2012	
Price per Share Calendar Year	High	Low
Annual Price per Share	\$1.05	\$0.25
First Quarter, January -March	\$1.05	\$0.25
Second Quarter, April - June	\$1.02	\$0.42
Third Quarter, July - September	\$1.00	\$0.26
Fourth Quarter, October - December	\$0.99	\$0.99

	2011	
Price per Share Calendar Year	High	Low
Annual Price per Share	\$2.00	\$0.25
First Quarter, January -March	\$2.00	\$1.20

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Second Quarter, April - June	\$ 1.74	\$ 0.37
Third Quarter, July - September	\$ 1.00	\$ 0.32
Fourth Quarter, October - December	\$ 1.05	\$ 0.25

**Holders:** As of March 28, 2013, the Company had outstanding 4,759,805 shares of common stock held by approximately 200 holders of record.

**Dividends:** No dividends were declared or paid in 2012 or 2011.

**Securities Authorized Under Equity Compensation Plans:** The table below sets forth certain information, as of the close of business on December 31, 2012, regarding equity compensation plans (including individual compensation arrangements) under which securities of the Company were then authorized for issuance.

	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders (1)	60,000	\$ 1.75	0 <sup>(2)</sup>
Equity compensation plans not approved by security holders	0	N/A	0

(1) The equity plan previously approved by the shareholders, and pursuant to which the 60,000 common shares are issuable, terminated in accordance with the plan document in May 2011.

The Company is not required by applicable state law or the listing standards of any self-regulatory organization (2) (e.g., the OTC Markets (OTCQB), NASD, AMEX or NYSE) to obtain the approval of its security holders prior to issuing any compensatory options, warrants or other rights to purchase securities of the Company.

**Unregistered Sales of Securities:** During 2012, the Company made the following issuances and sales of unregistered securities:

In July 2012, the Company issued 40,000 shares of common stock to employees at \$1.02 per share for a total compensation expense of \$40,800 in 2012. The shares were issued pursuant to the exemption set forth in Section 4(2) of the Securities Act on the basis that all recipients of such shares were employees of the company.

In December 2012, the Company issued 15,500 shares of common stock to a director at \$1.00 for a total director compensation expense of \$15,500. The expense is for services rendered during the period 2012, with \$15,500 total expense in 2012. The shares were issued pursuant to the exemption set forth in Section 4(2) of the Securities Act on the basis that all recipients of such shares were directors of the Company.

**Description of Equity Securities:** The authorized capital stock of the Company consists of 25,000,000 shares of capital stock, \$0.001 par value per share. All shares of common stock have equal voting rights and are entitled to one vote per share on all matters to be voted upon by Company stockholders. Shares of Company common stock have no preemptive, subscription, conversion or redemption rights and may be issued only as fully-paid and non-assessable shares. Cumulative voting in the election of directors is not permitted. In the event of liquidation, each holder of common stock is entitled to receive a proportionate share of our assets available for distribution to stockholders after the payment of liabilities. All shares of common stock presently issued and outstanding are fully-paid and non-assessable.

**Item 6. Selected Financial Data.**

Not applicable.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation.**

The following discussion should be read in conjunction with our audited financial statements and related notes that appear elsewhere in this filing.

### **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements made in this report are "forward-looking statements," as that term is defined under Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based upon our current expectations and projections about future events. Whenever used in this report, the words "believe," "anticipate," "intend," "estimate," "expect" and similar expressions, or the negative of such words and expressions, are intended to identify forward-looking statements, although not all forward-looking statements contain such words or expressions. The forward-looking statements in this report are primarily located in the material set forth under the headings "Description of Business," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," but are found in other parts of this report as well. These forward-looking statements generally relate to our plans, objectives and expectations for future operations and are based upon management's current estimates and projections of future results or trends. Although we believe that our plans and objectives reflected in or suggested by these forward-looking statements are reasonable, we may not achieve these plans or objectives. You should read this report completely and with the understanding that actual future results may be materially different from what we expect. We will not update forward-looking statements even though our situation may change in the future.

Some, but not all, of the factors that could cause actual results to differ from those implied by the forward-looking statements in this report are more fully described in the "Risk Factors" section of this report.

Industry data and other statistical information used in this report are based on independent publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, derived from our review of internal surveys and the independent sources listed above. Although we believe these sources are reliable, we have not independently verified the information.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's cash position at December 31, 2012 was \$609,690, a decrease of \$224,975 from \$834,665 at December 31, 2011. Management believes that the Company has adequate cash to meet its obligations and continue

operations for both existing customer contracts and ongoing product development for the next 12 months. The Company presently has no bank line of credit or other financing arrangements except for the note payable of \$19,087. As a result, its sole sources of liquidity are cash, receivables and potentially other current assets. Management is not aware of any trends or any known demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the registrant's liquidity increasing or decreasing in any material way.

Net cash flows used in operating activities during the year ended December 31, 2012 was (\$214,068) compared with net cash flows used in operating activities of (\$72,412) for the same period in 2011. This change of \$141,656 was caused primarily by less of an increase in deferred revenue in 2012 compared to 2011.

Net cash flows used in investing activities was \$0 during the year ended December 31, 2012, compared to (\$25,498) for the same period in 2011. This change of (\$25,498) was due to assets being used with no cost related to new rental programs compared to 2011.

Net cash used in financing activities was (\$10,907) during the year ended December 31, 2012, compared to net cash flows used in financing activities of (\$2,726) for the same period in 2011. The change of \$8,181 was due to 2012 being the first full year of principal payments on the note payable.

On December 31, 2012, total stockholders' equity was \$2,617,724. This compared to a stockholders' equity of \$2,536,750 in 2011, which is an increase of \$80,974 or 3.2%.



The Company is not capital intensive. The basic product of the Company is computer software developed by its employees. Most manufacturing is done after the Company receives an order, so there is little product inventory held by the Company.

**RESULTS OF OPERATIONS, YEAR ENDED DECEMBER 31, 2012 COMPARED TO YEAR ENDED DECEMBER 31, 2011**

The most significant events that affected the 2012 results of operations were the Company's (1) installation of nine casino management systems at five operating entities, (2) the signing of a dealer agreement with CountR, a worldwide company specializing in cash handling and coinless gaming kiosks for the gaming industry, enabling the Company to offer new products; and (3) the review, testing and approval by GLI of the Company's casino management system in relation to the standards, rules and regulations for On-Line Monitoring System, which will allow the Company to position its casino management product in new and regulated jurisdictions. In addition, the Company contracted the R&D services of a third party to help develop new technologies and products.

Inflation for the previous three years ended December 31, 2012 has been negligible, having no material effect on the Company's operations. Increased inflation may put the Company's cash holdings at risk for a loss of real value. As a result, the Company expects to periodically evaluate inflation pressure and take appropriate steps to place its available cash and cash equivalents into conservative and less inflation-sensitive investments.

Revenues increased from \$2,623,819 in 2011 to \$4,782,618 in 2012. The increase of \$2,158,799 was due to new installations which affected 2012 revenues as well as installations which occurred in 2011 and had recurring monthly revenue recognition in 2012. System sales revenues increased from \$1,191,647 in 2011 to \$2,806,863 in 2012, a 135% increase of \$1,615,216, due to 2012 new system installations as well as 2011 financed contracts which had revenue recognition in 2012 due to receipt of payments. Ongoing maintenance revenue has increased from \$926,775 in 2011 to \$1,118,120 in 2012, a 20.6% increase of \$191,345. Other sales, which includes Cash IO kiosk sales, promotional kiosk software sales, and rental sales has increased from \$505,397 in 2011 to \$857,635 in 2012, a 69.7% increase of \$352,238.

A breakout of revenue type is as follows:

	For the Years Ended December 31,			
	2012	2011	2012	2011
	(percent of revenues)			
System sales	\$2,806,863	\$1,191,647	58.7 %	45.4 %

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License and maintenance fees	1,118,120	926,775	23.4 %	35.3 %
Other sales	857,635	505,397	17.9 %	19.3 %
Total revenues	\$4,782,618	\$2,623,819	100.0%	100.0%

Cost of sales increased to \$1,204,726 in 2012 from \$685,273 in 2011. The increase of \$519,454 was primarily due to more system sales in 2012 compared to 2011.

A breakout of our cost of sales by type is as follows:

	For the Years Ended December 31,			
	2012	2011	2012	2011
			(percent of revenues)	
System sales	800,249	384,676	16.7%	14.7%
License and maintenance fees	159,961	137,450	3.3 %	5.2 %
Other sales	244,516	163,147	5.1 %	6.2 %
Total cost of sales	\$1,204,726	\$685,273	25.2%	26.1%

Deferred revenues – short term decreased to \$22,409 in 2012 from \$45,600 in 2011. The balance represents down payments received for system installations on order at year-end and annual payments of maintenance. The deferred revenue is non-refundable and is recognized as revenue when the system installations are completed or as invoices are due. As of December 31, 2012 the Company was not in the process of actively installing any new Table Trac systems.

Deferred revenues – long term increased to \$1,457,793 in 2012 from \$1,228,629 in 2011. The balance represents contracts which have been signed and invoiced, but revenue will be recognized and cash collected monthly over multiple years. The amount in 2012 represents three contracts which were signed and installed during the year combined with the contracts installed in 2011 which had deferred revenue remaining as of December 31, 2012.

The gross margin in 2012 was \$3,577,892 or 74.8% of sales compared with \$1,938,546 or 73.9% of sales in 2011. The increase of gross margin was primarily due to higher system sales in 2012 compared to 2011 which generally have a higher margin.

Total operating expenses increased from \$2,678,231 in 2011 to \$3,616,539 in 2012. This 35.0% increase of \$938,308 was primarily due to investing in sales and marketing and subcontracting with a third party for development of new technologies and products. In addition, there was an increase in the allowance for doubtful accounts of \$425,667 primarily for two customers in 2012.

Interest / Other income has increased in 2012 to a net amount of \$116,796 from \$87,556 in 2011; the 33.4% increase of \$29,240 is due to a greater amount of long-term financed contracts in 2012 compared to 2011.

The provision (benefit) for income taxes was \$53,475 in 2012, for an effective rate of 65.2%, compared to a provision (benefit) for income taxes of (\$229,172) for an effective rate of (35.1%) in 2011. The change in rates is primarily due to a 2012 profit for financial results and a loss for tax purposes that must be carried forward to offset tax profits in the future. In 2011, there was a loss for both financial and tax purposes.

The net income (loss) for 2012 was \$24,674 compared to (\$422,957) for 2011, which is an improvement of \$447,631.

The basic earnings (loss) per share in 2012 was \$0.01 compared to (\$0.09) in 2011.

#### **OFF-BALANCE SHEET ARRANGEMENTS**

None.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The Company's discussion and analysis of financial condition and results of operations is based upon its financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates these estimates, including those related to revenue recognition, bad debts, inventory valuation, intangible assets, and income taxes. The Company bases these estimates on historical experience and on various other assumptions that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The estimates and judgments that the Company believes have the most effect on its reported financial position and results of operations are as follows:

### Revenue Recognition

The Company derives revenues from the sales of systems, licenses and maintenance fees, 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 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 relative fair estimated value based on vendor specific objective evidence (VSOE) and 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 of fair value of all elements, revenue is deferred until the earlier of VSOE being determined or when all elements have been delivered.

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 set-up costs 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 contracts 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 prices for the services.

*Rental revenue*

The Company offers certain new customers a rental contract. Revenues are billed monthly based on a per-game per-day basis. There is an option to purchase the system after the rental agreement at a pre-determined residual value.

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 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. 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.

Accounts receivable consisted of the following at December 31, 2012 and 2011:

	December 31, 2012	December 31, 2011
Accounts receivable under normal 30 day terms	\$ 2,047,563	\$ 875,013
Financed contracts:		
Short-term	266,375	357,567
Current portion of long-term	1,296,041	987,501
Long-term, net of current portion	732,376	1,062,709
Total accounts receivable	4,342,355	3,282,790
Unbilled accounts receivable	0	0
Less allowance for doubtful accounts	(663,511	) (237,844 )