TABLE TRAC INC
Form 10-Q
August 14, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2018 or

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

Commission File Number: 001-32987

Table Trac, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

6101 Baker Road, Suite 206, Minnetonka, Minnesota 55345

(Address of Principal Executive Offices) (Zip Code)

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

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

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

As of August 14, 2018, the registrant had outstanding 4,518,602 shares of common stock, $.001 par value per share.

Table Trac, Inc.

Index

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TABLE TRAC, INC.

CONTENTS

TABLE TRAC, INC.

CONDENSED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash	$ 892,449	$ 1,322,743
Accounts receivable, net of allowance for doubtful accounts of $125,027 at June 30, 2018 and $181,473 at December 31, 2017	3,026,118	3,053,280
Inventory	490,027	466,207
Prepaid expenses and other current assets	569,657	464,385
Income tax receivable	83,773	0
TOTAL CURRENT ASSETS	5,062,024	5,306,615
LONG-TERM ASSETS		
Property and equipment, net	69,001	71,786
Contract and other long-term assets	636,059	967,092
Long-term accounts receivable – financed contracts	1,161,112	1,515,120
TOTAL LONG-TERM ASSETS	1,866,172	2,553,998
TOTAL ASSETS	$ 6,928,196	$ 7,860,613
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 220,890	$ 572,485
Payroll liabilities	50,180	30,085
Customer deposits	610,619	18,168
Income taxes payable	0	62,627
TOTAL CURRENT LIABILITIES	881,689	683,365
LONG-TERM LIABILITIES		
Contract liabilities	1,947,632	3,313,772
Deferred tax liability	607,000	516,000
TOTAL LIABILITIES	3,436,321	4,513,137
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 25,000,000 shares authorized: 4,656,734 shares issued; 4,518,602 and 4,511,965 shares outstanding at June 30, 2018 and December 31, 2017, respectively	4,518	4,512
Additional paid-in capital	1,782,971	1,809,511
Retained earnings	1,910,514	1,679,813
	3,698,003	3,493,836
Treasury stock, 138,132 and 144,769 shares (at cost) at June 30, 2018 and December 31, 2017, respectively	(206,128)	(146,360)

TOTAL STOCKHOLDERS' EQUITY	3,491,875	3,347,476
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 6,928,196	$ 7,860,613

See notes to condensed unaudited financial statements.

TABLE TRAC, INC.

CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues	$3,003,135	$2,183,787	$4,084,403	$3,284,420
Cost of sales	1,196,531	753,931	1,500,226	1,074,997
Gross profit	1,806,604	1,429,856	2,584,177	2,209,423
Operating expenses:				
Selling, general and administrative	1,229,435	1,192,708	2,239,910	2,192,848
Income from operations	577,169	237,148	344,267	16,575
Loss on currency exchange	(1,095)	(2,911)	(3,829)	(6,049)
Interest income	18,464	25,251	40,263	58,591
Gain on sale of assets	0	1,500	0	1,500
Income before taxes	594,538	260,988	380,701	70,617
Income tax expense	184,000	96,000	150,000	30,000
Net Income	$410,538	$164,988	$230,701	$40,617
Net income per share - basic	$0.09	$0.04	$0.05	$0.01
Net income per share - diluted	$0.09	$0.04	$0.05	$0.01
Weighted-average shares outstanding - basic	4,468,630	4,511,965	4,477,545	4,511,965
Weighted-average shares outstanding - diluted	4,468,630	4,511,965	4,477,545	4,511,965

See notes to condensed unaudited financial statements.

TABLE TRAC, INC.

CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	For the Six Months Ended June 30, 2018	2017
OPERATING ACTIVITIES		
Net Income	$ 230,701	$ 40,617
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,400	12,734
Deferred income taxes	91,000	33,000
Bad debt expense	68,303	105,082
Gain on sale of asset	-	(1,500)
Stock issued for services to non-employee	11,250	-
Stock compensation expense	14,688	-
Changes in operating assets and liabilities:		
Accounts receivable	312,867	(589,796)
Inventory	(23,820)	178,710
Prepaid expenses and other assets	225,761	361,515
Accounts payable and accrued expenses	(351,595)	(129,783)
Payroll liabilities	20,095	62,320
Contract liabilities and customer deposits	(773,689)	(74,844)
Income taxes (receivable) payable	(146,400)	157,566
Net cash provided by (used in) operating activities	(297,439)	155,621
INVESTING ACTIVITIES		
Capital expenditures	(20,615)	(8,875)
Proceeds from sale of asset	0	1,500
Net cash used in investing activities	(20,615)	(7,375)
FINANCING ACTIVITIES		
Payments on notes payable	0	(3,573)
Repurchase of common stock	(112,240)	0
Net cash used in financing activities	(112,240)	(3,573)
NET INCREASE (DECREASE) IN CASH	(430,294)	144,673
CASH		
Beginning of period	1,322,743	102,689
End of Period	$ 892,449	$ 247,362
Non-cash investing and financing activities:		
Treasury stock cost related to compensation	$ 61,849	$ 0
Capital expenditure financed with note payable	$ 0	$ 32,435

See notes to condensed unaudited financial statements.

TABLE TRAC, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS

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

Basis of Presentation

The accompanying unaudited condensed financial statements of Table Trac, Inc. (the "Company," or "Table Trac") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The balance sheet as of June 30, 2018 and the statements of operations for the three and six months ended June 30, 2018 and 2017, and the statements of cash flows for the six months ending June 30, 2018 and 2017 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, 2017.

Nature of Business

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

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The Company uses of estimates and assumptions include: for revenue recognition, determining the nature and timing of satisfaction of performance obligations, and determining the standalone selling price (“SSP”) of performance obligations, variable consideration, and other obligations, realizability of accounts receivable, the valuation of deferred tax assets and liabilities, deferred revenue and costs, and the valuation of inventory. Actual results could differ from those estimates.

The Company’s significant accounting policies are described in Note 1 of the financial statement included in its Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to the Company’s accounting policies as a result of adopting Accounting Standards Codification (ASC) 606 are discussed below.

Revenue

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

System Sales

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. We enter into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected, when applicable from customers, which are subsequently remitted to governmental authorities.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is a unit of account in ASC 606. A majority of the Company's systems sales have multiple performance obligations including an obligation to deliver a casino management system and another to provide maintenance services. For system sales with multiple performance obligations, the Company allocates revenue to each performance obligation on its SSP. The Company generally determines the SSP based on the price charged to customers. The Company does offer its customers contracts with extended payment terms representing a significant financing component. The Company must evaluate if any extended payment terms in the contract is an indicator of the transaction price not being probable. The Company only includes the amount for which it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty is resolved. Provided all other revenue recognition steps have been satisfied, the Company recognizes the revenue if payment of a significant portion of the contract consideration is due within 12 months of the delivery of the product. System contracts that do not meet this criteria are deferred and recognized when the uncertainty is resolved, which is consistent with when contractual payments become due. The Company also analyzes its standard business practice of using long-term contracts and the history of collecting on extended payment term contracts which include a financing component which is usually a market interest rate. The associated interest income is reflected accordingly on the statement of operations without making concessions for determining if revenue should be recognized.

Maintenance revenue

Maintenance revenue is recognized ratably over the contract period. The stand-alone selling price 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 stand-alone selling price for service revenue is established based upon actual selling prices for the services or prior similar arrangements.

Rental revenue

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

The following table summarizes disaggregated revenues by major product line for the three months ended June 30, 2018 and 2017, respectively:

	Three Months Ended June 30,					
	2018	2017	2018		2017	
			(percent of revenues)			
System sales	$2,359,112	$1,533,574	78.5	%	70.2	%
Maintenance fees	626,690	550,363	20.9	%	25.2	%
Service and other sales	17,333	99,850	0.6	%	4.6	%
Total revenues	$3,003,135	$2,183,787	100.0	%	100.0	%

The following table summarizes disaggregated revenues by major product line for the six months ended June 30, 2018 and 2017, respectively:

	Six months ended June 30,					
	2018	2017	2018		2017	
			(percent of revenues)			
System sales	$2,739,979	$2,068,773	67.1	%	63.0	%
Maintenance fees	1,253,708	1,095,983	30.7	%	33.4	%
Service and other sales	90,716	119,664	2.2	%	3.6	%
Total revenues	$4,084,403	$3,284,420	100.0	%	100.0	%

See Major Customers for disaggregated revenue information about primary geographical markets.

Significant Judgments

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment.

Judgment is required to determine the SSP for each distinct performance obligation. We use a single amount to estimate SSP for items that are not sold separately. We use a range of amounts to estimate SSP when we sell each of the products and services separately and need to determine whether there is a discount to be allocated based on the relative SSP of the various products and services.

In instances where SSP is not directly observable, such as when we do not sell the product or service separately, we determine the SSP using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual products and services due to the stratification of those products and services by customers and circumstances. In these instances, we may use information such as the size of the customer and geographic region in determining the SSP.

We evaluated the contractual payment terms of all system sales generated during the year to determine the proper recognition or deferral of revenue was recorded. We believe the 12 month subsequent collection threshold of 67% or greater is the most appropriate for the Company to constrain revenue.

We evaluate the interest rates used in customer contracts with extended payment terms, representing a significant financing component. These rates range from approximately 1% to 6% and we believe those to be appropriate market interest rates for the financing component.

Deferred System Sales Costs

Incremental cost to obtain and fulfil a contract are deferred and amortized over the related system contract term. These costs are recognized on a straight-line basis over the term of the contract which is generally 18-48 months beginning when revenues are generated. At the end of the contract period, the customer will usually receive title to the system. These costs are a significant component of other long-term assets on the balance