TABLE TRAC INC
Form 10-K
March 30, 2018

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, 2017

Commission File No. 001-32987

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 x

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 x

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 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 x 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 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 Rule12b-2 of the Act). ¨ Yes x No

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2017 was approximately $2.8 million based on the closing sales price of the registrant's common stock on that date ($1.00 per share). As of March 30, 2018, the Company had outstanding 4,511,965 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 game operations. In addition to its table games management system, 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 forming a part of the Table Trac system 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 ancillary products.

TABLE TRAC INSTALLATIONS

Table Trac currently has casino management systems, table games management systems and ancillary products installed with on-going support and maintenance contracts at 86 casino operators in over 130 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 legal casinos operating outside the U.S. Table Trac'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 game interface 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 has a registered trademark ("TABLE TRAC"), which was originally issued on September 7, 2000.

EMPLOYEES

As of December 31, 2017, the Company had 22 full-time equivalents with an employee headcount of 22, and engaged the services of one contract specialist during the course of the year.

GOVERNMENT REGULATIONS

The gaming and lottery industries are generally subject to extensive and evolving regulation that customarily includes some form of licensing or regulatory screening of suppliers, manufacturers and distributors and their applicable affiliates, their major shareholders, officers, directors and key employees. In addition, certain of our gaming products and technologies must be certified or approved in certain jurisdictions in which we operate. Regulators review many facets of an applicant or holder of a license, including its financial stability, integrity and business experience. Any failure to receive a license or the loss of a license that we currently hold could have a material adverse effect on us or on our results of operations, cash flow or financial condition.

While we believe that we are in compliance with all material gaming and lottery laws and regulatory requirements applicable to us, we cannot assure that our activities or the activities of our customers will not become the subject of any regulatory or law enforcement proceeding or that any such proceeding would not have a material adverse impact on us or our results of operations, cash flow or financial condition.

RECENT DEVELOPMENTS

The Company signed thirteen new customer contracts in 2017 and expanded the Company's presence in California, South Dakota, Oklahoma, Washington and Texas and entered new territories in Maryland and Nevada. At the end of 2017, the Company had casino management systems, table games management systems and ancillary products installed with on-going support and maintenance contracts with 86 casino operators in over 130 casinos worldwide.

At the Company's annual shareholder meeting in October 2017, the Company's shareholders re-elected Steven A. Browne, Louis Fornetti, and Gary Loebig as its independent board members; along with two of the Company's current or former officers, Chad Hoehne, Table Trac's, President, Chief Technical Officer and founder, and now its Chief Executive Officer, and Brian Hinchley, the Company's former Chief Executive Officer and Chief Financial Officer. The board re-elected Mr. Browne as Chairman of the Board, while Mr. Fornetti and Mr. Loebig were re-elected to serve as chairmen of the audit and compensation committees, respectively.

On November 16, 2017, the Nevada Gaming Commission voted to reject Brian Hinchley's individual application for licensure as Chief Executive Officer, Chief Financial Officer and a director of the Company. Pursuant to Nevada Revised Statute 463.220, the rejection of an application is not a determination of suitability. Mr. Hinchley's application was not denied by the Nevada Gaming Commission and he was permitted to remain an employee of the Company and may re-apply for licensure at any time in Nevada. Further, this vote had no effect on the Company's licensure with the State of Nevada, which was originally obtained on August 25, 2016.

As a result, on November 17, 2017, Mr. Hinchley resigned his positions as Chief Executive Officer and Chief Financial Officer and stepped down from the Company's Board of Directors. On November 20, 2017, the Company appointed Chad Hoehne, to serve as the Company's Chief Executive Officer and interim Chief Financial Officer. On January 8, 2018, the Board of Directors appointed Randy W. Gilbert as the Company's Chief Financial Officer.

During 2017, the Company participated in several key industry trade shows and conferences, including the ICE Gaming Show, the Caribbean Gaming Show, the National Indian Gaming Association Trade Show and Conference, the Gaming Technology Summit, the Midwest Gaming Conference, the Oklahoma Indian Gaming Association Trade Show and Conference, Raving's Casino Marketing Conference and Table Games Conference, and Global Gaming Expo (G2E), the industry's premier event. The Company also holds licenses in Colorado and Nevada, which will allow the Company to pursue sales in these territories.

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, or misappropriation.

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 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 in such a way as to provide us with a competitive advantage. Furthermore, 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 other 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. Furthermore, we may not have adequate resources to enforce these agreements in a meaningful way. If we are unable to maintain the proprietary nature of our technologies or enforce the agreements we use to protect those 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. 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.

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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. The licensing process may result in delays or adversely affect our operations and our ability to maintain key personnel, and our efforts to comply with any new licensing regulations will 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 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 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 our products in that jurisdiction. Any such outcome could materially and adversely affect our results of operations and any growth plans for our business.

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 can experience disruption, including, among other things, diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations. Financial market conditions affect our business in a number of ways. For example, 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. In addition, poor 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;
- natural disasters such as major fires, floods, hurricanes and earthquakes; and
- inability of our customers to operate due to regulatory disputes, or inability to meet their debt obligations.

We 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. 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 their decisions to upgrade or replace their current casino management systems.

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 the 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 Executive Officer, President and 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.

Our financial results could be impacted by foreign currency risks

The Company is exposed to foreign currency risks that arise from some of its foreign customers in Colombia, transacted in Colombia Pesos. In addition, exchange rate fluctuations may cause our international results to fluctuate when translated into U.S. dollars. These risks may change over time as business practices evolve and could have an impact on the Company's financial results in the future. The Company monitors its risk associated with the volatility of certain foreign currencies against U.S. dollars.

We are dependent on a contractor in Colombia

The Company relies on a contractor to promote, support and keep accounting records for its customers in Colombia. The Company provides secondary support to the Colombian contractor, as needed, and receives regular reporting of the sales in the territory. The Company monitors the risk and the contractor agreement is currently on a month-to-month basis. The loss of this contract relationship could negatively affect the Company's business in Colombia.

Any disruption in our software and related information technology systems due to a cyber incident could adversely affect our business and operating results.

We rely on our software and related information technology systems to operate our business. We are also exposed to the risk of cyber incidents in the ordinary course of business. Cyber incidents may be deliberate attacks for the theft of intellectual property or other sensitive information or may be the result of unintentional actions or events. We have information technology security initiatives and recovery plans in place to mitigate our risk to these vulnerabilities, but these measures may not be adequate, or implemented properly, or executed timely to ensure that our operations are not disrupted. Potential risks associated with a material cyber incident include loss of intellectual property, impairment of our ability to conduct our operations, disruption of our customers' operations, damage to our reputation, litigation, and increased cyber security protection and remediation costs. Such consequences could adversely affect our business, results of operations or financial condition.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company has a lease on corporate office space in Minnetonka, Minnesota and took possession of the leased space in January 2011. On July 1, 2016, the lease was renewed for another 5 years and will expire on June 30, 2021, and includes over 4,400 square feet of office and warehouse space. The monthly rent payment is approximately $3,670 with periodic escalators to approximately $4,090 per month, excluding operating expenses. The Company believes this space is adequate for its current business needs.

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 OTCQB in 2017 and 2016. 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.

	2017	
Price per Share Calendar Year	**High**	**Low**
Annual Price per Share	$2.55	$0.51
First Quarter, January -March	$1.81	$1.20
Second Quarter, April - June	$1.83	$0.51
Third Quarter, July - September	$2.41	$1.45
Fourth Quarter, October - December	$2.55	$1.71

	2016	
Price per Share Calendar Year	**High**	**Low**
Annual Price per Share	$1.55	$0.70
First Quarter, January -March	$0.99	$0.70
Second Quarter, April - June	$1.55	$0.77
Third Quarter, July - September	$1.50	$0.85
Fourth Quarter, October - December	$1.50	$1.25

Holders: As of March 30, 2018, the Company had outstanding 4,511,965 shares of common stock held by approximately 64 holders of record.

Dividends: No dividends were declared or paid in 2017 or 2016, and the Company does not expect to pay dividends in the near future.

Unregistered Sales of Securities: During 2017, the Company did not make any issuances or sales of unregistered securities:

Repurchase of Common stock: In 2017 the Company did not repurchase any shares.

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, a 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, 2017 was $1,322,743, an increase of $1,220,054 from $102,689 at December 31, 2016. 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 at least the next 12 months from the date of this filing. The Company presently has no bank line of credit or other financing arrangements for general corporate use. As a result, its primary 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 provided by operating activities during the year ended December 31, 2017 were $1,315,054 compared with net cash flows used in operating activities of $141,942 for the same period in 2016. This change of $1,456,996 was caused primarily by the net income in 2017 of $583,051 compared to a net income during 2016 of $142,851 and the increase of deferred revenue recognized in 2017 of $555,899 compared to a decrease of $152,236 for the same period in 2016.

Net cash used in investing activities was $37,375 during the year ended December 31, 2017, compared to $0 for the same period in 2016. This change of $37,375 was caused primarily by the purchase of a vehicle in 2017.

Net cash used in financing activities was $57,625 during the year ended December 31, 2017, compared to $44,474 for the same period in 2016. This change of $13,151 was caused primarily by paying off the vehicle loans.

On December 31, 2017, total stockholders' equity was $3,347,476 compared to $2,764,425 in 2016, which is an increase of $583,051 or 20.6% which increase resulted from an increase in net income from operations.

The Company's core operations are 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 not a material product inventory held by the Company.

RESULTS OF OPERATIONS, YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

The most significant events that affected the 2017 results of operations were the Company's (1) installation of thirteen casino management systems at eight operating entities; (2) and the expansion into the Nevada and Maryland markets.

During 2017, the Company delivered product with a value of approximately $4,200,000 for new contracts at the respective contract dates. However, approximately $1,700,000 of the revenue for these system sales was deferred, and will be recognized in future periods, since a substantial amount is not due within 12 months. As a result, those contracts, along with the related maintenance, is expected to add approximately $57,000 each month to the existing recurring revenue.

A breakout of revenue by type is as follows:

	For the Years Ended December 31,					
	2017	2016	2017		2016	
			(percent of revenues)			
System sales	$3,926,420	$3,735,383	61.5	%	64.0	%
License and maintenance fees	2,269,840	1,998,912	35.6	%	34.2	%
Other sales	184,107	102,087	2.9	%	1.8	%
Total revenues	$6,380,367	$5,836,382	100.0	%	100.0	%

Revenues increased from $5,836,382 in 2016 to $6,380,367 in 2017. This 9.3% increase of $543,985 was due to more and larger installations in 2017 compared to 2016. System sales revenues increased from $3,735,383 in 2016 to $3,926,420 in 2017, a 5.1% increase of $191,037, due to more and larger system installations in 2017 compared to 2016. Ongoing maintenance revenue increased from $1,998,912 in 2016 to $2,269,840 in 2017, a 13.6% increase of $270.928, due to our high customer retention rate along with new accounts added during 2017. Other sales, which includes Cash IO kiosk sales, promotional kiosk software sales, and rental sales has increased from $102,087 in 2016 to $184,107 in 2017, an 80.3% increase of $82,020 due to higher sales of third party products.

During 2017, the Company delivered thirteen systems domestically and in Central America. Some of the revenue for the installations was deferred, and will be recognized in future periods, since a substantial amount is not due within 12 months. During 2016, the Company delivered twelve systems.

Cost of sales increased to $1,948,175 in 2017 from $1,656,239 in 2016. The increase of $291,936 was primarily due to higher revenues in 2017 compared to 2016.

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

	For the Years Ended December 31,					
	2017	2016	2017		2016	
			(percent of revenues)			
System sales	$1,768,740	$1,518,241	27.2	%	26.0	%
License and maintenance fees	96,500	96,505	1.5	%	1.7	%
Other sales	82,935	41,493	1.3	%	0.7	%
Total cost of sales	$1,948,175	$1,656,239	30.5	%	28.4	%

The gross margin in 2017 was $4,432,192 or 69.5% of sales compared with $4,180,143 or 71.6% of sales in 2016.

Deferred revenues – short-term decreased to $18,168 in 2017 from $30,960 in 2016. 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.

Deferred revenues – long-term increased to $3,313,772 in 2017 from $2,745,081 in 2016. The balance represents systems which have been installed under contracts that have been signed and invoiced, but revenue will be recognized and cash collected monthly over multiple years. The increase of $568,691 in 2017 represents multiple contracts that were signed and installed during the year combined with the contracts installed in 2016 which had deferred revenue remaining as of December 31, 2017.

Total operating expenses increased to $4,107,117 in 2017 from $3,976,211 in 2016. This 3.3% increase of $130,906 was primarily due to higher revenues in 2017 compared to 2016.

The income tax benefit was $166,000 in 2017, for an effective rate of (39.8) %, compared to a provision for income tax expense of $136,000 for an effective rate of 48.8% in 2016. The change in rates is primarily due to the Tax Reform and Job Acts of 2017.

The net income for 2017 was $583,051 compared to net earnings of $142,851 for 2016, which is an increase of $440,200.

The basic and diluted earnings per share in 2017 were $0.13 compared to earnings per share of $0.03 in 2016.

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 other sales.

System Sales and Licenses

Revenue from systems that have been demonstrated to meet customer specifications during installation is recognized when evidence of an arrangement exists, the product has been delivered, title and risk of loss have transferred to the customer and collection of the resulting receivable is reasonably assured. System sales, which are accounted for as multiple-element arrangements, include multiple products and/or services. For multiple-element arrangements, the Company allocates the revenue to each element based on the hierarchy of estimated selling price for the deliverables. The selling price for each deliverable will be based on vendor specific objective evidence (VSOE), Third Party Evidence ("TPE") if VSOE is not available, or estimated selling price if neither VSOE or TPE is available. The Company recognizes the associated revenue when all revenue recognition criteria have been met for each element. If there are contracts the Company does not have VSOE of all elements, the Company would follow the selling price hierarchy to allocate arrangement consideration.

The Company does offer its customers contracts with extended payment terms. The Company must evaluate if any extended payment terms in the contract is an indicator of the revenue not being fixed or determinable. Provided all other revenue recognition criteria have been satisfied, the Company recognizes the revenue if payment of a significant portion of the systems sales is due within 12 months of the delivery of the product. The Company also analyzes its standard business practice of using long-term contracts and the history of collecting on extended payment term contracts without making concessions for determining if revenue should be recognized. Revenue and associated 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 the 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.

Deferred System Sales Costs

Deferred system sales costs consist of installed system costs incurred on participation-based contracts. These costs are recognized on a straight-line basis over the term of the contract which is generally 18-48 months beginning when revenues are generated. At the end of the contract period, the customer will usually receive title to the system.

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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. The Company evaluates its allowance based on historical experience. 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.

Inventory

Inventory, consisting of finished goods, is stated at the lower of cost or net realizable value. The average cost method (which approximates first in, first out method) is used to value inventory. Inventory is reviewed annually for the lower of cost or net realizable value and obsolescence. Any material cost found to be above market value or considered obsolete is written down accordingly. The Company had no obsolescence reserve at December 31, 2017 and 2016.

Income Taxes

Income taxes are provided for using the liability method of accounting. A deferred tax asset or liability is recorded for all temporary differences between financial and tax reporting. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. 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. Deferred tax assets and liabilities are adjusted for the effect of changes in tax laws and rates on the date of enactment.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

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Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Table Trac, Inc.

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Table Trac, Inc. (the Company) as of December 31, 2017 and 2016, and the related statements of operations, stockholders' equity, and cash flows for each of the years then ended, and the related notes to the financial statements. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Boulay PLLP

We have served as the Company's auditor since 2015.

Minneapolis, Minnesota

March 30, 2018

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TABLE TRAC, INC.

BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash	$ 1,322,743	$ 102,689
Accounts receivable, net of allowance for doubtful accounts of $181,473 at December 31, 2017 and $200,266 at December 31, 2016	3,053,280	2,807,323
Inventory	466,207	843,233
Prepaid expenses and other current assets	464,385	151,145
Income taxes receivable	0	175,856
TOTAL CURRENT ASSETS	5,306,615	4,080,246
LONG-TERM ASSETS		
Patent, net	0	273
Property and equipment, net	71,786	33,426
Other long-term assets	967,092	1,291,519
Deferred tax asset	0	154,000
Long-term accounts receivable – financed contracts	1,515,120	1,421,330
TOTAL LONG-TERM ASSETS	2,553,998	2,900,548
TOTAL ASSETS	$ 7,860,613	$ 6,980,794
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 635,112	$ 473,336
Payroll liabilities	30,085	27,800
Current portion of notes payable	0	7,096
Deferred revenue - short-term	18,168	30,960
Deferred tax liability	0	914,000
TOTAL CURRENT LIABILITIES	683,365	1,453,192
LONG-TERM LIABILITIES		
Notes payable, net of current portion	0	18,096
Deferred revenue - long-term	3,313,772	2,745,081
Deferred tax liability	516,000	0
TOTAL LIABILITIES	4,513,137	4,216,369
STOCKHOLDERS' EQUITY		
Common stock, $0.001 par value; 25,000,000 shares authorized: 4,656,734 shares issued, and 4,511,965 shares outstanding at December 31, 2017 and December 31,	4,512	4,512

2016		
Additional paid-in capital	1,809,511	1,809,511
Retained earnings	1,679,813	1,096,762
	3,493,836	2,910,785
Treasury stock, 144,769 shares (at cost) at December 31, 2017 and December 31, 2016	(146,360)	(146,360)
TOTAL STOCKHOLDERS' EQUITY	3,347,476	2,764,425
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 7,860,613	$ 6,980,794

The accompanying notes are an integral part of these financial statements.

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TABLE TRAC, INC.

STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2017	2016
Revenues	$6,380,367	$5,836,382
Cost of sales	1,948,175	1,656,239
Gross profit	4,432,192	4,180,143
Operating expenses:		
Selling, general and administrative	4,107,117	3,976,211
Income from operations	325,075	203,932
Loss on currency exchange	(10,912)	(23,615)
Interest income	102,888	98,534
Income before taxes	417,051	278,851
Income tax expense (benefit)	(166,000)	136,000
Net income	$583,051	$142,851
Net income per share - basic and diluted	$0.13	$0.03
Weighted-average shares outstanding - basic and diluted	4,511,965	4,516,171

The accompanying notes are an integral part of these financial statements.

TABLE TRAC, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Outstanding		Additional			
	Number of Shares	Par Amount	Paid-in Capital	Retained Earnings	Treasury Stock	Total
BALANCE, DECEMBER 31, 2015	4,533,265	$4,534	$1,806,526	$953,911	$(123,542)	$2,641,429
Common stock awarded to board member from treasury for 2016	15,000	15	2,985	0	13,500	16,500
2016 Shares repurchased into treasury	(36,300)	(37)	0	0	(36,318)	(36,355)
2016 Net income	0	0	0	142,851	0	142,851
BALANCE, DECEMBER 31, 2016	4,511,965	$4,512	$1,809,511	$1,096,762	$(146,360)	$2,764,425
2017 Net income	0	0	0	583,051	0	583,051
BALANCE, DECEMBER 31, 2017	4,511,965	$4,512	$1,809,511	$1,679,813	$(146,360)	$3,347,476

The accompanying notes are an integral part of these financial statements.

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TABLE TRAC, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31, 2017	2016
OPERATING ACTIVITIES		
Net income	$ 583,051	$ 142,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	33,222	22,473
Deferred income taxes	(244,000)	294,000
Bad debt expense	131,454	14,869
Gain on sale of asset	(1,500)	0
Stock issued for services	0	16,500
Changes in operating assets and liabilities:		
Accounts receivable	(471,201)	(179,307)
Inventory	377,026	(187,096)
Prepaid expenses and other assets	11,186	(64,698)
Accounts payable and accrued expenses	99,149	60,101
Payroll liabilities	2,285	(1,644)
Deferred revenue	555,899	(152,236)
Income taxes receivable and payable	238,483	(107,755)
Net cash provided by (used in) operating activities	1,315,054	(141,942)
INVESTING ACTIVITIES		
Capital expenditures	(38,875)	0
Proceeds from sale of asset	1,500	0
Net cash used in investing activities	(37,375)	0
FINANCING ACTIVITIES		
Payments on notes payable	(57,625)	(8,119)
Repurchase of common stock	0	(36,355)
Net cash used in financing activities	(57,625)	(44,474)
NET INCREASE (DECREASE) IN CASH	1,220,054	(186,416)
CASH		
Beginning of period	102,689	289,105
End of Period	$ 1,322,743	$ 102,689
Non-cash investing and financing activities:		
Capital expenditure financed with note payable	$ 32,435	$ 0

The accompanying notes are an integral part of these financial statements.

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TABLE TRAC INC.

Notes to Financial Statements

December 31, 2017 and 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Company

Table Trac, Inc. (the Company) 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 patented a proprietary information and management system that automates and monitors the operations of casino games.

The Company 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 an annual license and service contract.

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. On an on-going basis, the Company evaluates these estimates, including those related to revenue recognition, bad debts, valuation of inventory, and deferred income taxes. Actual results could differ from those estimates.

Concentrations of Risk

Cash Deposits in Excess of Federally Insured Limits

The Company maintains its cash balances at two financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times throughout the year, the Company’s cash balances may exceed amounts insured by the FDIC. The Company doesn’t believe it is exposed to any significant credit risk on its cash balances.

Major Customers

The following table summarizes significant customer information for the years ended December 31, 2017 and 2016:

	For the Years ended December 31			
	2017		2016	
	% Revenues	**% AR**	**% Revenues**	**% AR**
A	10.4 %	6.5 %	11.4 %	19.8 %
B	12.8 %	0.0 %	14.1 %	8.2 %
C	2.2 %	12.9 %	0.0 %	0.0 %
All Others	74.6 %	80.6 %	74.5 %	72.0 %
Total	100.0 %	100.0 %	100.0 %	100.0 %

Revenue Recognition