TABLE TRAC INC
Form 10-K
March 29, 2012

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, 2011

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 o 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 o 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 o

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. o

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 o

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 o Accelerated filer o Non-accelerated filer o Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule12b-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, 2011 was approximately $2.97 million based on the closing sales price of the registrant's common stock on that date ($1.00 per share). As of March 29, 2012, the Company had outstanding 4,704,305 shares of common stock, $0.001 par value.

DOCUMENTS INCORPORATED IN PART BY REFERENCE

None.

Table Trac, Inc.
Table of Contents

	Page
PART I.	
Item 1. Business	1
Item 1A. Risk Factors	3
Item 2. Properties	8
Item 3. Legal Proceedings	8
Item 4. Mine Safety Disclosures	8
PART II.	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	8
Item 6. Selected Financial Data	10
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation	10
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	14
Item 8. Financial Statements and Supplementary Data	15
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	30
Item 9A. Controls and Procedures	30
Item 9B. Other Information	31
PART III.	
Item 10. Directors, Officers and Corporate Governance	32
Item 11. Executive Compensation	37
Item 12. Security Ownership of Certain Beneficial Owners and Management	38
Item 13. Certain Relationships and Related Transactions and Director Independence	39
Item 14. Principal Accountant Fees and Services	40
PART IV.	
Item 15. Exhibits and Financial Statement Schedules	41
SIGNATURES	42

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 any 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. The Company has increased its sales and marketing efforts along with its trade show and conference presence.

TABLE TRAC INSTALLATIONS

Table Trac currently has casino management systems installed with on-going support and maintenance contracts at thirty-five 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 manufacturers 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, 2011, the Company had 16 full-time equivalents with an employee headcount of 17, and engaged the full-time services of approximately 3 contract specialists during the course of the year.

BUSINESS SEGMENTS

The Company operates as one reporting segment.

RECENT DEVELOPMENTS

In 2011, Table Trac completed its development efforts on several strategic initiatives, including the completion of its latest Table Games Management System, the TTRac2 Pit Management System and the completion of its latest Casino Management System (v4). The Company began rolling out these new products to new and existing customers.

The Company signed four new customers in 2011 representing five casino management system sales at eight facilities, and expanded the Company's presence into two new jurisdictions, Nevada and Curacao in the Netherland Antilles in the Caribbean. Since 2010, the Company has installed casino management system in fifteen casinos worldwide, bringing the number of casinos using the Company's casino management system and TableTrac™ table games management system to thirty-seven.

In 2011, the Company hired its first, full-time Chief Financial Officer, Brian Hinchley, and elevated Glenn Goulet from Executive Vice President to Chief Executive Officer. Chad Hoehne the Company's founder and President retained the titles of President and Chief Technology Officer.

At its annual shareholder meeting in June 2011, two new independent board members were elected, Louis Fornetti and Gary Loebig. The Board elected Steven A. Browne chairman. Starting with the second quarter in 2011, the Company began holding quarterly investor conference calls to update shareholders on the Company and its activities.

In September 2011, the Company announced a distribution agreement with Tipping Point Gaming, LLC for the PlayItVision™ system, a universal picture-in-picture style marketing and media delivery platform right at the point of play. PlayItVision provides players and operators with a menu of information, service and promotional options right at the point of play through the gaming machine video. When players insert their players club card into the machine, a player-user-interface, customized to meet the casinos' needs appears on the main game screen where operators can enhance the players club experience, provide unique bonus features, accept additional wagers from other gaming systems and ultimately enhance player loyalty and operator profits.

In December 2011, Table Trac submitted its latest CasinoTrac casino management system to an independent gaming laboratory, Gaming Laboratories International, Inc. for industry standards testing.

During 2011, the Company participated in several key industry trade shows and conferences, including the Caribbean Gaming Show, the National Indian Gaming Association Trade Show and Conference, G2E Asia, CasinoFest, the Oklahoma Indian Gaming Association Trade Show and Conference, Raving's Casino Marketing Conference and the Global Gaming Expo (G2E), the industry's premier event.

In the first quarter of 2012, the Company participated in the ICE Totally Gaming Show, the 14th Indian Gaming Marketing Conference and the California Nations Indian Gaming Association Conference. Also, in the first quarter the Company signed a dealer agreement with CountR, a worldwide company specializing in cash handling and coinless gaming kiosks for the gaming industry. The distribution 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 the first quarter of 2012, the Company installed casino management systems at two casinos in the U.S. and Caribbean, the Moapa Band of Paiute Indians outside of Las Vegas, Nevada and the Coral Casino Bonaire on the island of Bonaire in the Dutch Caribbean, respectively.

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.

4

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 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 2011 and 2010. 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.

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

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

	2010	
Price per Share Calendar Year	High	Low
Annual Price per Share	$2.50	$1.10
First Quarter, January -March	$1.51	$1.10
Second Quarter, April - June	$2.50	$1.20
Third Quarter, July - September	$2.25	$1.60
Fourth Quarter, October - December	$2.00	$1.40

8

Holders: As of March 29, 2012, the Company had outstanding 4,704,305 shares of common stock held by approximately 200 holders of record.

Dividends: No dividends were declared or paid in 2011 or 2010.

Securities Authorized Under Equity Compensation Plans: The table below sets forth certain information, as of the close of business on December 31, 2011, 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 securityholders	70,000	$ 1.75	300,000	(1)
Plan reached the expiration date on May 16, 2011			(300,000	)
Balance at December 31, 2011			0	
Equity compensation plans not approved by securityholders				

(1) The Company is not required by applicable state law or the listing standards of any self-regulatory organization (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 2011, the Company made the following issuances and sales of unregistered securities:

In April 2011, the Company issued 37,000 shares of common stock to directors for a total director compensation expense of $55,500. The expense is for services rendered during the period from April 2011 through March 2012,

with $49,500 total expense in 2011. The shares were issued pursuant to the exemption set forth in Sections 4(2) and 4(5) of the Securities Act on the basis that all recipients of such shares were directors of the Company.

In July 2011, the Company issued 36,000 shares of common stock to directors for a total director compensation expense of $36,000. The expense is for services rendered during the period from July 2011 through June 2012, with $18,000 total expense in 2011. The shares were issued pursuant to the exemption set forth in Sections 4(2) and 4(5) of the Securities Act on the basis that all recipients of such shares were directors of the Company.

In July 2011, the Company issued 45,000 shares of common stock to employees for a total compensation expense of $45,000 in 2011. 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.

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 presently shares of common stock issued and outstanding are fully-paid and non-assessable.

9

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 and 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, 2011 was $834,665, a decrease of $100,636 from $935,301 at December 31, 2010. 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 $29,994. 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, 2011 was ($72,412) compared with net cash flows provided by operating activities of ($334,973) for the same period in 2010. This change of $262,561 was caused primarily by two large financed installations of management systems which affected accounts receivable and deferred revenue.

Net cash flows used in investing activities was ($25,498) during the year ended December 31, 2011, compared to ($92,859) for the same period in 2010. This change of $67,361 was primarily due to reduced cost related to rental programs compared to 2010.

Net cash provided by (used in) financing activities was $2,726 during the year ended December 31, 2011, compared to net cash flows received in financing activities of $42,187 for the same period in 2010. The change of $ 39,461 was due to the $42,187 cash received from the exercise of outstanding options in October 2010 compared to none in 2011.

On December 31, 2011, total stockholders' equity was $2,536,750. This compared to a stockholders' equity of $2,823,207 in 2010, which is a decrease of $286,457 or 10.1%.

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, 2011 COMPARED TO YEAR ENDED DECEMBER 31, 2010

The most significant events that affected the 2011 results of operations were the Company's (1) installation of eight casino management systems at five operating entities, (2) completion of our latest Casino Management System (v4) along with the completion of our new Table Games Management System, and (3) the restructuring of the senior management team, including the hiring of a Chief Financial Officer. In 2011, the Company embarked on an aggressive sales and marketing campaign that saw an increased participation in trade shows and conferences that, in the end, increased our industry visibility. In addition, the Company increased R&D resources to develop new technologies and products.

We have increased recurring revenue by 62% or roughly $59,000 per month from December 2010 to 2011.

Inflation for the previous three years ended December 31, 2011 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 decreased from $3,024,653 in 2010 to $2,623,819 in 2011. The decrease of $400,834 was due to the fact that although we installed our Table Trac Systems at five operating entities in 2011, two of the systems installed in at the end of 2011 are being recognized monthly over multiple years due to the contract extended payment terms not meeting the criteria for immediate revenue recognition. Ongoing maintenance revenue has increased from $925,704 in 2010 to $926,775 in 2011, an increase of $1,071 (or .1%). Other sales, which includes monthly rental and contracts recognized monthly over multiple years, has increased from $441,074 in 2010 to $505,397 in 2011, an increase of $64,323 (or 14.6%).

A breakout of revenue type is as follows:

	For the Years Ended December 31,			
	2011	2010	2011	2010
			(percent of revenues)	
System sales	$1,191,647	$1,627,885	45.4 %	53.8 %
License and maintenance fees	926,775	955,694	35.3 %	31.6 %
Other sales	505,397	441,074	19.3 %	14.6 %
Total revenues	$2,623,819	$3,024,653	100.0%	100.0%

Cost of sales decreased to $685,273 in 2011 from $703,306 in 2010. The decrease of $18,033 was primarily due to fewer system sales in 2011 compared to 2010.

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

	For the Years Ended December 31,			
	2011	2010	2011	2010
			(percent of revenues)	
System sales	384,676	$486,738	14.7%	16.1%
License and maintenance fees	137,450	178,350	5.2 %	5.9 %
Other sales	163,147	38,218	6.2 %	1.3 %
Total cost of sales	$685,273	$703,306	26.1%	23.3%

Deferred revenues – short term increased to $45,600 in 2011 from $25,000 in 2010. The balance represents down payments received for system installations on order at year-end. 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, 2011 and 2010, the Company was not in the process of actively installing any new Table Trac systems.

Deferred revenues – long term increased to $1,228,629 in 2011 from $0 in 2010. 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 2011 represents two contracts which were signed and installed during the year.

The gross margin in 2011 was $1,938,546 or 73.9% of sales compared with $2,321,347 or 76.7% of sales in 2010. The decrease of gross margin was primarily due to hardware being a higher percentage of system sales in 2011 compared to 2010.

Total operating expenses increased from $2,238,412 in 2010 to $2,678,231 in 2011. This 19.6% increase of $439,819 was primarily due to investing in the areas of development and sales and marketing. Meanwhile, an increase in total wages of $246,450 was due to additional employees in 2011, but was partially offset by a decrease of $13,180 in amounts paid contractors for services rendered.

Interest / Other income has increased in 2011 to a net amount of $87,556 from $63,888 in 2010; the 37.0% increase of $23,668 is due to a greater amount of long-term financed contracts in 2011compared to 2010.

The provision (benefit) for income taxes was ($229,172) in 2011, for an effective rate of (35.1%), compared to a provision for income taxes of $22,700 for an effective rate of 15.5% in 2010. The change in rates is primarily due to in

2011 the loss was for both tax and financial purposes, but in 2010 the results were a loss for tax, but a profit for financial results.

The net income (loss) for 2011 was ($422,957) compared to $124,123 for 2010 which is a decrease of $547,080.

The basic earnings (loss) per share in 2011 was ($0.09) compared to $0.03 in 2010.

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, rental, and participation-based agreements.

System Sales

Revenue from systems that have been demonstrated to meet customer specifications during installation is recognized when evidence of an arrangement exists, the product has been installed, title and risk of loss have transferred to the customer and collection of the resulting receivable is reasonably assured. System sales, which are accounted for as multiple-element arrangements, include multiple products and/or services. For multiple-element arrangements, the Company allocates the revenue to each element based on their 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 has 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.

Service revenue

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

Rental revenue

In 2010, the Company began offering certain new customers a rental contract. Revenues are billed and recognized 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

Accounts receivable are recorded at the invoiced amount. Any accounts receivable amount relating to a sales installment contract greater than twelve months beyond the calendar year end is recorded as a long term asset and is classified as “accounts receivable, financed contracts - long term”. 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.

13

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

	December 31, 2011	December 31, 2010
Accounts receivable under normal 30 day terms	$ 875,013	$ 554,963
Financed contracts:		
Short-term	357,567	481,289
Current portion of long-term	987,501	828,170
Long-term, net of current portion	1,062,709	260,430
Total accounts receivable	3,282,790	2,124,852
Unbilled accounts receivable	-	14,195
Less allowance for doubtful accounts	(237,844)	(179,416)
Accounts receivable, net	$ 3,044,946	$ 1,959,631

Inventory

Inventory comprised of finished goods and work in process is stated at the lower of cost or market. The average cost method is used to value inventory. Inventory is reviewed annually for the lower of cost or market and obsolescence. Any material cost found to be above market value or considered obsolete is written down accordingly. The Company had no obsolescence reserve at December 31, 2011 and 2010.

Long-lived Assets

The Company periodically assesses the recoverability of long-lived assets and certain identifiable intangible assets by reviewing for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future un-discounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Stock-based Compensation

The Company recognizes the cost of stock-based compensation plans and awards in operations on a straight-line basis over the vesting period of the awards. The Company measures and recognizes compensation expense for all

stock-based payment awards made to employees and directors. The compensation expense for the Company's stock-based payments is based on estimated fair values at the time of the grant.

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.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders, Audit Committee and Board of Directors

Table Trac, Inc.

Minnetonka, MN

We have audited the accompanying balance sheets of Table Trac, Inc. as of December 31, 2011 and 2010, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of its internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Table Trac, Inc. as of December 31, 2011 and 2010 and the results of their operations and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

/s/ Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota

March 29, 2012

15

TABLE TRAC, INC.

BALANCE SHEETS

	December 31, 2011	December 31, 2010
CURRENT ASSETS		
Cash	$ 834,665	$ 935,301
Accounts receivable, net of allowance for doubtful accounts of $237,844 at December 31, 2011 and $179,416 at December 31, 2010	1,982,237	1,699,201
Inventory	150,593	151,254
Prepaid expenses	61,544	133,262
Other current assets	18,296	9,954
Income taxes receivable	74,683	260,618
TOTAL CURRENT ASSETS	3,122,018	3,189,590
LONG-TERM ASSETS		
Patent, net	7,097	8,461
Property and equipment, net	54,606	41,641
System under rental program, net	64,783	61,214
Other long term assets	258,522	2,060
Deferred tax asset	14,000	18,000
Long-term accounts receivable – financed contracts	1,062,709	260,430
TOTAL LONG-TERM ASSETS	1,461,717	391,806
TOTAL ASSETS	$ 4,583,735	$ 3,581,396
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 135,456	$ 93,648
Payroll liabilities	27,359	-
Current portion of note payable	10,907	-
Deferred revenue - short term	45,600	25,000
Deferred tax liability	579,947	639,541
TOTAL CURRENT LIABILITIES	799,269	758,189
LONG-TERM LIABILITIES		
Note payable, net of current portion	19,087	-
Deferred revenue - long term	1,228,629	-
TOTAL LIABILITIES	2,046,985	758,189
STOCKHOLDERS' EQUITY		
Common stock, 0.001 par value; 25,000,000 shares authorized: 4,704,305 and 4,586,305 shares issued and outstanding at December 31, 2011 and December 31, 2010	4,704	4,586
Additional paid-in capital	1,818,613	1,682,231

	2011	2010
Retained earnings	714,855	1,137,812
	2,538,172	2,824,629
Treasury stock, 1,000 shares (at cost) at December 31, 2011 and December 31, 2010	(1,422)	(1,422)
TOTAL STOCKHOLDERS’ EQUITY	2,536,750	2,823,207
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 4,583,735	$ 3,581,396

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

TABLE TRAC, INC.

STATEMENTS OF OPERATIONS

	For the Years Ended December 31,	
	2011	2010
Revenues	$2,623,819	$3,024,653
Cost of sales	685,273	703,306
Gross profit	1,938,546	2,321,347
Operating Expenses:		
Selling, general and administrative	2,678,231	2,238,412
Income (loss) from operations	(739,685)	82,935
Interest / Other income	87,556	63,888
Income (loss) before taxes	(652,129)	146,823
Income tax expense (benefit)	(229,172)	22,700
Net income (loss)	$(422,957)	$124,123
Basic earnings (loss) per common share	$(0.09)	$0.03
Weighted-average basic shares outstanding	4,652,382	4,281,523
Diluted earnings (loss) per common share	$(0.09)	$0.03
Weighted-average diluted shares outstanding	4,652,382	4,281,523

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

TABLE TRAC, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Number of Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
BALANCE, DECEMBER 31, 2009	4,162,234	$4,162	$1,404,619	$1,013,689	$(1,422)	$2,421,048
Common stock issued to board of directors for 2010-2011 compensation	67,571	68	118,181			118,249
Common stock issued to investors relations for 2010-2011 compensation	25,000	25	61,225			61,250
Stock options from 2003 & 2007 exercised October 2010	337,500	337	41,850			42,187
Cancel shares never earned nor issued for consultant services contingently reserved for in 2008	(6,000)	(6)	(15,744)	-	-	(15,750)
Black Sholes computation for November 2010 stock options granted			72,100		-	72,100
2010 Net Income				124,123		124,123
BALANCE, DECEMBER 31, 2010	4,586,305	$4,586	1,682,231	1,137,812	(1,422)	2,823,207
Common stock issued to board of directors for 2011-2012 compensation	73,000	73	91,427			91,500
Common stock issued to employees for services	45,000	45	44,955	-	-	45,000
2011 Net Loss				(422,957)		(422,957)
BALANCE, DECEMBER 31, 2011	4,704,305	$4,704	$1,818,613	$714,855	$(1,422)	$2,536,750

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

TABLE TRAC, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2011	2010
OPERATING ACTIVITIES		
Net income (loss)	$(422,957)	$124,123
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	43,048	24,480
Allowance for other current assets	9,631	-
Deferred income taxes	(55,594)	38,541
Gain on sale of property and equipment	-	(952)
Allowance for doubtful accounts receivable	58,428	(2,177)
Stock issued for services	101,416	135,458
Cancellation of shares to a consultant not earned or issued	-	(15,750)
Stock compensation expense	55,125	72,100
Changes in operating assets and liabilities:		
Accounts receivable	(1,143,743)	(560,864)
Inventory	661	38,228
Prepaid expenses and other assets	(222,758)	(78,927)
Accounts payable and accrued expenses	41,808	(46,049)
Payroll liabilities	27,359	-
Deferred revenue	1,249,229	25,000
Income taxes receivable	185,935	(88,184)
Net cash used in operating activities	(72,412)	(334,973)
INVESTING ACTIVITIES		
Purchase of domain name	-	(2,060)
Purchase of property and equipment	-	(31,753)
Proceeds from sale of property and equipment	-	5,500
Purchase of system under rental program	(25,498)	(64,546)
Net cash used in investing activities	(25,498)	(92,859)
FINANCING ACTIVITIES		
Stock options exercised	-	42,187
Payments on long-term debt	(2,726)	-
Net cash provided by (used in) financing activities	(2,726)	42,187
NET DECREASE IN CASH	(100,636)	(385,645)

CASH		
Beginning of year	935,301	1,320,946
End of year	$834,665	$935,301
Cash received from (paid for) income taxes	$374,032	$(40,000)
Non-cash investing and financing		
Purchase of vehicle with note payable	$32,720	$-
Restricted stock issued for future services	$-	$61,250
Common stock issued for future services	$136,500	$118,249

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

19

TABLE TRAC INC.

Notes to Financial Statements

December 31, 2011 and 2010

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. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. The balance sheet reclassification was a change in the presentation of an allowance for a current asset, which had previously been included in the allowance for doubtful accounts. These reclassifications had no effect on reported net loss.

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 up to $250,000. The Company had approximately $470,000 and $435,000 of uninsured cash balances at December 31, 2011 and 2010, respectively.

Major Customers

The following table summarizes significant customer information for the years ended December 31, 2011 and 2010:

	For the Years Ended December 31,			
	2011		2010	
	% Sales	% AR	% Sales	% AR
A	21.8 %	11.6 %	27.1 %	27.0 %
B	13.0 %	32.1 %	0.0 %	0.0 %
C	11.4 %	5.6 %	0.0 %	0.0 %
D	4.1 %	6.7 %	19.5 %	23.3 %
E	6.1 %	9.3 %	6.2 %	14.6 %
F	2.9 %	20.0 %	0.0 %	0.0 %
All Others	40.7 %	14.7 %	47.2 %	35.1 %
Total	100.0%	100.0%	100.0%	100.0%

20

Revenue Recognition

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

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 has 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

In 2010, the Company began offering 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.

Fair Value of Financial Instruments

The Company’s financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. Fair value estimates are at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and matters of significant judgment and therefore cannot be determined with precision. The Company considers the carrying values of its financial instruments to approximate fair value due to their short-term nature.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company held no cash equivalents at December 31, 2011 or 2010.

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.

Inventory

Inventory is comprised of finished goods and is stated at the lower of cost or market. The average cost method is used to value inventory. Inventory is reviewed annually for the lower of cost or market and obsolescence. Any material cost found to be above market value or considered obsolete is written down accordingly. The Company had no obsolescence reserve at December 31, 2011 and 2010.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets which range from two to five years. Repair and maintenance costs are expensed as incurred; major renewals and improvements are capitalized. As items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in operating income.

failure of the individuals who were directors at the time such plan was adopted and those whose election or nomination to the Board of Directors was approved by a three-fourths vote (two-thirds vote under the 1995 Plan) of the directors then still in office who were directors at the time such plan was adopted, or whose election or nomination was so approved, to constitute a majority of the Board of Directors; acquisition by certain persons or groups of 20% or more of the common stock; approval by the stockholders of a reorganization, merger or consolidation

(except with certain permitted entities); or approval by the stockholders of a complete liquidation or dissolution of Wolverine or the sale or disposition of all or substantially all of the assets of Wolverine (other than to certain permitted entities).

Benefit Trust Agreement. In May 1987, Wolverine established a Benefit Trust (trust) to ensure that payments to employees under the severance agreements, the SERP, the deferred compensation agreements and the indemnity agreements (discussed below) (collectively, the agreements) will not be improperly withheld after a change in control of Wolverine, as defined in the agreement establishing the trust. Under the trust, upon the occurrence of a potential change in control, Wolverine will deliver to the trustee, to be held in trust, cash, marketable securities or insurance corresponding to an amount determined by Wolverine to have a fair market value, together with any existing amounts in the trust, equal to the value of the benefits due to employees under the agreements given certain assumptions set forth in the trust. Additional terms of the trust provide for the return of the property to Wolverine upon written request before a change in control or automatically if no change in control has occurred within six months after funding upon a potential change in control. Wolverine has transferred to the trust insurance policies on the lives of certain key employees.

Indemnity Agreements. Wolverine has entered into indemnity agreements with Messrs. Duffy, Estes, Gulis, Krueger and O Donovan and with each director and executive officer. The indemnity agreements indemnify each director and executive officer against all expenses incurred in connection with any action or investigation involving the director or executive officer by reason of his or her position with Wolverine (or with another entity at Wolverine s request). The directors and executive officers will also be indemnified for costs, including judgments, fines and penalties, indemnifiable under Delaware law or under the terms of any current or future liability insurance policy maintained by Wolverine that covers the directors and executive officers. A director or executive officer involved in a derivative suit will be indemnified for expenses and amounts paid in settlement. Indemnification is dependent in every instance on the director or executive officer meeting the standards of conduct set forth in the indemnity agreements.

Other Plans and Agreements. Severance agreements with various executive officers (described above) provide for cash payments in lieu of outstanding options if a change in control of Wolverine and a subsequent triggering event occur. In addition, the SERP (described above) and the Deferred Compensation Plan (described above) provide for certain benefits and payments if a change in control of Wolverine occurs.

Table of Contents

Compensation Committee Report on Executive Compensation

The Compensation Committee discharges, subject to general review and oversight by the Board, the Board of Directors responsibilities relating to executive compensation and assists the Board in fulfilling its responsibilities relating to Wolverine s compensation and benefit programs and policies. The Compensation Committee also administers and makes recommendations with respect to Wolverine s compensation plans and reviews and approves (in conjunction with the other independent directors in the case of the Chief Executive Officer) the compensation of key senior executives. The Compensation Committee currently consists of three directors, none of whom is a current or former employee of Wolverine or its subsidiaries and all of whom are independent under applicable New York Stock Exchange and SEC standards.

The Compensation Committee consults with independent compensation consulting firms as necessary from time to time to: assist the Compensation Committee in formulating Wolverine s compensation policies; provide advice to the Compensation Committee concerning specific compensation packages and appropriate levels of executive and Board of Director compensation; provide advice about competitive levels of compensation; and review and recommend changes in the compensation system and programs of Wolverine.

The basic compensation philosophy of the Compensation Committee and Wolverine is to provide competitive salaries as well as competitive incentives to achieve superior financial performance. Wolverine s executive compensation policies are designed to achieve four primary objectives:

- attract and retain well-qualified executives who will lead Wolverine and achieve and inspire superior performance;
- provide incentives for achievement of specific short-term individual, business unit and corporate goals;
- provide incentives for achievement of longer-term financial goals; and
- align the interests of management with those of the stockholders to encourage achievement of continuing increases in stockholder value.

Executive compensation at Wolverine consists primarily of the following components:

- base salary and benefits;
- amounts paid, if any, under the Amended and Restated Executive Short-Term Incentive Plan (the Annual Bonus Plan);
- amounts paid, if any, under the Amended and Restated Executive Long-Term Incentive Plan (3-Year Bonus Plan) (the LTIP);
- amounts paid, if any, as individual-specific bonuses designed to encourage achievement of individual goals; and
- participation in Wolverine s stock option and equity-based incentive plans.

Each component of compensation is designed to accomplish one or more of the four compensation objectives described above.

Management recommends the participation of specific executive officers and other key employees in the Annual Bonus Plan, the LTIP and Wolverine s stock option and equity-based incentive plans. All such recommendations (including the level of participation) are reviewed, modified (to the extent appropriate) and approved by the Compensation Committee. Senior executive officers are normally eligible to receive a greater percentage of their potential compensation in the form of awards under these incentive plans to reflect the Compensation Committee s belief that the percentage of an executive s total compensation that is at risk should increase as the executive s responsibilities and ability to influence profits increase.

Section 162(m) of the Internal Revenue Code provides that publicly held companies may not deduct compensation paid to certain executive officers in excess of $1,000,000 annually, with certain exceptions for qualified performance-based compensation. Wolverine has obtained stockholder approval of the Annual Bonus Plan, the LTIP, and the 1997, 1999, 2001 and 2003 stock incentive plans to permit amounts payable under the Annual Bonus Plan and the LTIP and awards of stock options granted under the 1997, 1999, 2001 and 2003 plans to qualify as performance-based compensation for purposes of Section 162(m). Because incentives under these plans are not included in the $1,000,000 limit for purposes of calculating Wolverine s deduction for compensation paid to its executive officers, Wolverine believes its compensation policies reflect due consideration of Section 162(m).

Table of Contents

Base Salary

To attract and retain well-qualified executives, the Compensation Committee seeks to establish base salaries at levels and provide benefit packages that are competitive. The Compensation Committee determines the base salaries of executives by comparing each executive s position with similar positions in companies of similar type, size and financial performance. Although some other footwear companies are among the companies included in the comparison group, this group is not limited to footwear companies because Wolverine competes for talent with a wide range of corporations. In general, the Compensation Committee has targeted salaries to be at the median to slightly below the median percentile of base salaries paid for comparable positions with similar companies. Other factors considered by the Compensation Committee are the executive s performance, the executive s current compensation and Wolverine s or the applicable business unit s performance (determined by reference to pre-tax levels of profit and levels of sales).

Although the Compensation Committee does not give specific weight to any particular factor, the most weight is given to the executive s performance (in determining whether to adjust above or below the current salary level), and a significant but lesser weight is generally given to the comparative data. In general, base salaries for Wolverine s executive officers during 2003 were near the median of salaries paid by companies included in the comparison group. The 2003 average base salary of executive officers increased over the previous year s level as a result of a combination of factors, including improved individual performance, improved or continued excellent performance by the applicable business unit and Wolverine, promotions and increased responsibilities.

Annual Bonus Plan

To provide incentives and rewards for achievement of short-term business unit goals, the Annual Bonus Plan was designed to provide key employees with the opportunity for bonuses based on the performance of Wolverine and/or the performance of its subsidiaries, operating divisions or profit centers. The Annual Bonus Plan was most recently approved by stockholders at the 2002 annual meeting of stockholders. The Annual Bonus Plan continues the annual bonus policy that Wolverine has used for many years. A target bonus goal (the target bonus), expressed as a percentage of the participant s base salary, is established by the Compensation Committee. The Compensation Committee then establishes incentive bonus levels, expressed as a percentage of the target bonus, that are paid to the participant at specified levels of performance by Wolverine, the subsidiary, operating division or profit center.

Incentive bonus as used in the Annual Bonus Plan means an annual bonus awarded and paid to a participant for services to Wolverine during a fiscal year that is based upon achievement of pre-established financial objectives of Wolverine or a subsidiary, operating division or profit center. The incentive bonus levels may be expressed as either: (i) a matrix of percentages of the target bonus that would be paid at specified levels of performance; or (ii) a mathematical formula that determines the percentage of the target bonus that would be paid at varying levels of performance. Performance of Wolverine and/or its subsidiaries, operating divisions or profit centers is determined by reference to one or more of the following: net earnings, net earnings before taxes, operating income, revenues, net sales, net sales and other operating income, return on sales, return on equity, earnings per share, total stockholder return, economic value added measurements, return on assets, return on invested capital or any of the foregoing before or after the effect of acquisitions, divestitures, accounting changes, restructuring or other special charges or extraordinary items. These factors may be measured against pre-determined levels or Wolverine s relative performance when compared to a pre-established peer group. Payment of an incentive bonus to a participant for a fiscal year under the Annual Bonus Plan is entirely contingent upon achievement of the performance levels established by the Compensation Committee. All determinations to be made by the Compensation Committee for a fiscal year are made by the Compensation Committee during the first 90 days of each fiscal year. The two primary measures of corporate performance in 2003 were pre-tax profits and sales.

During fiscal 2003, executive officers were generally targeted to receive from 14% to 48% of their annual salaries in bonus compensation. In determining these percentages, the Compensation Committee considered each executive s position, competitive incentives and the executive s aggregate incentive compensation potential under all of Wolverine s plans. The percentage of total compensation represented by annual bonuses is generally higher for more senior executives to reflect their greater influence on profits

Table of Contents

and sales and to put a larger percentage of their total potential cash compensation at risk.

For 2003, Wolverine s sales performance was slightly under the maximum goal (the stretch goal) and the pre-tax profit performance achieved was slightly above the stretch goal. Accordingly, executive officers received bonuses under the Annual Bonus Plan at or near stretch-goal levels.

Long-Term Plan

To provide incentives and rewards for longer-term planning and decision-making and the achievement of longer-term corporate performance goals, the LTIP provides the opportunity for additional compensation based upon the achievement of company financial performance goals over a three-year period. Stockholders most recently approved the LTIP at the 2002 annual meeting of stockholders. The LTIP continues the long-term incentive bonus policy that Wolverine has used for many years. The primary purposes of the LTIP and prior long-term bonus plans are to provide significant incentive and to foster cooperation among all business units so the long-term earnings performance of Wolverine and total stockholder return is substantially improved. The primary concept of the LTIP is to establish financial performance goals for each three-year time period for Wolverine. New performance periods begin each fiscal year and end three full fiscal years later. The Compensation Committee establishes the goals during the first 90 days of each three-year performance period.

Awards under the LTIP are based on a percentage of average annual earned salary during the three-year period. For each participant in each three-year period, the Compensation Committee specifies a target bonus goal (the target bonus), expressed as a specified dollar amount or as a percentage of the participant s average annual earned salary, and incentive bonus levels, expressed as a percentage of the target bonus, that will be paid to the participant at specified levels of performance. Incentive bonus as used in the LTIP means a bonus awarded and paid to a participant for services to Wolverine or a subsidiary, operating division or profit center during a three-year period, which bonus is based upon achievement of previously-established financial objectives by Wolverine. The incentive bonus levels may be expressed as either: (i) a matrix of percentages of the target bonus that will be paid at specified levels of performance; or (ii) a mathematical formula that determines the percentage of the target bonus that will be paid at varying levels of performance. Performance is determined by reference to one or more of the following: net earnings, net earnings before taxes, operating income, revenues, net sales, net sales and other operating income, return on sales, return on equity, earnings per share, total stockholder return, economic value added measurements, return on assets, return on invested capital or any of the foregoing before or after the effect of acquisitions, divestitures, accounting changes, restructuring or other special charges or extraordinary items. These factors may be measured against pre-determined levels or Wolverine s relative performance when compared to a pre-established peer group. If the minimum three-year targeted goal is not achieved, no bonus will be paid. For the 2003-2005 performance period, executive officers who participate in the plan are targeted to receive long-term bonus compensation in amounts that range from 25% to 60% of their average annual earned salaries. In determining the percentages, the Compensation Committee considered the factors discussed above in connection with the Annual Bonus Plan and each executive s capacity to affect the long-term performance of Wolverine.

Under the LTIP, amounts payable are paid:

- in cash equal to 50% of the calculated bonus; and
- in shares of restricted stock under existing stockholder-approved plans that have a market value (without factoring in a reduction in value for potential forfeiture and the transfer restrictions) on the date the cash payment is made equal to 70% of the calculated bonus amount.

The restrictions lapse with respect to one-third of the shares of restricted stock on each anniversary of the date of grant.

For the 2001-2003 performance period, performance was determined by reference to earnings per share (EPS). EPS was slightly above the pre-established target performance level for the 2001-2003 performance period under the LTIP and Wolverine paid cash and granted shares of restricted stock to executive officers with respect to the three-year performance period ended January 3, 2004, slightly above target bonus levels.

Table of Contents

Discretionary Bonuses

In addition to bonuses based on corporate performance pursuant to the Annual Bonus Plan, Wolverine generally pays annual incentive bonuses to employees based on individual performance goals. Bonuses based on individual performance are paid on a discretionary basis based on achievement of pre-established personal goals and the performance bonuses for the Chief Executive Officer are paid only after the review and approval of the Compensation Committee. During 2003, discretionary bonuses for employees participating in this plan were generally targeted at 4% to 12% of annual salaries depending upon the executive s level of responsibility, the achievement of threshold earnings requirements and actual graded performance against pre-established personal objectives. Because Wolverine exceeded the threshold earnings goal under the Annual Bonus Plan for fiscal 2003, discretionary bonus payments were made to Wolverine s executive officers for this period based upon achievement of individual performance goals.

Stock Options and Equity-Based Incentive Plans

Awards under Wolverine s stock option and equity-based incentive plans are designed to:

- encourage long-term investment in Wolverine by participating executives;
- more closely align executive and stockholder interests; and
- reward executives and other key employees for building stockholder value.

The Compensation Committee believes stock ownership by management has been demonstrated to be beneficial to all stockholders and stock awards have been granted by Wolverine to executives and other key employees pursuant to various equity-based plans for several decades. The Compensation Committee administers all aspects of these plans and reviews, modifies (to the extent appropriate) and takes final action on any such awards.

Under Wolverine s plans that provide for awards of restricted stock, all of which have been previously approved by the stockholders, the Compensation Committee may grant to executives and other key employees shares of restricted stock. These shares are subject to certain restrictions that, except for shares awarded in connection with the LTIP described above, generally lapse over a period of five years from the date of grant.

Under Wolverine s stock option plans, all of which have been previously approved by the stockholders, the Compensation Committee may grant to executives and other key employees options to purchase shares of stock. Some of Wolverine s stock option plans allow the grant of tax benefit rights. Wolverine has never granted tax benefit rights under its existing plans and has no present intention to do so. The Compensation Committee reviews, modifies (to the extent appropriate) and takes final action on the amount, timing, price and other terms of all options granted to employees of Wolverine. The Compensation Committee grants both incentive stock options and nonqualified options within the meaning of the Internal Revenue Code. Under the terms and conditions of all the plans other than the 2001 plan and the 2003 plan, the Compensation Committee may grant nonqualified options with an exercise price above or below the market price on the date of grant. The 2001 plan and the 2003 plan require that all options have an exercise price equal to or greater than the market value of Wolverine s common stock on the date of grant. Virtually all stock options granted under all of Wolverine s plans have an exercise price equal to the market price of common stock on the date of grant.

In determining the number of shares of restricted stock and/or the number of options to be awarded to an executive, the Compensation Committee generally adheres to a formula which takes into consideration the executive s level of responsibility and compensation practices of similar companies. The Compensation Committee also considers the recommendations of management (except for awards to the Chief Executive Officer), the individual performance of the executive and the number of shares previously awarded to the executive. As a general practice, both the number of shares granted and their proportion relative to the total number of shares granted increase in some proportion to increases in each executive s responsibilities.

Chief Executive Officer

The Chief Executive Officer s compensation is based upon the policies and objectives discussed above. The Chief Executive Officer, however, has a higher percentage of total compensation at risk because a larger percentage of potential compensation is based upon the Annual Bonus Plan, the LTIP, and stock option and restricted stock grants.

For 2003, in setting Mr. O Donovan s base salary and total annual cash compensation, the Compensation Committee compared Mr. O Donovan s cash compensation with that of chief executive officers of companies in the footwear industry and other companies similar to Wolverine in general type and size. Mr. O Donovan s base salary was targeted by the Compensation Committee near the median of salaries paid to chief executive officers by companies included in the comparison group. Mr. O Donovan s base salary for 2003 increased approximately 5% above his 2002 level. Following the 2003 increase, Mr. O Donovan s salary was near the competitive median. At his request, Mr. O Donovan does not have an employment agreement with Wolverine.

Mr. O Donovan s annual incentive bonus under the Annual Bonus Plan was based upon corporate performance goals (100% weighting). The target annual bonus award for Mr. O Donovan under the Annual Bonus Plan was 48% of earned salary. Mr. O Donovan s annual bonus was subject to achievement of minimum goals and his threshold bonus at this level would have been 24% of earned salary. Mr. O Donovan s annual bonus was capped at 96% of earned salary under the Annual Bonus Plan. Corporate performance goals in 2003 were based on Wolverine s achievement of predetermined pre-tax levels of profit (80% weighting) and sales (20% weighting), both of which were set above the prior year s actual results. Mr. O Donovan s target annual discretionary bonus was 12% of earned salary and was capped at 18% of earned salary. Wolverine s sales level was slightly below the pre-established stretch-goal performance in 2003 and Wolverine s profit performance exceeded the pre-established stretch-goal performance levels. Therefore, Mr. O Donovan received a payment under the Annual Bonus Plan and a discretionary bonus based on achievement of individual performance goals for fiscal 2003 near maximum levels.

Mr. O Donovan s LTIP bonus award was based upon financial performance goals for Wolverine expressed in terms of targeted earnings per share that were above budget and prior year s results. Mr. O Donovan s target bonus for the three-year period beginning in 2003 was set at 60% of average annual earned salary for the 2003-2005 plan period. The bonus payout for Mr. O Donovan can range from 0%-200% of the target bonus. Mr. O Donovan received payment and was awarded shares of restricted stock at slightly above pre-established target performance levels for the 2001-2003 performance period under the LTIP because Wolverine met the pre-established level of financial performance for the bonus period.

In 2003, Mr. O Donovan was awarded 18,500 shares of restricted stock and stock options to purchase 76,146 shares of common stock. The amounts of these awards were determined by the Compensation Committee considering the factors discussed above.

Due to Wolverine s 2003 results, Mr. O Donovan s salary, bonus and total cash compensation was above the median for chief executive officers paid by companies included in the previously described comparison group.

All actions and recommendations of the Compensation Committee attributable to 2003 compensation were unanimous and all recommendations were approved and adopted by the Board of Directors without modification.

Respectfully submitted,

Donald V. Fites, Chairman, David P. Mehney, Paul D. Schrage

Selection of Auditors

The Audit Committee has reappointed the firm of Ernst & Young LLP as independent auditors for the current fiscal year.

Ernst & Young LLP, certified public accountants, has audited the financial statements of Wolverine and its subsidiaries for the fiscal year ended January 3, 2004. Representatives of Ernst & Young LLP are expected to be present at the annual meeting, will have an opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from stockholders.

Audit Fees. Ernst & Young LLP billed Wolverine $631,027 in fiscal 2003 and $637,917 in fiscal 2002 for the annual audit, reviews of the financial statements included in Wolverine s Form 10-Q filings and foreign statutory audits.

Audit-Related Fees. Ernst & Young LLP billed Wolverine $116,775 in fiscal 2003 and $56,565 in

fiscal 2002 for assurance and related services that were reasonably related to the performance of the audit or a review of the financial statements and that are not reported as Audit Fees above, including accounting research and employee benefit plan audits.

Tax Fees. Ernst & Young LLP billed Wolverine $514,228 in fiscal 2003 and $1,060,206 in fiscal 2002 for tax compliance, tax advice and tax planning services.

All Other Fees. Ernst & Young LLP billed Wolverine $0 in fiscal 2003 and $92,965 in fiscal 2002 for services other than those described above. These services included actuarial services and Internet security testing.

Pre-Approval Policy. Wolverine s Audit Committee has adopted a policy under which all audit and non-audit services provided to Wolverine by Ernst & Young LLP require pre-approval by the Audit Committee. The Audit Committee provides categorical pre-approval before the beginning of each fiscal year for routine and recurring services provided by Ernst & Young LLP. Items in this category are pre-approved within specific service descriptions and budgets. All audit services and other services that are not within the specifically pre-approved service descriptions and budgets require engagement-specific pre-approval. With certain exceptions such as pre-approval of audit services, engagement-specific pre-approval may be delegated to one or more Audit Committee members. Any services approved by a designated Audit Committee member must be communicated to the full Audit Committee at its next regularly-scheduled meeting. The Audit Committee s pre-approval policy also prohibits Ernst & Young LLP from providing any non-audit services that are prohibited by the Securities and Exchange Commission.

Your Board of Directors recommends that you vote FOR ratification of the reappointment of Ernst & Young LLP.

Audit Committee Report

The Audit Committee of the Board of Directors consists of four non-employee directors who are independent under applicable New York Stock Exchange and SEC standards. The Audit Committee represents and assists the Board of Directors in fulfilling its oversight responsibility regarding the integrity of Wolverine s financial statements and the financial reporting and accounting process, the systems of internal accounting and financial controls, the performance of the internal audit function and the independent auditors, the qualifications and independence of the independent auditors, the annual independent audit of Wolverine s financial statements and compliance with legal and regulatory requirements. The Audit Committee is directly responsible in its capacity as a committee of the Board for appointing, retaining, compensating, overseeing, evaluating and terminating (if appropriate) Wolverine s independent auditors. Wolverine s management has primary responsibility for the financial statements and the reporting process, including the application of accounting and financial principles, the preparation, presentation and integrity of the financial statements, and the systems of internal controls and other procedures designed to ensure compliance with accounting standards and applicable laws and regulations. Wolverine s independent auditors are responsible for expressing an opinion on the conformity of Wolverine s financial statements with generally accepted accounting principles.

The Audit Committee has taken steps to provide assurances regarding Audit Committee composition and procedures, the independence of Wolverine s outside auditors and the integrity of Wolverine s financial statements and disclosures. These steps include: (i) adopting an Audit Committee Charter (attached as Appendix A); (ii) adopting an Accounting and Finance Code of Ethics; (iii) implementing an Accounting and Auditing Complaint Procedure to allow employees, stockholders and the public to report concerns regarding Wolverine s financial statements, internal controls and disclosures; (iv) establishing procedures for the Audit Committee to pre-approve all audit and nonaudit services provided by Wolverine s independent auditors; and (v) increasing the number, frequency and length of Audit Committee meetings.

As part of its supervisory duties, the Audit Committee has reviewed Wolverine s audited financial statements for the fiscal year ended January 3, 2004, and has discussed those financial statements with Wolverine s management, internal financial staff and independent auditors, with and without management present. The Audit Committee has also reviewed and discussed the

following with Wolverine s management, financial staff and independent auditors, with and without management present:

- accounting and financial principles and significant assumptions, estimates and matters of judgment used in preparing the financial statements;
- allowances and reserves for accounts receivable, inventories, taxes and fringe benefits;
- accounting for acquisitions, pension plans and equity-based compensation plans;
- goodwill impairment analysis; and
- other significant financial reporting issues and practices.

The Audit Committee has discussed with Wolverine s independent auditors the results of the independent auditors examinations and the judgments of the independent auditors concerning the quality, as well as the acceptability, of Wolverine s accounting principles and such other matters that it is required to discuss with the independent auditors under applicable rules, regulations or generally accepted auditing standards. In addition, the Audit Committee has received from the independent auditors the written disclosures required by the Independence Standards Board and has discussed their independence from Wolverine and Wolverine s management with them, including a consideration of the compatibility of nonaudit services with their independence, the scope of the audit and the scope of all fees paid to the independent auditors during the year.

After and in reliance upon the reviews and discussions described above, the Audit Committee recommended to Wolverine s Board of Directors that the audited financial statements for the fiscal year ended January 3, 2004, be included in Wolverine s Annual Report on Form 10-K for the year then ended to be filed with the Securities and Exchange Commission.

Respectfully submitted,

David T. Kollat, Chairman, Brenda J. Lauderback, Phillip D. Matthews, Joseph A. Parini, Elizabeth A. Sanders

Related Matters

Certain Relationships and Related Transactions

Wolverine has entered into agreements with Grimoldi, S.A., an Argentinean corporation of which Mr. Alberto Grimoldi, a director of Wolverine, is chairman and a significant shareholder, granting to Grimoldi, S.A. the exclusive rights to distribute and sell footwear products in Argentina under the *Hush Puppies*®, *Caterpillar*® and *Merrell*® brand names. Under these agreements, Grimoldi, S.A. or its subsidiary pays Wolverine royalties and certain sublicense fees based on sales or purchases of footwear products in Argentina.

Under the agreements described above, Grimoldi, S.A. was obligated to pay to Wolverine royalties, sublicense fees and service fees in 2003 totaling $650,275.

In the ordinary course of business, Wolverine and its subsidiaries sell footwear for resale, samples, components of footwear products (such as leather and shoe soles), advertising materials and miscellaneous items to licensees, distributors and customers. In 2003, purchases of such items by Grimoldi, S.A. totaled $239,750 (including any applicable sublicense fees for products containing licensed proprietary technology).

All of the transactions described above occurred pursuant to continuing contractual arrangements between Wolverine and Grimoldi, S.A. Wolverine expects similar transactions to occur between Grimoldi, S.A. and Wolverine and its subsidiaries during 2004.

During 2002, Wolverine and Grimoldi, S.A. agreed to payment terms with respect to certain trade accounts owed by Grimoldi, S.A. to Wolverine. Grimoldi, S.A. executed a three-year note payable to Wolverine in the face amount of $635,761 which bears interest at 10 percent per annum. As of February 1, 2004, the aggregate principal balance of the note was $461,231. The highest principal balance of the note between December 29, 2002 and February 1, 2004 was $635,761.

Compensation Committee Interlocks and Insider Participation

Mr. Matthews was a member of Wolverine s Compensation Committee until February 2003. While Mr. Matthews was not at any time an employee of Wolverine or its subsidiaries, he served as Chairman of the Board of Wolverine from 1993 until 1996.

Table of Contents

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act requires Wolverine s directors and executive officers, and persons who beneficially own more than 10% of the outstanding shares of common stock, to file reports of ownership and changes in ownership of shares of common stock with the Securities and Exchange Commission. Directors, executive officers and greater than 10% beneficial owners are required by Securities and Exchange Commission regulations to furnish Wolverine with copies of all Section 16(a) reports they file. Based on its review of the copies of such reports received by it, or written representations from certain reporting persons that no reports on Form 5 were required for those persons for the 2003 fiscal year, Wolverine believes that all reporting persons complied with all applicable reporting requirements during Wolverine s last fiscal year. Although properly reflected in Wolverine s proxy statements since their grant in 1999, individual stock option awards to Mr. O Donovan and Mr. Bloom for 20,000 shares and 50,000 shares, respectively, were inadvertently omitted from 1999 Form 4 filings. Forms 4 have been filed to report these awards.

Stockholder Proposals

To be considered timely, any stockholder proposal intended to be presented at the annual meeting of stockholders in 2005 (whether or not intended for inclusion in Wolverine s proxy statement and proxy card relating to that meeting) must be received by Wolverine not later than November 12, 2004. Stockholder proposals intended for inclusion in Wolverine s proxy statement and proxy card relating to that meeting should be made as described in Securities and Exchange Commission Rule 14a-8. You should address all stockholder proposals to the attention of the Secretary of Wolverine, 9341 Courtland Drive, N.E., Rockford, Michigan 49351.

Solicitation of Proxies

We will initially seek proxies by mail. Wolverine directors, officers and employees may also solicit proxies by telephone or facsimile or personally without additional compensation. Proxies may be solicited by nominees and other fiduciaries who may mail materials to or otherwise communicate with the beneficial owners of shares held by them. Wolverine will pay all costs of solicitation of proxies, including the charges and expenses of brokerage firms, banks, trustees or other nominees for forwarding proxy materials to beneficial owners. We have engaged Georgeson Shareholder Communications, Inc. at an estimated cost of $6,000, plus expenses and disbursements, to assist in solicitation of proxies.

Table of Contents

Appendix A

AUDIT COMMITTEE CHARTER

of the
Audit Committee of the
Board of Directors
of
Wolverine World Wide, Inc.

I. GOVERNANCE

This Charter sets forth the basic principles regarding the organization, purpose, authority and responsibilities of the Audit Committee (the Committee) of Wolverine World Wide, Inc. (the Company) and has been approved by the Company s Board of Directors. The Committee shall review the adequacy of this Charter at least annually and recommend any proposed changes to the Board of Directors for approval.

II. ORGANIZATION

The Committee shall consist of at least three directors appointed by the Board of Directors upon the recommendation of the Company s Governance Committee. One Committee member shall be designated by the Board of Directors as Chairperson. All Committee members shall be independent under the New York Stock Exchange (NYSE) definition of independence for directors and audit committee members, independence standards adopted by the Board and any other applicable rules and regulations, all as determined by the Board. All Committee members shall be financially literate or shall become financially literate within a reasonable period of time after appointment to the Committee. At least one member shall have accounting or related financial management experience. A Committee member may be removed for any reason by the Board of Directors.

The Committee shall meet as often as may be deemed necessary or appropriate in its judgment, but not less than four times per year.

III. STATEMENT OF PURPOSE

The Committee shall represent and assist the Board of Directors in fulfilling its oversight responsibility regarding (i) the integrity of the Company s financial statements and the financial reporting process, (ii) the Company s systems of internal accounting and financial controls, (iii) the performance of the internal audit function and the independent auditors, (iv) the qualifications and independence of the independent auditors, (v) the annual independent audit of the Company s financial statements, and (vi) the Company s compliance with legal and regulatory requirements. In so doing, it is the responsibility of the Committee to maintain open communication between the Committee, the independent auditors, the internal finance staff and the management of the Company. The Audit Committee s responsibility is one of oversight and it does not provide any special assurance as to the Company s financial statements or the audit of those financial statements by the independent auditors.

IV. AUTHORITY, DUTIES AND RESPONSIBILITIES

The Committee s authority, duties and responsibilities shall include the following:

Be directly responsible, in its capacity as a Committee of the Board, to appoint and retain (subject to ratification by the Company s stockholders), compensate, oversee, evaluate and, if appropriate, terminate the independent auditors, which shall report directly to the Committee;

Approve in advance all audit and permissible non-audit services to be provided by the independent auditors and establish policies and procedures for the engagement of the independent auditors to provide audit and permissible non-audit services;

Annually review the performance (effectiveness, objectivity, and independence) of the independent auditors and the internal audit function, including a review and evaluation of the lead partner of the independent auditors, and report the Committee s conclusions to the Board of Directors;

Obtain and review at least annually a report from the independent auditors describing: the auditing firm s internal quality-control procedures; and any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues;

Obtain and review, at least annually, a formal written report from the independent auditors consistent with applicable rules and regulations and standards set by the Independence Standards Board;

Annually assess auditor independence, considering all relationships between the independent auditors and the Company and any other relationships that may adversely affect the auditors independence;

Discuss with the internal financial staff and the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation. The Committee shall review any identified audit problems or difficulties and discuss management s response;

Receive reports from management, the internal finance staff and the independent auditors regarding, and review and discuss the adequacy and effectiveness of, the Company s internal control over financial reporting;

Receive reports from management regarding, and review and discuss the adequacy and effectiveness of, the Company s disclosure controls and procedures;

Review the Company s policies and systems with respect to risk assessment and risk management and discuss with management and the independent auditors significant risks or exposures and the steps taken by management to resolve them;

Meet periodically with management, the internal finance staff and the independent auditors separately;

Review with management and the independent auditors the Company s interim financial statements, including disclosures in the Company s Management s Discussion and Analysis of Financial Condition and Results of Operation (MD&A) to be included in Securities and Exchange Commission (SEC) Quarterly Reports on Form 10-Q. The Committee shall review with the independent auditors the results of the quarterly reviews and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards and applicable rules and regulations;

Review with management and the independent auditors the Company s annual audited financial statements, including disclosures in the Company s MD&A, to be included in SEC Annual Reports on Form 10-K (or annual reports to stockholders if distributed prior to the filing of Form 10-K). The Committee shall review with the independent auditors the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards and applicable rules and regulations;

Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by the Company s employees of concerns regarding questionable accounting or auditing matters;

Review with management and the independent auditors the Company s earnings press releases and financial information and earnings guidance provided by the Company to analysts and rating agencies;

Prepare the Audit Committee report required by applicable rules and regulations to be included in the Company s annual proxy statement;

Establish Company hiring policies for employees and former employees of independent auditors for the Company;

Table of Contents

Engage consultants and advisors at the expense of the Company to assist the Committee as it deems necessary in the performance of its functions. The Committee shall have sole authority to retain and terminate any consultants and advisors and to approve all fees and other retention terms;

Oversee the Company s compliance systems with respect to legal and regulatory requirements and review the Company s code of conduct and programs to monitor compliance with such codes;

Establish sub-committees of the Committee in its discretion and delegate such powers and authority as determined by the Committee;

Conduct and discuss with the Board of Directors an annual performance evaluation of the Committee, including the Committee s adherence to this Charter; and

Provide the Board of Directors with regular reports regarding the Committee s decisions, actions and recommendations.

Effective Date: February 19, 2004

Wolverine World Wide, Inc.
9341 Courtland Drive, N.E.
Rockford, Michigan 49351

Table of Contents

WOLVERINE WORLD WIDE, INC.
c/o National City Bank
Corporate Trust Operations
Locator 5352
P.O. Box 92301
Cleveland, OH 44101-4301

Temporary Return Service Requested

VOTE BY TELEPHONE

Have your proxy card available when you call the **Toll-Free number 1-800-542-1160** using a touch-tone telephone, and follow the simple instructions to record your vote.

VOTE BY INTERNET

Have your proxy card available when you access the website **http://www.votefast.com**, and follow the simple instructions to record your vote.

VOTE BY MAIL

Please mark, sign and date your proxy card and return it in the **postage-paid envelope** provided or return it to: Stock Transfer Dept (WWW), National City Bank, P.O. Box 92301, Cleveland, OH 44101-4301. Mailed proxies must be received no later than April 22, 2004, at 10:00 a.m. Eastern Daylight Time.

Vote by Telephone	Vote by Internet	Vote by Mail
Call **toll-free** using a touch-tone phone: **1-800-542-1160**	Access the **website** and cast your vote: **http://www.votefast.com**	Return your proxy in the **postage-paid envelope** provided.

Vote 24 hours a day, 7 days a week!
Your telephone or Internet vote must be received by 11:59 p.m. Eastern Daylight Time on April 21, 2004, to assure that it is counted in the final tabulation.

PLEASE DO NOT VOTE BY MORE THAN ONE METHOD. THE LAST VOTE RECEIVED WILL BE THE OFFICIAL VOTE. DO NOT RETURN THIS PROXY IF YOU ARE VOTING BY THE INTERNET OR BY TELEPHONE.

Control Number:

This Proxy must be signed and dated below.
∨ **Please fold and detach card at perforation before mailing.** ∨

WOLVERINE WORLD WIDE, INC. **PROXY**

This proxy is solicited on behalf of the Board of Directors.
The undersigned stockholder hereby appoints Geoffrey B. Bloom, Phillip D. Matthews and Timothy J. O Donovan, and each of them, each with full power of substitution, proxies to represent the undersigned stockholder and to vote all shares of Common Stock of Wolverine World Wide, Inc. that the stockholder would be entitled to vote on all matters which come before the Annual Meeting of Stockholders to be held at the Company s headquarters located at 9341 Courtland Drive, N.E., Rockford, Michigan, on Thursday, April 22, 2004, at 10 a.m. local time, and any adjournment of that meeting.
If this Proxy is properly executed, the shares represented by this Proxy will be voted as specified. If no specification is made, the shares represented by this Proxy will be voted for the election of all nominees named on this Proxy as directors and for approval of the proposal identified on this Proxy. The shares represented by this Proxy will be voted in the discretion of the proxies on any other matters that may come before the meeting.

Signature(s)

Signature(s)

Date: ____,2004
IMPORTANT Please sign exactly as your name(s) appears on this Proxy. When signing on behalf of a corporation, partnership, estate or trust, indicate title or capacity of person signing. **If shares are held jointly, each holder must sign.**

Table of Contents

WOLVERINE WORLD WIDE, INC.
9341 Courtland Drive, N.E.
Rockford, Michigan 49351

Wolverine World Wide, Inc. will be holding its Annual Meeting of Stockholders on April 22, 2004. The enclosed Notice of Annual Meeting provides information regarding the matters that are expected to be voted on at the meeting. Your vote is important to us. Even if you plan to attend the meeting, please read the enclosed materials and vote through the Internet, by telephone or by mailing the Proxy Card below.

Telephone and Internet Voting.

On the reverse side of this card are instructions on how to vote through the Internet or by telephone. Please consider voting through one of these methods. Your vote is recorded as if you mailed in your Proxy. We believe voting through the Internet or by telephone is convenient, and it also saves money.

Electronic Delivery of Proxy Statement and Annual Report.

You may elect to receive your annual report and proxy statement on-line by checking the appropriate box below. Selecting this option means that you may receive the Wolverine World Wide, Inc. annual report and proxy statement on-line rather than in printed form unless you request a paper copy. If a sufficient number of stockholders select this option, beginning next year and continuing until you tell us otherwise, you will receive your printed Proxy with information regarding the Internet website containing the annual report and proxy statement. You will need a computer with Internet access and we anticipate that you will need a utility such as Adobe® Acrobat® Reader to read the annual report and proxy statement, which will be in PDF file format. We plan to provide information on obtaining free access to a utility necessary for reading PDF files. You may incur costs such as on-line charges or printing costs and face possible risks such as systems outages in accessing Wolverine World Wide, Inc. s proxy statement and annual report via the Internet website. You may cancel your enrollment in this process at any time or may request a paper copy of the annual report and/or proxy statement in any given year while continuing your long-term enrollment in this process by written notification to National City Bank, Attn. Shareholder Services Department, Dept. 5352, Corporate Trust Operations, P.O. Box 92301, Cleveland, Ohio 44193-0900. The telephone number is 1-800-622-6757. There is no charge for canceling enrollment or requesting a paper copy of the annual report and proxy statement.

Thank you in advance for your participation in our 2004 Annual Meeting.

Wolverine World Wide, Inc.

V **Please fold and detach card at perforation before mailing.** V

WOLVERINE WORLD WIDE, INC. **PROXY**

				FOR all	**WITHHOLD** all	**FOR** all except (*)
1.	ELECTION OF DIRECTORS			o	o	o
	Nominees:	(01)	Geoffrey B. Bloom			
		(02)	David T. Kollat			
		(03)	David P. Mehney			
		(04)	Timothy J. O Donovan			

***(INSTRUCTION: To withhold authority to vote for any individual nominee, strike that nominee s name in the list above.)**

Your Board of Directors Recommends that You Vote <u>FOR ALL NOMINEES</u>

		FOR	**AGAINST**	**ABSTAIN**
2.	Proposal to ratify the appointment of Ernst & Young LLP as independent auditors for the current fiscal year.	o	o	o

Your Board of Directors Recommends that You Vote <u>FOR</u> this Proposal

Please check this box if you consent to access future annual reports and proxy statements via the Internet (see details above). o

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE.)