FINANCIAL INFORMATION

QUARTER END REPORT

September 30, 2016

VIRTRA, INC.

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OTC PINK DISCLOSURE OBLIGATIONS

NAME OF THE ISSUER AND ITS PREDECESSORS (WITHIN PAST FIVE YEARS)
VirTra, Inc.
VirTra Systems, Inc.

ADDRESS OF THE ISSUER'S PRINCIPAL EXECUTIVE OFFICES
7970 S. Kyrene Rd.
Tempe, AZ 85284
Telephone (480) 968-1488
www.virtra.com

SECURITY INFORMATION
Trading Symbol: VTSID (VTSI – after 11/18/2016)
CUSIP: 92827K 202

Exact title and class of securities outstanding:
VIRTRA, INC. PREFERRED STOCK
Par or Stated Value: $0.005
Total shares authorized: 2,000,000 as of: September 30, 2016
Total shares outstanding: 0 as of: September 30, 2016

VIRTRA INC. COMMON STOCK
Par or Stated Value: $0.005
Total shares authorized: 500,000,000 as of: September 30, 2016
Total shares outstanding: 158,550,045 as of: September 30, 2016

Transfer Agent
Continental Stock and Transfer & Trust Company
17 Battery Place, 8th Floor
New York, NY 10004 Telephone (212) 509-4000
Fax (212) 616-7610

Continental Stock and Transfer & Trust Company is registered under the Exchange Act. Its regulatory authority is the Securities and Exchange Commission and the Banking Commission of New York.

Restrictions on the transfer of security
VirTra was previously a shell company; therefore the exemption offered pursuant to Rule 144 is not available. Anyone who has purchased or will purchase securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction.

Describe any trading suspension orders issued by the SEC in the past 12 months:
None.

ISSUANCE HISTORY

December 31, 2013	158,285,045		Total number of shares outstanding
April 02, 2015	(35,000)	$ 5,596.50	Common stock shares canceled
September 6, 2016	300,000	16,350.00	Common stock shares issued for option exercise
September 30, 2016	158,550,045		Total number of shares outstanding

FINANCIAL STATEMENTS

VIRTRA, INC.

CONDENSED BALANCE SHEETS

	September 30 2016 (unaudited)	December 31, 2015 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,921,398	$ 3,317,020
Accounts receivable, net	3,016,585	2,346,141
Inventory	1,044,955	902,642
Prepaid expenses and other current assets	243,644	51,620
Total current assets	9,226,582	6,617,423
Property and equipment, net	823,352	516,005
Investment in Modern Round	136,579	136,579
TOTAL ASSETS	$ 10,186,513	$ 7,270,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 536,814	$ 508,358
Accrued compensation and related costs	424,850	467,881
Accrued expenses and other current liabilities	95,837	238,347
Notes payable	33,750	-
Deferred revenue	2,160,950	1,523,841
Total current liabilities	3,252,201	2,738,427
Long-term liabilities:		
Accrued rent liability	132,304	159,941
Total liabilities	3,384,505	2,898,368
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock $0.005 par value; 2,000,000 shares authorized; no shares or outstanding as of September 30, 2016 and December 31, 2015	-	-
Common stock $0.005 par value; 500,000,000 shares authorized; 158,550,045 shares issued and 158,250,045 shares outstanding as of September 30, 2016 and December 31, 2015	792,750	791,466
Additional paid-in capital	13,416,583	13,352,527
Treasury stock at cost, 0 and 43,200 common shares as of September 30, 2016 and December31, 2015, respectively	-	(2,981)
Accumulated deficit	(7,407,325)	(9,769,373)
Total stockholders' equity	6,802,008	4,371,639
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 10,186,513	$ 7,270,007

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

VIRTRA, INC.
CONDENSED STATEMENTS OF OPERATIONS
For Three and Nine Months Ended September 30, 2016 and 2015
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
REVENUES				
Net sales	$ 2,989,292	$ 3,936,888	$ 12,597,552	$ 9,631,660
Cost of sales	1,345,181	1,481,860	4,856,906	3,980,123
Gross profit	1,644,111	2,455,028	7,740,646	5,651,537
OPERATING EXPENSES				
General and administrative expenses	1,756,658	1,466,386	5,362,816	4,353,796
Income from operations	(112,547)	988,642	2,377,830	1,297,741
OTHER INCOME (EXPENSE)				
Other income	48,267	252	60,817	137,525
Other expense	6,790	-	(2,981)	(2,064)
Net other income (expense)	55,057	252	57,836	135,461
Income before income taxes	(57,490)	988,894	2,435,666	1,433,202
Income tax expense	8,415	-	73,618	19,542
NET INCOME	$ (65,905)	$ 988,894	$ 2,362,048	$ 1,413,660
Basic and diluted weighted average shares outstanding	158,308,741	158,250,045	158,269,825	158,250,045
Basic and diluted income per share	$ (0.00)	$ 0.01	$ 0.01	$ 0.01

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

VIRTRA, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(unaudited)

	For Nine Months Ended	
	September 30, 2016	September 30, 2015
Cash flows from operating activities:		
Net income	$ 2,362,048	$ 1,413,660
Adjustments to reconcile net income to net cash provided (used) in operating activities		
Depreciation and amortization	133,131	140,857
Common stock issued for option exercise	16,350	-
Stock-based compensation	93,990	104,871
Changes in operating assets and liabilities:		
Accounts receivable	(670,444)	(246,966)
Inventory	(142,313)	(371,689)
Prepaid expenses and other current assets	(192,024)	(25,396)
Accounts payable and other accrued expenses	(157,086)	23,275
Deferred revenue	637,110	(5,255)
Net cash provided/(used) by operating activities	2,080,762	1,033,357
Cash flows from investing activities:		
Investment in Modern Round	-	(136,579)
Common stock shares cancelled	-	(5,597)
Treasury stock cancelled	2,981	-
Purchase of property and equipment	(468,115)	(300,292)
Net cash used in investing activities	(465,134)	(442,468)
Cash flows from financing activities:		
Proceeds from line of credit	-	-
Note payable - Profiles Purchase	(11,250)	-
Repayments of line of credit	-	-
Net cash used in financing activities	(11,250)	-
Net increase in cash	1,604,378	590,889
Cash, beginning of period	3,317,020	1,912,729
Cash, end of period	$ 4,921,398	$ 2,503,618
Supplemental Information:		
Cash paid for:		
Interest	$ -	$ -
Taxes	$ 143,618	$ 19,542
Noncash investing and financing activities:		
Receipt of Modern Round equity	$ -	$ 136,579

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

Note 1. Significant Accounting Policies

Organization and Business Operations

VirTra, Inc. (the "Company" or "VirTra") is engaged in the sale and development of judgmental use of force training simulators and firearms training simulators for law enforcement, military and commercial uses. The Company sells simulators and related products worldwide through a direct sales force and international distribution partners. The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra Systems, Inc., a Texas Corporation. Effective as of October 1, 2016, the Company redomesticated from a Texas Corporation to a Nevada Corporation and changed its name to VirTra, Inc. as provided for in the Plan of Conversion discussed in Note 9 - Subsequent Events. The corporate office is located in Tempe, Arizona. All transactions are denominated in US dollars.

Basis of Presentation and Use of Estimates

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances, the carrying value of cost basis investments and capitalization of labor and overhead to inventory for work in progress. Actual results could differ significantly from those estimates.

Fair Value of Financial Instruments

The fair value of financial instruments approximates their carrying values at September 30, 2016 and December 31, 2015 due to their short maturities. These financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less at the time of purchase to be cash equivalents.

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable are charged off after all reasonable collection efforts have been taken. As of September 30, 2016 and December 31, 2015, the Company recorded an allowance for doubtful accounts of $0 and $59,266, respectively. Accounts receivable are non-interest bearing and are generally unsecured.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on the first-in, first-out method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. The Company routinely evaluates the carrying value of inventory and provides reserves when appropriate to reduce inventory to the lower of cost or market to reflect estimated net realizable value. As of September 30, 2016 and December 31, 2015, management has determined all inventory is salable at prices greater than cost and accordingly, no reserve has been recognized.

Property and Equipment

Property and equipment are carried at cost, net of depreciation. Gains or losses related to retirements or disposition of fixed assets are recognized in operations in the period incurred. Costs of normal repairs and maintenance are charged to expense as incurred, while betterments or renewals are capitalized. Depreciation commences at the time the assets are placed in service. Depreciation is provided using the straight-line method over the estimated economic lives of the assets or for leasehold improvements, over the shorter of the estimated useful life or the remaining lease term, which are summarized as follows:

Computer equipment…………………………………………………………	3 - 5 years
Furniture and office equipment……………………………………………..	5 - 7 years
Leasehold improvements…………………………………………………..	7 years

Revenue Recognition and Deferred Revenue

Net revenues include sales of products and services and are net of discounts. Product sales consist of simulators, upgrade components, scenarios, scenario software, recoil kits, Threat-Fire® and other accessories. Services include installation, limited warranties and related support. Certain of the Company's sales include multiple elements comprising of both products and services. These multiple elements consist of (i) the sale of the product, (ii) installation of the product and (iii) an extended warranty. Each element is considered a separate unit of accounting. The fair values of each unit of accounting are generally established based on the prices charged when sold separately by the Company or based upon estimated selling price. Revenue is allocated to each deliverable based on relative fair values.

The Company recognizes revenue for these products and services when it is realized or realizable and earned when: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and/or services have been rendered; (iii) the price is fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured. Shipping fees are charged to customers and recorded as a component of net revenues. All sales and sales contracts, including international sales, are recorded in US dollars.

Products

Revenue from the sale of products is recognized when title and risk of loss passes to the customer which is when ownership of the products have transferred to the customer. For customer sales orders, other than United States federal agencies, the Company generally requires deposits in advance of shipments. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled $22,283 and $658,426 as of September 30, 2016 and December 31, 2015, respectively.

Services

Services include installation of product, separately priced extended limited warranties on parts and labor, and technical support. Revenue is recognized for service contracts as earned, which is generally upon completion of installation or, as it relates to the extended warranties, on a straight-line basis over the term of the contract. The Company offers warranty on its products from manufacturing defects on a limited basis for a period of one year after purchase, but also sells separately priced extended warranties for periods of up to four years after the expiration of the standard one year warranty. After the one year standard warranty expires and during the term of the extended warranty, if the device fails to operate properly from defects in materials and workmanship, the Company will fix or replace the defective product. Deferred revenue for separately priced extended warranties totaled $2,138.668 and $865,425 as of September 30, 2016 and December 31, 2015, respectively. The Company's accrual for the manufacturer's warranty liability totaled $566,027 and $611,721 as of September 30, 2016 and December 31, 2015, respectively.

Cost of Products Sold

Cost of products sold represents manufacturing costs, and consists of materials, labor and overhead related to finished goods and components. Shipping costs incurred related to product delivery are included in cost of products sold.

Advertising Costs

Costs associated with advertising are expensed as incurred. These costs include domestic and international tradeshows, website, and sales promotional materials.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs primarily include expenses directly related to research and development support projects.

Concentration of Credit Risk and Major Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are maintained with financial institutions with high credit standings. The Company had uninsured cash and cash equivalents of $4,921,398 and $3,141,304 as of September 30, 2016 and December 31, 2015, respectively.

Sales are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Historically, the Company has experienced minimal charges relative to doubtful accounts.

The Company currently purchases small machined parts, custom cartridge assemblies and electronic components from suppliers located in the United States. Although the Company currently obtains many of these components from single source suppliers, the Company could seek to have the parts, custom cartridges and electronic components manufactured elsewhere. On August 16, 2016, the Company entered into an Asset Purchase Agreement and acquired a machine shop where the Company can manufacture many of the components needed. This transaction will mitigate the risk associated with single source suppliers. As a result, management believes it can obtain alternative suppliers in most cases without incurring significant production delays. The Company acquires its components on a purchase order basis and does not have long-term contracts with suppliers.

Income Taxes

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company calculates a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment and interpretation of statutes are required.

In assessing realizable deferred tax assets, management assesses the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. As of December 31, 2015 and 2014, the Company has provided a valuation allowance for all net deferred tax assets due to the low volume/high dollar nature of sales.

As of September 30, 2016 and December 31, 2015, the Company did not recognize any assets or liabilities relative to uncertain tax positions. Interest or penalties, if any, will be recognized in income tax expense. Since there are no significant unrecognized tax benefits as a result of tax positions taken, there are no accrued penalties or interest. Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. Tax positions include, but are not limited to, the following:

- an allocation or shift of income between taxing jurisdictions;
- the characterization of income or a decision to exclude reportable taxable income in a tax return; or
- a decision to classify a transaction, entity or other position in a tax return as tax exempt.

The Company reflects tax benefits only if it is more likely than not that the Company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized.

The Company is potentially subject to tax audits for its United States federal and Arizona state income tax returns for tax years ended 2013 to 2015 and 2012 to 2015, respectively; however, earlier years may be subject to audit under certain circumstances. Tax audits by their very nature are often complex and can require several years to complete.

Impairment of Long-lived Assets

Long lived assets, such as equipment, are reviewed 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 estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the asset. Assets to be disposed of, if any, would be separately presented in the balance sheet and reported at the lower of their carrying amounts or fair value less costs to sell, and are no longer depreciated. At period ended September 30, 2016, the Company concluded that there has been no indication of impairment to the carrying value of its long-lived assets so, no impairment has been recorded.

Stock Based Compensation

The Company calculates the fair value of stock-based awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates. The assumptions used for the periods ended September 30, 2016 and December 31, 2015, and the resulting estimates of weighted-average fair value per share of options granted during those periods, are as follows:

	September 30, 2016	December 31, 2015
Volatility	104% to 107%	106% to 113%
Risk-free interest rate	1% to 2%	1% to 2%
Expected term	7 years	7 years

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on United States Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future. The estimated fair value of stock-based compensation awards and other options is amortized to expense on a straight line basis over the relevant vesting period. As share-based compensation expense recognized is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's forfeiture rate was calculated based on its historical experience of awards which ultimately vested.

Net income per Common Share

The net income per common share is computed by dividing net income by the weighted average of common shares outstanding.

New Accounting Pronouncements

With the exception of those discussed below, no recent accounting pronouncements or changes in accounting pronouncements during the period ended September 30, 2016 are of significance or potential significance to us.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update 2015-17 – "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendment's purpose is to require deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position (Balance Sheet). This accounting guidance will become effective beginning in the first quarter of 2017. Early application is permitted. The Company is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Cost Method for Investment

In January 2015, the Company entered into a Co-Venture Agreement ("Agreement") with Modern Round, LLC ("Modern Round"), a related party. The Agreement provides Modern Round access to certain software and related technology relating to firearm simulation training. On the effective date of the Agreement, the Company received, 1,365,789 units, representing a 5% ownership interest in Modern Round. The Agreement also provides for the additional grant to the Company of warrants to purchase an additional 1,365,789 units, representing 5% of Modern Round as at the date of the Agreement. The Agreement further provided VirTra with certain anti-dilution rights, including the right to acquire units to assure the Company's ownership of 1% of the outstanding units on a fully diluted basis, as well as the right to purchase up to 5% of any unit offering. These anti-dilution rights terminated upon the completion of a Plan of Merger between Modern Round, LLC and Nuvola Merger SubCo., a subsidiary of Nuvola Inc. ("NMS"), (the "Merger Agreement"), the result of which was that NMS was merged with and into Modern Round with Modern Round continuing as the surviving entity and a wholly owned subsidiary (the "Modern Round Merger"). Pursuant to the terms of the Merger Agreement and subject to the conditions set forth therein, at the effective time of the Modern Round Merger, each unit of Modern Round issued and outstanding as of the effective time, automatically converted into the right to receive approximately 1.2277 shares of Nuvola, Inc. (the "Conversion Ratio"). In addition, on April 14, 2015, Modern Round issued the Company an option to purchase In addition, on April 14, 2015 Modern Round issued the Company an option to purchase 125,000 units. The option fully vested and became exercisable on the date of grant at an exercise price equal to $0.50 per unit. The April 14, 2015 option terminates on the tenth anniversary of the date of grant, if not earlier pursuant to the terms of the option. On December 31, 2015, Modern Round completed the Modern Round Merger discussed above. On February 11, 2016 Nuvola, Inc. filed Amended and Restated Articles of Incorporation that had the effect of, among other matters, changing the name of the company to Modern Round Entertainment Corporation ("Modern Round"). As a result of the Modern Round Merger, the Company holds 1,676,748 shares of Modern Round (as adjusted for the Conversion Ratio), options to purchase 153,459 shares of Modern Round at an exercise price of $.41 per share (as adjusted for the Conversion Ratio), and warrants to purchase 1,676,747 shares of Modern Round at an exercise price of $.20 per share (as adjusted for the Conversion Ratio). On October 20, 2016, the Company exercised the warrant option and purchased 1,676,747 shares of stock for $335,349 resulting in the Company's aggregate holdings of Modern Round increasing to 3,353,495 common shares representing approximately 8.9% of the issued and outstanding common shares of Modern Round as of November 11, 2016.

The Company recorded the estimated fair value of the equity securities received on the measurement date. The original units were valued at $0.10 per unit based on Modern Round membership unit sales to its affiliates. As a result, the Company recognized a gain of $136,579, which is recorded in other income on the statement of operations. Subsequent to the measurement date, the Modern Round equity securities are accounted for as a cost method investment as the Company does not have the ability to exercise significant influence over Modern Round and the Modern Round equity does not have a readily determinable fair value.

Further, management has deferred recognition of the warrants received until the performance conditions have been met.

Note 2. Inventory

Inventory consists of the following as of:

	September 30, 2016	December 31, 2015
Raw materials	$ 963,520	$ 755,984
Work-in-progress	81,436	146,658
Total inventory	$ 1,044,956	$ 902,642

Note 3. Property and Equipment

Property and equipment consists of the following as of:

	September 30, 2016	December 31, 2015
Computer equipment	$ 740,831	$ 559,158
Furniture and office equipment	178,880	171,732
Machinery and equipment	884,222	608,876
Leasehold improvements	316,214	312,267
Total property and equipment	2,120,147	1,652,033
Less: Accumulated depreciation	(1,296,795)	(1,136,028)
Property and equipment, net	$ 823,352	$ 516,005

Depreciation expense was $133,131 and $140,857 for the nine months ended September 30, 2016 and 2015, respectively.

Note 4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following at:

	September 30, 2016	December 31, 2015
Manufacturer's warranties	$ 99,466	$ 77,400
International, state and local taxes	(3,629)	145,947
Other	-	15,000
Total accrued expenses and other current liabilities	$ 95,837	$ 238,347

Note 5. Related Party Transactions

The Company reimburses its executive officers for business expenses charged to personal credit cards. The Company makes monthly payments directly to the card issuer for these business expenses incurred on behalf of the Company. As of September 30, 2016 and December 31, 2015 the balance payable by the Company for the use of these personal credit cards totaled $1,855 and $3,934, respectively, which is included in accounts payable on the balance sheet.

During the nine months ended September 30, 2016, the Company issued 225,000 stock options to purchase shares of common stock at a purchase price of $0.1399, 225,000 stock options to purchase shares of common stock at a purchase price of $0.1115 and 225,000 stock options to purchase shares of common stock at a purchase price of $.2095. All of the options are exercisable within seven years of grant date.

During the nine months ended September 30, 2016, related parties redeemed 4,824,340 previously awarded options pursuant to the Company's stock option policy. These redemptions resulted in $505,224 in expense.

On July 1, 2016, 500,000 shares of the Series A Preferred were issued to Robert Ferris, the Company's Chief Executive Officer and a director for $2,500. Effective on September 16, 2016, 500,000 shares of the Series A Preferred were automatically redeemed from Mr. Ferris by the Company and cancelled.

Note 6. Commitments and Contingencies

Operating Lease Obligations

The Company's operating lease obligations primarily relate to a facility lease for the Company's corporate office space located at 7970 South Kyrene Road, Tempe, Arizona 85284, which expires in April, 2019, unless renewed.

As part of the purchase of Profiles Tools & Engineering on August 2, 2016, discussed in Note 7, the Company assumed the lease for the building at 2169 East 5th St., Tempe, Arizona 85284, which expires in March, 2017, unless renewed.

The Company has recognized a liability of $132,304 and $159,941 as of September 30, 2016 and December 31, 2015, respectively, relative to the increasing future minimum lease payments. Rent expense was $279,529 and $271,463 for the nine months ended September 30, 2016 and 2015, respectively and $150,793 and $133,648 for the three months ended September 30, 2016 and 2015, respectively.

General or Threatened Litigation

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company's policy is to not disclose the specifics of any claim or threatened lawsuit until such complaint is actually served on the Company. After consultation with appropriate legal counsel, if it is determined that the Company is not at fault, the Company will defend itself accordingly. Although we do not expect the outcome in any pending individual case to be material, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts provided by insurance coverage and will not have a material adverse effect on our business, operating results or financial condition. As of September 30, 2016 and December 31, 2015, respectively, the Company has no accrual for general or threatened litigation and the Company believes its exposure to be de minimus in nature.

Employment Agreements

On April 2, 2012, the Company entered into three-year Employment Agreements with its Chief Executive Officer and Chief Operating Officer that call for base annual salaries of $195,000 and $175,000, respectively, subject to cost of living adjustments, and contain automatic one-year extension provisions. Capitalized terms in this note are defined in the Employment Agreements. If the Company's Chief Executive Officer or Chief Operating Officer are terminated by the Company for any reason other than for Cause, or if the Executive voluntarily terminates his own employment for Good Reason but not including a Change in Control, then the Company shall, subject to the terms of the Employment Agreements, be obligated to pay the Executive an amount equal to the product of the greater of (a) the Executive's annual base salary in effect on the day preceding the date of such termination or (b) the Executive's annual base salary during the twelve full calendar months preceding the date of such termination, times three. This payment shall be payable in 18 equal monthly payments commencing on the first day of the month following the month in which the termination occurs. If a Change of Control of the Company occurs while the Executive is an employee of the Company and within 36 months from the date of such Change in Control the Company terminates the Executive's employment for any reason (except for the death or disability of the Executive or for Cause) or the Executive terminates his employment for any reason, then the Company shall, subject to certain limitations, pay the Executive any earned and accrued but unpaid base salary through the date of termination plus an amount of severance pay equal to the product of the greater of (a) the Executive's annual base salary in effect on the day preceding the date on which the Change of Control occurred or (b) the Executive's annual base salary during the twelve full calendar months preceding the date on which the Change of Control occurred, times four. These employment agreements have been automatically extended.

Note 7. Asset Purchase Agreement

On August 2, 2016, the Company entered into and concluded an Asset Purchase Agreement ("APA") with Profiles Tool and Engineering, Inc., an Arizona corporation that operated an engineering and custom machining facility in Mesa, AZ ("Profiles"). The APA provides that the Company purchased all the assets, properties, rights and goodwill of Profiles, as well as certain liabilities. The total purchase price, including assumed liabilities, was $286,220. With the purchase of this machine shop with its machinery and tools the Company will be able to enhance its ability to efficiently create new simulated weapons with required features and to be better equipped to meet client and market needs.

Note 8. Stockholders' Equity

Authorized Capital

The Company has authorized the issuance of two classes of stock designated as "common stock" and "preferred stock," each having a par value of $0.005 per share. The Company is authorized to issue 500,000,000 shares of common stock and 2,000,000 shares of preferred stock. On June 23, the Company filed a Certificate of Amendment with the Secretary of State of Texas designating 500,000 shares of Series A Preferred Stock, par value $0.005 per share (the "**Series A Preferred**"). Holders of the Series A Preferred are entitle to 600 votes on all matters submitted to a vote of the stockholders of the Corporation. In the event that such votes do not total at least 66.67% of all votes, then regardless of the provisions of this paragraph, in any such case, the votes cast by the holders of the Series A Preferred shall be equal to 66.67% of all votes cast at any meeting of stockholders, or any issue put to the stockholders for voting and the Corporation may state that any such action was had by majority vote of all stockholders.

On July 1, 2016, 500,000 shares of the Series A Preferred were issued to Robert Ferris, the Company's Chief Executive Officer and a director for $2,500. Effective on September 16, 2016, 500,000 shares of the Series A Preferred were automatically redeemed from Mr. Ferris and cancelled by the Company.

Treasury Stock

During the nine months ended September 30, 2016, the Company cancelled 43,200 shares of treasury stock for $2,981. The Company purchased 35,000 shares of treasury stock for $5,597 during the year ended December 31, 2015.

Stock Options

The Company periodically issues non-qualified incentive stock options to key employees, officers and directors under a stock option compensation plan approved by the Board of Directors in 2009. Terms of option grants are at the discretion of the Board of Directors. The Board of Directors previously approved a quarterly grant of a total of 100,000 stock options to the CEO, 75,000 stock options to the COO/Secretary, and 50,000 stock options to any non-employee board member. During the period ended September 30, 2016, the Company issued 675,000 stock options per the Board of Directors resolution to these related parties. The following table summarizes all compensation plan stock options as of September 30, 2016.

	Number of Stock Options		Weighted Exercise Price
Outstanding at January 1, 2016	16,679,340	$	0.052
Granted	675,000		0.154
Redeemed	(5,124,340)		0.079
Cancelled	(1,080,000)		0.055
Outstanding at September 30, 2016	11,150,000	$	0.068
Options exercisable at September 30, 2016	10,666,667	$	0.076

Per the company's standard policy, during the nine month period ended September 30, 2016, there were 4,824,240 options nearing expiration that were redeemed and cancelled resulting in $505,224 of expense being recorded. Also, during the nine month period ended September 30, 2016, a former employee exercised 300,000 options at a purchase price of $16,350.

Warrants

As part of the January 2015 Co-Venture Agreement, the Company granted warrants to affiliates of Modern Round, a related party, to purchase 5% of the Company's capital stock on a fully diluted basis. The warrants are exercisable commencing at the earlier of the first anniversary of Modern Round opening its first range facility utilizing VirTra Technology or after Modern Round opening its first range facility utilizing VirTra Technology and the payment of all required US/Canada Minimum Royalty Payments during the first 12 month period has been made to VirTra. The Company also granted warrants to affiliates of Modern Round to purchase 5% of the Company's capital stock on a fully diluted basis, which are exercisable any time subsequent to Modern Round's payment of $2.0 million in royalty fees. The warrants have a contractual term of five years and an exercise price of $0.1367. As of September 30, 2016, the Company has not expensed the fair value of the warrants because none of the warrants have vested.

Note 9. Subsequent Events

Effective as of October 1, 2016 (the "Effective Date"), the Company completed a conversion from a Texas corporation to a Nevada corporation pursuant to a Redomestication Plan of Conversion (the "Plan of Conversion") that was approved by the Company's Board of Directors on June 23, 2016 and its shareholders on September 16, 2016. On the Effective Date, 158,550,045 shares of common stock of VirTra Systems, Inc., a Texas corporation, were converted into 158,550,045 shares of Common Stock of VirTra, Inc., a Nevada corporation. No shareholders exercised appraisal rights or dissenters' rights for such shares in accordance with the Texas Business Organization Code.

As part of the Plan of Conversion, the Company filed Articles of Incorporation in Nevada whereby it changed its name from VirTra Systems, Inc. to VirTra, Inc. and revised its capitalization. The Company's Articles of Incorporation filed in Nevada authorized the Company to issue 1,250,000,000 shares, of which (1) 1,200,000,000 shares shall be Common Stock, par value $0.001 per share (the "Common Stock"), of which (a) 1,000,000,000 shares shall be Common Stock, par value $0.001, (b) 50,000,000 shares shall be Class A Common Stock, par value $0.001 per share (the "Class A Common Stock"), and (c) 150,000,000 shares shall be Class B Common Stock, par value $0.001 per share (the "Class B Common Stock") and (2) 50,000,000 shares shall be Preferred Stock, par value $0.001 per share, which may, at the sole discretion of the Board of Directors be issued in one or more series (the "Preferred Stock"). The Company also adopted new bylaws as part of the Plan of Conversion.

Effective October 20, 2016, we effected a 1 for 10 reverse stock split of our issued and outstanding Common Stock (the "Reverse Stock Split"). All references to shares of our common stock in this report refers to the number of shares of common stock before giving effect to the Reverse Stock Split (unless otherwise indicated). After giving effect to the reverse split, there are 15,550,045 shares of Common Stock outstanding.

The powers, preferences, and rights and the qualifications, limitations, and restrictions of each class of common stock is identical except for voting rights. Each holder of Common Stock shall be entitled to one vote for each share of Common Stock held, Class A Common Stock shall be entitled to ten votes for each share of Class A Common Stock held and the holders of Class B Common Stock shall not be entitled to vote on any matter, except that the holders of Class B Common Stock shall be entitled to vote separately as a class with respect to amendments to the Articles of Incorporation that increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely. No shares of Class A Common Stock or Class B Common Stock will be issued as part of the Redomestication.

At this time, there are no designated series of Preferred Stock and no shares of Preferred Stock issued and outstanding.

On October 20, 2016, the Company exercised the warrant option with Modern Round and purchased 1,676,747 shares of stock for $335,349 resulting in the Company’s aggregate holdings of Modern Round increasing to 3,353,495 common shares representing approximately 8.9% of the issued and outstanding common shares of Modern Round as of November 11, 2016.

On October 20, 2016 a former employee filed a lawsuit in the U.S. District Court, District of Arizona against the Company alleging its failure and/or refusal to pay overtime in violation of 29 U.S.C. Sec. 201, et. seq. and a claim for wrongfully withheld wages under A.R.S. Sec. 23-350 et. seq. The complaint seeks certification of class action status, declaratory relief, damages, interest, attorneys’ fees and such other relief the Court deems just and proper. The Company believes that this claim lacks merit and intends to vigorously defend itself. While acknowledging the uncertainties of litigation with an unfavorable ruling resulting in monetary damages against us, management believes that the ultimate outcome of this matter will not have a material effect on its earnings, cash flows, or financial position.

On October 25, 2016 the Company’s Board of Directors authorized the repurchase of up to $1,000,000 of its common stock through December 31, 2017. Purchases made pursuant to this authorization will be made in the open market, in privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b-18 of the Securities and Exchange Commission. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. As of the date of this report no shares were repurchased.

ISSUER'S BUSINESS, PRODUCTS AND SERVICES

DESCRIPTION OF THE BUSINESS OPERATIONS

VirTra develops, sells and supports use of force training and marksmanship firearms training systems and accessories for law enforcement, military or civilian use. VirTra's simulators use software, hardware and content to create uniquely effective and realistic training that does not require live ammunition or less-than-lethal munitions, which can both save money and provide certain training capabilities unavailable to live fire exercises. The Company has developed a higher standard in simulation training including capabilities such as: multi-screen video based scenarios, unique scenario authoring ability, superior training scenarios, the patented Threat-Fire™ shoot-back system, powerful gas-powered simulated recoil weapons, and more. VirTra has a co-venture agreement with Modern Round to provide the underlying technology for their simulated shooting upscale lounge business concept. On August 2, 2016, the Company entered into and concluded an Asset Purchase Agreement ("APA") with Profiles Tool and Engineering, Inc., an Arizona corporation that operated an engineering and custom machining facility in Mesa, AZ ("Profiles"), The APA provides that the Company purchased all the assets, properties, rights and goodwill of Profiles, as well as certain liabilities. The total purchase price, including assumed liabilities, was $286,220. With the purchase of this CNC machine shop with its machinery and tools the Company will be able to enhance its ability to efficiently create new simulated weapons with required features and to be better equipped to meet client and market needs.

DATE AND STATE OF INCORPORATION

The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra Systems, Inc., a Texas Corporation. The corporate name was changed to VirTra Systems, Inc. on April 30, 2002. On September 16, 2016, the Board of Directors approved the redomestication from a Texas Corporation to a Nevada Corporation and to change the name to VirTra, Inc.

PRIMARY AND SECONDARY SIC CODES

Primary SIC Code is: 3699-0300 Electronic Training Devices.
Secondary SIC Code is: 7373 Computer Integrated Systems Design

FISCAL YEAR END DATE IS DECEMBER 31

PRINCIPAL PRODUCTS OR SERVICES AND THEIR MARKETS

Principal Products

V-300™ Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training
V-180™ Simulator – a 180° screen with video capability is for smaller spaces or smaller budgets
V-100™ Simulator – a single-screen based simulator system
V-ST™ Simulator – a highly-realistic single screen simulated shooting range simulator with the ability to scale to multiple screens
Top SME Content – content supplied with our simulators is approved by top Subject Matter Experts (SME)
V-Author™ Software – allows users to create, edit, and train with content specific to agency's objectives
Simulated Recoil – a wide range of highly realistic and reliable simulated recoil kits/weapons
Return Fire Device – the patented Threat-Fire™ device which applies real-world stress on the trainees during simulation training

Principal markets (both domestic and international)

Law Enforcement judgmental use-of-force simulation training
Military firearms simulation training
Civilian simulation shooting market

VirTra considers that some or all of the markets listed above could experience growth in the future, but such expansion is not guaranteed. Some reasons as to why simulation training markets might expand include:

- Simulation training can save money as compared with live fire and in times of constricting budgets, money savings are often prioritized.
- Live fire training raises environmental, noise and accessibility concerns.

- Realistic training that is too dangerous for live fire (threats from any direction while interacting with photorealistic humans in complex 360° environments).
- With technology improvements, simulator training capabilities and effectiveness continue to grow.

Market Penetration

VirTra has hundreds of simulators installed at this time in both the US and worldwide. However, management feels we are in the early stages of market penetration for all three markets listed above.

The Company's Co-venture agreement with Modern Round Entertainment Corporation is at an early stage with one Modern Round virtual shooting lounge facility currently in operation.

Distribution Channels

VirTra directly markets and sells its products throughout the United States. It also works with various companies throughout the world to distribute its products or serve as prime contractor on particular programs. For product sales outside the United States, it relies on carefully selected professional distributors or agents to sell its products.

Suppliers

VirTra produces some of their own products as well as relying on a variety of suppliers. We do not expect to encounter future delays with its suppliers that would have a material impact on the Company. However, supplier delays would adversely affect the Company.

The Need for Realistic Training

The world can be a very dangerous place. Both soldiers and law enforcement officers are expected to make the correct decisions with excellent marksmanship in split-second life-and-death situations. Virtra contends that the better and more realistic the training, the greater the chance the trainee will succeed when lives hang in the balance and threats are real.

Return Fire

In a real engagement, threats can cause harm or even death; this weighs heavily upon the trainee and certainly affects their responses. VirTra invented the patented Threat-Fire™ device, which simulates return fire with a split-second electric shock. Many contend that the ability to safely simulate return fire enhances the effectiveness of simulation training and forces trainees to take the exercises more seriously.

Licensing

VirTra licenses its software or other intellectual property to other companies from time to time, when such licensing makes business sense and would enhance training effectiveness.

Service and Support

VirTra is committed to providing exceptional service and support for its customers. If problems are encountered, our service and engineering employees attempt to resolve the issue quickly and efficiently. We have a long tradition of standing behind our products with excellent customer service.

Competition

Simulation competitors include, but are not limited to, the following: Cubic Defense Applications, FAAC, Laser Shot, Meggitt, and Ti Training.

Other alternatives to simulation training include, but are not limited to, live fire exercises and/or man-marker round training.

ISSUER'S FACILITIES

VirTra's headquarters are located at: 7970 S. Kyrene Road, Tempe, AZ 85284. The Company has a renewable lease agreement for the building expiring April, 2019. The stand-alone air conditioned building is approximately 40,000 square feet with 80 parking spaces. Approximately 50% of the building is production space and warehouse with the remaining 50% being office space.

With the purchase of Profiles Tool and Engineering, the Company also has facilities located at 2169 E. Fifth Street, Tempe, AZ. For this facility, the Company has a renewable lease agreement expiring March 2017. The facility, a CNC machine shop for manufacturing of parts and components, is 4,529 square feet.

OFFICERS, DIRECTORS AND CONTROL PERSONS

Listed below are the names of executive officers, directors, general partners and control persons (control persons being those who are beneficial owners of greater than five percent (5%) of any class of the equity securities), as of the date of this information statement.

Name	Position(s)	Date of Appointment
Robert Ferris (3)	Chief Executive Officer and Chairman of the Board of Directors	May 13, 2008
Matt Burlend (1, 2)	Chief Operating Officer, Secretary and Director	December 30, 2008
Jeff Brown (1, 2, 3)	Director	August 10, 2011
Mitch Saltz (1, 2, 3)	Director	November 1, 2016

1. Member of the Audit Committee
2. Member of the Compensation Committee
3. Member of the Nominating & Corporate Governance Committee

None of the foregoing persons have, in the last five years, been the subject of:

- A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
- The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
- A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated;
- The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

Beneficial Shareholders (holder of shares, shares in custody, options, or warrants).

Below is a list of beneficial shareholders owning more than ten percent (10%) of any class of the issuer's equity securities and/or any beneficial shareholders who are corporate officers or directors.

Beneficial Owner	**Officer or Director**	**Amount of Beneficial Ownership**	**Percent of Class**
Robert Ferris 7970 S. Kyrene Rd. Tempe, AZ 85284	CEO and Director	14,505,580	8.5%

THIRD PARTY PROVIDERS

Listed below are outside provider who advise the issuer on matters relating to operations, business development and disclosure:

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Public Relations
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ISSUER CERTIFICATION

I, ***Robert D. Ferris***, certify that:

I have reviewed this quarterly disclosure statement of VirTra, Inc.;

Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this disclosure statement; and

Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly represent, in all material respects, the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 14, 2016

/s/ *Robert D. Ferris*

CEO/Chairman