FINANCIAL INFORMATION

QUARTER END REPORT

March 31, 2017

VIRTRA, INC.

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VirTra, Inc. Quarterly Report
Quarter End March 31, 2017

Item 1 <u>The exact name of the issuer and the address of its principal executive offices.</u>

VirTra, Inc. - October, 2016
VirTra Systems, Inc. – September, 2001

7970 S. Kyrene Rd.
Tempe, AZ 85284
Telephone: (480) 968-1488
Fax: (480) 968-1448
www.virtra.com

Item 2 <u>Shares outstanding.</u>

VirTra, Inc. Preferred Stock, par value $.0001
VirTra, Inc. Common Stock – Common, Class A and Class B, par value $.0001
Trading Symbol: VTSI
CUSIP: 92827K 202

	March 31, 2017	December 31, 2016	December 31, 2015
Number of Shares Authorized			
Preferred Stock	5,000,000	5,000,000	200,000
Common Stock	100,000,000	100,000,000	50,000,000
Class A	5,000,000	5,000,000	0
Class B	15,000,000	15,000,000	0
Number of Shares Outstanding			
Preferred Stock	0	0	0
Common Stock	15,855,005	15,855,005	15,825,005
Class A	0	0	0
Class B	0	0	0
Freely Tradable Shares	15,223,982	13,761,450	13,681,081
Shareholders exceed 50	Yes	Yes	Yes
Number of Shareholders of Record	167	173	174

Item 3 <u>Interim financial statements.</u>

The financial statements requested pursuant to this item were prepared in accordance with generally accepted accounting principles (GAAP) by persons with sufficient financial skills. The following financial statements are included in this report:

1. Balance Sheet;
2. Statement of Operations;
3. Statement of Stockholders' Equity;
4. Statement of Cash Flows; and
5. Financial Statement Notes

VIRTRA, INC.

CONDENSED BALANCE SHEETS

	March 31, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,563,321	$ 3,703,579
Accounts receivable, net	2,506,963	3,244,852
Inventory	1,115,096	1,319,944
Prepaid expenses and other current assets	1,648,386	357,363
Total current assets	9,833,766	8,625,738
Property and equipment, net	792,713	814,323
Investment in MREC	471,928	471,928
TOTAL ASSETS	$ 11,098,407	$ 9,911,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 543,936	$ 467,679
Accrued compensation and related costs	788,871	617,582
Accrued expenses and other current liabilities	263,063	194,668
Notes payable, current	11,250	- 11,250
Deferred revenue	2,493,009	2,065,905
Total current liabilities	4,100,129	3,357,084
Long-term liabilities:		
Accrued rent liability	111,948	122,126
Notes payable, long-term	22,500	22,500
Total long-term liabilities	134,448	144,626
Total liabilities	4,234,577	3,501,710
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock $0.0001 par value; 5,000,000 authorized; no shares issued or outstanding	-	-
Common stock $0.0001 par value; 100,000,000 shares authorized; 15,855,005 issued and outstanding as of March 31, 2017 and December 31, 2016, respectively	1,586	1,586
Class A common stock $0.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Class B common stock $0.0001 par value; 15,000,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	14,179,707	14,128,044
Accumulated deficit	(7,317,463)	(7,719,351)
Total stockholders' equity	6,863,830	6,410,279
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,098,407	$ 9,911,989

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

VIRTRA, INC.
CONDENSED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
REVENUES		
Net sales	$ 4,165,476	$ 6,232,293
Royalties/Licensing Fees	43,812	-
Total revenue	4,209,288	6,232,293
Cost of sales	1,778,945	2,101,025
Gross profit	2,430,343	4,131,268
OPERATING EXPENSES		
General and administrative	1,614,498	1,537,283
Research and development	342,190	204,765
Net operating expense	1,956,688	1,742,048
Income from operations	473,655	2,389,220
OTHER INCOME (EXPENSE)		
Other income	6,233	517
Net other income	6,233	517
Income before income taxes	479,888	2,389,737
Provision for income taxes	78,000	33,240
NET INCOME	$ 401,888	$ 2,356,497
Earnings per common share		
Basic	$ 0.03	$ 0.15
Diluted	$ 0.02	$ 0.14
Weighted average shares outstanding		
Basic	15,855,005	15,828,505
Diluted	16,295,774	16,685,333

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

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

	Three Months Ended	
	March 31, 2017	**March 31, 2016**
Cash flows from operating activities:		
Net income	$ 401,888	$ 2,356,497
Adjustments to reconcile net income to net cash provided (used) in operating activities		
Depreciation and amortization	58,207	45,555
Stock-based compensation	69,163	33,990
Cash settlement of stock options	31,000	-
Changes in operating assets and liabilities:		
Accounts receivable	737,890	(2,511,827)
Inventory	204,848	(68,838)
Prepaid expenses and other current assets	(1,291,024)	(44,844)
Accounts payable and other accrued expenses	315,941	169,916
Deferred revenue	427,104	(214,046)
Net cash provided by operating activities	955,017	(233,597)
Cash flows from investing activities:		
Purchase of property and equipment	(46,775)	(32,126)
Net cash used in investing activities	(46,775)	(32,126)
Cash flows from financing activities:		
Repurchase of stock-based options	(48,500)	-
Net cash used in financing activities	(48,500)	-
Net increase in cash	859,742	(265,723)
Cash, beginning of period	3,703,579	3,317,020
Cash, end of period	$ 4,563,321	$ 3,051,297
Supplemental disclosure of cash flow information:		
Cash paid during period for income taxes	$ 78,000	$ 21,610

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

Financial Statement Notes

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 "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, 15,855,005 shares of common stock of VirTra Systems, Inc., a Texas corporation, were converted into 15,855,005 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 125,000,000 shares, of which (1) 120,000,000 shares shall be Common Stock, par value $0.0001 per share (the "Common Stock"), of which (a) 100,000,000 shares shall be Common Stock, par value $0.0001, (b) 5,000,000 shares shall be Class A Common Stock, par value $0.0001 per share (the "Class A Common Stock"), and (c) 15,000,000 shares shall be Class B Common Stock, par value $0.0001 per share (the "Class B Common Stock") and (2) 5,000,000 shares shall be Preferred Stock, par value $0.0001 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 affected a 10 for 1 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 refer to the number of shares of common stock after giving effect to the Reverse Stock Split (unless otherwise indicated). After giving effect to the reverse split, there are 15,855,005 shares of Common Stock outstanding.

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"), unless otherwise noted. 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 and the carrying value of cost basis investments. Actual results could differ significantly from those estimates.

Fair Value of Financial Instruments

The fair value of financial instruments approximates their carrying values at March 31, 2017 and 2016 due to their short maturities. These financial instruments consist of cash and cash equivalents, accounts receivable, investment in MREC, 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 March 31, 2017 and December 31, 2016, the Company maintained an allowance for doubtful accounts of $0 and $20,000, respectively.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on the average cost 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 March 31, 2017 and December 31, 2016, management has determined that it was necessary to record a reserve of $17,282.

Investments in Other Companies

Minority investments in other companies are accounted for under the cost method of accounting because the Company does not have the ability to exercise significant influence over the companies' operations. Under the cost method of accounting, investments in private companies are carried at cost and are only adjusted for other-than-temporary declines in fair value and distribution of earnings. For investments in public companies that have readily determinable fair values, the Company classifies its investments as available-for-sale, and accordingly records these investments at their fair values with unrealized gains and losses included as a separate component of stockholders' equity and in total comprehensive income (loss). Upon sale or liquidation, realized gains and losses are included in the statements of operations.

Management regularly evaluates the recoverability of its investment based on the investee company's performance and financial position. During the years ended March 31, 2017 and December 31, 2016, the Company did not recognize any losses due to other-than-temporary declines of the value of the investments. In addition, management regularly assesses the classification of its investments.

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, training, limited warranties, service agreements and related support. Certain components of the Company's sales include multiple elements comprising of both products and services. The Company's revenue recognition falls under ASC 605-25, *Multiple Element Arrangements*, with the delivery of the simulator and installation being two separate deliverables. The Company's delivery of the simulator and the installation has been assessed to qualify as separate units of accounting:

1. The simulator unit upon shipment or delivery and customer acceptance, depending on the shipping terms.
2. The installation upon completion and customer sign-off.

Additionally, the Company recognizes revenue for these products and services when it is realized or realizable and earned. Revenue is considered realized 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 charged to customers are recorded as a component of net revenues. All sales and sales contracts, including international sales, have been denominated in US dollars.

Products

Revenue from the sale of products is recognized when title and risk of loss passes to the customer. Delivery is considered complete when products have been shipped to the customer and title and risk of loss has transferred to the customer. For customers other than United States governmental agencies, the Company generally requires deposits in advance of shipment for customer sales orders. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled $568,453 and $51,334 as of March 31, 2017 and December 31, 2016, 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 does warranty 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 longer than one year totaled $1,924,556 and $2,014,571 as of March 31, 2017 and December 31, 2016, respectively. The Company records a gross to net revenue adjustment and accrues on an annual basis the estimated cost of complying with the warranty agreements for the next fiscal year. The accrual for the one-year manufacturer's warranty liability totaled $138,836 and $122,000 as of March 31, 2017 and December 31, 2016, respectively.

Cost of Products Sold

Cost of products sold represents manufacturing costs, consisting 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. Advertising expense was $27,872 and $16,244 for the quarters ended March 31, 2017 and 2016, respectively. 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, including labor, directly related to research and development support. Research and development costs were $342,190 and $204,765 for quarter end March 31, 2017 and 2016, respectively.

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 FDIC insures deposits according to the ownership category in which the funds are insured and how the accounts are titled. The standard deposit insurance coverage limit is $250,000 per depositor, per FDIC-insured bank, per ownership category. The Company had uninsured cash and cash equivalents of $4,016,677 and $2,986,694 as of March 31, 2017 and December 31, 2016, 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.

Historically, the Company primarily sells its products to United States federal and state agencies. The Company currently purchases small machined parts, custom 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 assemblies 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. The Company acquires its components on a purchase order basis and does not have long-term contracts with suppliers.

Income Taxes

The Company accounts for income taxes under FASB ASC 740-10-30. Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Accounting standards require the consideration of a valuation allowance for deferred tax assets if it is “more likely than not” that some component or all the benefits of deferred tax assets will not be realized.

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. At March 31, 2017 and 2016, the Company concluded that there has been no indication of impairment to the carrying value of its long-lived assets. As such, no impairment has been recorded.

Stock Based Compensation

The Company measures the cost of awards of equity instruments based on the grant date fair value of the awards. 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 quarters ended March 31, 2017 and December 31, 2016, and the resulting estimates of weighted-average fair value per share of options granted during those periods, are as follows:

	March 31, 2017	December 31, 2016
Volatility	98% to 101%	95% to 150%
Risk-free interest rate	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. Diluted net income per share reflects the potential dilution that would occur if outstanding stock options were exercised.

Note 2. Inventory

Inventory consisted of the following as of:

	March 31, 2017	December 31, 2016
Raw materials	$ 764,927	$ 1,085,519
Finished goods	367,451	251,707
Reserve	(17,282)	(17,282)
Total inventory	$1,115,096	$ 1,319,944

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	March 31, 2017	December 31, 2016
Computer equipment	$ 794,767	$ 753,986
Furniture and office equipment	182,969	182,969
Machinery and equipment	925,495	925,495
Leasehold improvements	324,312	318,318
Total property and equipment	2,227,543	2,180,768
Less: Accumulated depreciation	(1,434,830)	(1,366,445)
Property and equipment, net	$ 792,713	$ 814,323

Depreciation expense was $58,207 and $45,555 for the quarters ended March 31, 2017 and 2016, respectively.

Note 4. Accrued Expenses and Other Current Liabilities

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

	March 31, 2017	December 31, 2016
Manufacturer's warranties	$ 138,836	$ 122,000
Taxes payable	84,227	32,668
Other	40,000	40,000
Total accrued expenses and other current liabilities	$ 263,063	$ 194,668

And the following;

	March 31, 2017	December 31, 2016
Salaries and wages payable	$ 200,153	$ 93,832
401(k) contributions payable	21,603	25,729
Leave payable	199,328	190,518
Profit sharing payable	367,787	307,503
Total accrued compensation and related costs	$ 788,871	$ 617,582

Profit Sharing

In an effort to attract and retain the best employees, VirTra provides a discretionary Profit Sharing program that pays out a percentage of company profits each year as a cash bonus to active and eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata to employees in April and October of the following year after the completion of the annual financial audit. For the quarters ending March 31, 2017 and December 31, 2016, the amount charged to operations was fifteen percent (15%) of net profit. Profit sharing expense was $68,283 and $0 for the quarters ended March 31, 2017 and 2016, respectively.

Note 5. Collaboration Agreement

On January 16, 2015, the Company entered into a Co-Venture Agreement (“Agreement”) with Modern Round, LLC (“Modern Round”), a related party. Modern Round is in the business of developing and operating a combined dining and entertainment concept centered on an indoor shooting experience. The Agreement provides Modern Round access to certain software and related technology relating to firearm simulation training. The Company received 1,365,789 units, representing a 5% ownership interest in Modern Round on the date of the Agreement. The Company recorded the investment at the estimated fair value of the units received which were valued at $0.10 per unit based on Modern Round’s other membership unit sales . As a result, the Company recognized a gain of $136,579, which is recorded in other income on the statement of operations. 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.

The Agreement also provides the Company conditional warrants to purchase 1,365,789 units, representing an additional 5% of Modern Round as at the date of the Agreement, at an exercise price of $0.25. Such warrants are exercisable on the first anniversary of the opening of Modern Round’s first facility and ending five years from the date of grant. 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.

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 on December 31, 2015 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 of Nuvola Inc. (the “Modern Round Merger”). Pursuant to the terms of the Merger Agreement 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”). 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 (“MREC”).

As a result of the Modern Round Merger, the Company held 1,676,748 shares of MREC, options to purchase 153,459 shares of MREC at an exercise price of $.41 per share, and conditional warrants to purchase 1,676,747 shares of MREC at an exercise price of $.20 per share. On October 20, 2016, the Company exercised the warrant and purchased 1,676,747 shares of stock for $335,349 resulting in the Company’s aggregate holdings of MREC increasing to 3,353,495 common shares representing approximately 8.9% of the issued and outstanding common shares of MREC.

As part of this Co-Venture Agreement, the Company granted 919,382 conditional warrants to affiliates of MREC, a related party, to purchase 5% of the Company’s capital stock on a fully diluted basis as of the date of the Agreement. The conditional warrants are exercisable commencing at the earlier of the first anniversary of MREC opening its first range facility utilizing VirTra Technology or after MREC 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. MREC subsequently opened its first location on June 1, 2016.

The Company also granted 919,383 of additional conditional warrants to affiliates of MREC to purchase another 5% of the Company’s capital stock on a fully diluted basis as of the Agreement date. These conditional warrants are exercisable any time subsequent to MREC’s payment of $2.0 million in cumulative license fees (royalty). Cumulative license fees (royalty) earned and paid to the Company amounted to $90,047 and $0 as of December 31, 2016 and 2015, respectively. Both conditional warrant issuances are for a period of five years with an exercise price of $1.36. These contingent considerations for the equity investment do not meet the definition of a derivative under ASC 815 as of December 31, 2016. As such, the contingent consideration is not included in the cost of the equity investment until the contingency is resolved and the warrant becomes exercisable.

The Agreement grants MREC an exclusive non-transferrable license to use the Company’s technology solely for use at locations to operate the Concept, as defined in the Agreement. The license would become non-exclusive to the extent the first U.S. location is not opened within 24 months of the effective date and at least one location is opened outside the U.S. and Canada within five years of the Agreement date, the respective milestone dates. Through the termination of the Agreement, MREC will pay the Company a high single digit royalty on Gross Revenue, as defined and subject to certain minimum royalties commencing with the first twelve month period subsequent to the respective milestone date. The Company earned $90,047 and $0 for license fees (royalties) in 2016 and 2015, respectively.

Note 6. Related Party Transactions

During the quarter ended March 31, 2017, the Company issued 27,500 stock options to the CEO, COO and members of the Board of Directors to purchase shares of common stock at a purchase price of $2.60. All options are exercisable within seven years of grant date.

During the quarter ended March 31, 2017, related parties redeemed 25,000 previously awarded stock options that were approaching the expiration date for cash totaling $31,000 which resulted in additional compensation expense. These stock options were redeemed by the Company’s CEO and COO.

Mr. Saltz, a member of our Board of Directors, is also Chairman of the Board of Directors of Modern Round Entertainment Company (“MREC”), as well as, a majority stockholder. The Company has entered into a Co-venture Agreement with MREC as disclosed in Note 5. In addition, the Company owns 3,353,495 shares of MREC common stock representing approximately 8.9% of the issued and outstanding shares of MREC common stock.

Note 7. Commitments and Contingencies

Operating Lease Obligations

The Company's operating lease obligations primarily relate to the Company's corporate office space located at 7970 South Kyrene Road, Tempe, Arizona 85284, which expires in April, 2019, unless renewed. In addition, as part of the purchase of Profiles Tools & Engineering on August 2, 2016, the Company assumed the lease for the building at 2169 East 5th St., Tempe, Arizona 85284, which expires in March, 2018.

Future minimum lease payments under non-cancelable operating leases are as follows:

Building Lease Schedule		
2017	$	262,208
2018		324,353
2019		105,542
Total	$	692,103

The Company has an operating liability of $111,948 and $122,126 as of March 31, 2017 and December 31, 2016, respectively, relative to the increasing future minimum lease payments. Rent expense was $48,695 and $46,406 for the quarters ended March 31, 2017 and 2016, 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. 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 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.

Employment Agreements

The Company entered into renewable Employment Agreements with its Chief Executive Officer and Chief Operating Officer in 2012. Since the inception of the agreements, they have been renewed annually with four percent (4%) adjustments each year.

Note 8. Stockholders' Equity

Preferred Stock

Authorized Shares. The Company is authorized to issue 5,000,000 shares of preferred stock, par value $0.0001 per share (the "Preferred Stock").

Rights and Preferences. The Board of Directors is authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, and to determine the designations, preferences, limitations and relative or other rights of the Preferred Stock or any series thereof.

On June 23, 2016 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 entitled 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, 50,000 shares of the Series A Preferred shares were issued to Robert Ferris, the Company's Chief Executive Officer and a director and he paid $2,500 for these shares. Effective on September 16, 2016, these same 50,000 shares of the Series A Preferred shares were automatically redeemed from Mr. Ferris by the Company for $2,500 and cancelled.

Common Stock.

Authorized Shares. The Company is authorized to issue 120,000,000 shares of Common Stock, par value $0.0001 per share (the "Common Stock"), of which (a) 100,000,000 shares shall be Common Stock, par value $0.0001, (b) 5,000,000 shares shall be Class A Common Stock, par value $0.0001 per share (the "Class A Common Stock"), and (c) 15,000,000 shares shall be Class B Common Stock, par value $0.0001 per share (the "Class B Common Stock"). No Class A or Class B Common Stock has been issued.

Rights and Preferences. Voting Rights. Except as otherwise required by the Nevada Revised Statues or as provided by or pursuant to the provisions of these Articles of Incorporation:

(i) Each holder of Common Stock shall be entitled to one (1) vote for each share of Common Stock held of record by such holder. The holders of shares of Common Stock shall not have cumulative voting rights.

(ii) Each holder of Class A Common Stock shall be entitled to ten (10) votes for each share of Class A Common Stock held of record by such holder. The holders of shares of Class A Common Stock shall not have cumulative voting rights.

(iii) The holders of Common Stock and Class A Common Stock shall vote together as a single class on all matters on which stockholders are generally entitled to vote.

(iv) 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.

Stock Repurchase

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 have been repurchased.

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 the option grants are at the discretion of the Board of Directors but historically have been seven years. The Board of Directors previously approved a quarterly grant of 10,000 stock options to the CEO, 7,500 stock options to the COO/Secretary, and 5,000 stock options to any non-employee board member. During the quarters ended March 31, 2017 and 2016, the Company issued 27,500 and 22,500 stock options respectively, with a weighted average exercise price of $2.60 and $1.40, respectively, per share. During the quarter ended March 31, 2017, related parties redeemed 25,000 previously awarded stock options, which were approaching the expiration date, for cash totaling $31,000 that resulted in additional compensation expense. These stock options were redeemed by the Company's CEO and COO.

The following table summarizes all compensation plan stock options as of March 31, 2017 and March 31, 2016:

	March 31, 2017		March 31, 2016	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	1,115,833	$ 0.62	1,667,934	$ 0.60
Granted	27,500	2.60	22,500	1.40
Redeemed	(25,000)	1.94	-	-
Exercised	-	-	-	-
Expired / terminated	-	-	(25,000)	0.30
Options outstanding, end of quarter	1,118,333	0.63	1,665,434	0.62
Options exercisable, end of quarter	1,078,333	0.62	1,580,434	0.61

There are 40,000 non-vested stock options as of March 31, 2017. Of that amount, 20,000 options will vest equally in October, 2017 and October, 2018.

On March 9, 2016, the Company's board of directors approved a program under which the Company may repurchase outstanding vested stock options on an exception basis. Under the terms of the program, for company employees in good standing, the Company's CEO or COO may approve stock option redemption for cash for the net value of the stock option (stock price on the redemption date minus the original strike price). The cash redemption of stock options held by the CEO or COO must be approved by the Company's independent directors. Any redeemed options are immediately cancelled. The Company retains the right to reject any redemption request that is not in the best interest of the Company. During the quarter ended March 31, 2017, the Company redeemed 25,000 stock options for $48,500 of which $17,500 had been previously expensed in 2010 using the Black-Scholes fair value method with the balance of $31,000 being recognized as additional compensation cost. This amount is included in the accompanying statement of operations in general and administrative expense. Management does not expect to have significant volume of cash redemptions in the future, and has thus determined that equity classification for these awards remains appropriate.

Warrants

As part of the January 2015 Co-Venture Agreement, the Company granted conditional warrants to affiliates of Modern Round Entertainment Company ("MREC"), a related party, to purchase 5% of the Company's capital stock on a fully diluted basis. The conditional warrants are exercisable commencing at the earlier of the first anniversary of MREC opening its first range facility utilizing VirTra Technology and the payment of all required minimum royalty/licensing fee payments during the first 12 month period. The Company also granted 1,838,764 conditional warrants to affiliates of MREC to purchase 5% of the Company's capital stock on a fully diluted basis, which are exercisable any time subsequent to MREC's payment of $2.0 million in royalty fees. The conditional warrants have a contractual term of five years and an exercise price of $1.36.

Note 9. Subsequent Events

None.

Item 4 <u>Management's Discussion and Analysis or Plan of Operation.</u>

A. Plan of Operation

N/A

B. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of our financial condition and plan of operations should be read in conjunction with our financial statements and related notes included with this report. This discussion and analysis contains forward-looking statements including information about possible or assumed results of our financial conditions, operations, plans, objectives and performance that involve risk, uncertainties and assumptions. The actual results may differ materially from those anticipated in such forward-looking statements. For example, when we indicate that we expect to increase our product sales and potentially establish additional business relationships, these are forward-looking statements. The words expect, anticipate, estimate or similar expressions are also used to indicate forward-looking statements.

Overview

The Company develops, sells and supports use of force training and marksmanship firearms training systems and accessories for law enforcement, military or civilian use. The Company'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.

Principal Products

The Company's principal products include:

- 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

Results of Operations for the quarters ended March 31, 2017 and March 31, 2016

Revenues

Revenues for the quarter ended March 31, 2017 totaled $4,209,288 compared to $6,232,293 for the quarter ended March 31, 2016. This represents a 33% decrease from the first quarter in the same period of 2016, which primarily resulted from recognizing $2.7 million in revenue on a single international order during the first quarter of 2016.

Cost of Goods Sold

Cost of Goods Sold for the quarter ended March 31, 2017 totaled $1,778,945, compared to $2,101,025 for the quarter ended March 31, 2016. This represents a 15% decrease in Cost of Goods Sold directly related to the reduction in product sales and mix for the first quarter of 2017, compared to the first quarter of 2016.

Gross Profit

Gross Profit for the quarter ended March 31, 2017 was $2,430,342, which represents a 58% gross profit margin. Gross Profit for the quarter ended March 31, 2016 was $4,131,268, which represents a 66% gross profit margin. The Gross Profit decreased by 41% for the first quarter of 2017, compared to the first quarter of 2016, primarily as a result of the reduction in recognized revenue for the quarter.

Operating Expenses

Net operating expenses for the quarter ended March 31, 2017 totaled $1,956,688, compared to $1,742,048 for the quarter ended March 31, 2016. This represents a 12% increase. The increase in operating expenses resulted from increases in employee costs, profit sharing expense, research and development expenses, and sales and marketing expense.

Net Income

Net income for the quarter ended March 31, 2017, totaled $401,888, compared to $2,356,497 for the quarter ended March 31, 2016. This represents an 83% decrease. The decrease in net income primarily resulted from the decreases in revenue and gross profit and the increase in operating expenses as noted above.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (AEBITDA)

Explanation and Use of Non-GAAP Financial Measures:

Earnings before interest, income taxes, depreciation and amortization and other non-operating costs and income ("EBITDA") and adjusted EBITDA are non-U.S. GAAP measures. Adjusted EBITDA means net income (i) plus depreciation, (ii) plus non-cash stock option expense, and (iii) plus provision for income taxes. Other companies may calculate adjusted EBITDA differently. We calculate adjusted EBITDA to eliminate the impact of certain items we do not consider to be indicative of the performance of our ongoing operations. Adjusted EBITDA is presented herein because management believes the presentation of adjusted EBITDA provides useful information to the Company's investors regarding the Company's financial condition and results of operations and because adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry, several of which present EBITDA and a form of adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under U.S. GAAP. Adjusted EBITDA should not be considered as an alternative for net (loss) income, cash flows from operating activities and other consolidated income or cash flow statement data prepared in accordance with accounting principles generally accepted in the United States or as a measure of profitability or liquidity. A reconciliation of net income to adjusted EBITDA is provided in the following table:

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

	Three Months Ended March 31,			
	2017	**2016**	**Increase (Decrease)**	**% Change**
Net Income	$ 401,888	$ 2,356,497	$ (1,954,609)	-83%
Adjustments:				
Depreciation	58,207	45,555	12,652	28%
Non-cash stock option expense	69,163	33,990	35,173	103%
Provision for income taxes	78,000	33,240	44,760	135%
Adjusted EBITDA	$ 607,258	$ 2,469,282	$ (1,862,024)	-75%

Liquidity and Capital Resources

The Company had $4,563,321 and $3,703,579 in cash as of March 31, 2017 and December 31, 2016, respectively. The working capital was $5,733,637 and $5,268,654 for the periods ended March 31, 2017 and December 31, 2016, respectively.

Net cash provided by operating activities was $955,017 for the quarter ended March 31, 2017 compared to net cash used by operating activities of $233,597 for the quarter ended March 31, 2016, respectively. The net cash provided by operating activities increase resulted from the reduction of Accounts Receivables.

Net cash used in investing activities was $46,775 and $32,126 for the quarters ended March 31, 2017 and 2016, respectively, and resulted from an increase in purchase of property and equipment.

Net cash used in financing activities was $48,500 and $0 for the quarters ended March 31, 2017 and 2016, respectively, and resulted from the repurchase and cancellation of stock-based options.

The Company had assets as of March 31, 2017 of $11,098,407.

The amount of cash and cash equivalents and working capital at the quarter ended March 31, 2017 along with expected net cash provided by operating activities is believed sufficient to meet our current operating cash needs over the next twelve months.

However, if additional capital is needed it may not be available when required or on favorable terms. If adequate funds are not available, we may be required to significantly reduce or refocus our operations or to obtain funds through arrangements that may require us to relinquish rights to certain or potential markets, either of which could have a material adverse effect on our business, financial condition and results of operations. To the extent that additional capital is raised through the sale of equity or convertible debt securities, the issuance of such securities would result in ownership dilution to our existing stockholders.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Item 5 Legal proceedings.

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. 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 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.

Item 6 Defaults upon senior securities.

None.

Item 7 Other Information.

None.

Item 8 Exhibits.

The Company's Co-venture agreement dated January 16, 2015 with Modern Round LLC ("Modern Round") is at an early stage with one Modern Round virtual shooting lounge facility currently in operation. Under the Agreement, MREC is creating an entertainment concept (the "Concept"), centered on Modern Round's development of an indoor simulated shooting entertainment experience with the Company collaborating on the development and implementation of that Concept. In connection therewith the Company granted Modern Round an exclusive, non-transferable Royalty-bearing right and license to use the Company's software in virtual shooting lounge facilities. The Company has agreed to issue separate warrant documents to three affiliates of Modern Round for the purchase of up to 5% of the Company's outstanding common shares. One is exercisable upon 12 months of Modern Round's first location is remaining in operation and the other warrant is exercisable upon reaching pre-determined royalty thresholds. Modern Round, in turn, issued a warrant to the Company to purchase 1,365,789 shares of common stock of Modern Round which represents 5% of the outstanding common shares of Modern Round. The term of the Agreement shall continue for so long as Modern Round shall exercise any rights under the Agreement or unless terminated for cause or as otherwise therein. 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. A copy of the Modern Round agreement was filed by the Company as Item 18 exhibit to its Annual Report published on the OTC Disclosure & News Service on April 7, 2017.

[ISSUER'S CERTIFICATION PAGE FOLLOWS]

Item 9 Certifications.

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: May 12, 2017

/S/ Robert D. Ferris_______________
Robert D. Ferris
Chief Executive Officer and Chairman of the Board of Directors

I, Donna S. Moore, 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: May 12, 2017

/S/ Donna S. Moore___________________
Donna S. Moore
Chief Financial Officer