

***Transcript of
VirTra***
**Fourth Quarter and Year End 2017 Earnings Conference Call
March 29, 2018**

Participants

Brett Maas . Managing Partner, Hayden Investor Relations
Bob Ferris . Chairman and Chief Executive Officer
Judy Henry . Chief Financial Officer

Analysts

Jim Poitner . Private Investor
Charles Landes . Private Investor
Mark Klugger . Private Investor
Jim Jacob . Private Investor
Biff Adam . Voya

Presentation

Operator

Greetings and welcome to the VirTra Fourth Quarter and Year End 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Brett Maas of Hayden IR.

Brett Maas – Managing Partner, Hayden Investor Relations

Thank you, operator. I would like to welcome everyone to VirTra's Fourth Quarter and Full Year 2017 Earnings call. Hosting the call today are Bob Ferris, Chairman and Chief Executive Officer; and Judy Henry, Chief Financial Officer.

By now, you should have received a copy of today's press release. If not, it's available in the company's website at website at www.virtra.com, which is V-I-R-T-R-A.com. The press release also includes a reconciliation of non-GAAP financial measures used herein. In addition, you will be able access the company's fourth quarter financial report on the corporate section of the company's website on the Reports tab on or about Friday, March 30th. This webcast is being recorded and will be available for replay for 60 days on the company's website, starting later this afternoon.

Before I turn the call over to management, please take a moment to read the company's notice regarding forward-looking statements. During this webcast, management may discuss financial projections, information or expectations about the company's products and services or markets, or otherwise make statements about the future, which are forward-looking and subject to a number of risks and uncertainties that could cause actual results to differ materially from the statements made. The company does not undertake any obligation to update them as required by law.

Following the prepared remarks and similar to previous webcasts, management will answer your questions if time permits. I now would like to turn the call over to Bob. Bob, the floor is yours.

Bob Ferris – Chairman and Chief Executive Officer

Thanks, Brett. Good morning and welcome to VirTra's Fourth Quarter and Full Year 2017 Earnings call. Thank you so much for joining us. 2017 was an important and productive year for VirTra. We delivered full year revenue of \$16.5 million, exceeding the record level from the prior year. Simultaneously, we continue to invest in every department of the company and in corporate governance enhancements to position VirTra for continued success for our stakeholders.

As the technology has improved and new features have been added, market acceptance by law enforcement agencies for simulator training has increased. As a result, the industry continues to gain momentum, growing through new customer adoption and media coverage. We believe that VirTra remains the technological leader in this growing space, and we continue to innovate to maintain this position. As a result, VirTra has been selected by many of the largest and most respected law enforcement agencies across the globe and interest for our solutions is at an all-time high. I continue to believe that VirTra provides uniquely effective products to address current challenges facing countries worldwide.

Our solutions are highly realistic and can affordably train law enforcement to better handle life and death situations ranging from active shooters to complex judgmental use of force decision making. In addition, we carefully design our simulators to induce stress during training, such as use of our patented Threat-Fire device, thereby helping officers be better prepared when they encounter the enormous stress that can occur in real life situations. Our goal is to ensure every minute in the simulator yields significant real world skill improvements.

Strategically, 2017 was a year of targeted investment in people, processes and solutions to bolster our strong existing reputation in a growing market. Over the last year, we worked to improve the quality and quantity of our sales and marketing organization to better meet growing demand. We are already seeing the benefit of this, as I'm pleased to announce that our orders for the first quarter were at record levels, giving us significant confidence that 2018 will be a year of growth.

We are also encouraged by our successful up-listing in NASDAQ. This milestone accomplishment was made possible by uncompromising integrity, genuine concern for customers, tenacity for success, dedication to improvement as a team and the pouring out of blessings on this company. It's hard to believe that a virtual reality and simulation company formed in 1993 with no money, no products and no customers would someday make it to a national exchange. I sincerely thank the thousands of individuals who have played a part in VirTra's succeeding over the years. While we are excited about all the potential benefits stemming from joining the NASDAQ, we are equally determined to grow the value of our business enterprise and help improve and save lives through the effective use of technology long into the future.

Looking back for a moment over 2017, I'm pleased with our solid full year results, but the fourth quarter was impacted by the timing of some orders. Several orders were shipped early benefiting the third quarter and other orders were delayed by customers, shifting revenue in to future periods. The result was that our fourth quarter revenue came in lower than we would like. To be sure, timing of orders and revenue recognition rules can result in fluctuations from quarter-to-quarter. For further context, the federal government has been passing continuing resolutions at irregular intervals impacting the timing of certain federal spending.

As a result, during 2017 we didn't see the normal government year-end spend in September that would often be delivered in fourth quarter. We believe this did impact our Q4 earnings, but we do expect government spending to increase in the law enforcement area during 2018. We have seen a significant increase in our sales pipeline and we believe that our record-setting order levels in the first quarter is indicative of a strong 2018 to come.

However, please keep in mind that VirTra's revenue reported each quarter can fluctuate substantially, sometimes due to delays out of our control on the timing of recognizing large contracts. And so, management highly encourages viewing the company's financial results across a longer time frame.

I'd like to now discuss our sales and marketing efforts. Our new marketing effort announced last year has driven important changes in our sales organization. We began testing the effectiveness of having sales staff make personal visits to police departments and based on the success we modified our sales strategy. Working hand-in-hand with the new marketing department, we are moving to an in-territory sales force position around the US. We have also increased the number of inside and outside sales representatives, enhancing our connection with existing customers.

One of several goals of our increasing marketing effort is to accelerate the sales cycle, and as we grow our business, we expect to do just that. Prior to June of last year, VirTra did not have a marketing team. Today, we have a four-person team and an experienced director of marketing. Part of this is due to the fact that we must prepare for competitors to increase their product offerings in the future. And so, it is vital for VirTra not to rest on past accomplishments.

Largely due to VirTra's work over the years and media attention about the challenges faced by law enforcement, the industry is embracing more realistic and effective training simulators, particularly multi-screen simulators. Fortunately, VirTra pioneered this product as we began investing in multi-screen simulator technology and scenarios in 2003, and then VirTra has continued to invest heavily ever since which has created a durable competitive advantage, based on approximately 170 work years of technological innovation and refinement.

Our newly expanded marketing team is tasked with clearly demonstrating this advantage to potential customers. I would like to point out that the largest portion of our increased marketing spend came during the fourth quarter related to trade show attendance, website enhancements, digital advertising and public relations, which resulted in national media coverage. VirTra still must educate those in the market who may not currently use training simulators or those who use older and less effective training methods.

We continue to invest in innovation as well. In December, we launched a new series of training cartridges for the AXON X2 and X26P TASERs. The VirTra less-lethal training accessories utilize patent pending, state-of-the-art electronic sensing technology that enhances the safety, durability, and maintenance of the cartridges and addresses full and accurate training. TASERs and other less-lethal devices are regularly utilized by law enforcement around the world and these technologies continue to improve, but recurring training is often a policy requirement.

Our simulator-based solution provides a highly realistic training option at a fraction of the cost. We think that superior training at reduced cost makes the decision to purchase VirTra products much easier for potential clients. In addition, we continue to develop new firearm kits designed to allow additional models of firearms to be utilized in any of our training simulators. VirTra has become well known within the industry for creating powerful recoil kits that are remarkably durable, an engineering feat very difficult to achieve. Our technical staff are the best and the brightest in the industry and are hard at work on new product developments that will be announced when the products pass our stringent subject matter expert and quality testing regimen.

Financially, for the year, revenues were up 6% over last year. Gross profit for the full year was also up nearly 6% to \$10.2 million for a gross margin of nearly 62%. Excluding two non-cash and non-recurring charges, net income for the full year was \$1.2 million, down from 2016 due primarily to investments we are making throughout the

company to drive and support new business, as well as costs associated with registering with the SEC and up-listing to the NASDAQ.

We generated positive free cash flow of just over \$2.5 million for the full year and maintained a strong balance sheet with essentially no debt. New business sales were solid throughout the year with multiple contract wins with new and existing customers that expand our installation footprint, both domestically and internationally.

Notably, we signed contracts totaling more than \$2.6 million with the United States Department of Homeland Security, for the United States Customs and Border Protection, one of the largest law enforcement agencies in the world. The contracts include the sale of multiple virtual training systems and accessories, including VirTra's industry leading V-300 for just over \$2 million and a renewal of their simulator service contracts totaling over \$600,000. With this addition, the V-300 judgmental use-of-force simulators will be located at 35 major international airports, ports of entry and training facilities across the country for this one client.

Our V-300 multi-screen judgmental use-of-force simulator was also purchased by Monmouth County in New Jersey and installed as an integral part of the county's new state-of-the-art situational, training and response simulator, known as STARS, training facility for first responders throughout New Jersey. Personnel can take advantage of interactive use of force training to better prepare for potentially hostile situations ranging from domestic violence and hostage situations to active shooter scenarios.

Similarly, Missouri's St. Louis County Police Department installed the VirTra V-300 simulator to train its local law enforcement on de-escalation and split second decision making in life-threatening situations. Use of force incidents across the country resulted in a focus on high quality law enforcement training. The system was purchased in response to the critical need for better judgmental use of force and de-escalation training.

Our V-300 training solution was recently featured in a segment on ABC's 20/20. During the broadcast the solution we installed for the O'Fallon, Missouri Police Department at the end of 2016 was highlighted, including action footage of a live training session where we simulated a shooting at the local high school, so officers could train for a situation we all hope never happens in real life.

Internationally, we were awarded a contract from a customer located in the Middle East valued at approximately \$600,000. We have since supplied, installed and are currently maintaining simulator systems at multiple locations for this particular customer. Installation of our V-300 systems now total 13 in this particular Middle Eastern country.

In the Asia-Pacific region, we signed contracts worth more than \$750,000 in total, with three law enforcement agencies in Australia: the Australian Border Force, New South Wales Police Department and South Australia Police Department. With these orders VirTra is now by far the company of choice for law enforcement simulation training in Australia.

And our international expansion has continued into 2018, with the receipt of an order valued at \$1.38 million from a new customer for delivery to Africa. Our most recent announcement of a \$4.6 million contract for delivery to Pakistan is a major win for VirTra on the international front.

On top of this, over the years, we have a proven and successful track record of expanding our footprint once we have established an initial foothold in a given location. We are working now to leverage the success of these installations help train additional agencies in these countries.

During the third quarter, 2017, we held our annual meeting of shareholders, at which time our shareholders approved among other things the election of Mr. Jim Richardson to our Board of Directors. The addition of Jim increased the size of our board from four to five members to further strengthen our corporate governance. Simultaneously, the board confirmed the independents of three of our five directors in accordance with corporate governance requirements of the NASDAQ listing rules and the applicable Securities and Exchange Commission rules, clearing another hurdle for the transition of our common stock listing from the OTCQX market to the NASDAQ.

As part of the process to up-list to the NASDAQ, we completed a one for two reverse split of our common stock. Simultaneous with the transaction of our stock to the NASDAQ, we have registered our common shares with the Securities and Exchange Commission. So beginning with our Form 10-K for 2017 and going forward, we will be subject to all the reporting obligations of a public reporting company. Since we are now a public reporting company, we are not able to raise money in a regulation A plus offering. And so this offering is now officially closed. Our years of profits and strong balance sheet permitted us the flexibility to move to NASDAQ without having to raise funds to do so.

I would now like to turn the call over to Judy Henry, our CFO, to review the quarterly and full results. Judy?

Judy Henry – Chief Financial Officer

Thank you, Bob. Revenues for the fourth quarter of 2017 of \$2.4 million were down 21% compared to \$3 million for the corresponding period in 2016. The decrease was due to the timing of certain orders under contract that as Bob mentioned, resulted in lower recognized revenue during the fourth quarter.

Gross profit for the fourth quarter of 2017 was \$940,000 or 39.5% of revenues, compared to \$1.9 million or 62.9% of revenues for the corresponding period last year. The decrease in gross profit margin was primarily due to non-recurring, non-cash adjustments in the carrying value of certain inventory.

Net operating expense was \$2.5 million in the fourth quarter of 2017, compared to \$2.2 million in the fourth quarter of last year. The year-over-year increase in operating expenses was due to expanding staffing levels, annual increases in payroll and benefits for current staff, sales and marketing expansion, increases in non-recurring public company related costs, new research and development and IT infrastructure upgrades. Approximately \$411,000 of these expenses are non-recurring in nature.

The loss from operations for the fourth quarter of 2017 was \$1.5 million compared to \$303,000 for the corresponding period last year. As Bob mentioned, we have two non-recurring and non-cash items recognized in the fourth quarter. First, due to a long track record of annual profits, VirTra recorded an income tax benefit of \$2.6 million, reflecting a reversal of our previously established valuation allowance, partially offset by the effect of changes in the federal income tax rate applied to our deferred tax asset and miscellaneous state income taxes. In addition, management regularly evaluates the recoverability of its investments based on investee company's performance and financial position.

During the fourth quarter, VirTra recognized an impairment loss of \$613,000 related to our investment in Modern Round. Inclusive of these two items, the net income for the fourth quarter of 2017 was \$410,000, or \$0.06 per basic and diluted share, compared to a net loss of \$311,000 or negative \$0.04 per basic and diluted share in the fourth quarter of 2016. The diluted weighted average shares outstanding increased from a loss position of 7,912,000 shares in the fourth quarter of last year to 8,278,000 million in the fourth quarter of this year.

Shifting to our full year results, revenues for the full year 2017 increased to \$16.5 million, up 5.6% from \$15.7 million for 2016. The year-over-year increase was due to additional sales of simulators, accessories, warranties and other services. Gross profit for the full year 2017 was \$10.2 million or 61.9% of revenues, compared to \$9.7 million, also 61.9% of revenues in 2016.

Inclusive of the tax benefit and the impairment charge, net income for the full year 2017 was \$3.3 million or \$0.41 per basic and \$0.39 per diluted share, compared to \$2.1 million or \$0.26 per basic and \$0.24 per diluted share in 2016. The diluted weighted average shares outstanding were approximately \$8.4 million for 2017 essentially the same as 2016.

Turning to the balance sheet, as of December 31, 2017, the company had approximately \$5.1 million in cash and cash equivalents, compared to \$3.7 million at December 31, 2016. We have approximately \$2.7 million of deferred tax asset available to offset future taxable income that expires in various years throughout 2034. The company has now concluded that as of December 31, 2017, it is more likely than not that the company will generate sufficient taxable income within the applicable net operating loss carry-forward periods to realize all of its deferred tax assets. The company has essentially no outstanding debt as of December 31, 2017.

I'll now turn the call back over to Bob.

Bob Ferris – Chairman and Chief Executive Officer

Thank you, Judy. As I look to the future, I've never been more excited about VirTra's long-term potential. Our recent addition in NASDAQ is certainly electrifying our staff, but it's just the beginning of a new chapter with much work ahead of us, if we are to succeed in improving and saving lives through the effective use of technology.

With that, I'll now turn the call over to the operator for questions.

Operator

Thank you. At this time, we will be conducting a question-and-answer session. [Operator instructions]. Our first question is from Jim Poitner [ph], private investor. Please proceed with your question.

Q: First of all, congratulations on a great year and it sounds like there's every indication to believe 2018 is going to be even better. Bob, is part of the reason for the delay of finishing and delivering orders in part due to the federal government's inability to get budgets passed or were these more localized, meaning either finishing the product for delivery or other reasons that aren't the size of the federal government? Thank you.

Bob Ferris – Chairman and Chief Executive Officer

Thanks, Jim. Great to hear from you. Thanks for listening to the call. I know you've been a shareholder for many, many years. I think you sent me a picture going to 1994 of your involvement with this company. So, that goes back quite a ways.

As far as the revenue recognition, the fourth quarter revenue recognition issue is mainly related to some orders getting delivered early and being accepted a bit early. So third quarter received some orders that normally would have gone in the fourth quarter and then some of the other orders in fourth quarter ended up, due to accommodating customers, were delayed into 2018.

The mention of the continuing budget resolution does impact some order flow. It was somewhat related to fourth quarter potentially. Of course, we're not exactly sure because those continuing resolutions created a new

situation that we haven't exactly seen before. But again like I mentioned we are very excited about 2018 being a strong overall year, even though we do have quarterly fluctuations.

Operator

Our next question is from Charles Landes [ph], private investor. Please proceed with your question.

Q: Hello, Bob, and congratulations for making it to NASDAQ. It's been a while coming, but it's been worth the wait.

Bob Ferris – Chairman and Chief Executive Officer

Thank you. Thank you so much. And I know you've been involved in the company for years as well. Thanks for calling and listening.

Q: Bob, how many employees are currently at VirTra full-time?

Bob Ferris – Chairman and Chief Executive Officer

Currently we have 80 employees.

Q: Could you go into a little more detail regarding the Modern Round status. Is that completely a thing of the past and written off or is it just functioning less than anticipated?

Bob Ferris – Chairman and Chief Executive Officer

Yes, great question. So, I think there's four important aspects to consider with Modern Round. One is, as far as we know, Modern Round is currently in a process of expanding into new locations, both standalone and sub-licensing locations. Modern Round reports that their Peoria location, which was the first one that they put up, generated positive operating results for 2017.

The write-down with Modern Round is really in accordance with GAAP accounting rules regarding the current fair market valuation. So I mean, really the reason the write-down is occurring now is that there was some data that helped form a fair market valuation that was then used to reassess this value on our balance sheet, just to make sure it was accurate as of the end of last year.

So obviously, VirTra doesn't control Modern Round and Modern Round operates their business with their own staff, while focusing on their unique market segment. But with Modern Round opening new locations and the escalating minimum royalty requirements that are in our contract with them to maintain exclusivity, we do expect that the licensing fees paid by Modern Round could well grow in the future. But, of course, there's no guarantees on that.

Q: Do you expect that they will fulfill the international aspect?

Bob Ferris – Chairman and Chief Executive Officer

I have no visibility on that right now. I do not know.

Q: And finally, the recently released news regarding the Mideast customer, what type weapons are they primarily training with?

Bob Ferris – Chairman and Chief Executive Officer

I do not have that information in front of me. So, I would not want to hazard a guess.

Q: My interest in that was the recent release of the recoil kits, if those figured into that customer or if they're just a random occurrence.

Bob Ferris – Chairman and Chief Executive Officer

No, we definitely focus a lot of attention on deciding what exact firearm make and model that we develop recoil kits for. We have almost daily meetings to make sure that we're all in alignment and then we have regular meetings to discuss our development road maps. So, every recoil kits that is released from our company, it's for very strategic reasons. So yes, very much if there is a client that is in need of a recoil kit, there is many times that sort of development gets put to the top of the queue for obvious reasons.

Q: And what's the outlook for the current facility? Is that going to be adequate for several years or are you going to need to get additional space?

Bob Ferris – Chairman and Chief Executive Officer

Our current facility is actually two different facilities. So, our current building has about 40,000 square feet and then we have a secondary location about a 15-minute drive from this facility where we do other work of CNC machining mainly. So, those two facilities are currently adequate; we are also only running one shift. So, we are essentially just running about 10 to 12 hours a day at our current facility and that can always be increased.

So as of today, we do not foresee a need to move into a much larger facility. Even with anticipated growth of our revenue, we feel we can accommodate here. And we are obviously always in the process of looking at how we optimize our leased space, and we're currently working on some things along those lines. But as of right now we are not anticipating a major building shift in the near future.

Q: All right. Thank you very much, Bob. And good job to you and rest of the staff there of getting on NASDAQ, again I see that as a major milestone unlocking a lot of doors, and hopefully a lot of interest in the product and shareholders. Thank you.

Operator

Our next question is with Mark Klugger [ph], private investor. Please proceed with your question.

Q: Hello, Bob. This is Mark Klugger from Florida and the Orlando area. I met you several years ago at [indiscernible] with my Boy Scout unit. How are you today?

Bob Ferris – Chairman and Chief Executive Officer

I'm well. How are you?

Q: I am doing awesome. Thank you so much. I have always been an investor, I guess since 2006 and so, I guess I'm fairly a young investor, but I had a question for you outside of congratulating you and the team on NASDAQ. I think it's wonderful news having followed the stock since it was a [indiscernible] stock.

With regards to the sale these days, it seems that our sort of prize unit would be the V-300. How long from start to finish does it approximately take to put a whole package together and get it ready for shipment? I know we've seen some multi-unit orders, so I was just curious to know how that all works out.

Bob Ferris – Chairman and Chief Executive Officer

Well, first of all, I do remember you and Boy Scouts and being an Eagle Scout, that's one of my best memories at a trade show was having the opportunity to show you and them the most advanced training simulators at that time. And thanks for your continued interest in VirTra over the years.

When it comes to the amount of time, it's really highly dependent on what items are on the order. But we have- a little over a year ago our production team took it upon themselves to really streamline our ability to create a V-300 simulator and that resulted in a huge decrease in the amount of time it takes us to get a V-300 both built and tested. It's incredible how much time is required to properly test products, and we do an enormous amount of testing here at VirTra.

So, but based on them improving our process of how we actually produce the unit, we are able to have a lot more time for testing the unit. But generally speaking, there are times when I've heard we've had equipment on the shelf and actual- when I say equipment on the shelf, like we have a V-300 ready to go on the shelf and we have been able to go from order to shipping in a matter of days. The process it takes to create a V-300 as far as just the simulator portion itself can actually be done in a number measured in hours for the setup of all the software on all the computers.

Q: Well, okay. Well, listen, I really appreciate all that you've done. I have two Eagle Scouts now. So I just passed the baton.

Bob Ferris – Chairman and Chief Executive Officer
Congratulations.

Q: I applaud you. Thank you for your hard work with Eagle Scout as well years ago. Thank you so much everybody and just so excited for opportunities that abound for this product and for the company. Thank you so much.

Operator

[Operator instructions]. Our next question is with Jim Jacob, private investor. Please proceed with your question.

Q: Actually, I don't have a question, but I do have a comment really for everybody who is on the call and that VirTra is an excellent example of a company that should be only compared on an annual basis. We all know that the quarters can be lumpy as you've explained to us.

And if you look at 2017, it was much better than 2016 and the comments that you've made already and also knowing that Q1, which is already 25% of the year, is in the books and you're making some nice positive comments that 2018 should be much better than 2017, and that's what I think everybody should really focus on is the annual comparisons not quarter to quarter, because it's tough in a 90-day period to manage revenues to fall into that quarter. So, that's my comment.

Bob Ferris – Chairman and Chief Executive Officer

Well, thank you very much, and I very much agree with your analysis. Thanks for calling so much.

Operator

Our next question is with Biff Adam from Voya. Please proceed with your question.

Q: So, I've got a question. I have been in this stock for a long time and I love what you've done. I love how we've got out of many different issues and now we're clean and now we're with NASDAQ and it looks like blue skies.

The question I've got is you talked about governmental regulation that could have paused some orders for Q4. Recently Trump signed the omnibus bill. Are we to assume this could help free up some funds for orders from the DoJ \$40 million order- not order but a thing that we have with one other issue that could help some government issues or government orders?

Bob Ferris – Chairman and Chief Executive Officer

Yes, there is certainly the potential that, that could help some of the orders based on the federal budgeting process. Yes, absolutely.

Q: And so I know you already mentioned this, but the Q4 being less than what we had hoped, I would imagine a lot of that came from the issue of the government not being able to spend in Q4 or prior to Q4 which would allow Q4 earnings to suffer somewhat. That's correct, right?

Bob Ferris – Chairman and Chief Executive Officer

I think, they are related, yes.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back over to Bob Ferris for closing remarks.

Bob Ferris – Chairman and Chief Executive Officer

Thank you. I'd like to end today's call with a sincere thank you to all those people who have been instrumental in allowing VirTra's products to train officers, war fighters and civilians at the very highest level in 29 countries around the world. I'd like to recognize the employees, customers, shareholders, many of which who called in today, and vendors who should each share in our sense of accomplishment in joining the NASDAQ.

Thank you and God bless. Goodbye.