



Update for Annual Report for year ended December 31, 2016

Subsequent to filing VirTra, Inc.'s Annual Report for the year ended December 31, 2016, we discovered an error in the calculation of the Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("AEBITDA"), a non-GAAP financial measure. The correction has no impact on the Company's audited financial statements, which were prepared in accordance with GAAP, as reported in the Annual Report previously released.

The table below shows the corrected AEBITDA:

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

	Year Ended December 31			
	2016	2015 (Unaudited)	Increase (Decrease)	% Change
Net Income	\$2,050,022	\$1,536,983	\$ 513,039	33%
Adjustments:				
Depreciation	192,602	184,846	7,756	4%
Non-cash stock option expense	181,786	118,328	63,458	54%
Treasury stock cancelled	2,981	-	2,981	100%
Other income-receipt of unclaimed property	(17,913)	-	(17,913)	-100%
Provision for income taxes	102,753	89,562	13,191	15%
Adjusted EBITDA	<u>\$2,512,231</u>	<u>\$1,929,719</u>	<u>\$ 582,512</u>	30%

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, (iii) plus treasury stock canceled, (iv) minus other income – receipt of unclaimed property, and (v) 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.



FINANCIAL INFORMATION
YEAR END REPORT
December 31, 2016

VIRTRA, INC.

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**VirTra, Inc. Annual Report
Yearend December 31, 2016**

PART A GENERAL COMPANY INFORMATION

Item 1 The exact name of the issuer and its predecessor (if any).

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

Item 2 The address of the issuer’s principal executive offices.

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

Item 3 The jurisdiction(s) and date of the issuer’s incorporation or organization.

Re-domesticated to the state of Nevada on October 1, 2016 as VirTra, Inc.
Incorporated in the state of Texas on September 1, 2001 as VirTra Systems, Inc.

PART B SHARE STRUCTURE

Item 4 The exact title and class of securities outstanding

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

Item 5 Par or stated value and description of the security.

A. Par or Stated Value.

VirTra, Inc. Preferred Stock, par value \$.0001
VirTra, Inc. Common Stock, par value \$.0001
VirTra, Inc. Class A Common Stock, par value \$.0001
VirTra, Inc. Class B Common Stock, par value \$.0001

B. Common or Preferred Stock

(i) Common Stock

(a) *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”).

(b) *Voting Rights.* Except as otherwise required by the Nevada Revised Statutes 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.

(c) Dividends. Subject to any other provisions of these Articles of Incorporation, as it may be amended from time to time, holders of shares of Common Stock, Class A Common Stock and Class B Common Stock shall be entitled to receive ratably, in proportion to the number of shares held by them, such dividends and other distributions in cash, stock, or property of the Company when, as, and if declared thereon by the Board of Directors from time to time out of assets or funds of the Company legally available therefor.

(d) Liquidation, Dissolution, etc. In the event of any liquidation, dissolution, or winding up (either voluntary or involuntary) of the Company, after payments to creditors of the Company that may at the time be outstanding and subject to the rights of any holders of Preferred Stock that may then be outstanding, the holders of shares of Common Stock, Class A Common Stock and Class B Common Stock shall be entitled to receive all remaining assets and funds of the Company available for distribution, ratably in proportion to the number of shares held by them.

(e) No Preemptive or Subscription Rights. No holder of shares of Common Stock, Class A Common Stock or Class B Common Stock shall be entitled to preemptive or subscription rights.

(ii) Preferred Stock.

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

(b) 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. For each series, the Board of directors shall determine, by resolution or resolutions adopted prior to the issuance of any shares thereof, the designations, preferences, limitations and relative or other rights thereof, including but not limited to the following relative rights and preferences, as to which there may be variations among different series:

(i) The rate and manner of payment of dividends, if any;

(ii) Whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;

(iii) The amount payable upon shares in the event of liquidation, dissolution or other winding-up of the Company;

(iv) Sinking fund provisions, if any, for the redemption or purchase of shares;

(v) The terms and conditions, if any, on which shares may be converted or exchanged;

(vi) Voting rights, if any; and

(vii) Any other rights and preferences of such shares, to the full extent now or hereafter permitted by the laws of the State of Nevada.

(viii) The Board of Directors shall have the sole authority to determine the number of shares that will comprise each series. No Series of Preferred Stock has been designated.

(iii) Stock Split. Effective October 20, 2016, we effected 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.

Item 6 The number of shares or total amount of the securities outstanding for each class of securities authorized

	Years Ended		
	2016	2015	2014
Number of Shares Authorized			
Preferred Stock	5,000,000	200,000	200,000
Common Stock	100,000,000	50,000,000	50,000,000
Class A	5,000,000	0	0
Class B	15,000,000	0	0
Number of Shares Outstanding			
Preferred Stock	0	0	0
Common Stock	15,855,005	15,825,005	15,828,505
Class A	0	0	0
Class B	0	0	0
Freely Tradable Shares	13,761,450	13,681,081	13,681,081
Shareholders exceed 50	Yes	Yes	Yes
Number of Shareholders of Record	173	174	175

Item 7 The name and address of the 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.

PART C BUSINESS INFORMATION

Item 8 The nature of the issuer's business.- Part A and B

Part A

VirTra is a corporation organized and existing under the laws of the State of Nevada. 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 re-domesticated from a Texas Corporation to a Nevada Corporation and changed its name to VirTra, Inc. VirTra's fiscal year end is December 31.

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.

The business has not been in bankruptcy, receivership or any similar proceeding. The Company also has never defaulted on any indebtedness or financing arrangement.

Part B

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.

The Company's:

Primary SIC Code is: 3699-0300 Electronic Training Devices.

Secondary SIC Code is: 7373 Computer Integrated Systems Design

During the past two fiscal years, the Company has spent approximately 25% of engineering and manufacturing employee time in research and development. These costs are expensed as incurred in the Company's statement of operations.

There are currently 60 full-time and one part-time employee as of December 31, 2016.

Item 9 The nature of products or services offered.

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. Some types of realistic and highly challenging training are too dangerous to occur with live fire.

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 ("MREC") is at an early stage with one MREC virtual shooting lounge facility currently in operation. The agreement states that the

Company grants MREC an exclusive, non-transferable Royalty-bearing right and license to use the Company's software in virtual shooting lounge facilities provided that certain minimums are met every year.

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. Management does not expect to encounter future delays with 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 believes 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.

Item 10 The nature and extent of the 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. The monthly lease payment is \$24,871 base plus \$8,420 common area maintenance. For future annual renewals, the monthly lease payment increase \$746 next year. 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. The current monthly lease payment is \$3,500 plus \$264 common area maintenance.

PART D MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Item 11 The name of the chief executive officer, members of the board of directors, as well as control persons.

A. Officers and Directors

Chief Executive Officer/Chairman of the Board

Robert D. Ferris (Age 45)

Business address

7970 S Kyrene Road
Tempe, AZ 85284

Employment history/Board memberships & other affiliations

Mr. Ferris founded Ferris Productions, Inc. in 1993 and, after the merger between Ferris Productions and GameCom in September 2001, he became CEO of the combined company, VirTra, in 2008. Mr. Ferris's vision was to create the most effective simulators in the world, and he helped create the ideas and attract the talent responsible for developing VirTra's market leading products. When he became CEO, VirTra had a market capitalization of under \$4 million with over \$4 million in debt. He then led the company to become what it is today, having a strong market position, generating profits and possessing a solid balance sheet. Along with building a profitable company, Mr. Ferris has been awarded multiple patents, spoken at various trade shows, and has written or assisted with various ground-breaking articles and studies. He is considered one of the top experts in the world at applying virtual reality and simulation technology to solve real world problems. Mr. Ferris attended the US Air Force Academy and received a degree in Systems Engineering from the University of Arizona.

Compensation by issuer

During 2016, Mr. Ferris' annual compensation was \$219,348. On January 1, 2017 Mr. Ferris' annual compensation was increased to \$228,122.

Quarterly stock options – 10,000 shares of the Company's common stock

Number, class & percentage of outstanding shares of issuer's securities beneficially owned

Mr. Ferris holds 679,435 of the Company's common stock

Mr. Ferris holds 325,000 vested stock options

Mr. Ferris disclaims beneficial ownership of 500,000 shares of the Company's common stock held by a custodian for the benefit of his children

Chief Operating Officer/Director

Matthew Burlend (Age 43)

Business address

7970 S Kyrene Road
Tempe, AZ 85284

Employment history/Board membership & other affiliations

Prior to joining the pre-merger company, Ferris Productions, Inc. in 1999, Mr. Burlend was a mechanical engineer focused on the design of automated production equipment for Panduit, a \$1+ billion per year global manufacturing company. At VirTra he worked his way up from engineer to becoming COO in 2011. Over the years, Mr. Burlend has contributed significantly to managing the design, production and support of VirTra's most successful and innovative simulator products and has achieved a highly successful track record in the daily operations of VirTra's core business. In addition, he was instrumental in managing the company from a debt position of over \$4 million, to becoming debt-free in less than three years at the height of the Great Recession, to then achieving record profits. Mr. Burlend graduated from Olivet Nazarene University with a Mechanical Engineering Degree.

Compensation by the issuer

During 2016, Mr. Burlend's annual compensation was \$196,851. On January 1, 2017, Mr. Burlend's annual compensation was increased to \$204,725.

Quarterly stock options – 7,500 shares of the Company's common stock

Number, class & percentage of outstanding shares of issuer's securities beneficially owned

Mr. Burlend holds no shares of the Company's common stock
Mr. Burlend holds 232,500 vested stock options

Director

Jeffrey Brown (Age 54)

Business address

4135 S Power Rd, Suite 110
Mesa, AZ 85212

Employment history/Board membership & other affiliations

Mr. Brown has been a Certified Public Accountant and a financial planning service provider for over 10 years, performing financial services for a wide range of companies. Mr. Brown was the CFO/Controller for Gold Canyon Candles during a period of growth, in which annual gross revenue grew from \$8 million to \$55 million. Mr. Brown joined VirTra's board as an independent director in 2011. Previously, Mr. Brown worked for Ernst & Young performing audits for a variety of organizations. Mr. Brown received a Bachelor of Science in Accounting from California State University, San Bernardino and his CPA designation in 1993.

Compensation by issuer

Quarterly stock options – 5,000 shares of the Company's common stock

Number, class & percentage of outstanding shares of issuer's securities beneficially owned

Mr. Brown holds 900 shares of the Company's common stock
Mr. Brown holds 105,000 vested stock options

Director

Mitch Saltz (Age 64)

Business address

c/o VirTra, Inc.
7970 S Kyrene Road

Employment history/Board membership & other affiliations

Mr. Saltz has served as a director of NASDAQ-listed Smith & Wesson Holding Corporation from 1998 and served as its Chairman of the Board and Chief Executive Officer from 1998 through 2003. Mr. Saltz has also served as the Chairman and Managing Partner of Southwest Capital Partners, LLC, since 2009. Since October 2012 he has served as Chairman of the Board of NASDAQ-listed Quest Resource Holding Corporation and is currently also the Chairman of the Board of Modern Round Entertainment Corporation, a publicly held company formed to create and roll out nationally an entertainment concept centered around a virtual interactive shooting experience utilizing laser technology-based replica firearms and extensive food and beverage offerings

Compensation by issuer

Quarterly stock options – 5,000 shares of the Company’s common stock

Number, class & percentage of outstanding shares of issuer’s securities beneficially owned

Mr. Saltz holds 40,000 shares of the Company’s common stock

Mr. Saltz holds 3,333 vested stock options

B. Legal/Disciplinary History

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.

C. Disclosure of Family Relationships

There are no family relationships among and between the issuer’s directors, officers, persons nominated or chosen by the issuer to become directors or officers, or beneficial owners of more than five percent (5%) of the any class of the issuers’ equity securities.

D. Disclosure of Related Party Transactions

During the fiscal year ending 2015, the Company had no related party transaction for an amount that exceeds the lesser of \$120,000 or one percent of the average of the issuer’s total assets at year-end for its last three fiscal years. During the fiscal year ending 2016, the Company received \$189,310 in revenues from Modern Round Entertainment Corporation (MREC), a related party to Mr. Saltz, one of the Company’s directors who joined the board in 2016, who is also a director on the board of MREC. Also during the fiscal year ending 2016, the Company issued 1,838,764 conditional stock warrants to the owners of MREC.

Mr. Saltz who is a member of our Board of Directors is also Chairman of the Board of Directors of MREC. The Company has entered into a Co-venture Agreement with MREC as disclosed in this report. 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.

E. Disclosure of Conflicts of Interest

The Company is not aware of any conflicts of interests with its executive officers or directors, except with respect to Mr. Saltz, by virtue of his role with MREC as discussed above. Any transactions involving MREC must be approved by and is overseen by the Company's Board of Directors.

Item 12 Financial Information for the issuer's current fiscal year

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. Reports of Independent Registered Public Accounting Firms
2. Balance Sheet;
3. Statement of Operations;
4. Statement of Stockholders' Equity;
5. Statement of Cash Flows; and
6. Financial Notes

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Virtra, Inc.

We have audited the accompanying balance sheet of Virtra, Inc. (the "Company") as of December 31, 2016 and the related statements of operations, changes in stockholders' equity, and cash flows for the year then ended. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virtra, Inc. as of December 31, 2016 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Friedman LLP

East Hanover, New Jersey
March 30, 2017

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
VirTra Systems, Inc.

We have audited the accompanying balance sheet of VirTra, Inc. as of December 31, 2015 and the related statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VirTra, Inc. at December 31, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Simple, Marchal & Cooper, LLP

Certified Public Accountants

Phoenix, Arizona
March 31, 2016

VIRTRA, INC.
BALANCE SHEETS

	December 31, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,703,579	\$ 3,317,020
Accounts receivable, net	3,244,852	2,346,141
Inventory	1,319,944	902,642
Prepaid expenses and other current assets	357,363	51,620
Total current assets	8,625,738	6,617,423
Property and equipment, net	814,323	516,005
Investment in MREC	471,928	136,579
TOTAL ASSETS	\$ 9,911,989	\$ 7,270,007
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 467,679	\$ 508,358
Accrued compensation and related costs	617,582	467,881
Accrued expenses and other current liabilities	194,668	238,347
Notes payable, current	11,250	-
Deferred revenue	2,065,905	1,523,841
Total current liabilities	3,357,084	2,738,427
Long-term liabilities:		
Accrued rent liability	122,126	159,941
Notes payable, long-term	22,500	-
Total long-term liabilities	144,626	159,941
Total liabilities	3,501,710	2,898,368
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock \$0.0001 par value; 5,000,000 authorized; no shares issued or outstanding as of December 31, 2016 and 2015	-	-
Common stock \$0.0001 par value; 100,000,000 shares authorized; 15,855,005 issued and outstanding as of December 31, 2016 and 15,829,325 issued and 15,825,005 outstanding as of December 31, 2015	1,586	1,583
Class A common stock \$0.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding as of December 31, 2016 and 2015	-	-
Class B common stock \$0.0001 par value; 15,000,000 shares authorized; no shares issued or outstanding as of December 31, 2016 and 2015	-	-
Additional paid-in capital	14,128,044	14,142,410
Treasury stock at cost; no shares and 4,320 common shares outstanding as of December 31, 2016 and December 31, 2015, respectively.	-	(2,981)
Accumulated deficit	(7,719,351)	(9,769,373)
Total stockholders' equity	6,410,279	4,371,639
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 9,911,989	\$ 7,270,007

The accompanying notes are an integral part of these financial statements

VIRTRA, INC.
STATEMENTS OF OPERATIONS
For Years Ended December 31, 2016 and 2015

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
REVENUES		
Net sales	\$ 15,562,121	\$ 13,342,336
Royalties	90,047	-
Total revenue	<u>\$ 15,652,168</u>	<u>\$ 13,342,336</u>
Cost of sales	<u>5,970,058</u>	<u>5,652,125</u>
Gross profit	9,682,110	7,690,211
OPERATING EXPENSES		
General and administrative expenses	6,455,784	4,533,628
Research and development expense	<u>1,100,000</u>	<u>1,666,000</u>
Net operating expense	<u>7,555,784</u>	<u>6,199,628</u>
Income from operations	<u>2,126,326</u>	<u>1,490,583</u>
OTHER INCOME (EXPENSE)		
Other income	29,429	138,026
Other expense	<u>(2,981)</u>	<u>(2,064)</u>
Net other income	<u>26,448</u>	<u>135,962</u>
Income before income taxes	2,152,774	1,626,545
Provision for income taxes	<u>102,752</u>	<u>89,562</u>
NET INCOME	<u><u>\$ 2,050,022</u></u>	<u><u>\$ 1,536,983</u></u>
Earnings per common share		
Basic	<u>\$ 0.13</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.09</u>
Weighted average shares outstanding		
Basic	<u>15,834,046</u>	<u>15,825,880</u>
Diluted	<u>16,606,737</u>	<u>16,688,107</u>

The accompanying notes are an integral part of these financial statements

VIRTRA, INC.
STATEMENT OF STOCKHOLDERS' EQUITY

	<u>Preferred stock</u>		<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Treasury Stock</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance at January 1, 2015	-	\$ -	15,828,505	\$ 1,583	\$ 14,029,679	\$ (2,981)	\$ (11,306,356)	\$ 2,721,925
Stock based compensation	-	-	-	-	118,328	-	-	118,328
Issued shares purchased and canceled	-	-	(3,500)	-	(5,597)	-	-	(5,597)
Net income	-	-	-	-	-	-	1,536,983	1,536,983
Balance at December 31, 2015	-	-	15,825,005	1,583	14,142,410	(2,981)	(9,769,373)	4,371,639
Stock based compensation	-	-	-	-	181,787	-	-	181,787
Stock options repurchased	-	-	-	-	(212,500)	-	-	(212,500)
Preferred stock issued	50,000	5	-	-	2,495	-	-	2,500
Preferred stock repurchased	(50,000)	(5)	-	-	(2,495)	-	-	(2,500)
Treasury stock retirement	-	-	-	-	-	2,981	-	2,981
Stock issued for options exercised	-	-	30,000	3	16,347	-	-	16,350
Net income	-	-	-	-	-	-	2,050,022	2,050,022
Balance at December 31, 2016	-	\$ -	15,855,005	\$ 1,586	\$ 14,128,044	\$ -	\$ (7,719,351)	\$ 6,410,279

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

VIRTRA, INC.
STATEMENTS OF CASH FLOWS

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Cash flows from operating activities:		
Net income	\$ 2,050,022	\$ 1,536,983
Adjustments to reconcile net income to net cash provided (used) in operating activities		
Depreciation and amortization	192,602	184,846
Stock-based compensation	181,786	118,328
Cash settlement of stock options	341,838	-
Treasury stock cancelled	2,981	-
Other income received in Modern Round equity	-	(136,579)
Changes in operating assets and liabilities:		
Accounts receivable	(898,711)	(735,760)
Inventory	(417,302)	(199,813)
Prepaid expenses and other current assets	(305,743)	6,504
Accounts payable and other accrued expenses	65,343	396,955
Deferred revenue	542,064	571,377
Net cash provided by operating activities	<u>1,754,880</u>	<u>1,742,841</u>
Cash flows from investing activities:		
Investment in MREC	(335,349)	-
Asset purchase - Profiles Tools, net of shop supplies	(185,450)	-
Purchase of property and equipment	<u>(309,535)</u>	<u>(332,953)</u>
Net cash used in investing activities	<u>(830,334)</u>	<u>(332,953)</u>
Cash flows from financing activities:		
Repurchase of stock-based options	(554,338)	-
Common stock shares cancelled	-	(5,597)
Proceeds from common stock issued for options exercised	<u>16,351</u>	<u>-</u>
Net cash used in financing activities	<u>(537,987)</u>	<u>(5,597)</u>
Net increase in cash	386,559	1,404,291
Cash, beginning of period	<u>3,317,020</u>	<u>1,912,729</u>
Cash, end of period	<u>\$ 3,703,579</u>	<u>\$ 3,317,020</u>
Supplemental disclosure of cash flow information:		
Cash paid during period for income taxes	<u>\$ 102,753</u>	<u>\$ 19,562</u>
Non-cash investing and financing activities:		
Assumption of note - Profiles Tools	<u>\$ 33,750</u>	<u>\$ -</u>
Receipt of Modern Round equity	<u>\$ -</u>	<u>\$ 136,579</u>

The accompanying notes are an integral part of these 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 “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 effected 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 December 31, 2016 and 2015 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 December 31, 2016 and 2015, the Company maintained an allowance for doubtful accounts of \$20,000 and \$59,266, 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 December 31, 2016, management has determined that it was necessary to record a reserve of \$17,282. There was no inventory reserve recorded for the year ended December 31, 2015.

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 December 31, 2016 and 2015, 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 \$51,334 and \$658,426 as of December 31, 2016 and 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 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 \$2,014,571 and \$865,415 as of December 31, 2016 and 2015, 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 \$122,000 and \$77,400 as of December 31, 2016 and 2015, 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 \$448,948 and \$365,920 for the years ended December 31, 2016 and 2015, 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 \$1,100,000 and \$1,666,000 for 2016 and 2015, 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 \$2,986,694 and \$3,141,304 as of December 31, 2016 and 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.

Historically, the Company primarily sells its products to United States federal and state agencies. No single federal or state customer comprised more than 10% of total net sales in the year ended December 31, 2016. One federal agency comprised 36.9% of total net sales in the year ended December 31, 2015. One international customer comprised 17.9% and 0.0% of total net sales in the years ended December 31, 2016 and 2015, respectively. Overall, just one single customer exceeded 10% of net sales for 2016 and one single customer exceeded 10% of net sales for 2015. The Company's accounts receivable balances were with twenty-four customers and fifteen customers as of December 31, 2016 and 2015, respectively.

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

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, 2016 and 2015, the Company has provided a valuation allowance for all net deferred tax assets.

As of December 31, 2016 and 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.

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. Management does not believe that there are any uncertain tax positions at December 31, 2016 or 2015.

The Company is potentially subject to tax audits for its United States federal and Arizona state income tax returns for tax years ended 2014 to 2016 and 2013 to 2016, 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. At December 31, 2016 and 2015, 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 years ended December 31, 2016 and 2015, and the resulting estimates of weighted-average fair value per share of options granted during those periods, are as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Volatility	95% to 150%	106% to 113%
Risk-free interest rate	1% to 2%	1% to 2%
Expected term	7 years	5 - 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. Weighted average common shares outstanding and dilutive shares consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Net income	<u>\$ 2,050,022</u>	<u>\$ 1,536,983</u>
Weighted average common stock outstanding	15,834,046	15,825,880
Incremental shares from stock options	470,210	862,227
Incremental shares from warrants	<u>302,481</u>	<u>0</u>
Weighted average common stock outstanding - diluted	<u>16,606,737</u>	<u>16,688,107</u>
Net income per common share and common equivalent shares		
Basic	<u>\$ 0.13</u>	<u>\$ 0.10</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.09</u>

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance for revenue recognition for contracts, superseding the previous revenue recognition requirements, along with most existing industry-specific guidance. The guidance requires an entity to review contracts in five steps: 1) identify the contract, 2) identify performance obligations, 3) determine the transaction price, 4) allocate the transaction price, and 5) recognize revenue. The new standard will result in enhanced disclosures regarding the nature, amount, timing and uncertainty of

revenue arising from contracts with customers. In August 2015, the FASB issued guidance approving a one-year deferral, making the standard effective for reporting periods beginning after December 15, 2017, with early adoption permitted only for reporting periods beginning after December 15, 2016. The FASB continues to release guidance clarifying certain aspects of the revenue guidance. The Company is evaluating the impact of the standard and has not yet determined the effect on its financial position or results of operations.

In November 2015, the Financial Accounting Standards Board 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 does not expect a material impact on the financial statements and related disclosures from the adoption of this updated standard..

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to put most leases on their balance sheets by recognizing lease assets and lease liabilities for those leases classified as operating leases under previous guidance. This ASU will be effective for us on January 1, 2019, with early adoption permitted. We are currently in the process of assessing the impact of this ASU on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Stock Compensation (Topic 718), which includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The standard is effective for annual periods beginning after December 15, 2016, with early adoption permitted. We do not expect the adoption of this standard to have a significant impact on our financial position and results of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (“ASU 2016-13”) that introduces a new methodology for accounting for credit losses on financial instruments, including available-for-sale debt securities. The guidance establishes a new “expected loss model” that requires entities to estimate current expected credit losses on financial instruments by using all practical and relevant information. Any expected credit losses are to be reflected as allowances rather than reductions in the amortized cost of available-for-sale debt securities. Early adoption is permitted for annual periods beginning after December 31, 2018, and interim periods therein. The Company is currently evaluating the potential impact that ASU 2016-13 may have on its financial position and results of operations.

Note 2. Inventory

Inventory consisted of the following as of:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Raw materials	\$ 1,085,519	\$ 902,642
Finished goods	251,707	-
Reserve	<u>(17,282)</u>	<u>-</u>
Total inventory	<u>\$ 1,319,944</u>	<u>\$ 902,642</u>

Note 3. Property and Equipment

Property and equipment consisted of the following as of December 31:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Computer equipment	\$ 753,986	\$ 559,158
Furniture and office equipment	182,969	171,732
Machinery and equipment	925,495	608,876
Leasehold improvements	<u>318,318</u>	<u>312,267</u>
Total property and equipment	2,180,768	1,652,033
Less: Accumulated depreciation	<u>(1,366,445)</u>	<u>(1,136,028)</u>
Property and equipment, net	<u>\$ 814,323</u>	<u>\$ 516,005</u>

Depreciation expense was \$192,602 and \$184,846 for the years ended December 31, 2016 and 2015, respectively.

Note 4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following at December 31:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Manufacturer's warranties	\$ 122,000	\$ 77,400
Taxes payable	32,668	145,947
Other	<u>40,000</u>	<u>15,000</u>
Total accrued expenses and other current liabilities	<u>\$ 194,668</u>	<u>\$ 238,347</u>

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 year ended December 31, 2016, the Company issued 22,500 stock options to purchase shares of common stock at a purchase price of \$1.40; 22,500 stock options to purchase shares of common stock at a purchase price of \$1.12; 22,500 stock options to purchase shares of common stock at a purchase price of \$2.095 and 25,833 stock options to purchase shares of common stock at a purchase price of \$2.70. All of the options are exercisable within seven years of grant date. These stock options were issued to the CEO, COO and members of the Board of Directors.

During the year ended December 31, 2016, related parties redeemed 375,000 previously awarded options reaching expiration. These redemptions resulted in \$341,838 in additional compensation expense in 2016, of which \$293,188 were related to redemptions by the Company’s CEO and COO.

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.

Mr. Saltz who is a member of our Board of Directors is also Chairman of the Board of Directors of Modern Round Entertainment Company, as well as, a majority stockholder of MREC. 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 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 expired in March, 2017 but was renewed until March, 2018.

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

2017	\$	314,921
2018		313,553
2019		<u>105,542</u>
Total	\$	<u><u>734,016</u></u>

The Company has a liability of \$122,126 and \$159,941 as of December 31, 2016 and December 31, 2015, respectively, relative to the increasing future minimum lease payments. Rent expense was \$380,522 and \$360,562 for the years ended December 31, 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. 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

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. These contracts have been renewed annually with upward adjustments each year. 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 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. 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 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.

Profit Sharing

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 years ending December 31, 2016 and 2015, the amount charged to operations was fifteen percent (15%) of net profit.

Note 8. Asset Purchase Agreement

On August 2, 2016, the Company executed 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 total purchase price, including assumed liabilities, was \$286,220 and is considered an asset acquisition as the assets assumed only support the Company’s existing assembly operations. With the purchase of this machine shop the Company is able to build parts directly and more efficiently.

Note 9. Income Taxes

The Company accounts for its deferred tax assets and liabilities, including excess tax benefits of share-based payments, based on the tax ordering of deductions to be used on its tax returns. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Deferred tax assets		
Net operating loss carry forwards	\$ 1,739,000	\$ 2,062,000
Deferred revenue	826,000	609,000
Non-qualified stock option expense	540,000	467,000
Reserves, accruals and other	133,000	146,000
Tax intangible assets and accumulated depreciation/amortization	<u>1,187,000</u>	<u>1,566,000</u>
Total deferred tax assets	4,425,000	4,850,000
Less: Valuation allowance	<u>(4,425,000)</u>	<u>(4,850,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

The company maintains a valuation allowance equal to the potential benefit of the net deferred tax assets.

Internal Revenue Code Section 382 limits the ability to utilize net operating losses if a 50% change in ownership occurs over a three year period. Such limitation of the net operating losses may have occurred but we have not analyzed it at this time as the deferred tax asset is fully reserved. The Company believes it has approximately \$6.1 million of federal net operating loss carry-forwards that are available to offset future taxable income that expire in various years through 2034. The state net operation loss carry-forward was fully utilized in the tax year 2015.

Significant components of the (provision) benefit for income tax is a follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Current	\$ 103,000	\$ 89,000
Deferred	425,000	539,000
Change in valuation allowance	<u>(425,000)</u>	<u>(539,000)</u>
Provision for income taxes	<u>\$ 103,000</u>	<u>\$ 89,000</u>

The Company is subject to federal and state taxes. A reconciliation of the Company's effective income tax rate to the federal statutory rate is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Federal income tax benefit at the statutory rate	\$ 697,000	\$ 553,000
State income taxes, net of federal benefit	103,000	89,000
Permanent differences	(16,000)	(14,000)
Tax return true-ups	(256,000)	-
Change in valuation allowance	<u>(425,000)</u>	<u>(539,000)</u>
Provision for income taxes	<u>\$ 103,000</u>	<u>\$ 89,000</u>

Note 10. Stockholders' Equity

Authorized Capital

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 Statutes 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.

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.

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 were repurchased.

Treasury Stock

During the year ended December 31, 2016, the Company cancelled 4,320 shares of treasury stock for \$2,981. The Company purchased 3,500 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 and are generally seven years. The Board of Directors previously approved a quarterly grant of a total 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 year ended December 31, 2016, the Company issued 93,333 stock options with a weighted average exercise price of \$1.92 per share. The following table summarizes all compensation plan stock options as of December 31, 2016:

	2016		2015	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	1,667,934	\$ 0.60	1,612,934	\$ 0.50
Granted	93,333	1.92	90,000	1.20
Redeemed	(500,000)	0.42	-	-
Exercised	(30,000)	0.42	-	-
Expired / terminated	(115,434)	0.52	(35,000)	0.30
Options outstanding, end of year	<u>1,115,833</u>	0.80	<u>1,667,934</u>	0.60
Options exercisable, end of year	<u>1,075,833</u>	0.79	<u>1,559,601</u>	0.60

The following table summarizes the Company's non-vested stock options as of December 31, 2016:

	Number of Non vested Stock Options	Weighted Exercise Price
Non vested at January 1, 2016	1,083,333	\$ 0.400
Granted	-	-
Redeemed	-	-
Forfeited	-	-
Vested	(1,043,333)	0.400
Non vested at December 31, 2016	<u>40,000</u>	<u>\$ 0.400</u>

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2016:

<u>Range of Exercise Price</u>	<u>Number of Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$.40 - \$.99	955,000	\$ 0.63	915,000	\$ 0.64
\$1.00 - \$1.99	112,500	\$ 1.32	112,500	\$ 1.32
\$2.00 - \$2.99	<u>48,333</u>	\$ 2.42	<u>48,333</u>	\$ 2.42
\$.40 - \$2.99	<u><u>1,115,833</u></u>	\$ 0.77	<u><u>1,075,833</u></u>	\$ 0.79

The aggregate intrinsic value of options outstanding and options exercisable were \$1,997,415 and \$1,363,099 as of December 31, 2016 and 2015, respectively. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the Company's common stock for those stock options that have an exercise price lower than the fair value of the Company's common stock. Options with an exercise price above the fair value of the Company's common stock are considered to have no intrinsic value. The total fair value of shares vested during the years ended December 31, 2016 and 2015 is \$181,786 and \$133,552, respectively.

On March 9, 2016, the Company's board of directors approved a program under which the Company may repurchase outstanding vested Company stock options on an exception basis. Under the terms of the program, the Company's CEO or COO may cause the Company to redeem for cash any positive stock options for the net value of the stock option (stock price on the redemption date minus 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 year ended December 31, 2016, the Company redeemed 500,000 stock options for \$554,338 of which \$212,500 has been previously expensed in 2009 using the Black-Scholes fair value method with the balance of \$341,838 being recognized as additional compensation cost during 2016. 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, 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 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 1,838,764 conditional 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 conditional warrants have a contractual term of five years and an exercise price of \$1.36.

Note 12. Subsequent Events

In January, 2017 VirTra executed a lease addendum on its 2169 E Fifth Street location for the renewal period April 1, 2017 to March 31, 2018 at a new monthly lease of \$3,600 base rent plus \$226 common area maintenance per month.

Item 13 Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence.

All requested financial reports for the two preceding fiscal years have been posted on www.OTCIQ.com as annual reports, and are incorporated herein by reference.

Item 14 Beneficial Owners

Provide a list of the name, address and shareholders of all persons beneficially owning more than five percent (5%) of the issuer's equity securities.

<u>Beneficial Owner</u>	<u>Officer or Director</u>	<u>Amount of Beneficial Ownership</u>	<u>Percent of Class</u>
Robert Ferris 7970 S Kyrene Rd. Tempe, AZ 85284	CEO and Director	1,019,435 ⁽¹⁾	6.0%

(1) Includes 679,435 of the Company's common stock owned by Mr. Ferris and 340,000 vested stock options. Excludes 500,000 shares of common stock held by a custodian for the benefit of Mr. Ferris' children which shares Mr. Ferris disclaims beneficial ownership.

Item 15 The name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure

Intellectual Property and Business Counsel

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Item 16 Management's Discussion and Analysis or Plan of Operation.

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.

The Company is engaged in the sale and development of judgmental use of force training simulators and firearms training simulators for law enforcement, military and commercial use. The Company sells simulators and related products through a direct sales force and international distribution partners. The Company currently purchases small machined parts, custom assemblies and electronic components from suppliers.

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. As a result, management believes it can obtain alternative suppliers in most cases. The Company acquires its components on a purchase order basis and does not have long-term contracts with suppliers.

Results of Operations for the year ended December 31, 2016 and December 31, 2015

Revenues

Revenues for the year ended December 31, 2016 totaled \$15,652,168 compared to \$13,342,336 for the year ended December 31, 2015. This represents a 17% increase. Overall product line sales increased in all areas including an increase in simulator sales, accessories sales and extended warranty agreements.

Cost of Goods Sold

Cost of Goods Sold for the year ended December 31, 2016 totaled \$5,970,058 compared to \$5,652,125 for the year ended December 31, 2015. This represents a 6% increase. The increase resulted from increased product sales as noted above, including warranty and service related costs, additionally our costs increased for travel and product shipping.

Gross Profit

Gross Profit for the year ended December 31, 2016 was \$9,682,110 which represents a 62% profit margin. Gross Profit for the year ended December 31, 2015 was \$7,690,211 which represents a 58% profit margin. The Gross Profit increased by 26% from years ended 2015 to 2016 due to sales mix of higher margin products, training, service and warranty sales.

Operating Expenses

Operating expenses for the year ended December 31, 2016 totaled \$7,555,784 compared to \$6,199,628 for the year ended December 31, 2015. This represents a 22% increase. The operating expenses increase resulted from increases in employee costs, professional services, sales and marketing.

Net Income

Net income for the year ended December 31, 2016, totaled \$2,050,022 compared to \$1,536,983 for the year ended December 31, 2015. This represents a 33% increase. The increase in the net income resulted from increases in revenue and gross profit 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, (iii) plus treasury stock canceled, (iv) minus other income – receipt of unclaimed property, and (v) 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

	Year Ended December 31			
	2016	2015 (Unaudited)	Increase (Decrease)	% Change
Net Income	\$ 2,050,022	\$ 1,536,983	\$ 513,039	33%
Adjustments:				
Depreciation	192,602	184,846	7,756	4%
Non-cash stock option expense	181,786	118,328	63,458	54%
Treasury stock cancelled	2,981	-	2,981	100%
Other income-receipt of unclaimed property	(17,913)	-	(17,913)	-100%
Provision for income taxes	102,753	89,562	13,191	15%
Adjusted EBITDA	<u>\$ 2,512,231</u>	<u>\$ 1,929,719</u>	<u>\$ 582,512</u>	30%

Liquidity and Capital Resources

The Company had \$3,703,579 and \$3,317,020 cash as of December 31, 2016 and December 31, 2015, respectively. The working capital was \$5,268,654 and \$3,878,996 for the periods ended December 31, 2016 and December 31, 2015, respectively.

Net cash provided by operating activities was \$1,754,880 compared to \$1,742,841 for the years ended December 31, 2016 and December 31, 2015, respectively.

Net cash used in investing activities was \$830,334 and \$332,953 for the years ended December 31, 2016 and December 31, 2015, respectively.

The Company had assets at December 31, 2016 of \$9,911,989.

Our cash and cash equivalents at December 31, 2016 totaled \$3,703,579, an increase of \$386,559 over our balance at December 31 2015. In addition, we had working capital of \$5,268,654, an increase of \$1,389,658 over the amount as of December 31, 2015. The amount of cash and cash equivalents and working capital at December 31, 2016 along with expected net cash provided by operating activities is believed sufficient to meet our current operating cash needs over the next twelve months. VirTra does not expect a significant change to its plan of operations or the number of employees.

Additional capital 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.

C. Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

PART E ISSUANCE HISTORY

Item 17 List of securities offerings and shares issued for services in the past two years.

During the last two years, there have been no securities offerings nor shares issued for services.

Below is the schedule of share transactions.

<u>Date of Issuance</u>	<u>Common Shares</u>	<u>Consideration</u>	
December 31, 2014	15,828,505		Total number of shares outstanding
April 02, 2015	(3,500)	\$ (5,597)	Common stock shares canceled
September 6, 2016	30,000	16,350	Common stock shares issued for option exercise
<hr/>			
December 31, 2016	15,855,005	\$ 10,753	Total number of common shares outstanding
<u>Date of Issuance</u>	<u>Preferred Shares</u>	<u>Consideration</u>	
December 31, 2014	0		Total number of shares outstanding
July 1, 2016	50,000	\$ 2,500	Preferred stock shares issued
September 16, 2016	(50,000)	(2,500)	Preferred stock shares redeemed/cancelled
<hr/>			
December 31, 2016	0	\$ 0	Total number of preferred shares outstanding

PART F EXHIBITS

Item 18 Material Contracts.

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 is attached hereto as Item 18 exhibit.

Item 19 A and B Articles of Incorporation and Bylaws.

Attached as Item 19A and Item 19B

Item 20 Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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.

During the current fiscal year to the date of the filing of the application, an independent board member has purchased 900 shares of common stock.

[ISSUER'S CERTIFICATION PAGE FOLLOWS]

Item 21 Issuer's 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: March 30, 2017

/s/ Robert D. Ferris

Robert D. Ferris

Chief Executive Officer and Chairman of the Board of Directors

ITEM 18

NOTE: PORTIONS OF THIS EXHIBIT INDICATED BY “[****]” ARE SUBJECT TO A CONFIDENTIAL TREATMENT REQUEST AND HAVE BEEN OMITTED FROM THIS EXHIBIT. COMPLETE, UNREDACTED COPIES OF THIS EXHIBIT HAVE BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION AS PART OF THIS COMPANY’S CONFIDENTIAL TREATMENT REQUEST.

EXECUTION COPY

CO-VENTURE AGREEMENT

This Co-Venture Agreement (the “Agreement”) is entered into this 16th day of January, 2015 (the “Effective Date”), by and between VirTra Systems, Inc., a Texas corporation (“VirTra”), and Modern Round, L.L.C., a Nevada limited liability company and its Affiliates (“Modern Round”). VirTra and Modern Round may be referred to herein individually as a “Party,” and collectively as the “Parties.”

WHEREAS, Modern Round is in the development stage of creating an entertainment concept, uniquely centered around a compelling indoor simulated shooting entertainment experience with a restaurant/bar which is modeled after the successful TopGolf style (the “Concept”); and

WHEREAS, VirTra owns or otherwise controls rights to certain software and related technology relating to firearms simulation training; and

WHEREAS, the Parties desire for VirTra to license or sell the VirTra Technology (as defined below) to Modern Round to assist with the further development of the Concept; and

WHEREAS, the Parties wish to formalize an arrangement whereby VirTra and Modern Round will collaborate on developing and operating the Concept.

NOW THEREFORE, in consideration of the mutual promises and covenants set forth below and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties hereby agree as follows:

1. Definitions.

1.1. “AAA” shall have the meaning assigned to it in Section 11.6(b).

1.2. “Affiliate(s)” means (i) with respect to any specified Person, any other Person(s) that directly, or indirectly through one or more intermediaries or other affiliated Person(s), controls, is controlled by or is under common control with such specified Person(s), with the terms “control” and “controlled” meaning for purposes of this definition, the power to direct the management and policies of a Person, directly or indirectly, whether through the ownership of voting securities or partnership or other ownership interests, or by contract or otherwise, and (ii) with respect to any individual Person, any legal or common law spouse or cohabitant of that Person.

1.3. “Commercialization” means any and all marketing activities related to enhancing the commercial success of the Concept at any Location. When used as a verb, “Commercialize” will mean to engage in Commercialization.

1.4. “Confidential Information” means, with respect to each Party, non-public proprietary data or information that belongs in whole or in part to such Party or its Affiliates and/or information designated as Confidential Information of such Party hereunder, in all cases that, if disclosed in writing, is marked with the words “Confidential,” “Proprietary” or words of similar import, and if disclosed orally or visually, is described in reasonable detail in a written notice (including email communication) sent by the Disclosing Party to the Receiving Party within thirty (30) days of the oral or visual disclosure requesting that such information be treated as Confidential Information hereunder.

- 1.5. “Collaboration Activities” means activities that the Parties have described in a Development Plan and which the Parties shall pursue in connection with development and testing leading to the Commercialization of the Concept.
- 1.6. “Commercial Milestone” shall have the meaning assigned to it in Section 4.3.
- 1.7. “Concept” shall have the meaning assigned to it in the first recital.
- 1.8. “Customer” means an individual who visits a Location to use the Integrated Software.
- 1.9. “Customizations” means those modifications to the VirTra Software carried out by VirTra as described as such in a Development Plan, and including all associated Documentation and Updates.
- 1.10. “Development Budget” shall have the meaning assigned to it in Section 2.3.
- 1.11. “Development Expense” shall have the meaning assigned to it in Section 2.3.
- 1.12. “Development Plan” shall have the meaning assigned to it in Section 2.1.
- 1.13. “Disclosing Party” shall have the meaning assigned to it in Section 7.1.
- 1.14. “Documentation” means all written or electronic documentation reasonably sufficient to explain the characteristics and functionality of the VirTra Software, Customizations, Integrated Software and Scenarios, and shall include without limitation all such documentation called for in any Development Plan.
- 1.15. “Equipment” shall mean equipment used to operate the Concept at a Location, including projectors, cameras, computers, screens, simulated weapons, and other equipment offered for sale by VirTra or by VirTra’s vendors from time to time as described in Section 4.5.
- 1.16. “Existing Scenarios” shall mean those Scenarios that are in existence as of the Effective Date.
- 1.17. “Future Weapons” means [****] and [****] and [****] for use with the Integrated Software that are developed by or on behalf of Modern Round, or by a third party after the Effective Date, and owned by Modern Round.
- 1.18. “Gander Mountain Locations” means, with respect to each location set forth on **Exhibit C** attached to this Agreement, either (a) the seventy-five (75) air mile radius around such location if Modern Round and/or its Affiliates invest in, operate, or provide any services for any firearm instruction within such geographic area reasonably similar to the type of instruction performed at such location, or (b) the ten (10) air mile radius around each such location if Modern Round and/or its Affiliate invest in, operate, or provide any entertainment services within such geographic area; provided, however, that with respect to each location set forth on **Exhibit C** attached to this Agreement, the restricted geographical area set forth above for such location shall terminate on the seven (7) anniversary of the corresponding opening date for such location as set forth on **Exhibit C** attached to this Agreement.
- 1.19. “GMP Market” means Customers that are: (a) U.S. or foreign governments; (b) military; (c) police/law enforcement agencies; or (d) entities whose sole, or substantially sole, business is offering training and education to train and support government, military, and/or police/law enforcement agency Customers.
- 1.20. “Gross Revenue” means the gross revenue received by Modern Round [****] the [****] or [****] of any [****], including, but not limited to: (a) [****] and [****] fees; (b) [****] fees; (c) [****] and [****] sales

at a [****]; (d) [****] of [****] or similar [****] or [****] when such [****] or [****] are [****] at a [****]; and (e) [****] taking place at a [****]; however, “Gross Revenue” shall not include [****] by [****], such as for [****] or [****], or otherwise [****] to a [****].

- 1.21. “Indemnitee” shall have the meaning assigned to it in Section 10.4.
- 1.22. “Integrated Software” means [****] as described in a Development Plan, and including all associated Documentation and Updates.
- 1.23. “Locations” means each facility located in the Territory that operates the Concept.
- 1.24. “Losses” shall have the meaning assigned to it in Section 10.1.
- 1.25. “Milestone Date” shall have the meaning assigned to it in Section 4.3.
- 1.26. “Modern Round Indemnitee” shall have the meaning assigned to it in Section 10.2.
- 1.27. “Monthly Expense” shall have the meaning assigned to it in Section 2.3.
- 1.28. “Modern Round Technology” means the Noma Software and any and all technology, including Future Weapons and hardware and software, developed by Modern Round independent of this Agreement.
- 1.29. “Noma Software” means the software owned by Modern Round or licensed to Modern Round by Noma Technologies, LLC, and described as such in **Exhibit E**.
- 1.30. “Non-Concept Location” means any facility or location that has been agreed to by Modern Round as not competitive with the Concept.
- 1.31. “Monthly Expense” shall have the meaning assigned to it in Section 2.3.
- 1.32. “Object Code” means software in machine executable format, including all associated Documentation and Updates.
- 1.33. “Operating Agreement” means that certain Amended and Restated Operating Agreement of Modern Round, dated as of January 16, 2015, as amended.
- 1.34. “Operations-Related Communication” shall have the meaning assigned to it in Section 11.5(b).
- 1.35. “Overhead” shall have the meaning assigned to it in Section 2.3.
- 1.36. “Person” means any individual, corporation, limited liability company, partnership (general or limited), syndicate, joint venture, society, association, trust, unincorporated organization or governmental authority, or any trustee, executor, administrator or other legal representative thereof.
- 1.37. “Project” shall have the meaning assigned to it in Section 2.1.
- 1.38. “Project Manager” means the representative designated by each of Modern Round and VirTra to be responsible for managing the Development Plan and the Development Budget.
- 1.39. “Receiving Party” shall have the meaning assigned to it in Section 7.1.

- 1.40. “Representatives” shall have the meaning assigned to it in Section 7.2.
- 1.41. “Royalties” shall have the meaning assigned to it in Section 5.4.
- 1.42. “Royalty Period” shall have the meaning assigned to it in Section 5.4.
- 1.43. “Scenario” means a software file that contains data to enable the presentation of a dramatic or visual scene to a Customer through use of the Integrated Software, such as a game, battle scene, crime scene or geometric shapes or designs, and including all associated Documentation and Updates, and further described in Section 2.8.
- 1.44. “Shortfall” shall have the meaning assigned to it in Section 5.1(b).
- 1.45. “Source Code” means fully annotated and compliable software in human-perceivable format, not suitable for machine execution without compilation or interpretation, and including all associated Documentation and Updates.
- 1.46. “Support” shall have the meaning assigned to it in Section 4.2.
- 1.47. “Surplus” shall have the meaning assigned to it in Section 5.1(b).
- 1.48. “Technical Contact” shall have the meaning assigned to it in Section 4.2.
- 1.49. “Term” shall have the meaning assigned to it in Section 9.1.
- 1.50. “Territory” means worldwide, but excluding the Gander Mountain Locations.
- 1.51. “Updates” shall have the meaning assigned to it in Section 4.2.
- 1.52. “Units” shall have the meaning assigned to it in Section 5.3(a).
- 1.53. “Updates” shall have the meaning assigned to it in Section 4.2.
- 1.54. “VirTra Indemnitee” shall have the meaning assigned to it in Section 10.1.
- 1.55. “VirTra Software” means that software program described as such in **Exhibit F**, plus any and all Customizations, Scenarios, Updates and Documentation.
- 1.56. “VirTra Technology” means the VirTra Software, Customizations, Scenarios, and Equipment any and all technology, including hardware and software, developed by VirTra independent of this Agreement.

2. Development Activities.

2.1. Customizations. Subject to all terms of this Agreement including without limitation the payment of Fees, VirTra shall develop and deliver to Modern Round the Scenarios and Customizations described in **Exhibit G**, along with and integrated into the VirTra Software, according to the development plan (“Development Plan”) described therein. The Parties may agree as to other Development Plans in the future, and such agreement as to each such Development Plan shall be in writing. The development and integration of the Customizations, the VirTra Software, Scenarios, the Noma Software and Equipment shall be deemed the “Project.” Parties shall cooperate in the development of the Project, and exchange information as reasonably necessary or desirable in order to effect the completion of such Project. Any changes to the Development Plan shall be agreed to in writing by the Parties.

2.2. Project Managers. Each Party will appoint a Project Manager for the work described herein. The Project Managers will be the focal points for general relationship and process issues, and will be responsible for managing the overall relationship of the Parties. Project Managers will review the status of tasks and responsibilities hereunder as mutually agreed by the Parties. During the Term, the Parties shall meet on mutually agreeable dates and times to facilitate, review, coordinate, or otherwise carry out the Collaboration Activities. Such meetings shall take place at such locations as the Parties agree, and may be conducted in person or through telephonic or other electronic means. The Parties further acknowledge and agree that appropriate employees of the Parties may attend such meetings.

2.3. Development Budget. As part of the Development Plan described in **Exhibit G**, there is a development budget (“Development Budget”) which describes: (a) the number of [****]; (b) for each [****] of the Development Budget, the [****] of all [****] and [****] the [****], the [****] to be [****] by [****] and [****] by the [****] and [****], and any [****] (“Overhead”), which Overhead shall be calculated in accordance with [****] by the [****]; and (c) for the [****], all [****], including, but not limited to, [****], or [****] and [****], related to the development activities contemplated. Where the Parties are [****], however, the Parties hereby agree [****], to [****] as to [****]. Provided, however, that where the Parties are [****] at least [****], then in such case [****] this Agreement, including [****] and [****] hereunder, upon [****]. [****] acknowledges and agrees that the [****] and [****] of the Project and [****]. The [****] of the [****] and [****] will be [****]. The [****] for the [****] listed under subSection (c) above in the Development Budget will be [****] as the [****]. For example, if [****] a [****] or [****] from [****] for [****], then [****] would be [****]. Notwithstanding the foregoing, the Parties acknowledge and agree that the Development Budget is a preliminary estimate and that the exact scope of the development effort and the actual costs associated with the development of the Project are unknown. Accordingly, [****] to the [****] and [****] are [****] and [****]. It is the [****] and [****]. The Parties shall meet from time to time and discuss [****], and shall, where reasonably necessary, [****]. In no event will [****] described in this Section 2. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, THE PARTIES HEREBY AGREE THAT [****] THE PROJECT HEREUNDER.

2.4. Staffing. Each Party agrees to cooperate and cause all necessary and appropriate employees and authorized contractors of such Party, and those of its Affiliates, to cooperate in such Party’s performance obligations under this Agreement; specifically VirTra will staff for the Project to levels as directed and approved by Modern Round. Each Party will use commercially reasonable efforts to timely complete the Collaboration Activities set forth herein, and each Party agrees to cooperate in good faith to allow the other Party to achieve completion of the assigned activities in a timely and professional manner. Each Party understands and agrees that the other Party’s performance of the assigned activities may depend on timely approvals and completion of certain tasks or adherence to schedules within the other Party’s control. Consequently, any scheduling of assigned activities may require adjustments or changes if such tasks or schedules change, are modified, or are not completed as anticipated. Each Party agrees, whenever reasonably possible, to provide notice in any case where scheduling needs to be adjusted.

2.5. Resources. Each Party will provide resources and utilize its employees and authorized contractors as it reasonably deems necessary to perform the Collaboration Activities based on approved expenditures. The manner and means used by each Party to perform the Collaboration Activities are in the sole discretion and control of the obligated Party.

2.6. Testing. The Parties shall perform validation testing of the elements of the Project developed under this Agreement at appropriate stages in accordance with a mutually generated test plan. The Parties will mutually agree to a Development Budget with respect to any validation testing with Modern Round being solely responsible for payment of the Monthly Expense and any Capital Expense pursuant to such Development Budget. Validation shall include the validation requirements as applicable for the end product, prototype, or part, the processes and all lower level component/sub-assemblies and related materials to be used. In addition to validation testing, Modern Round agrees that testing with representative customers prior to public release is important to ensure success and will be used as needed and a part of the Development Budget.

2.7. Ownership. Specifically excluding the Noma Software, VirTra shall retain all right, title, and interest in and to the Existing Scenarios, the Scenarios, the Integrated Software, and the Customizations. Modern Round shall retain all right, title, and interest in and to the Noma Software. Subject to the foregoing, the Parties each retain the entire right, title and interest in and to their respective developed technologies and intellectual property, subject only to any licenses expressly set forth herein.

2.8. Scenarios. The Parties hereby agree that all Scenarios existing as of the Effective Date, and not subject to use or license restrictions in any agreement between VirTra and a third party, are accurately described in **Exhibit H**, and are considered part of the VirTra Software and the Integrated Software hereunder. Where VirTra develops or has developed additional Scenarios after the Effective Date, VirTra shall promptly notify Modern Round, and such additional Scenarios shall be deemed part of VirTra Software. Modern Round may from time to time develop its own Scenarios, which shall be owned solely by Modern Round, and Modern Round shall have no obligation to use any Scenarios provided by VirTra; provided, however, that any [****]. VirTra hereby agrees that it shall develop and deliver additional Scenarios as set forth in the Development Plan during the Term of this Agreement.

3. Licenses.

3.1. Licenses Granted by VirTra. During the Term and subject to Modern Round's material compliance with the terms and conditions of this Agreement, VirTra hereby grants Modern Round an exclusive, non-transferrable Royalty-bearing right and license to use, execute, publicly perform, publicly display, digitally perform, copy and distribute the VirTra Software, including without limitations all Scenarios and Customizations: (a) solely in Object Code Format; (b) solely as integrated into the Integrated Software for use with Equipment; and (c) solely for use at Locations to operate the Concept in the Territory. Additionally, except for the Gander Mountain Locations, the GMP Market and Non- Concept Locations, at no time during the term of this Agreement shall VirTra grant, directly or indirectly, any licenses to any third party for the use of VirTra Software or the Customizations Licenses Granted by Modern Round.

(a) Noma Software. During the Term and subject to VirTra's material compliance with the terms and conditions of this Agreement, Modern Round hereby grants VirTra a non-exclusive, non-transferrable right and license, without the right to grant sublicense, to use, execute, and copy the Noma Software solely to complete the Project and to ensure that the Concept functions properly with the Noma Software at each Location.

(b) Future Weapons. To the extent that Modern Round [****], or [****] with respect to Future Weapons, that is [****] or [****] or [****], then Modern Round hereby agrees to [****] with respect to such Future Weapons to [****]. Further, Modern Round will [****].

3.2. Termination of Licenses. Except as otherwise set forth herein, upon any expiration or termination of this Agreement, all licenses granted hereunder shall be terminated without further notice.

4. Commercialization.

4.1. Commercialization. Modern Round will use its commercially reasonable efforts, with the commercially reasonable assistance of VirTra, to Commercialize and operate the Concept in Locations determined by Modern Round in the Territory.

4.2. Support. During the Term and during each Location's normal business hours, VirTra shall provide technical support and advice regarding the use of the VirTra Technology together with the Modern Round Technology via telephone and email ("Support"). Modern Round shall be billed for Support charges [****]. Modern Round shall provide at least one (1) Modern Round employee (each, a "Technical Contact") to receive such Support, which Technical Contact shall be responsible to communicate Support to each corresponding Location operator. In no event shall VirTra be responsible for providing Support directly to Location operators unless otherwise agreed to by VirTra. Such Support shall include the provision to Modern Round, and the integration into new versions of the Integrated Software, of all updates, enhancements, corrections, versions and releases of the VirTra Software, Customizations and Scenarios (collectively, "Updates"). The consideration for Support provided by VirTra shall be [****].

4.3. Commercial Milestones. Modern Round will open its first Location in the US or Canada (the "First Commercial Milestone") on or before one (1) of the following dates (each, a "Milestone Date"): (a) the eighteen (18) month anniversary of the Effective Date with respect to any Location to be housed in a physical facility that is in existence as of the Effective Date, or (b) the twenty-four (24) month anniversary of the Effective

Date with respect to any Location to be housed in a Modern Round-newly- constructed facility. Notwithstanding any other provision the First Commercial Milestone shall occur no later than twenty-four (24) months after the Effective Date. The Parties acknowledge and agree that Modern Round's failure to achieve the First Commercial Milestone by the applicable Milestone Date shall be subject to Section 4.4, unless as otherwise mutually agreed by the Parties. Additionally, Modern Round shall open at least one Location outside the US and Canada (the "Second Commercial Milestone") no later than the five (5) year anniversary of the Effective Date. The Parties acknowledge and agree that Modern Round's failure to achieve the Second Commercial Milestone by the applicable Milestone Date shall be subject to Section 4.4, unless as otherwise mutually agreed by the Parties.

4.4. Loss of Exclusivity.

(a) In the event that (i) Modern Round does not achieve the First Commercial Milestone by the applicable Milestone Date, and (ii) Modern Round fails to pay to VirTra the corresponding Minimum Royalty Payment for any 12-month period as specified under Section 5.4, the exclusive licenses granted by VirTra under Section 3 for the US and Canada will become non-exclusive. Additionally, after conversion to non-exclusive licenses, VirTra shall have no further obligation to: i) license Modern Round to operate the Concept at any new Location in the US or Canada; or ii) provide Modern Round with any new Scenarios for the US or Canada that were completed after Modern Round's failure as set forth in Section 4.3.

(b) In the event that (i) Modern Round does not achieve the Second Commercial Milestone by the five (5) year anniversary of the Effective Date, and (ii) Modern Round fails to pay to VirTra the corresponding Minimum Royalty Payment for any 12-month period as specified under Section 5.4, the exclusive licenses granted by VirTra under Section 3 for Locations outside the US and Canada will become non-exclusive. Additionally, after conversion to non-exclusive licenses, VirTra shall have no further obligation to: i) license Modern Round to operate the Concept at any new Location outside the US or Canada; or ii) provide Modern Round with any new Scenarios for use outside the US or Canada that were completed after Modern Round's failure as set forth in Section 4.3.

4.5. Equipment. From time to time, Modern Round may submit to VirTra one or more written or electronic purchase orders for the purchase of certain Equipment, including projectors. VirTra shall use its diligent efforts to accept and fulfill on a timely basis all such purchase orders, and the prices payable thereunder shall be [****]. Where Equipment or other materials are to be sold by VirTra vendors, Modern Round hereby agrees to pay such vendors directly upon request by VirTra, [****].

4.6. Commercialization at Non-Concept Locations. From time to time, VirTra may submit one or more written proposals for Non-Concept Location business opportunities to the Chairman and CEO of Modern Round. Should Modern Round disapprove, Modern Round shall submit a written explanation of the reasons for disapproval within ten (10) days of receipt of any written proposal. Should Modern Round not respond within ten (10) days of receipt of a written proposal for a Non-Concept Location business opportunity, the Non-Concept Location business opportunity shall be deemed approved.

5. **Payments.**

5.1. Monthly Expense and Reconciliation.

(a) Monthly Expense. On or about the first business day of each month during the term of any active Development Plan, Modern Round will pay to VirTra the Monthly Expense listed in the Development Budget. Modern Round acknowledges that this advance Monthly Expense is required by VirTra to accomplish the goals and objectives of the Development Plan.

(b) Reconciliation Process. Within five (5) business days after the end of each month during the term of any Development Plan, VirTra will submit to Modern Round a monthly invoice for the actual costs of conducting the services contemplated by the Development Plan in the immediately preceding month, including a reasonably detailed itemization of such costs. To the extent the invoiced amounts are less than the Monthly Expense for such month (the "Surplus"), the Surplus shall be credited against the subsequent month's Monthly Expense owed to VirTra by Modern Round. To the extent the invoiced amounts are more than the Monthly Expense (the

“Shortfall”), then Modern Round shall pay to

VirTra the Shortfall, so long as Modern Round approved or does approve the expenses, within fifteen (15) calendar days after receiving each such monthly invoice, along with the subsequent month's Monthly Expense when due. The Parties agree that the prior written approval of Modern Round is required before Modern Round is obligated to pay to VirTra any Shortfall that is more than 10% percent of the corresponding month's Monthly Expense.

5.2. Capital Items. In addition to the [****] of the Monthly Expense, [****] shall [****] for any and all [****] under this Agreement. [****] shall [****] or obtain [****] any such necessary [****] if the [****] is [****] in any calendar month. [****] shall [****] for the [****] and [****] shall [****]. All [****] by [****] for [****], even if the [****] by [****], shall be [****] and [****].

5.3. Equity.

(a) Modern Round Stock. On the Effective Date, Modern Round shall issue to VirTra 1,365,789 units, representing five percent (5%) of the units representing an ownership interest in Modern Round ("Units"), on a fully-diluted basis, including Units subject to outstanding options, warrants, and other purchase rights, provided that (1) Modern Round shall issue to VirTra, for no additional consideration, such additional Units as may be necessary to assure that all Units granted to VirTra equal one percent (1%) of the outstanding Units of Modern Round on a fully-diluted basis, and (2) Modern Round shall allow VirTra the right to participate to the extent of five percent (5%) of any offerings of Units effected by Modern Round to third parties for the primary purpose of raising funds by providing at least fifteen (15) days' notice prior to any such offering, but such right shall exist only during the period that Modern Round is a privately held limited liability company and shall be reduced proportionately to reflect any sale or other disposition of Units by VirTra.

(b) VirTra Warrants.

(1) On the Effective Date, VirTra shall issue to Modern Round or to its designated affiliates, for no additional consideration, one or more warrants in the form of **Exhibit A** to purchase shares of VirTra's common stock totaling five percent (5%) of the capital stock of VirTra on a fully-diluted and as-converted basis as of the Effective Date, which shall be 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.

(2) On the Effective Date, VirTra shall issue to Modern Round or to its designated affiliates, for no additional consideration, a warrant in the form of **Exhibit B** to purchase shares of VirTra's common stock totaling five percent (5%) of the capital stock of VirTra on a fully-diluted and as-converted basis as of the Effective Date, which shall be exercisable commencing at the time that Modern Round has paid VirTra at least \$2,000,000 in Royalty payments pursuant to this Agreement.

(c) Modern Round Warrants. On the Effective Date, Modern Round shall issue to VirTra, for no additional consideration, a warrant in the form of **Exhibit C** to purchase 1,365,789 Units of Modern Round, representing five percent (5%) of the outstanding Units of Modern Round on a fully-diluted basis, including Units subject to outstanding options, warrants, and other purchase rights, which shall be exercisable commencing on the twelve (12) month anniversary of the opening of Modern Round's first range facility utilizing VirTra Technology pursuant to this Agreement.

5.4. Royalties. During the period of time beginning on the applicable Milestone Date and extending until the termination of this Agreement (the "Royalty Period"), Modern Round will pay VirTra the following royalty payments ("Royalties"):

(a) Royalty Payment. Modern Round will pay or cause to be paid to VirTra on or about the first business day of each month during the Term a monthly license fee equal to seven percent (7%) of the Gross Revenue during the prior month at each Location that uses the Integrated Software and/or any VirTra Technology.

(b) Minimum Royalty Payment (US and Canada). Beginning with the subsequent 12-month period following the applicable Milestone Date, and continuing thereafter during the Term, Modern Round agrees that if the total Royalty payments paid to VirTra under Section 5.4(a) hereof for Locations in the United States and Canada together do not total at least the minimum Royalty amount specified in the table set forth below for such 12-month period (the “US/Canada Minimum Royalty Payment”), Modern Round may pay to VirTra within thirty (30) days after the end of each such 12-month period, as additional Royalty payments, the difference between (a) the amount of total Royalty payments paid to VirTra by Modern Round in such 12-month period and (b) the US/Canada Minimum Royalty Payment for such 12-month period.

Table of Minimum Royalty Payments (US and Canada)

12- Month Period	US/Canada Minimum Royalty Payment
1	\$280,000
2	\$560,000
3	\$840,000
Each 12-month period thereafter	\$840,000

(c) Minimum Royalty Payment (Other Than US). Beginning with the subsequent 12-month period following the opening of a Location other than in the US and Canada, and continuing thereafter during the Term, Modern Round agrees that if the total Royalty payments paid to VirTra under Section 5.4(a) hereof for Locations outside the United States and Canada do not total at least the minimum Royalty amount specified in the table set forth below for such 12-month period (the “Non- US/Canada Minimum Royalty Payment”), Modern Round may pay to VirTra within thirty (30) days after the end of each such 12-month period, as additional Royalty payments, the difference between (a) the amount of total Royalty payments paid to VirTra by Modern Round in such 12-month period and (b) the Non-US/Canada Minimum Royalty Payment for such 12-month period.

Table of Minimum Royalty Payments (Other Than US and Canada)

12- Month Period	Non-US/Canada Minimum Royalty Payment
1	\$280,000
2	\$560,000
3	\$840,000
Each 12-month period thereafter	\$840,000

5.5. Reports and Royalty Payments. Within ten (10) business days after the end of each month during the Royalty Period, Modern Round will deliver to VirTra a report setting forth for such month the Gross Revenue for each Location that uses the Integrated Software and/or any VirTra Technology. Modern Round will make payment to VirTra for all Royalty amounts owed to VirTra within thirty (30) days of the end of the applicable month.

5.6. Taxes and Withholding. All payments under this Agreement will be made without any deduction or withholding for or on account of any tax unless such deduction or withholding is required by applicable laws or regulations. If Modern Round is so required to deduct or withhold, Modern Round will (a) promptly notify VirTra of such requirement, (b) pay to the relevant authorities the full amount required to be deducted or withheld promptly upon the earlier of determining that such deduction or withholding is required or receiving notice that such amount has been assessed against VirTra, (c) promptly forward to VirTra an official receipt (or certified copy) or other documentation reasonably acceptable to VirTra evidencing such payment to such authorities, and (d) make payments due to VirTra net of such deductions or withholdings.

5.7. Overdue Payments. If any payment due under this Agreement (other than payments that are the subject of a good faith dispute between the Parties) is overdue, Modern Round will pay interest to VirTra at a rate

per annum equal to the lesser of the prime rate of interest, as reported by New York edition of *The Wall Street Journal* on the last business day of the applicable month, plus one percent (1%), or the highest rate permitted by applicable law, calculated on the number of days such payments are paid after the date such payments are due.

5.8. Maintenance of Records; Audits.

(a) Record Keeping. Each Party will keep, and will cause its Affiliates to keep, books and accounts of record in connection with its obligations under this Agreement (including those necessary for determining the Gross Revenue for each Location) in sufficient detail to permit accurate determination of all figures necessary for verification of Monthly Expenses, Capital Expenses, and Royalty payments to be paid pursuant to this Agreement. Each Party will maintain, and will cause its Affiliates to maintain, such records for a period of at least three (3) years after any termination of this Agreement.

(b) Audits. During the Term and for three (3) years following any termination or expiration of this Agreement, upon thirty (30) days' prior written notice from VirTra to Modern Round and no more than one (1) time in any twelve (12) month period, Modern Round will permit VirTra's designated certified public accountant who is reasonably acceptable to Modern Round to examine, at VirTra's initial expense (subject to the last sentence in this Section 5.8(b)), the relevant books and records of Modern Round, and its Affiliates as may be reasonably necessary to verify the amounts reported by Modern Round as Gross Revenue for each Location. Such accountant will be provided access to such books and records at Modern Round's facility(ies) where such books and records are normally kept and such examination will be conducted during the Modern Round's normal business hours. Upon completion of the audit, the accountant will provide both Modern Round and VirTra a written report disclosing any discrepancies in the reports submitted by Modern Round under this Agreement, and, in each case, the specific details concerning any discrepancy or breach. If such accountant's report reveals an underpayment pursuant to this Agreement, Modern Round will pay to VirTra the additional payments within thirty (30) days of the date Modern Round receives such accountant's written report so correctly concluding. If such underpayment exceeds 5% of the payments that were due to VirTra, Modern Round also will reimburse VirTra for all reasonable out-of-pocket expenses incurred in conducting the audit.

(c) Confidentiality. All information of Modern Round that is subject to audit under Section 5.8(b) will be deemed to be Confidential Information of Modern Round, and neither the accountant nor VirTra will disclose such Confidential Information to any third party or use such Confidential Information for any purpose other than verifying payments to be made hereunder.

6. Intellectual Property Rights.

6.1. VirTra Ownership and Intellectual Property Rights. Modern Round acknowledges and agrees that VirTra is the exclusive owner or authorized licensee of all VirTra Technology and retains all right, title, and interest in and to the VirTra Technology and all associated intellectual property rights. Modern Round's rights to the VirTra Technology are set forth in this Agreement and all rights not expressly granted to Modern Round hereunder are reserved exclusively to VirTra.

6.2. Modern Round Ownership and Intellectual Property Rights. VirTra acknowledges and agrees that Modern Round is the exclusive owner or authorized licensee of all Modern Round Technology and retains all right, title, and interest in and to the Modern Round Technology and all associated intellectual property rights. VirTra's rights to the Modern Round Technology are set forth in this Agreement and all rights not expressly granted to VirTra hereunder are reserved exclusively to Modern Round.

6.3. Protection. Except as otherwise set forth in this Agreement, during the Term, each Party agrees that it shall not directly or indirectly through any entity owned or controlled by such Party offer goods or services that compete with the goods or services offered at any Location. Without limiting the generality of the foregoing, and except for the GMP Market and the Gander Mountain Locations, in no event shall VirTra license any third party to use the VirTra Software or Scenarios at any facility other than a Non-Concept Location during the Term. In addition, Modern Round hereby agrees that it shall not offer goods or services in the GMP Market.

7. Confidentiality and Non-Solicitation.

7.1. Confidentiality. Except to the extent expressly authorized by this Agreement or otherwise agreed in writing, the Parties agree that, for the Term and for five (5) years after any termination of this Agreement, and thereafter for so long as any such Confidential Information remains protectable or legally enforceable under a related agreement or under any applicable law, including (without limitation) applicable copyright, trade secret and patent laws, each Party (the "Receiving Party") receiving any Confidential Information of the other Party (the "Disclosing Party") hereunder will keep such Confidential Information confidential and will not publish or otherwise disclose or use such Confidential Information for any purpose other than as provided for in this Agreement, except for Confidential Information that the Receiving Party can establish:

(a) was already known by the Receiving Party (other than under an obligation of confidentiality) at the time of disclosure by the Disclosing Party and the Receiving Party has documentary evidence to that effect;

(b) was generally available to the public or otherwise part of the public domain at the time of its disclosure to the Receiving Party;

(c) became generally available to the public or otherwise part of the public domain after its disclosure or development, as the case may be, other than through any act or omission of the Receiving Party or any of its Affiliates;

(d) was disclosed to the Receiving Party, other than under an obligation of confidentiality, by a third party who had no obligation to the Disclosing Party not to disclose such information to others; or

(e) was independently discovered or developed by or on behalf of the Receiving Party without the use of any Confidential Information belonging to the Disclosing Party and the Receiving Party has contemporaneous documentary evidence to that effect.

7.2. Use. Each Receiving Party shall safeguard all Confidential Information received by it using a reasonable degree of care, but not less than that degree of care used by the Receiving Party in safeguarding its own similar information or material, and prevent unauthorized, negligent or inadvertent use or disclosure thereof. Each Receiving Party will have the right to use the Disclosing Party's Confidential Information in carrying out the Receiving Party's responsibilities or exercising its rights under this Agreement, or as otherwise expressly authorized by this Agreement; provided, however, that the Receiving Party shall limit access to any Confidential Information received by it to only those directors, officers, Affiliates, associates, partners, employees, authorized contractor or advisors ("Representatives") as are critically necessary for the sole purpose of performing the Receiving Party's obligations under this Agreement (it being agreed that, prior to any such disclosure, such Representatives shall be informed by Receiving Party of the confidential nature of such information and that by receiving such information they are agreeing to be bound by this Agreement and, if the Disclosing Party so requests, that such Representative enters into a confidentiality agreement with the Disclosing Party on terms equivalent to those contained in this Agreement), and Receiving Party hereby agrees to be responsible for any breach of this Agreement by any of its Representatives, and, further, Receiving Party agrees, at its sole expense, to take all reasonable measures (including, but not limited to, court proceedings) to restrain its Representatives from prohibited or unauthorized disclosure or use of the Confidential Information.

7.3. Disclosure.

(a) Request for Disclosure. No Receiving Party shall disclose any Confidential Information of the Disclosing Party. In the event any Receiving Party receives any valid request (by oral questions, interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose (i) any Confidential Information of the Disclosing Party or (ii) any information relating to Receiving Party's opinion, judgment or recommendations concerning the Disclosing Party, the Receiving Party shall provide the Disclosing Party with prompt written notice of such request so that the Disclosing Party may seek an appropriate protective order and/or waive Receiving Party's compliance with the provisions of this Agreement.

(b) SEC Filings and Related Disclosures. Either Party may disclose the terms of this Agreement (i) to the extent required, in the reasonable opinion of such Party's legal counsel, to comply with applicable laws, including, without limitation, the rules and regulations promulgated by the United States Securities and Exchange Commission and (ii) in connection with a prospective acquisition, merger, financing or license for such Party, to prospective acquirers or merger candidates or to existing or potential investors or licensees; provided, however, that prior to such disclosure each such candidate or investor will agree in writing to be bound by obligations of confidentiality and non-use at least equivalent in scope to those set forth in this Section 7. If a Party discloses this Agreement or any of the terms hereof in accordance with this Section 7.3, such Party agrees, at its own expense, to seek confidential treatment of portions of this Agreement or such terms, as may be reasonably requested by the other Party.

7.4. Public Announcements. VirTra and Modern Round will, from time to time and at the request of the other Party, discuss and agree on the general information content relating to this Agreement that may be publicly disclosed. Effective upon the Effective Date, the Parties have agreed to the content of a press release publicly announcing this Agreement. Except as may be appropriate for Modern Round to make in connection with its Commercialization activities as contemplated hereunder, neither Party will make any public announcement regarding this Agreement without the prior written approval of the other Party; provided, however, that in no event shall Modern Round disclose any Confidential Information of VirTra without VirTra's prior written consent.

7.5. Non-Solicitation. During the Term and for two (2) years after any termination of this Agreement, neither Party shall, nor shall either Party cause, assist or permit any of its Affiliates or Representatives to, without obtaining the other Party's prior written consent, solicit for employment any of the current officers or employees of such other Party. The term "solicit for employment" does not include any general solicitation or advertising for employment through the mass media, the internet or job fairs to fill one or more positions on a basis consistent with the soliciting Party's past practice.

7.6. Equitable Relief. Each Party acknowledges and agrees that its covenants and obligations under Section 6 and Section 7 are necessary and reasonable in order to protect the legitimate business interests of the Parties and that neither Party would disclose or continue to disclose any Confidential Information to the other or enter into this Agreement without its prior undertaking of such covenants and obligations. Each Party further acknowledges and agrees that any violation or threatened violation by it (or any of its representatives) of its covenants and obligations hereunder would cause irreparable injury to the other Party and that monetary damages, even if determinable, would not alone be adequate to compensate for such injury. Accordingly, the Parties agree that, in addition to any other remedy that may be available to them at law, they each shall be entitled to injunctive relief, specific performance and other equitable remedies in furtherance of this Agreement without posting bond or other security and without having to prove actual damage or harm.

8. Representations, Warranties and Covenants.

8.1. Representations and Warranties of Each Party. Each of the Parties hereby represents, warrants, and covenants to the other Parties as follows:

(a) It is a Person, as the case may be, duly organized and validly existing under the laws of the state or other jurisdiction of its incorporation or formation.

(b) The execution, delivery and performance of this Agreement by such Party has been duly authorized by all requisite corporate or limited liability company action, as the case may be, and does not require any shareholder or manager or member action or approval, as the case may be, or if such approval is required, such approval has been obtained.

(c) It has the corporate or limited liability company power and authority, as applicable, to execute and deliver this Agreement and to perform its obligations hereunder.

(d) The execution, delivery and performance by such Party of this Agreement and its compliance with the terms and provisions hereof does not and will not conflict with or result in a breach of any of the terms and provisions of or constitute a default under, or result in a right to accelerate payment under, obligation to make any payment pursuant to, or loss of material rights under, (i) any loan agreement, guaranty, financing

agreement, agreement relating to it or its property; (ii) the provisions of its certificate of incorporation, bylaws, articles of organization, operating agreement, or any other operative documents, as applicable; (iii) any order, writ, injunction or decree of any court or governmental authority entered against it or by which any of its property is bound; or (iv) any applicable law, rule, regulation or permit.

(e) It will at all times comply with all material laws and regulations applicable to its activities under this Agreement.

(f) It does not have in effect, and after the Effective Date, will not enter into, any oral or written agreement or arrangement that is or would be inconsistent with its obligations under this Agreement.

8.2. Additional Representations, Warranties and Covenants of VirTra. In addition to the representations, warranties and covenants made by VirTra elsewhere in this Agreement, VirTra hereby represents, warrants, and covenants to Modern Round that:

(a) To the best of VirTra's knowledge, as of the Effective Date, the VirTra Technology does not infringe any third party intellectual property rights.

(b) Effective as of the Effective Date, VirTra will execute a joinder agreement to the Operating Agreement and will execute that certain First Amendment to the Operating Agreement in the form attached hereto as **Exhibit D**.

8.3. Additional Representations, Warranties and Covenants of Modern Round. In addition to the representations, warranties and covenants made by Modern Round elsewhere in this Agreement, Modern Round hereby represents, warrants, and covenants to VirTra that:

(a) Modern Round's Units to be issued to VirTra on the Effective Date pursuant to this Agreement equals five percent (5%) of the equity interests of Modern Round on a fully-diluted and as-converted basis as of the Effective Date, are duly authorized and, when issued in accordance with Section 5.3(a) hereof, will be validly issued, fully paid and nonassessable equity interests of Modern Round, and will be free and clear of all taxes, liens and charges. Effective on the Effective Date, the issuance of such Units (i) will be duly authorized pursuant to all requisite entity action by Modern Round and its managers and members, (ii) will not conflict with the articles of organization, operating agreement, or other governing documents of Modern Round, (iii) will comply in all respects with all applicable laws, (iv) will be enforceable pursuant to the terms and conditions of this Agreement and the Operating Agreement, and (v) result in VirTra being the owner of record, and having good, valid and marketable title in, to and under such Units.

(b) The Modern Round Balance Sheet dated December 31, 2104, and delivered to VirTra, is true, correct and complete in all respects and accurately presents the financial position of Modern Round for the period covered thereby.

(c) Modern Round is not required to qualify to do business as a foreign limited liability company in any jurisdiction in respect of its business, and does not have any activities, assets, employees, offices, operations and/or properties located in any jurisdiction, other than the State of Nevada.

(d) Other than the Operating Agreement, there are no other voting trust agreements, members' agreements, other arrangements to vote equity jointly, equity pledges or other agreements affecting voting, transfer or ownership of the equity securities of Modern Round.

(e) At a minimum interval of a quarterly basis, Modern Round shall provide to VirTra a copy of any financial records and reports that Modern Round provides to each of its members and holders of its equity interests.

(f) To the best of Modern Round's knowledge, as of the Effective Date, the Modern Round Technology does not infringe any third party intellectual property rights.

(g) Modern Round has both the means and the intent to invest the funds needed to develop a professional product for the Concept, to properly test products, and to adapt products to enhance the chances of success prior to the Commercial Milestone.

(h) Effective as of the Effective Date, Modern Round will execute, and will cause each of its managers and members to execute, that certain First Amendment to the Operating Agreement in the form attached hereto as **Exhibit D**.

8.4. Warranty Disclaimer. THE FOREGOING WARRANTIES IN THIS SECTION 8 BY EACH PARTY ARE IN LIEU OF ANY OTHER WARRANTIES, EXPRESS OR IMPLIED, INCLUDING, WITHOUT LIMITATION, ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR ANY IMPLIED WARRANTIES OF FITNESS FOR A PARTICULAR PURPOSE, OR NON- INFRINGEMENT, ALL OF WHICH ARE HEREBY SPECIFICALLY EXCLUDED AND DISCLAIMED.

9. Term and Termination.

9.1. Term. The term of this Agreement will commence on the Effective Date and will continue so long as Modern Round exercises any rights hereunder with respect to the VirTra Technology (the "Term"), unless terminated earlier in accordance with this Agreement.

9.2. Termination for Cause. This Agreement may be terminated in its entirety at any time during the Term upon written notice by either Party if the other Party (the "Breaching Party") is in breach of any material obligation under this Agreement and has not cured any such material breach for thirty (30) days as measured from the date written notice of such material breach is given to the Breaching Party.

9.3. Effects of Termination for Cause.

(a) Effect of Termination by VirTra for Cause. If Modern Round is the Breaching Party and VirTra terminates this Agreement in accordance with Section 9.1, then Modern Round will, within fifteen (15) calendar days of the termination, pay VirTra all amounts due and owing pursuant to this Agreement prior to the date of termination and Section 6 and Section 7 will survive any such termination.

(b) Effect of Termination by Modern Round for Cause. If VirTra is the Breaching Party and Modern Round terminates this Agreement in accordance with Section 9.1, then Modern Round may elect to have all or any portion of the licenses granted to Modern Round pursuant to Section 3 survive, in which case Modern Round's obligations to VirTra under Sections 5.3, 5.4, 5.5, 5.6 and 5.7 will continue to the extent that Modern Round elects to retain such license.

9.4. Termination Rights upon Insolvency of VirTra. This Agreement may be terminated in its entirety at any time during the Term by Modern Round if at any time during the Term (a) a case is commenced by or against VirTra under the U.S. bankruptcy code, (b) VirTra files for or is subject to the institution of bankruptcy, liquidation or receivership proceedings (other than a case under the U.S. bankruptcy code), (c) VirTra assigns all or a substantial portion of its assets for the benefit of creditors, (d) a receiver or custodian is appointed for VirTra's business, or (e) a substantial portion of VirTra's business is subject to attachment or similar process; provided, however, that in the case of any involuntary case under the U.S. bankruptcy code, such right to terminate will only become effective if VirTra consents to the involuntary bankruptcy or receivership or such proceeding is not dismissed within sixty (60) days after the commencement thereof.

9.5. Termination upon Insolvency of Modern Round. This Agreement may be terminated in its entirety at any time during the Term by VirTra if (a) a case is commenced by or against Modern Round under the U.S. bankruptcy code, (b) Modern Round files for or is subject to the institution of bankruptcy, liquidation or receivership proceedings (other than a case under the U.S. bankruptcy code), (c) Modern Round assigns all or a substantial portion of its assets for the benefit of creditors, (d) a receiver or custodian is appointed for Modern Round's business, or (e) a substantial portion of Modern Round's business is subject to attachment or similar process;

provided, however, that in the case of any involuntary case under the U.S. bankruptcy code, such right to terminate will only become effective if Modern Round consents to the involuntary bankruptcy or receivership or such proceeding is not dismissed within sixty (60) days after the filing thereof.

9.6. Remedies Cumulative. Any termination under Section 9.2 above will be in addition to, and not in substitution for or a condition to, the pursuit of any other remedies available under this Agreement or in law or equity. Without limiting the foregoing, in the event of a breach by either Party of this Agreement, subject to Section 10.7, the Party that is not the Breaching Party, without exercising any right of termination otherwise available to it, may pursue its remedies for damages or other relief under the dispute resolution procedures set forth in Section 11.6.

9.7. Return of Confidential Information. Upon any termination of this Agreement, each Party will promptly return to the other Party, delete or destroy all relevant records and materials in such Party's possession or control containing Confidential Information of the other Party. Upon the return of such materials, such Party agrees to certify, in writing, that all of the foregoing records and materials have been returned to the other Party or destroyed.

9.8. Survival of Certain Obligations. Expiration or termination of the Agreement will not relieve the Parties of any obligation accruing before such expiration or termination. The following provisions of this Agreement will survive the expiration or termination of the Agreement: Sections 5.8 (Maintenance of Records; Audits), 6 (Intellectual Property Rights), 7 (Confidentiality and Non-Solicit), 9.3 (Effects of Termination for Cause), 10 (Indemnification and Insurance), and 11 (Miscellaneous); and, for purposes of clarification, until the Royalty Period has expired, the following provisions of this Agreement will survive: Sections 5.3 (Equity), 5.4 (Royalties), 5.5 (Reports and Royalty Payments), 5.6 (Taxes and Withholding), and 5.7 (Overdue Payments). Except as set forth in this Section 9.8, upon termination or expiration of this Agreement, all other rights and obligations under this Agreement shall then be null and void and have no further force and effect. Any expiration or early termination of this Agreement will be without prejudice to the rights of either Party against the other accrued or accruing under this Agreement before termination.

10. Indemnification and Insurance.

10.1. Indemnification by Modern Round. Subject to Section 10.4 below, Modern Round will indemnify, defend and hold harmless VirTra, its Affiliates, and their respective managers, members, directors, officers, stockholders, employees and agents (each, a "VirTra Indemnitee") from and against any third party claims, suits, losses, liabilities, damages, costs, fees and expenses (including reasonable attorneys' fees) (collectively, "Losses") arising out of or resulting from, directly or indirectly: (a) any material breach of, or inaccuracy in, any representation or warranty made by Modern Round in this Agreement, or any breach or violation of any covenant or agreement of Modern Round in or pursuant to this Agreement; (b) the negligence or willful misconduct by or of Modern Round and its Affiliates, and their respective managers, members, directors, officers, stockholders, employees and agents with respect to this Agreement; (c) the Commercialization and operation of the Concept at a Location by Modern Round and its Affiliates, as the case may be.

10.2. Indemnification by VirTra. Subject to Section 10.3 below, VirTra agrees to indemnify, defend and hold harmless Modern Round, its Affiliates, and their respective managers, members, directors, officers, stockholders, employees and agents ("Modern Round Indemnitees") from and against only those Losses reasonably arising out of or resulting from, directly or indirectly: (a) any material breach of, or inaccuracy in, any representation or warranty made by VirTra in this Agreement, or any breach or violation of any covenant or agreement of VirTra in or pursuant to this Agreement; or (b) the negligence or willful misconduct by or of VirTra, its Affiliates, and their respective managers, members, directors, officers, stockholders, employees and agents.

10.3. Intellectual Property Indemnification by VirTra. VirTra shall defend, indemnify and hold harmless Modern Round Indemnitees from and against any Losses arising out of or in connection with a claim that the VirTra Technology, when used within the scope of this Agreement, infringes, violates or misappropriates a valid third party patent, copyright or other proprietary right, provided that VirTra is notified promptly in writing of the action, Modern Round has not reached any compromise or settlement of such action or made any admissions in respect of the same, and VirTra is given the option, at its expense, to control the action and receives all requested reasonable

assistance from Modern Round to defend the same. Notwithstanding the foregoing, VirTra shall have no obligation for indemnification for any Losses reasonably related to: (a) any use of the Modern Round Technology alone; (b) any combination or operation of the Modern Round Technology or the VirTra Technology with any third party technology or product; or (c) any addition to or modification made to the VirTra Technology that is specifically requested by or directed by Modern Round. Should any third party infringement claim be made against VirTra, for which VirTra lacks third party indemnification, then VirTra may, at its sole option and expense (i) replace or modify the VirTra Technology so that it becomes non-infringing; (ii) procure any necessary right and license to allow Modern Round to continue to offer and operate the Concept at the Locations; or (iii) if neither of the previous options are commercially practicable, require Modern Round to terminate use of the VirTra Technology and Modern Round's obligation to pay Royalties shall be suspended during any period of non-operation of the Concept at the Locations necessitated by any third party infringement claim.

10.4. Intellectual Property Indemnification by Modern Round. Modern Round shall defend, indemnify and hold harmless VirTra Indemnitees from and against any Losses arising out of or in connection with a claim that the Modern Round Technology, when used within the scope of this Agreement, infringes, violates or misappropriates a valid third party patent, copyright or other proprietary right, provided that Modern Round is notified promptly in writing of the action, VirTra has not reached any compromise or settlement of such action or made any admissions in respect of the same, and Modern Round is given the option, at its expense, to control the action and receives all requested reasonable assistance from VirTra to defend the same. Notwithstanding the foregoing, Modern Round shall have no obligation for indemnification for any Losses reasonably related to: (a) any use of the VirTra Technology alone; (b) any combination or operation of the Modern Round Technology or the VirTra Technology with any third party technology or product; or (c) any addition to or modification made to the Modern Round Technology that is specifically requested by or directed by VirTra. Should any third party infringement

claim be made against Modern Round, for which Modern Round lacks third party indemnification, then Modern Round may, at its sole option and expense (i) replace or modify the Modern Round Technology so that it becomes non-infringing; (ii) procure any necessary right and license to allow VirTra to continue to offer and operate the Concept at the Locations; or (iii) if neither of the previous options are commercially practicable, require VirTra to terminate use of the Modern Round Technology.

10.5. Indemnification Procedure. In the event of any such claim against any Modern Round Indemnitee or VirTra Indemnitee (individually, an "Indemnitee"), the Indemnitee will promptly notify the other Party in writing of the claim and the indemnifying Party will manage and control, at its sole expense, the defense of the claim and its settlement. The Indemnitee will cooperate with the indemnifying Party and may, at its option and expense, be represented in any such action or proceeding. The indemnifying Party will not be liable for any settlements, litigation costs or expenses incurred by any Indemnitee without the indemnifying Party's written authorization. Notwithstanding the foregoing, if the indemnifying Party believes that any of the exceptions to its obligation of indemnification of any Indemnitee set forth in this Section 10 may apply, the indemnifying Party will promptly notify such Indemnitees, which will then have the right to be represented in any such action or proceeding by separate counsel at their expense; provided that the indemnifying Party will be responsible for payment of such expenses if such Indemnitees are ultimately determined to be entitled to indemnification from the indemnifying Party. The indemnifying Party will not settle any claims against any Indemnitee in any way that adversely impacts such Indemnitee or its Affiliates without obtaining the prior written consent of such Indemnitee, which consent will not be unreasonably withheld.

10.6. Sole Remedy. The indemnification provisions set forth in Sections 10.1, 10.2, 10.3, or 10.4 constitute the sole and exclusive remedies of the VirTra Indemnitees and Modern Round Indemnitees, respectively, for any and all Losses suffered by such Indemnitees in respect of this Agreement

10.7. Insurance. Each Party shall, at such Party's expense and at all times during the Term, hold and maintain commercially reasonable insurance policies with minimum limits as set forth below. Such insurance must be with an insurance company of nationally recognized standing with a rating of A-/Class IX, or better, as rated by A.M. Best and must name the other Party as an additional insured for all liability coverage related to or arising from performance under this Agreement. Each Party's insurance shall be primary insurance and non-contributory to that maintained by such Party. Each Party waives all rights of subrogation, with respect to all applicable insurance policies, against the other Party, its managers, officers, directors, agents,

employees and against other contractors and vendors, to the extent of such Party's negligence. Each Party shall provide at least thirty (30) days written notice to the other Party in the event of any material changes, cancellation and renewal of such Party's insurance policies. Prior to the performance of any services under this Agreement, certificates of insurance evidencing satisfactory coverage of the types and limits set forth below shall be furnished to each Party. The limits set forth below do not in any way limit liability assumed elsewhere in this Agreement.

(a) General Liability Insurance. Commercial general liability insurance with limits not less than \$1,000,000 each occurrence for bodily injury or property damage and \$2,000,000 in the aggregate.

(b) Workers Compensation Insurance. Workers compensation insurance in accordance with applicable state law, and including Employer's Liability for all employees of each Party in the amount of \$1,000,000 per accident.

10.8. Limitations on Liability. EXCEPT FOR THEIR RESPECTIVE OBLIGATIONS UNDER SECTION 7 (CONFIDENTIALITY AND NON-SOLICIT), SECTION 10.2 (INDEMNIFICATION BY VIRTRA), AND SECTION 10.4 (INDEMNIFICATION BY MODERN ROUND), NEITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY EXEMPLARY, INCIDENTAL, SPECIAL OR PUNITIVE DAMAGES ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ITS SUBJECT MATTER (INCLUDING, WITHOUT LIMITATION, LOST PROFITS), REGARDLESS OF WHETHER A PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES IN ADVANCE OR WHETHER SUCH DAMAGES ARE REASONABLY FORESEEABLE. EXCEPT FOR VIRTRA'S OBLIGATIONS UNDER SECTION 7 (CONFIDENTIALITY AND NON-SOLICIT) OR SECTION 10.2 (INDEMNIFICATION BY VIRTRA), IN NO EVENT SHALL VIRTRA BE LIABLE FOR DAMAGES IN EXCESS OF THE SUM OF ALL ROYALTY PAYMENTS VIRTRA HAS RECEIVED FROM MODERN ROUND UNDER THE TERMS OF THIS AGREEMENT DURING THE TWELVE (12) MONTH PERIOD PRECEDING THE DATE THE CLAIM AROSE.

11. Miscellaneous

11.1. Governing Law. This Agreement, the rights of the Parties and all claims arising under or in connection herewith, will be governed by and interpreted in accordance with the domestic substantive laws of the State of Arizona, without regard to any choice or conflict of law principles that would cause the application of the laws of any other jurisdiction.

11.2. Assignment. Neither this Agreement, nor any right or interest hereunder, will be assignable by either Party without the prior written consent of the other Party, which consent will not be unreasonably withheld or delayed. Notwithstanding the foregoing, either Party may assign their respective rights and obligations hereunder to an Affiliate or to a third party that acquires all or substantially all of that Party's assets or equity. This Agreement will be binding upon the permitted successors and assigns of the Parties and the name of a Party appearing herein will be deemed to include the names of such Party's successors and permitted assigns to the extent necessary to carry out the intent of this Agreement. Any assignment not in accordance with this Section 11.2 will be void.

11.3. Further Assurances. Each Party agrees to execute, acknowledge and deliver such further instruments, and to do all such other acts, as may be necessary or appropriate in order to carry out the purposes and intent of the Agreement.

11.4. Force Majeure. The failure of either Party to timely perform any obligation under this Agreement (except for any obligations to make payments to the other Party hereunder) by reason of epidemic, earthquake, riot, civil commotion, fire, act of God, war, terrorist act, strike, flood, or governmental act or restriction, or other cause that is beyond the reasonable control of the respective Party, will not be deemed to be a material breach of this Agreement, but will be excused to the extent and for the duration of such cause, and the affected Party will provide the other Party with full particulars thereof as soon as it becomes aware of the same (including its best estimate of the likely extent and duration of the interference with its activities) and will use its commercially reasonable efforts to avoid or remove such cause, and will perform its obligation(s) with the utmost dispatch when the cause is removed. If the performance of any such obligation under this Agreement is delayed owing to such a force majeure for any continuous period of more than ninety (90) days, the Parties hereto will consult with respect to an equitable solution, including the possibility of the mutual termination of this Agreement.

11.5. 11.5 Notices.

(a) Except as expressly provided otherwise in Section 11.5(b), all notices and demands between the Parties, or any authorizations, approvals, or consents provided in connection with terms of this Agreement that expressly require such authorizations, approvals, or consents to be in writing, by one of the Parties hereto to the other will be in writing and (i) delivered by hand, (ii) sent by nationally recognized overnight delivery service, or (iii) sent by registered or certified mail, return receipt requested, postage prepaid, and will be deemed to have been properly served to the addressee upon receipt of such written communication, in any event to the following addresses:

If to Modern Round:

Mr. Barry Monheit Mr.
Mitch Saltz Modern
Round, L.L.C.
7377 E. Doubletree Road
Suite 200
Scottsdale AZ 85258

with a copy to:

Greenberg Traurig, LLP
2375 E. Camelback Road
Suite 700
Phoenix , Arizona 85016
Attn: Robert Kant, Esq.
Email: kantr@gtlaw.com

If to VirTra:

7970 S. Kyrene Rd.
Tempe, AZ 85284 Attn:
Bob Ferris, CEO
Email: bferris@virtra.com

with a copy to:

Snell & Wilmer L.L.P.
One Arizona Center 400
E. Van Buren
Phoenix, Arizona 85004-2202
Attn: Dan Mahoney, Esq.
Email: dmahoney@swlaw.com

(b) Notices or other communications by either Party to the other in the normal course of performing under this Agreement or routine operational communications, including, without limitation, invoicing, any communication relating to any requested changes to the Development Plan or Development Budget, or technical support issues (collectively, "Operations-Related Communication") may be delivered and shall be deemed properly given and effective when (y) provided under any of the methods described in the Section 11.5(a), or (z) provided by e-mail if properly addressed to the receiving Party at the addresses provided in or pursuant to this Agreement and sent via the Internet as evidenced by the computer records or any archival copy thereof kept in the ordinary course of business by the sender,

whichever method is first used by the sender for a particular Operations-Related Communication. Regarding any Operations-Related Communication, if sender sends it before 5:00 p.m. Phoenix, Arizona time on the receiving Party's business day, it shall be deemed effective on the date sent by sender; otherwise it will be deemed effective on the receiving Party's next business day.

11.6. Dispute Resolution. Any disputes arising between the Parties relating to, arising out of or in any way connected with this Agreement or any term or condition hereof, or the performance by either Party of its obligations hereunder, whether before or after termination of this Agreement, will be resolved as follows:

(a) Senior Management. Disputes will be submitted to escalating levels of Modern Round's and VirTra's senior management for review.

(b) Arbitration. If the senior management of the Parties are unable to resolve such dispute within a thirty (30) day period following such escalation, either Party may submit the matter to binding arbitration in accordance with this Section 11.6(b). Except as specified below, the arbitration will be conducted in accordance with the rules of, and under the auspices of, the American Arbitration Association (the "AAA"). The arbitration will be conducted by a single arbitrator with relevant technical expertise who is jointly selected by the Parties or, if the Parties cannot mutually agree, is selected by the AAA administrator and is not employed by and does not have a material financial relationship with, a Party or any of its Affiliates. The arbitration shall take place at a location that is jointly selected by the Parties or, if the Parties cannot mutually agree, is selected by such AAA administrator. This Agreement will remain in effect pending completion of the proceedings brought under this Section 11.6(b). Within ten (10) business days after the arbitrator is selected, each Party will submit to the arbitrator that Party's proposed resolution of the dispute and justification therefor. All arbitration proceedings must be completed within thirty (30) days after the arbitration is convened. The Parties hereby agree that the arbitrator has authority to issue rulings and orders regarding all procedural and evidentiary matters that the arbitrator deems reasonable and necessary with or without petition therefor by the Parties as well as the final ruling and judgment. Rulings will be issued by written order summarizing the arbitration proceedings. Any judgment or award by the arbitrator in any dispute will have the same force and effect as the final judgment of a court of competent jurisdiction. Nothing in this arbitration clause will prevent either Party from seeking a pre-award attachment of assets or injunctive relief to enforce its rights in intellectual property, confidentiality, or non-solicit obligations under this Agreement, or to enjoin any event that might cause irreparable injury, in a court of competent jurisdiction prior to an award on the merits by the arbitrator.

11.7. Amendment. No amendment, modification or supplement of any provision of this Agreement will be valid or effective unless made in writing and signed by a duly authorized officer of each Party.

11.8. Waiver. No provision of the Agreement will be waived by any act, omission or knowledge of a Party or its agents or employees except by an instrument in writing expressly waiving such provision and signed by a duly authorized officer of the waiving Party.

11.9. No Implied Waivers; Rights Cumulative. No failure on the part of Modern Round or VirTra to exercise, and no delay in exercising, any right, power, remedy or privilege under this Agreement, or provided by statute or at law or in equity or otherwise, will impair, prejudice or constitute a waiver of any such right, power, remedy or privilege or be construed as a waiver of any breach of this Agreement or as an acquiescence therein, nor will any single or partial exercise of any such right, power, remedy or privilege preclude any other or further exercise thereof or the exercise of any other right, power, remedy or privilege.

11.10. Severability. If any clause or portion thereof in this Agreement is for any reason held to be invalid, illegal or unenforceable, the same will not affect any other portion of this Agreement, as it is the intent of the Parties that this Agreement will be construed in such fashion as to maintain its existence, validity and enforceability to the greatest extent possible. In any such event, this Agreement will be construed as if such clause or portion thereof had never been contained in this Agreement, and there will be deemed substituted therefore such provision as will most nearly carry out the intent of the Parties as expressed in this Agreement to the fullest extent permitted by applicable law.

11.11. Descriptive Headings. The descriptive headings of this Agreement are for convenience only and will be of no force or effect in construing or interpreting any of the provisions of this Agreement.

11.12. No Strict Construction. This Agreement has been prepared jointly and will not be strictly construed against either Party. Additionally, each Party further acknowledges and agrees that they have had the opportunity to consult with counsel of their choosing regarding the terms and conditions of this Agreement and have

either done so or freely elected not to do so.

11.13. No Third Party Beneficiaries. No Person other than the Parties and their respective Affiliates and permitted assignees hereunder will be deemed an intended beneficiary hereunder or have any right to enforce any obligation of this Agreement.

11.14. Independent Contractors. Both Parties are independent contractors under this Agreement. Nothing herein contained will be deemed to create an employment, agency, joint venture or partnership relationship between the Parties hereto or any of their agents or employees, or any other legal arrangement that would impose liability upon one Party for the act or failure to act of the other Party. Neither Party will have any express or implied power to enter into any contracts or commitments or to incur any liabilities in the name of, or on behalf of, the other Party, or to bind the other Party in any respect whatsoever.

11.15. Entire Agreement. This Agreement (including each Development Plan and Development Budget) constitutes and contains the complete, final and exclusive understanding and agreement of the Parties and cancels and supersedes any and all prior negotiations, correspondence, understandings and agreements, whether oral or written, between the Parties respecting the subject matter hereof and thereof. In the event of any conflict between the terms of this Agreement and either a Development Plan or Development Budget, this Agreement shall control.

11.16. Counterparts. This Agreement may be executed in any number of counterparts and by facsimile signature, each of which counterparts, when so executed and delivered, will be deemed to be an original, and all of which counterparts, taken together, will constitute one and the same instrument.

[Signature page follows.]

IN WITNESS WHEREOF, duly authorized representatives of the Parties have duly executed this Agreement to be effective as of the Effective Date.

VirTra Systems, Inc.

Modern Round, L.L.C.

By: /s/ Bob Ferris

By: Barry Monheit

Name: Bob Ferris

Name: Barry Monheit

Its: CEO

Its: CEO

ITEM 19A
ARTICLES OF INCORPORATION
OF
VIRTRA, INC.

That the undersigned, being at least eighteen (18) years of age and acting as the incorporator of the Corporation hereby being formed under and pursuant to the laws of the State of Nevada, §78.030 of the Nevada Revised Statutes, does hereby certify that:

ARTICLE I - NAME

The name of the corporation is VIRTRA, INC. (the "Corporation").

ARTICLE II - PURPOSE

The Corporation is organized for the purpose of engaging in any business, trade or activity which may be lawfully conducted or permitted by a corporation organized under Chapter 78 of the Nevada Revised Statutes ("NRS"). The Corporation also shall have the authority to engage in any and all such activities as are incidental or conducive to the attainment of the purpose or purposes of this Corporation.

ARTICLE III - DURATION

The duration of the Corporation's existence shall be perpetual.

ARTICLE IV - CAPITAL STOCK

Section 1. Authorized Capital Stock. The aggregate number of shares which the Corporation shall have the authority to issue is 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 \$0.005 per share, which may, at the sole discretion of the Board of Directors be issued in one or more series (the "Preferred Stock").

Section 2. Common Stock. The powers, preferences, and rights and the qualifications, limitations, and restrictions of the Common Stock, the Class A Common Stock and the Class B Common Stock are as follows:

(a) **Voting Rights.** Except as otherwise required by the NRS 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.

(b) *Dividends*. Subject to any other provisions of these Articles of Incorporation, as it may be amended from time to time, holders of shares of Common Stock, Class A Common Stock and Class B Common Stock shall be entitled to receive ratably, in proportion to the number of shares held by them, such dividends and other distributions in cash, stock, or property of the Corporation when, as, and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(c) *Liquidation, Dissolution, etc.* In the event of any liquidation, dissolution, or winding up (either voluntary or involuntary) of the Corporation, after payments to creditors of the Corporation that may at the time be outstanding and subject to the rights of any holders of Preferred Stock that may then be outstanding, the holders of shares of Common Stock, Class A Common Stock and Class B Common Stock shall be entitled to receive all remaining assets and funds of the Corporation available for distribution, ratably in proportion to the number of shares held by them.

(d) *No Preemptive or Subscription Rights*. No holder of shares of Common Stock, Class A Common Stock or Class B Common Stock shall be entitled to preemptive or subscription rights.

Section 3. Preferred Stock. 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. For each series, the Board of directors shall determine, by resolution or resolutions adopted prior to the issuance of any shares thereof, the designations, preferences, limitations and relative or other rights thereof, including but not limited to the following relative rights and preferences, as to which there may be variations among different series:

(a) The rate and manner of payment of dividends, if any;

(b) Whether shares may be redeemed and, if so, the redemption price and the terms and conditions of redemption;

(c) The amount payable upon shares in the event of liquidation, dissolution or other winding-up of the Corporation;

(d) Sinking fund provisions, if any, for the redemption or purchase of shares;

(e) The terms and conditions, if any, on which shares may be converted or exchanged;

(f) Voting rights, if any; and

(g) Any other rights and preferences of such shares, to the full extent now or hereafter permitted by the laws of the State of Nevada.

The Board of Directors shall have the sole authority to determine the number of shares that will comprise each series.

Section 4. Consideration for Shares. The Common Stock, the Class A Common Stock, the Class B Common Stock and the Preferred Stock shall be issued for such consideration, as shall be fixed from time to time by the Board of Directors. In the absence of fraud, the judgment of the Board of Directors as to the value of any property or services received in full or partial payment for such shares of stock shall be conclusive. When shares are issued upon payment of the consideration fixed by the Board of Directors, such shares shall be taken to be fully paid stock and shall be non-assessable. The Articles of Incorporation shall not be amended in this particular.

Section 5. Stock Rights and Options. The Corporation shall have the power to create and issue rights, warrants, or options entitling the holders thereof to purchase from the Corporation any shares of its capital stock of any class or classes, upon such terms and conditions and at such times and prices as the Board of Directors may provide, which terms and conditions shall be incorporated in an instrument or instruments evidencing such rights. In

the absence of fraud, the judgment of the Directors as to the adequacy of consideration for the issuance of such rights or options and the sufficiency thereof shall be conclusive. Prior to the issuance of any shares of a series, but after adoption by the Board of Directors of the resolution establishing such series, the appropriate officers of the Corporation shall file such documents with the State of Nevada as may be required by law.

ARTICLE V - NO PREEMPTIVE RIGHTS

No preemptive rights to acquire additional securities issued by the Corporation shall exist with respect to shares of stock or securities convertible into shares of stock of the Corporation, except to the extent otherwise provided by contract.

ARTICLE VI - NO CUMULATIVE VOTING

At each election for directors, every stockholder entitled to vote at such election has the right to vote in person or by proxy the number of shares held by such stockholder for as many persons as there are directors to be elected. No cumulative voting for directors, however, shall be permitted.

ARTICLE VII - BOARD OF DIRECTORS

The business and affairs of the Corporation shall be managed under the direction of a Board of Directors which shall consist of not less than one (1) person. The manner of election and qualifications shall be as provided in the Bylaws of the Corporation. For the conduct of the affairs of the Corporation, and for the future definition, limitation, and regulation of the powers of the Corporation and its directors and stockholders, it is further provided:

Section 1. Size of Board. The initial number of the Board of Directors shall be three (3). Thereafter, the number of directors shall be as provided in the Bylaws of the Corporation. The exact number of directors shall be fixed from time to time by the Board of Directors pursuant to resolution adopted by a majority of the full Board of Directors. Directors need not be stockholders.

Section 2. Powers of Board. In furtherance and not in limitation of the powers conferred by the laws of the State of Nevada, the Board of Directors is expressly authorized and empowered:

- (a) To make, alter, amend, and repeal the Bylaws subject to the power of the stockholders to alter or repeal the Bylaws made by the Board of Directors;
- (b) Subject to the applicable provisions of the Bylaws then in effect, to determine, from time to time, whether and to what extent, and at what times and places, and under what conditions and regulations, the accounts and books of the corporation, or any of them, shall be open to stockholder inspection. No stockholder shall have any right to inspect any of the accounts, books or documents of the Corporation, except as permitted by law, unless and until authorized to do so by resolution of the Board of Directors or of the stockholders of the Corporation;
- (c) To authorize and issue, without stockholder consent, obligations of the Corporation, secured and unsecured, under such terms and conditions as the Board, in its sole discretion, may determine, and to pledge or mortgage, as security therefore, any real or personal property of the corporation, including after-acquired property;
- (d) To determine whether any and, if so, what part of the earned surplus of the Corporation shall be paid in dividends to the stockholders, and to direct and determine other use and disposition of any such earned surplus;
- (e) To fix, from time to time, the amount of the profits of the corporation to be reserved as working capital or for any other lawful purpose;
- (f) To establish bonus, profit-sharing, stock option, or other types of incentive compensation plans for the employees, including officers and directors, of the Corporation, and to fix the amount of profits to be shared or distributed, and to determine the persons to participate in any such plans and the amount of their respective participations.

(g) To designate, by resolution or resolutions passed by a majority of the whole Board, one or more committees, each consisting of two or more directors, which, to the extent permitted by law and authorized by the resolution or the Bylaws, shall have and may exercise the powers of the Board;

(h) To provide for the reasonable compensation of its own members by Bylaw, and to fix the terms and conditions upon which such compensation will be paid; and

(i) In addition to the powers and authority hereinbefore, or by statute, expressly conferred upon it, the Board of Directors may exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the laws of the State of Nevada, of these Articles of Incorporation, and of the Bylaws of the Corporation.

Section 3. Interested Directors. No contract or transaction between this Corporation and any of its directors, or between this Corporation and any other corporation, firm, association, or other legal entity shall be invalidated by reason of the fact that the director of the Corporation has a direct or indirect interest, pecuniary or otherwise, in such corporation, firm, association, or legal entity, or because the interested director was present at the meeting of the Board of Directors which acted upon or in reference to such contract or transaction, or because he participated in such action, provided that: (1) the interest of each such director shall have been disclosed to or known by the Board and a disinterested majority of the Board shall have, nonetheless, ratified and approved such contract or transaction (such interested director or directors may be counted in determining whether a quorum is present for the meeting at which such ratification or approval is given); or (2) the conditions of NRS § 78.140 are met.

Section 4. Name and Address. The name and post office address of the first Board of Directors which shall consist of three (3) persons who shall hold office until his successors are duly elected and qualified, are as follows:

NAME	ADDRESS
Robert Ferris	7970 S. Kyrene Road Tempe, Arizona 85284
Matthew Burlend	7970 S. Kyrene Road Tempe, Arizona 85284
Jeffrey Brown	7970 S. Kyrene Road Tempe, Arizona 85284

ARTICLE VIII - BYLAWS

The Board of Directors shall have the power to adopt, amend or repeal the Bylaws or adopt new Bylaws. Nothing herein shall deny the concurrent power of the stockholders to adopt, alter, amend or repeal the Bylaws.

ARTICLE IX - PLACE OF MEETING; CORPORATE BOOKS

Subject to the laws of the State of Nevada, the stockholders and the directors shall have power to hold their meetings, and the directors shall have power to have an office or offices and to maintain the books of the Corporation outside the State of Nevada, at such place or places as may from time to time be designated in the Bylaws or by appropriate resolution.

ARTICLE X - AMENDMENT OF ARTICLES

The provisions of these Articles of Incorporation may be amended, altered or repealed from time to time to the extent and in the manner prescribed by the laws of the State of Nevada, and additional provisions authorized by such laws as are then in force may be added. All rights herein conferred on the directors, officers and stockholders are granted subject to this reservation.

ARTICLE XI - LIMITATION OF DIRECTORS' LIABILITY

A director shall have no liability to the Corporation or its stockholders for monetary damages for conduct as a director, except for acts or omissions that involve intentional misconduct by the director, or a knowing violation of law by the director, or for conduct violating NRS 78.138(7), or for any transaction from which the director will personally receive a benefit in money, property or services to which the director is not legally entitled. If NRS is hereafter amended to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director shall be eliminated or limited to the full extent permitted by NRS as so amended. Any repeal or modification of this Article shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification for or with respect to an act or omission of such director occurring prior to such repeal or modification.

ARTICLE XII - INDEMNIFICATION

Section 1. Right to Indemnification. Each person (including here and hereinafter, the heirs, executors, administrators or estate of such person) (1) who is or was a director or officer of the Corporation or who is or was serving at the request of the Corporation in the position of a director, officer, trustee, partner, agent or employee of another corporation, partnership, joint venture, trust or other enterprise, or (2) who is or was an agent or employee (other than an officer) of the Corporation and as to whom the Corporation has agreed to grant such indemnity, shall be indemnified by the Corporation as of right to the fullest extent permitted or authorized by current or future legislation or by current or future judicial or administrative decision (but, in the case of any future legislation or decision, only to the extent that it permits the Corporation to provide broader indemnification rights than permitted prior to the legislation or decision), against all fines, liabilities, settlements, costs and expenses, including attorneys' fees, asserted against him or incurred by him in his capacity as such director, officer, trustee, partner, agent or employee, or arising out of his status as such director, officer, trustee, partner, agent or employee. The foregoing right of indemnification shall not be exclusive of other rights to which those seeking indemnification may be entitled. The Corporation may maintain insurance, at its expense, to protect itself and any such person against any such fine, liability, cost or expense, including attorney's fees, whether or not the Corporation would have the legal power to directly indemnify him against such liability.

Section 2. Savings Clause. If this Article XII or any portion of it is invalidated on any ground by a court of competent jurisdiction, the Corporation shall nevertheless indemnify each director and officer of the Corporation to the fullest extent permitted by all portions of this Article VI that has not been invalidated and to the fullest extent permitted by law.

ARTICLE XIII – TRANSACTIONS WITH STOCKHOLDERS

Section 1. Control Share Acquisition Exemption. The Corporation elects not to be governed by the provisions of NRS §78.378 to NRS §78.3793, inclusive.

Section 2. Combinations with Interested Stockholders. The corporation elects not to be governed by the provisions of NRS §78.411 through NRS §78.444, inclusive.

ARTICLE XIV - INCORPORATOR

The name and address of the incorporator signing these Articles of Incorporation is:

NAME	ADDRESS
Robert Ferris	7970 S. Kyrene Road Tempe, Arizona 85284

ARTICLE XV – REGISTERED AGENT

The name and address of the registered agent for service of process is:

NAME	ADDRESS
Incorp Services	3773 Howard Hughes Pkwy · Suite 500s Las Vegas, NV 89169-6014

Effective Date. The effective date of these Articles of Incorporation shall be [_____, 2016].

SIGNATURE OF INCORPORATOR

I declare, to the best of my knowledge under penalty of perjury, that the information contained herein is correct and acknowledge that pursuant to NRS 239.330, it is a category C felony to knowingly offer any false or forged instrument for filing in the Office of the Secretary of State.

Dated: July [___], 2016.

VIRTRA, INC.

By: _____
Name: Robert Ferris
Title: Incorporator & Director

CERTIFICATE OF ACCEPTANCE OF APPOINTMENT OF REGISTERED AGENT

I hereby accept appointment as Registered Agent for the above named corporation.

Incorp Services

By: _____
On behalf of Registered Agent Entity

Date: _____

ITEM 19B

BY-LAWS
OF
VIRTRA, INC.



ARTICLE I

OFFICES

Section 1. PRINCIPAL OFFICES. The principal office of VirTra, Inc., a Nevada corporation (the “Corporation”) shall be in the City of Tempe, Maricopa County, State of Arizona. The registered agent shall be InCorp Services, Inc. located at 3773 Howard Hughes Parkway, South Tower, Suite 500, Las Vegas, NV 89169 or such other place as the Board of Directors of the Corporation (the “Board”) shall from time to time select.

Section 2. OTHER OFFICES. The Board may at any time establish branch or subordinate offices at any place or places where the Corporation is qualified to do business.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 1. PLACE OF MEETINGS. Meetings of stockholders of the Corporation (each, a “Stockholder” and collectively, the “Stockholders”) shall be held at any place within or without the State of Arizona designated by resolution of the Board. In the absence of any such designation, stockholders’ meetings shall be held at the principal executive office of the Corporation.

Section 2. ANNUAL MEETINGS. The annual meetings of stockholders shall be held at a date and time designated by resolution of the Board.

- (a) Nominations of persons for election to the Board and the proposal of business to be considered by Stockholders may be made at an annual meeting of Stockholders: (A) pursuant to the Corporation’s notice of meeting delivered pursuant to Section 4 of this Article II; (B) by or at the direction of the Chairman (defined below) or (C) by any Stockholder who is entitled to vote at the meeting on the election of directors or such business (as applicable) who complies with the notice procedures set forth in Sections 2(b) and who is a Stockholder of record at the time such notice is delivered to the Secretary. Except as otherwise required by applicable law, the foregoing clause (C) shall be the exclusive means for a Stockholder to make nominations or propose business at an annual meeting of Stockholders.
- (b) For nominations or other business to be properly brought before an annual meeting of Stockholders by a Stockholder pursuant to Section 2(a), (A) the Stockholder must give timely notice thereof in proper written form to the Secretary and (B) in the case of business other than nominations, such other business must otherwise be a proper matter for Stockholder action. To be timely, a Stockholder’s notice must be delivered to the Secretary at the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year’s annual

meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days, or delayed by more than 90 days, from such anniversary date, or if no annual meeting was held in the preceding year, notice by a Stockholder to be timely must be so delivered not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting and the 10th day following the day on which the Public Announcement (defined below) of the date of such meeting is first made by the Corporation. In no event shall the Public Announcement of an adjournment or postponement of an annual meeting commence a new time period for the giving of a Stockholder's notice as described in this Section 2(b).

- (c) In order to be in proper written form, such Stockholder's notice must include the following information and/or documents, as applicable: (A) the name and address of the Stockholder giving the notice, as they appear on the Corporation's books, and of the beneficial owner of stock of the Corporation, if any, on whose behalf such nomination or proposal of other business is made (such beneficial owner, the "Beneficial Owner"); (B) representations that, as of the date of delivery of such notice, such Stockholder is a holder of record of stock of the Corporation and is entitled to vote at such meeting and intends to appear in person or by proxy at such meeting to propose and vote for such nomination and any such other business; (C) as to each person whom the Stockholder proposes to nominate for election or re-election as a director (a "Stockholder Nominee"): (1) all information relating to such Stockholder Nominee that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934 (as amended from time to time, the "Exchange Act") or any successor provision thereto, including such Stockholder Nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected and to being named in the Corporation's proxy statement and form of proxy if the Corporation so determines, (2) a statement whether such Stockholder Nominee, if elected, intends to tender, promptly following such Stockholder Nominee's election or re-election, an irrevocable offer of resignation effective upon such Stockholder Nominee's failure to receive the required vote for re-election at the next meeting at which such Stockholder Nominee would face re-election and upon acceptance of such resignation by the Board in accordance with the Corporation's Board Practice on Director Elections, as may be in effect from time to time and (3) such other information as may be reasonably requested by the Corporation; (D) as to any other business that the Stockholder proposes to bring before the meeting: (1) a brief description of such business, (2) the text of the proposal (including the text of any resolutions proposed for consideration and, if such business includes a proposal to amend these By-laws, the text of the proposed amendment) and (3) the reasons for conducting such business at the meeting; and (E) in all cases: (1) the name of each individual, firm, corporation, limited liability company, partnership, trust or other entity (including any successor thereto, a "Person") with whom the Stockholder, any Beneficial Owner, any Stockholder Nominee and the respective affiliates and associates (as defined under Regulation 12B under the Exchange Act or any successor provision thereto) of such Stockholder, Beneficial Owner and/or Stockholder Nominee (each of the foregoing, including, for the avoidance of doubt, the Stockholder, Beneficial Owner and/or Stockholder Nominee, a "Stockholder Group Member") either is acting in concert with respect to the Corporation or has any agreement, arrangement or understanding (whether written or oral) for the purpose of acquiring, holding, voting (except pursuant to a revocable proxy given to such Person in response to a public proxy solicitation made generally by such Person to all holders of common stock of the Corporation) or disposing of any capital stock of the Corporation or to cooperate in obtaining, changing or influencing the control of the Corporation (except independent financial, legal and other advisors acting in the ordinary course of their respective businesses) (each Person described in this clause (1), including each Stockholder Group Member, a "Covered Person"), and a description, and, if in writing, a copy, of each such agreement, arrangement or understanding, (2) a list of the class, series and number of shares of capital stock of the Corporation that are beneficially owned or owned of record by each Covered Person, together with documentary evidence of such record or beneficial ownership, (3) a list of all derivative securities (as defined in Rule 16a-1 under the Exchange Act or any successor provision thereto) and other derivatives or similar arrangements to which any Covered Person is a counterparty and relating to any shares of capital stock of the Corporation, a description of all economic terms of all such derivative securities and other derivatives or similar arrangements and copies of all agreements and other documents relating to each of such derivative securities and other derivatives or similar arrangements, (4) a list of all transactions by any Covered Person involving any shares of capital stock of the Corporation or any derivative securities (as defined under Rule 16a-1 under the Exchange Act or any successor provision thereto) or other

derivatives or similar arrangements related to any shares of capital stock of the Corporation entered into or consummated within 60 days prior to the date of such notice, (5) details of all other material interests of each Covered Person in such nomination or proposal or shares of capital stock of the Corporation (including any rights to dividends or performance-related fees based on any increase or decrease in the value of such shares of capital stock) and (6) a representation as to whether any Covered Person intends or is part of a group which intends to deliver a proxy statement and/or form of proxy to, in the case of a nomination or nominations, at least the percentage of the Corporation's outstanding capital stock reasonably believed by the Covered Person to be sufficient to elect the nominee or nominees proposed to be nominated by the Stockholder and, in the case of a proposal, holders of at least the percentage of the Corporation's outstanding capital stock required to elect any Stockholder Nominee or approve such proposal (such representation, the "Solicitation Representation"). A notice delivered by or on behalf of any Stockholder under this Section 2(c) shall be deemed to be not in compliance with this Section 2(c) and not be effective if: (x) such notice does not include all of the information, documents and representations required under this Section 2(c), (y) after delivery of such notice, any information or document required to be included in such notice changes or is amended, modified or supplemented, as applicable, prior to the date of the relevant meeting and such information and/or document is not delivered to the Corporation by way of a further written notice as promptly as practicable following the event causing such change in information or amendment, modification or supplement, as applicable, and in any case where such event occurs within 45 days of the date of the relevant meeting, within five business days after such event or (z) any Covered Person does not act in accordance with the representation set forth in the Solicitation Representation; provided, however, that the Board shall have the authority to waive any such non-compliance if the Board determines that such action is appropriate in the exercise of its fiduciary duties.

- (d) Notwithstanding the second sentence of Section 2 of Article III, in the event that the number of directors to be elected to the Board is increased effective at the next annual meeting and there is no Public Announcement specifying the size of the increased Board made by the Corporation at least 100 days prior to the first anniversary of the preceding year's annual meeting, a Stockholder's notice required by this Section 2 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it is delivered to the Secretary at the principal executive offices of the Corporation not later than the close of business on the 10th day following the day on which such Public Announcement is first made by the Corporation and such notice otherwise complies with the requirements of this Section 2.

Section 3. SPECIAL MEETINGS.

- (a) Subject to the rights of the holders of any series of preferred stock of the Corporation (the "Preferred Stock") with respect to special meetings of the holders thereof, special meetings of Stockholders may be called at any time only by: (i) the Board, (ii) the Chairman of the Board (the "Chairman"), (iii) the Chief Executive Officer, (iv) the President or (v) Stockholders following receipt by the Secretary of the Corporation (the "Secretary") of a written request for a special meeting in proper form (a "Special Meeting Request") from the record holders of shares of common stock of the Corporation representing at least 15% of the outstanding common stock of the Corporation if such Special Meeting Request complies with the requirements set forth in this Section 3. The Board shall determine whether all such requirements have been satisfied and such determination shall be binding on the Corporation and the Stockholders; provided, however, that the Board shall have the authority to waive any such non-compliance if the Board determines that such action is appropriate in the exercise of its fiduciary duties. If a Special Meeting Request complies with this Section 3, the Board shall determine the date and time of a special meeting requested in such Special Meeting Request; provided, however, that: (i) the date of such special meeting shall not be later than 120 days following receipt of the Special Meeting Request and (ii) the Board may (in lieu of calling the special meeting requested in such Special Meeting Request) present an identical or substantially similar item (a "Similar Item", and the nomination of directors for election shall be deemed a "Similar Item" with respect to all items of business involving the election or removal of directors) for Stockholder approval at any other meeting of Stockholders that is held not more than 120 calendar days after the date the Secretary receives such Special Meeting Request.

- (b) For a Special Meeting Request to comply with this Section 3, such Special Meeting Request must be delivered to the Secretary at the principal executive offices of the Corporation in proper written form. In order to be in proper written form, such Special Meeting Request must include all the information and/or documents, as applicable, required pursuant to Section 2(b) and 2(c) of this Article II.
- (c) A Special Meeting Request shall not be valid if: (i) the Special Meeting Request relates to an item of business that is not a proper subject for stockholder action under applicable law, (ii) a Similar Item was presented at any meeting of Stockholders held within 120 days prior to receipt by the Corporation of such Special Meeting Request, (iii) a Similar Item is included in the Corporation's notice as an item of business to be brought before a meeting of Stockholders that has been called but not yet held or (iv) the Special Meeting Request is received by the Corporation during the period commencing 90 days prior to the first anniversary of the preceding year's annual meeting and ending on the date of that year's annual meeting of Stockholders.
- (d) The Stockholders who submitted a Special Meeting Request may revoke a Special Meeting Request by written revocation delivered to the Secretary at any time prior to the special meeting; provided, however, that the Board shall have the discretion to determine whether or not to proceed with the special meeting. Notwithstanding the foregoing provisions of this Section 3, and except as otherwise required by applicable law, if all of the Stockholders who submitted the Special Meeting Request for a special meeting of Stockholders do not appear or send a representative to present and vote for the nominations or business submitted by the Stockholders for consideration at such special meeting, then the Corporation need not present such nominations or business for a vote at such meeting notwithstanding that proxies in respect of such nomination or business may have been received by the Corporation.
- (e) Only such business shall be conducted at a special meeting of Stockholders as shall be brought before a special meeting: (i) pursuant to the Corporation's notice of meeting delivered pursuant to Section 4 of this Article II or (ii) by or at the direction of the Chairman. Except as set forth in this Section 3 or otherwise required by applicable law, Stockholders shall have no right to bring business at a special meeting of the Stockholders. At a special meeting of Stockholders at which Directors are to be elected pursuant to the Corporation's notice of meeting, nominations of persons for election to the Board may be made: (A) by or at the direction of the Board or (B) by any Stockholder who is entitled to vote at the meeting on the election of Directors, who complies with the notice procedures set forth in this Section 3(e) and who is a Stockholder of record at the time such notice is delivered to the Secretary. In the event the Corporation calls a special meeting of Stockholders for the purpose of electing directors to the Board, any Stockholder may nominate such number of persons for election to such position(s) as are specified in the Corporation's notice of meeting, if the Stockholder's notice, containing all the information, documents and representations required under Section 2 is delivered to the Secretary at the principal executive offices of the Corporation not earlier than the 120th day prior to such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting and the 10th day following the day on which Public Announcement of the date of the special meeting and of the nominees proposed by the Board to be elected at such meeting is first made by the Corporation. Except as otherwise required by applicable law, the foregoing clause (B) shall be the exclusive means for stockholders to make nominations at special meetings of stockholders. A notice delivered by or on behalf of any Stockholder under this Section 3(e) shall be deemed to be not in compliance with this Section 3(e) and not be effective if: (x) such notice does not include all of the information, documents and representations required under this Section 3(e), (y) after delivery of such notice, any information or document required to be included in such notice changes or is amended, modified or supplemented, as applicable, prior to the date of the relevant meeting and such information and/or document is not delivered to the Corporation by way of a further written notice as promptly as practicable following the event causing such change in information or amendment, modification or supplement, as applicable, and in any case where such event occurs within 45 days of the date of the relevant meeting, within five business days after such event or (z) any Covered Person does not act in accordance with the representation set forth in the Solicitation Representation; provided, however, that the Board shall have the authority to waive any such non-compliance if the Board determines that such action is appropriate in the exercise of its fiduciary duties. In no event shall the Public Announcement of an adjournment or postponement of a special meeting commence a new time period for the giving of a Stockholder's notice as described above.

- (f) For purposes of these By-laws, “Public Announcement” shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Exchange Act or any document delivered to all Stockholders (including any quarterly income statement).

Section 4. NOTICE OF STOCKHOLDERS’ MEETINGS. Except as otherwise provided by applicable law, notice stating: (i) the place of the meeting, if any, (ii) the date and time of the meeting, (iii) the means of remote communications, if any, by which Stockholders and proxyholders may be deemed to be present in person and vote at the meeting, (iv) the record date for determining the Stockholders entitled to vote at the meeting, if such date is different from the record date for determining Stockholders entitled to notice of the meeting and (v) in the case of special meetings, the purpose or purposes for which such special meeting is called, shall be prepared and sent by the Corporation not less than 10 days nor more than 60 days before the date of the meeting to each Stockholder of record entitled to vote at such meeting. Such further notice shall be given as may be required by applicable law.

Section 5. MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE. (a) Notice of any meeting of stockholders shall be given either personally or by first-class mail or telegraphic or other written communication, charges prepaid, addressed to the stockholder at the address of such stockholder appearing on the books of the Corporation or given by the stockholder to the Corporation for the purpose of notice. With the consent of any shareholder thereto, notice may also be given by any means of electronic delivery as may from time to time be utilized by the Corporation. If no such address appears on the Corporation's books or is given, notice shall be deemed to have been given if sent by mail or telegram to the Corporation's principal executive office, or if published at least once in a newspaper of general circulation in the county where this office is located. Personal delivery of any such notice to any Officer of a corporation or association or to any member of a partnership shall constitute delivery of such notice to such corporation, association or partnership. Notice shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by telegram or other means of written communication. In the event of the transfer of stock after delivery or mailing of the notice of and prior to the holding of the meeting, it shall not be necessary to deliver or mail notice of the meeting to the transferee.

(b) If any notice addressed to a stockholder at the address of such stockholder appearing on the books of the Corporation is returned to the Corporation by the United States Postal Service marked to indicate that the United States Postal Service is unable to deliver the notice to the stockholder at such address, all future notices or reports shall be deemed to have been duly given without further mailing if the same shall be available to the stockholder upon written demand of the stockholder at the principal executive office of the Corporation for a period of one year from the date of the giving of such notice.

(c) An affidavit of the mailing or other means of giving any notice of any stockholders' meeting shall be executed by the Secretary, assistant Secretary or any transfer agent of the Corporation giving such notice, and shall be filed and maintained in the minute book of the Corporation.

(d) Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

Section 6. QUORUM. Except as otherwise provided by applicable law, the Articles of Incorporation of the Corporation (as amended from time to time, the “Articles”) or these By-laws, the holders of one-third (33 1/3%) of the voting power of the outstanding shares of capital stock of the Corporation entitled to vote generally on the business properly brought before the meeting in accordance with these By-laws (collectively, the “Voting Stock”), represented in person or by proxy, shall constitute a quorum at a meeting of Stockholders; provided, however, that if specified business is to be voted on by a class of the Corporation’s capital stock or a series of the Corporation’s capital stock voting as a class, the holders of one-third (33 1/3%) of the voting power of the shares of such class or series, represented in person or by proxy, shall constitute a quorum for the transaction of such specified business. The Stockholders present at a duly organized meeting may continue to transact any business for which a quorum existed at the commencement of such meeting until adjournment, notwithstanding the withdrawal of enough Stockholders to leave less than a quorum.

Section 7. ADJOURNED MEETING AND NOTICE THEREOF. (a) Any stockholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the

majority of the shares represented at such meeting, either in person or by proxy, but in the absence of a quorum, no other business may be transacted at such meeting.

(b) When any meeting of stockholders, either annual or special, is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at a meeting at which the adjournment is taken. At any adjourned meeting the Corporation may transact any business which might have been transacted at the original meeting.

Section 8. VOTING.

- (a) Unless a record date set for voting purposes be fixed as provided in Section 1 of Article VII of these bylaws, only persons in whose names shares entitled to vote stand on the stock records of the Corporation at the close of business on the business day next preceding the day on which notice is given (or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held) shall be entitled to vote at such meeting. Any stockholder entitled to vote on any matter other than elections of Directors or Officers, may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or vote them against the proposal, but, if the stockholder fails to specify the number of shares such stockholder is voting affirmatively, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares such stockholder is entitled to vote. Such vote may be by voice vote or by ballot; provided, however, that all elections for Directors must be by ballot upon demand by a stockholder at any election and before the voting begins.
- (b) When a quorum is present or represented at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Articles a different vote is required in which case such express provision shall govern and control the decision of such question. Every stockholder of record of the Corporation shall be entitled at each meeting of stockholders to one vote for each share of stock standing in his name on the books of the Corporation.
- (c) Except as otherwise required by applicable law, the Articles, these By-laws or any applicable rule of a national securities exchange, all matters submitted to Stockholders at any meeting shall be decided by the affirmative vote of a majority of the voting power of the shares of capital stock of the Corporation present in person or represented by proxy at the meeting and voting thereon, and where a separate vote by class is required, a majority of the voting power of the shares of that class present in person or represented by proxy at the meeting and voting thereon.
- (d) The vote on any matter, including the election of Directors, need not be by written ballot. Any written ballot shall be signed by the Stockholder voting, or by such Stockholder's proxy, and shall state the number of shares voted.

Section 9. WAIVER OF NOTICE OR CONSENT BY ABSENT STOCKHOLDERS. (a) The transactions at any meeting of stockholders, either annual or special, however called and noticed, and wherever held, shall be as valid as though had at a meeting duly held after regular call and notice, if a quorum be present either in person or by proxy, and if, either before or after the meeting, each person entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to a holding of the meeting, or an approval of the minutes thereof. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any regular or special meeting of stockholders, except that if action is taken or proposed to be taken for approval of any of those matters specified in Section 4 of this Article II, the waiver of notice or consent shall state the general nature of such proposal. All such waivers, consents or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

(b) Attendance of a person at a meeting shall also constitute a waiver of notice of such meeting, except when the person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened, and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice if such objection is expressly made at the meeting.

Section 10. STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

- (a) Except as otherwise provided in the Articles, any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the Corporation by delivery to its registered office in Nevada, its principal place of business, or an Officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders are recorded.
- (b) Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within 60 days of the date the earliest dated consent is delivered to the Corporation, a written consent or consents signed by a sufficient number of holders to take action are delivered to the Corporation in the manner prescribed in the paragraph (a), above. An electronic transmission consenting to an action to be taken and transmitted by a stockholder or proxyholder, or by a person or persons authorized to act for a stockholder or proxyholder, shall be deemed to be written, signed and dated for the purposes of this Section 10 to the extent permitted by law. Any such consent shall be delivered in accordance with the Nevada Revised Statutes. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing or electronic transmission and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date of such meeting had been the date that written consents signed by a sufficient number of stockholders or members to take the action were delivered to the Corporation as provided by law.
- (c) Any copy, facsimile or other reliable reproduction of consent in writing may be substituted or used in lieu of the original writing for any and all purposes for which the original writing could be used, provided that such copy, facsimile or other reproduction shall be a complete reproduction of the entire original writing. Any action which may be taken at any annual or special meeting of stockholders may be taken without a meeting and without prior notice, if a consent in writing, setting forth the action so taken, is signed by the holders of outstanding shares having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. All such consents shall be filed with the Secretary of the Corporation and shall be maintained in the corporate records. Any stockholder giving a written consent, or the stockholder's proxy holders, or a transferee of the shares of a personal representative of the stockholder or their respective proxy holders, may revoke the consent by a writing received by the Secretary of the Corporation prior to the time that written consents of the number of shares required to authorize the proposed action have been filed with the Secretary.

Section 11. PROXIES. Every person entitled to vote for Directors or on any other matter shall have the right to do so either in person or by one or more agents authorized by a written proxy signed by the person and filed with the Secretary of the Corporation. A proxy shall be deemed signed if the stockholder's name is placed on the proxy (whether by manual signature, typewriting, telegraphic transmission or otherwise) by the stockholder or the stockholder's attorney in fact. A validly executed proxy which does not state that it is irrevocable shall continue in full force and effect unless revoked by the person executing it, prior to the vote pursuant thereto, by a writing delivered to the Corporation stating that the proxy is revoked or by a subsequent proxy executed by, or attendance at the meeting and voting in person by the person executing the proxy; provided, however, that no such proxy shall be valid after the expiration of six (6) months from the date of such proxy, unless coupled with an interest, or unless the person executing it specifies therein the length of time for which it is to continue in force, which in no case shall exceed seven (7) years from the date of its execution. Subject to the above and the provisions of NRS §78.355, any proxy duly executed is not revoked and continues in full force and effect until an instrument revoking it or a duly executed proxy bearing a later date is filed with the Secretary of the Corporation.

Section 12. INSPECTORS OF ELECTION. Before any meeting of stockholders, the Board may appoint any persons other than nominees for office to act as inspectors of election at the meeting or its

adjournment. If no inspectors of election are appointed, the chairman of the meeting may, and on the request of any stockholder or his proxy shall, appoint inspectors of election at the meeting. The number of inspectors shall be either one (1) or three (3). If inspectors are appointed at a meeting on the request of one or more stockholders or proxies, the holders of a majority of shares or their proxies present at the meeting shall determine whether one (1) or three (3) inspectors are to be appointed. If any person appointed as inspector fails to appear or fails or refuses to act, the vacancy may be filled by appointment by the Board before the meeting, or by the chairman at the meeting.

The duties of these inspectors shall be as follows:

- (a) Determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;
- (b) Receive votes, ballots, or consents;
- (c) Hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (d) Count and tabulate all votes or consents;
- (e) Determine the election result; and
- (f) Do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

ARTICLE III

BOARD OF DIRECTORS

Section 1. **POWERS.** The business and affairs of the Corporation shall be managed by or under the direction of the Board, subject to the provisions of the Nevada Revised Statutes (the “**NRS**”) and any limitations in the Articles and these bylaws relating to action required to be approved by the stockholders or by the outstanding shares.

Without prejudice to such general powers, but subject to the same limitations, it is hereby expressly declared that the Board shall have the power and authority to:

- (a) Select and remove all Officers, agents, and employees of the Corporation, prescribe such powers and duties for them as may not be inconsistent with law, with the Articles or these bylaws, fix their compensation, and require from them security for faithful service.
- (b) Change the principal executive office or the principal business office from one location to another; cause the Corporation to be qualified to do business in any other state, territory, dependency, or foreign country and conduct business within or without the State; designate any place within or without the State for the holding of any stockholders' meeting, or meetings, including annual meetings; adopt, make and use a corporate seal, and prescribe the forms of certificates of stock, and alter the form of such seal and of such certificates from time to time as in their judgment they may deem best, provided that such forms shall at all times comply with the provisions of law.
- (c) Authorize the issuance of shares of stock of the Corporation from time to time, upon such terms as may be lawful, in consideration of money paid, labor done or services actually rendered, debts or securities cancelled, tangible or intangible property actually received.
- (d) Borrow money and incur indebtedness for the purpose of the Corporation, and cause to be executed and delivered therefor, in the corporate name, promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations, or other evidences of debt and securities therefor.

Section 2. **NUMBER OF DIRECTORS.** The authorized number of Directors shall be no fewer than one (1) nor more than eleven (11). The exact number of authorized Directors shall be set by resolution of the Board, within the limits specified above. The maximum or minimum number of Directors cannot be changed, nor can a

fixed number be substituted for the maximum and minimum numbers, except by a duly adopted amendment to this bylaw duly approved by a majority of the outstanding shares entitled to vote. No decrease in the number of Directors constituting the Board shall shorten the term of any incumbent Director.

Section 3. QUALIFICATION, ELECTION AND TERM OF OFFICE OF DIRECTORS. Directors shall be elected at each annual meeting of the stockholders to hold office until the next annual meeting, but if any such annual meeting is not held or the Directors are not elected at any annual meeting, the Directors may be elected at any special meeting of stockholders held for that purpose, or at the next annual meeting of stockholders held thereafter. Each Director, including a Director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until a successor has been elected and qualified or until his earlier death, resignation, disqualification, removal or his office has been declared vacant in the manner provided in these bylaws. Directors need not be stockholders. Each Director shall be at least 21 years of age.

Section 4. RESIGNATION AND REMOVAL OF DIRECTORS. Any Director may resign effective upon giving written notice to the chairman of the board, the President, the Secretary or the Board of the Corporation, unless the notice specifies a later time for the effectiveness of such resignation, in which case such resignation shall be effective at the time specified. Unless such resignation specifies otherwise, its acceptance by the Corporation shall not be necessary to make it effective. The Board may declare vacant the office of a Director who has been declared of unsound mind by an order of a court or convicted of a felony. Any or all of the Directors may be removed without cause if such removal is approved by the affirmative vote of a majority of the outstanding shares entitled to vote. No reduction of the authorized number of Directors shall have the effect of removing any Director before his term of office expires.

Section 5. VACANCIES. Subject to the rights of the holders of any series of Preferred Stock, any vacancies in the Board shall be filled by a majority of the remaining Directors, though less than a quorum, or by a sole remaining Director and not by the stockholders. Each Director so elected shall hold office until the next annual meeting of the stockholders and until a successor has been elected and qualified.

A vacancy in the Board exists as to any authorized position of Directors which is not then filled by a duly elected Director, whether caused by death, resignation, disqualification or removal from office.

Section 6. PLACE OF MEETINGS. Regular meetings of the Board shall be held at any place within or without the State of Arizona that has been designated from time to time by resolution of the Board. In the absence of such designation, regular meetings shall be held at the principal executive office of the Corporation. Special meetings of the Board shall be held at any place within or without the State of Arizona that has been designated in the notice of the meeting or, if not stated in the notice or there is no notice, at the principal executive office of the Corporation. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all Directors participating in such meeting can hear one another, and all such Directors shall be deemed to be present in person at such meeting.

Section 7. ANNUAL MEETINGS. Immediately following each annual meeting of stockholders, the Board shall hold a regular meeting for the purpose of transaction of other business. Notice of this meeting shall not be required.

Section 8. OTHER REGULAR MEETINGS. Other regular meetings of the Board shall be held without call at such time as shall from time to time be fixed by the Board. Such regular meetings may be held without notice, provided the notice of any change in the time of any such meetings shall be given to all of the Directors. Notice of a change in the determination of the time shall be given to each Director in the same manner as notice for special meetings of the Board.

Section 9. SPECIAL MEETINGS. Special meetings of the board of Directors for any purpose or purposes may be called at any time by the chairman of the board or the President or any vice President or the Secretary or any two Directors.

Notice of the time and place of special meetings shall be delivered personally or by telephone to each Director or sent by first-class mail or facsimile, charges prepaid, addressed to each Director at his or her address as it is shown upon the records of the Corporation. In case such notice is mailed, it shall be deposited in the United States mail at least four (4) days prior to the time of the holding of the meeting. In case such notice is delivered

personally, or by telephone or facsimile, it shall be delivered personally or by telephone or facsimile at least forty-eight (48) hours prior to the time of the holding of the meeting. Any oral notice given personally or by telephone may be communicated to either the Director or to a person at the office of the Director who the person giving the notice has reason to believe will promptly communicate it to the Director. The notice need not specify the purpose of the meeting nor the place if the meeting is to be held at the principal executive office of the Corporation.

Section 10. QUORUM. Except as otherwise provided by applicable law, the Articles or these By-laws, a majority of the authorized number of Directors shall constitute a quorum for the transaction of business, except to adjourn as hereinafter provided. Every act or decision done or made by a majority of the Directors present at a meeting duly held at which a quorum is present shall be regarded as the act of the Board, subject to the provisions of NRS §78.140 (approval of contracts or transactions in which a Director has a direct or indirect material financial interest), §78.125 (appointment of committees) and §78.751 (indemnification of Directors). A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of Directors, if any action taken is approved by at least a majority of the required quorum for such meeting.

Section 11. WAIVER OF NOTICE. The transactions of any meeting of the Board, however called and noticed or wherever held, shall be as valid as though had at a meeting duly held after regular call and notice if a quorum be present and if, either before or after the meeting, each of the Directors not present signs a written waiver of notice, a consent to holding the meeting or an approval of the minutes thereof. The waiver of notice of consent need not specify the purpose of the meeting. All such waivers, consents and approvals shall be filed with the corporate records or made a part of the minutes of the meeting. Notice of a meeting shall also be deemed given to any Director who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

Section 12. ADJOURNMENT. A majority of the Directors present, whether or not constituting a quorum, may adjourn any meeting to another time and place.

Section 13. NOTICE OF ADJOURNMENT. Notice of the time and place of holding an adjourned meeting need not be given, unless the meeting is adjourned for more than twenty-four (24) hours, in which case notice of such time and place shall be given prior to the time of the adjourned meeting, in the manner specified in Section 8 of this Article III, to the Directors who were not present at the time of the adjournment.

Section 14. ACTION WITHOUT MEETING. Any action required or permitted to be taken at any meeting of the Board or any committee thereof may be taken without a meeting if all of the members of the Board or of any such committee, as the case may be, consent thereto in writing, by electronic transmission or transmissions, or as otherwise permitted by applicable law and, if required by applicable law, the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or of such committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

Section 15. FEES AND COMPENSATION OF DIRECTORS. Unless otherwise restricted by the Articles, the Board shall have the authority to fix the compensation of the Directors. The Directors may be paid their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board or paid a stated salary or paid other compensation as Director. No such payment shall preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed compensation for attending committee meetings.

ARTICLE IV

COMMITTEES

Section 1. COMMITTEES OF DIRECTORS. The Board may, by resolution adopted by a majority of the authorized number of Directors, designate one or more committees, each consisting of one or more Directors, with such functions, duties and powers as the Board shall by resolution prescribe, including, without limitation, a nominating and governance committee, an audit committee and a compensation committee. The Board may designate one or more Directors as alternate members of any committees, who may replace any absent member at any meeting of the committee. Any such committee, to the extent provided in the resolution of the Board, shall have all the authority of the Board, except with regard to:

- (a) the approval of any action which, under the NRS, also requires stockholders' approval or approval of the outstanding shares;
- (b) the filing of vacancies on the board of Directors or in any committees;
- (c) the fixing of compensation of the Directors for serving on the board or on any committee;
- (d) the amendment or repeal of bylaws or the adoption of new bylaws;
- (e) the amendment or repeal of any resolution of the Board which by its express terms is not so amendable or repealable;
- (f) a distribution to the stockholders of the corporation, except at a rate or in a periodic amount or within a price range determined by the Board; or
- (g) the appointment of any other committees of the Board or the members thereof.

Section 2. MEETINGS AND ACTION BY COMMITTEES. Meetings and action of committees shall be governed by, and held and taken in accordance with, the provisions of Article III, Sections 6 (place of meetings), 8 (regular meetings), 9 (special meetings), 10 (quorum), 11 (waiver of notice), 12 (adjournment), 13 (notice of adjournment) and 14 (action without meeting), with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members, except that the time or regular meetings of committees may be determined by resolutions of the Board and notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the government of any committee not inconsistent with the provisions of these bylaws. The committees shall keep regular minutes of their proceedings and report the same to the board when required.

ARTICLE V

OFFICERS

Section 1. OFFICERS. The Officers of the Corporation may consist of: a Chairman of the Board, a Chief Executive Officer, a President, a Chief Financial Officer, one or more Vice Presidents (including Assistant, Executive and Senior Vice Presidents), a Treasurer, a Secretary and such other Officers or agents with such titles and such duties as the Board may from time to time determine, each to have such authority, functions and duties as provided in these By-laws or as the Board may from time to time determine, as may be appointed in accordance with the provisions of Section 3 of this Article V. Any two or more offices may be held by the same person.

Section 2. ELECTION OF OFFICERS. The Officers of the Corporation, except such Officers as may be appointed in accordance with the provisions of Section 3 or Section 5 of this Article V, shall be elected by the Board, each to have such authority, functions and duties as provided in these By-laws or as the Board may from time to time determine, and each to hold office for such term as may be prescribed by the Board and until such person's successor shall have been chosen and qualified, or until such person's death or resignation, or until such person's removal in the manner hereinafter provided, and each shall serve at the pleasure of the board, subject to the rights, if any, of an Officer under any contract of employment. The Board at its first meeting after each annual meeting of stockholders shall choose a President, a vice President, a Secretary and a treasurer, none of whom need be a member of the board. The salaries of all Officers and agents of the Corporation shall be fixed by the Board.

Section 3. SUBORDINATE OFFICERS, ETC. The Board may appoint, and may empower the President to appoint, such other Officers as the business of the Corporation may require, each of whom shall hold office for such period, have such authority and perform such duties as are provided in the bylaws or as the Board may from time to time determine.

Section 4. REMOVAL AND RESIGNATION OF OFFICERS. The Officers of the Corporation shall hold office until their successors are chosen and qualify. Subject to the rights, if any, of an Officer under any contract of employment, any Officer may be removed, either with or without cause, by the Board, at any regular or

special meeting thereof, or, except in case of an Officer chosen by the Board, by any Officer upon whom such power or removal may be conferred by the Board.

Any Officer may resign at any time by giving written notice to the Corporation. Any such resignation shall take effect at the date of the receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Any such resignation is without prejudice to the rights, if any, of the Corporation under any contract to which the Officer is a party.

Section 5. VACANCIES IN OFFICES. A vacancy in any office because of death, resignation, removal, disqualification or any other cause shall be filled in the manner prescribed in these bylaws for regular appointments to such office.

Section 6. CHAIRMAN OF THE BOARD. The Chairman of the Board may be an Officer of the Corporation, subject to the control of the Board, and shall report directly to the Board. The Chairman shall have supervisory responsibility over Officers operating and discharging their responsibilities as shall be determined by the Board. The Chairman shall preside over Board meetings and shall perform all such other duties which are commonly incident to the capacity of Chairman or which are delegated to him or her by the Board. The Chairman shall have the power to sign all stock certificates.

Section 7. CHIEF EXECUTIVE OFFICER. The Chief Executive Officer shall have general supervision and direction of the business and affairs of the Corporation, subject to control of the Board, and shall report directly to the Board. The Chief Executive Officer shall, if present and in the absence of the Chairman, preside at meetings of Stockholders.

Section 8. PRESIDENT. The President shall have general supervision and direction of the business and affairs of the Corporation, subject to the control of the Board. The President shall have the power to sign all stock certificates.

Section 9. CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall perform all the powers and duties of the office of the chief financial Officer and in general have overall supervision of the financial operations of the Corporation. The Chief Financial Officer shall, when requested, counsel with and advise the other Officers of the Corporation and shall perform such other duties as he may agree with the Chief Executive Officer or as the Board may from time to time determine.

Section 10. VICE-PRESIDENTS. Any Vice-President shall have such powers and duties as shall be prescribed by his superior Officer or the Board.

Section 11. SECRETARY. It shall be the duty of the Secretary to act as secretary at all meetings of the Board, of the committees of the Board and of the Stockholders and to record the proceedings of such meetings in a book or books to be kept for that purpose, the Secretary shall see that all notices required to be given by the Corporation are duly given and served, the Secretary shall be custodian of the seal of the Corporation and shall affix the seal or cause it to be affixed to all certificates of stock of the Corporation (unless the seal of the Corporation on such certificates shall be a facsimile, as hereinafter provided) and to all documents, the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-laws, the Secretary shall have charge of the books, records and papers of the Corporation and shall see that the reports, statements and other documents required by applicable law to be kept and filed are properly kept and filed and in general shall perform all of the duties incident to the office of Secretary. The Secretary shall have the power to sign all stock certificates.

Section 12. TREASURER. The Treasurer shall supervise and be responsible for all the funds and securities of the Corporation, the deposit of all moneys and other valuables to the credit of the Corporation in depositories of the Corporation, borrowings and compliance with the provisions of all indentures, agreements and instruments governing such borrowings to which the Corporation is a party, the disbursement of funds of the Corporation and the investment of its funds and in general shall perform all of the duties incident to the office of the Treasurer. The Treasurer shall have the power to sign all stock certificates.

Section 13. ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. Any Assistant Secretaries and Assistant Treasurers shall perform such duties as shall be assigned to them by the Board, by the Treasurer or Secretary, respectively, or by the Chief Executive Officer.

Section 14. ADDITIONAL MATTERS. The Chief Executive Officer, the President and the Chief Financial Officer of the Corporation shall have the authority to designate employees of the Corporation to have the title of Vice President, Assistant Vice President, Assistant Treasurer, Assistant Controller or Assistant Secretary. Any employee so designated shall have the powers and duties determined by the Officer making such designation. The persons upon whom such titles are conferred shall not be deemed Officers of the Corporation unless elected by the Board.

ARTICLE VI

CAPITAL STOCK

Section 1. CERTIFICATES FOR SHARES; DIRECT REGISTRATION. The shares of capital stock of the Corporation may be represented by certificates or, if provided by a resolution of the Board, may be uncertificated shares that may be evidenced by a book-entry system (including, without limitation, a direct registration system) maintained by the registrar of such capital stock, or a combination of both. To the extent that shares of capital stock are represented by certificates, such certificates, whenever authorized by the Board, shall be in such form as shall be approved by the Board. The certificates representing shares of capital stock of each class shall be signed by, or in the name of the Corporation by, the Chief Executive Officer, President, or a Vice-President, and by the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary. Any or all such signatures may be facsimiles if countersigned by a transfer agent or registrar. Although any Officer, transfer agent or registrar whose manual or facsimile signature is affixed to such a certificate ceases to be such Officer, transfer agent or registrar before such certificate has been issued, it may nevertheless be issued by the Corporation with the same effect as if such Officer, transfer agent or registrar were still such at the date of its issue.

The stock ledger and blank share certificates shall be kept by the Secretary or by a transfer agent or by a registrar or by any other Officer or agent designated by the Board.

Section 2. TRANSFER OF SHARES. Transfers of shares of capital stock of each class of the Corporation shall be made only on the books of the Corporation upon authorization by the registered holder thereof, or by such holder's attorney thereunto authorized by a power of attorney duly executed and filed with the Secretary or a transfer agent for such stock, if any, and if such shares are represented by a certificate, upon surrender of the certificate or certificates for such shares properly endorsed or accompanied by a duly executed stock transfer power (or by proper evidence of succession, assignment or authority to transfer) and the payment of any taxes thereon; provided, however, that the Corporation shall be entitled to recognize and enforce any lawful restriction on transfer. The person in whose name shares are registered on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

Except to the extent that the corporation has obtained an opinion of counsel acceptable to the corporation that transfer restrictions are not required under applicable securities laws, or has otherwise satisfied itself that such transfer restrictions are not required, all certificates representing shares of the corporation shall bear a legend on the face of the certificate, or on the reverse of the certificate if a reference to the legend is contained on the face, which reads substantially as follows:

THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR APPLICABLE STATE SECURITIES LAWS, AND NO INTEREST MAY BE SOLD, DISTRIBUTED, ASSIGNED, OFFERED, PLEDGED OR OTHERWISE TRANSFERRED UNLESS (A) THERE IS AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT AND APPLICABLE STATE SECURITIES LAWS COVERING ANY SUCH TRANSACTION INVOLVING SAID SECURITIES, (B) THIS CORPORATION RECEIVES AN OPINION OF LEGAL COUNSEL FOR THE HOLDER OF THESE SECURITIES SATISFACTORY TO THIS CORPORATION STATING THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION, OR (C) THIS CORPORATION OTHERWISE SATISFIES ITSELF THAT SUCH TRANSACTION IS EXEMPT FROM REGISTRATION.

Section 4. REGISTERED STOCKHOLDERS AND ADDRESS OF STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its records as the owner of shares of capital stock to receive dividends and to vote as such owner, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares of capital stock on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by applicable law.

Each Stockholder shall designate to the Secretary or transfer agent of the Corporation an address at which notices of meetings and all other corporate notices may be given to such person, and, if any Stockholder fails to designate such address, corporate notices may be given to such person by mail directed to such person at such person's post office address, if any, as the same appears on the stock record books of the Corporation or at such person's last known post office address or as otherwise provided by applicable law.

Section 5. LOST, STOLEN, DESTROYED AND MUTILATED CERTIFICATES. The holder of any certificate representing any shares of capital stock of the Corporation shall notify the Corporation of any loss, theft, destruction or mutilation of such certificate. The Corporation may issue to such holder a new certificate or certificates for shares, upon the surrender of the mutilated certificate or, in the case of loss, theft or destruction of the certificate, upon satisfactory proof of such loss, theft or destruction. The Board, or a committee designated thereby, or the transfer agents and registrars for the capital stock, may, in their discretion, require the owner of the lost, stolen or destroyed certificate, or such person's legal representative, to give the Corporation an indemnity or a bond in such sum and with such surety or sureties as they may direct to indemnify the Corporation and said transfer agents and registrars against any claim that may be made on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate.

Section 6. REGULATIONS. The Board may make such additional rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificated or uncertificated shares of capital stock of each class of the Corporation and may make such rules and take such action as it may deem expedient concerning the issue of certificates in replacement of certificates claimed to have been lost, stolen, destroyed or mutilated.

Section 7. FIXING DATE FOR DETERMINATION OF STOCKHOLDERS OF RECORD. In order that the Corporation may determine the Stockholders entitled to notice of or to vote at any meeting of Stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment or any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may, except as otherwise provided by applicable law, fix, in advance, a record date or record dates, as applicable. A determination of Stockholders of record entitled to notice of or to vote at a meeting of Stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date or record dates.

Section 8. TRANSFER AGENTS AND REGISTRARS. The Board may appoint, or authorize any Officer or Officers to appoint, one or more transfer agents and one or more registrars.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS, EMPLOYEES, AND OTHER AGENTS

Section 1. ACTIONS OTHER THAN BY THE CORPORATION. The Corporation shall, to the fullest extent permitted by the Nevada Revised Statutes and applicable Nevada law as in effect at any time, indemnify, hold harmless and defend any person who: (i) was or is a Director or Officer of the Corporation or was or is a Director or Officer of a direct or indirect wholly-owned subsidiary of the Corporation, and (ii) was or is a party or is threatened to be made a party to, or was or is otherwise directly involved in (including as a witness), any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that such person was or is a Director or Officer of the Corporation or any direct or indirect wholly-owned subsidiary of the Corporation, or was or is serving at the request of the Corporation as a Director, Officer, employee, partner, member or agent of another

corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise, whether the basis of such proceeding is alleged action in an official capacity or in any other capacity, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea or nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that such person's conduct was unlawful.

Section 2. ACTIONS BY THE CORPORATION. The Corporation shall indemnify, hold harmless and defend any person who: (i) was or is a Director or Officer of the Corporation or was or is a Director or Officer of a direct or indirect wholly-owned subsidiary of the Corporation, and (ii) was or is a party or is threatened to be made a party to, or was or is otherwise directly involved in (including as a witness), any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that such person was or is a Director or Officer of the Corporation or any direct or indirect wholly-owned subsidiary of the Corporation, or was or is serving at the request of the Corporation as a Director, Officer, employee, partner, member or agent of another corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise, and whether the basis of such action, suit or proceeding is alleged action in an official capacity or in any other capacity, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Courts in the State of Nevada or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court in the State of Nevada or such other court shall deem proper.

Section 3. SUCCESSFUL DEFENSE. To the extent that a Director, Officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2, or in defense of any claim, issue or matter therein, he must be indemnified by the Corporation against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense.

Section 4. REQUIRED APPROVAL. Any indemnification under Sections 1 and 2, unless ordered by a court or advanced pursuant to Section 5, must be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the Director, Officer, employee or agent is proper in the circumstances. The determination must be made:

- (a) By the stockholders;
- (b) By the Board by majority vote of a quorum consisting of Directors who were not parties to the act, suit or proceeding;
- (c) If a majority vote of a quorum consisting of Directors who were not parties to the act, suit or proceeding so orders, by independent legal counsel in a written opinion; or
- (d) If a quorum consisting of Directors who were not parties to the act, suit or proceeding cannot be obtained, by independent legal counsel in a written opinion.

Section 5. ADVANCE OF EXPENSES. Expenses, including attorney's fees, incurred by a current or former Director or Officer in defending any action, suit or proceeding described in Section 1 or Section 2 of this Article VII shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such Director or Officer to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as authorized in this Article VII.

Section 6. OTHER RIGHTS. The indemnification and advancement of expenses authorized in or ordered by a court pursuant to this Article VII:

- (a) Does not exclude any other rights to which a person seeking indemnification or advancement of expenses may be entitled under the Articles or any bylaw, agreement, vote of stockholders or disinterested Directors or otherwise, for either an action in his official capacity or an action in another capacity while holding his office, except that indemnification, unless ordered by a court pursuant to Section 2 of this Article VII or for the advancement of expenses made pursuant to Section 5, may not be made to or on behalf of any Director or Officer if a final adjudication establishes that his acts or omissions involved intentional misconduct, fraud or a knowing violation of the law and was material to the cause of action.
- (b) Continues for a person who has ceased to be a Director, Officer, employee or agent and inures to the benefit of the heirs, executors and administrators of such a person.

Section 7. INSURANCE. The Corporation may purchase and maintain insurance on behalf of any person who is or was a Director, Officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a Director, Officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise for any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article VII.

Section 8. RELIANCE ON PROVISIONS. Each person who shall act as an authorized representative of the Corporation shall be deemed to be doing so in reliance upon the rights of indemnification provided by this Article.

Section 9. SEVERABILITY. If any of the provisions of this Article are held to be invalid or unenforceable, this Article shall be construed as if it did not contain such invalid or unenforceable provision and the remaining provisions of this Article shall remain in full force and effect.

Section 10. RETROACTIVE EFFECT. To the extent permitted by applicable law, the rights and powers granted pursuant to this Article VII shall apply to acts and actions occurring or in progress prior to its adoption by the Board.

ARTICLE VIII

RECORDS AND BOOKS

Section 1. MAINTENANCE OF SHARE REGISTER. The Corporation shall keep at its principal executive office, or at the office of its transfer agent or registrar, if either be appointed and as determined by resolution of the Board, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of shares held by each stockholder.

Section 2. MAINTENANCE OF BYLAWS. The Corporation shall keep at its principal executive office, or if its principal executive office is not in this State at its principal business office in this State, the original or a copy of the bylaws as amended to date, which shall be open to inspection by the stockholders at all reasonable times during office hours. If the principal executive office of the Corporation is outside this state and the Corporation has no principal business office in this state, the Secretary shall, upon the written request of any stockholder, furnish to such stockholder a copy of the bylaws as amended to date.

Section 3. MAINTENANCE OF OTHER CORPORATE RECORDS. The accounting books and records and minutes of proceedings of the stockholders and the Board and any committee or committees of the Board shall be kept at such place or places designated by the Board, or, in the absence of such designation, at the principal executive office of the Corporation. The minutes shall be kept in written form and the accounting books and records shall be kept either in written form or in any other form capable of being converted into written form.

Every Director shall have the absolute right at any reasonable time to inspect and copy all books, records and documents of every kind and to inspect the physical properties of this Corporation and any subsidiary of this Corporation. Such inspection by a Director may be made in person or by agent or attorney and the right of

inspection includes the right to copy and make extracts. The foregoing rights of inspection shall extend to the records of each subsidiary of the Corporation.

Section 4. ANNUAL REPORT TO STOCKHOLDERS. Nothing herein shall be interpreted as prohibiting the Board from issuing annual or other periodic reports to the stockholders of the Corporation as they deem appropriate.

Section 5. FINANCIAL STATEMENTS. A copy of any annual financial statement and any income statement of the Corporation for each quarterly period of each fiscal year, and any accompanying balance sheet of the Corporation as of the end of each such period, that has been prepared by the Corporation shall be kept on file in the principal executive office of the Corporation for twelve (12) months.

Section 6. ANNUAL LIST OF DIRECTORS, OFFICERS AND RESIDENT AGENT. The Corporation shall, on or before November 1st of each year, file with the Secretary of State of the State of Nevada, on the prescribed form, a list of its Officers and Directors and a designation of its resident agent in Nevada.

ARTICLE IX

GENERAL CORPORATE MATTERS

Section 1. RECORD DATE. For purposes of determining the stockholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution or allotment of any rights or entitled to exercise any rights in respect of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) days nor less than ten (10) days prior to the date of any such meeting nor more than sixty (60) days prior to any other action, and in such case only stockholders of record on the date so fixed are entitled to notice and to vote or to receive the dividend, distribution or allotment of rights or to exercise the rights, as the case may be, notwithstanding any transfer of any shares on the books of the Corporation after the record date fixed as aforesaid, except as otherwise provided in the NRS.

If the Board does not so fix a record date:

- (a) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.
- (b) The record date for determining stockholders entitled to give consent to corporate action in writing without a meeting, when no prior action by the board has been taken, shall be the day on which the first written consent is given.
- (c) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the board adopts the resolution relating thereto, or the sixtieth (60th) day prior to the date of such other action, whichever is later.

Section 2. CLOSING OF TRANSFER BOOKS. The Directors may prescribe a period not exceeding sixty (60) days prior to any meeting of the stockholders during which no transfer of stock on the books of the corporation may be made, or may fix a date not more than sixty (60) days prior to the holding of any such meeting as the day as of which stockholders entitled to notice of and to vote at such meeting shall be determined; and only stockholders of record on such day shall be entitled to notice or to vote at such meeting.

Section 3. REGISTERED STOCKHOLDERS. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Nevada.

Section 4. CHECKS, DRAFTS, EVIDENCES OF INDEBTEDNESS. All checks, drafts or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the Corporation, shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board.

Section 5. CORPORATE CONTRACTS AND INSTRUMENTS; HOW EXECUTED. The Board, except as in the bylaws otherwise provided, may authorize any Officer or Officers, agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances; and, unless so authorized or ratified by the Board or within the agency power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 6. DIVIDENDS. Dividends upon the capital stock of the Corporation, subject to the provisions of the Articles, if any, may be declared by the Board at any regular or special meeting pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Articles.

Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserves in the manner in which it was created.

Section 8. FISCAL YEAR. The fiscal year of the Corporation shall be fixed by resolution of the Board and if not so fixed by the Board the fiscal year shall be the calendar year.

Section 9. SEAL. The Board shall provide a suitable corporate seal, which shall bear, but not be limited to, the full name of the Corporation, and the words "Corporate Seal, Nevada", and shall be in the charge of the Secretary. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced. If and when so directed by the Board or a duly authorized committee thereof, duplicates of the seal may be kept and used by the Treasurer or by an Assistant Secretary or Assistant Treasurer."

Section 10. REPRESENTATION OF SHARES OF OTHER CORPORATIONS. The Chairman, the President, or any vice President, or any other person authorized by resolution of the Board by any of the foregoing designated Officers, is authorized to vote on behalf of the Corporation any and all shares of any other corporation or corporations, foreign or domestic, standing in the name of the Corporation. The authority herein granted to said Officers to vote or represent on behalf of the Corporation any and all shares held by the Corporation in any other corporation or corporations may be exercised by any such Officer in person or by any person authorized to do so by proxy duly executed by said Officer.

Section 11. CONTROL SHARE ACQUISITION EXEMPTION. The Corporation elects not to be governed by the provisions of NRS §78.378 to §78.3793 inclusive, generally known as the "Control Share Acquisition Statute" which contains a provision governing "Acquisition of Controlling Interest."

Section 12. COMBINATIONS WITH INTERESTED STOCKHOLDERS. The Corporation elects not to be governed by the provisions of NRS §78.411 through NRS §78.444, inclusive.

Section 13. CONSTRUCTION AND DEFINITIONS. Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the NRS shall govern the construction of the bylaws. Without limiting the generality of the foregoing, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a corporation and a natural person.

ARTICLE X

AMENDMENTS

Section 1. AMENDMENTS. These bylaws or any of them may be altered or repealed, and new bylaws may be adopted, by the stockholders by a vote at a meeting or by written consent without a meeting. The Board shall also have the power, by a majority vote of the Whole Board, to alter or repeal any of these bylaws, and to adopt new bylaws, except as otherwise provided by law or by the Articles.

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CERTIFICATE OF SECRETARY

I, the undersigned, do hereby certify:

1. That I am the duly elected and Secretary of VIRTRA, INC., a Nevada corporation; and

2. That the foregoing Bylaws constitute the Bylaws of said Corporation as duly adopted and approved by the Board of said Corporation by a Unanimous Written Consent dated as of _____, 2016, and duly adopted and approved by the stockholder of said Corporation at a special meeting held on _____, 2016.

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the seal of said Corporation this _____ day of _____, 2016.

_____, Secretary