FINANCIAL INFORMATION
QUARTER END REPORT
June 30, 2017

VirTra, Inc.

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VirTra, Inc. Quarterly Report
Quarter End June 30, 2017

Item 1 The exact name of the issuer and the address of its principal executive offices.

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

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

Item 2 Shares outstanding.

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

	June 30, 2017	December 31, 2016	December 31, 2015
Number of Shares Authorized			
Preferred Stock	5,000,000	5,000,000	200,000
Common Stock	100,000,000	100,000,000	50,000,000
Class A	5,000,000	5,000,000	0
Class B	15,000,000	15,000,000	0
Number of Shares Outstanding			
Preferred Stock	0	0	0
Common Stock	15,848,105	15,855,005	15,825,005
Class A	0	0	0
Class B	0	0	0
Treasury Stock	6,900	0	2,981
Freely Tradable Shares	13,787,553	13,761,450	13,681,081
Shareholders exceed 50	Yes	Yes	Yes
Number of Shareholders of Record	161	173	174

Item 3 Unaudited interim financial statements.

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

1. Condensed Balance Sheets;
2. Condensed Statements of Operations;
3. Condensed Statement of Stockholders' Equity
4. Condensed Statements of Cash Flows; and
5. Notes to Financial Statements

VIRTRA, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,283,216	$ 3,703,579
Accounts receivable, net	3,725,431	3,244,852
Inventory	1,333,692	1,319,944
Unbilled revenue	2,367,405	107,297
Prepaid expenses and other current assets	305,532	250,066
Total current assets	12,015,276	8,625,738
Property and equipment, net	746,289	814,323
Investment in MREC	1,988,174	471,928
TOTAL ASSETS	$ 14,749,739	$ 9,911,989
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 604,598	$ 467,679
Accrued compensation and related costs	816,339	617,582
Accrued expenses and other current liabilities	298,551	194,668
Notes payable, current	11,250	11,250
Deferred revenue	2,850,545	2,065,905
Total current liabilities	4,581,283	3,357,084
Long-term liabilities:		
Deferred rent liability	100,277	122,126
Notes payable, long-term	22,500	22,500
Total long-term liabilities	122,777	144,626
Total liabilities	4,704,060	3,501,710
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Preferred stock $0.0001 par value; 5,000,000 authorized; no shares issued or outstanding	-	-
Common stock $0.0001 par value; 100,000,000 shares authorized; 15,855,005 issued and 15,848,105 outstanding as of June 30, 2017 and 15,855,005 issued and outstanding as of December 31, 2016.	1,586	1,586
Class A common stock $0.0001 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Class B common stock $0.0001 par value; 15,000,000 shares authorized; no shares issued or outstanding	-	-
Treasury stock at cost; 6,900 shares and no shares outstanding as of June 30, 2017 and December 31, 2016, respectively	(13,800)	-
Additional paid-in capital	15,727,265	14,128,044
Accumulated deficit	(5,669,372)	(7,719,351)
Total stockholders' equity	10,045,679	6,410,279
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 14,749,739	$ 9,911,989

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

VIRTRA, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
REVENUES				
Net sales	$ 5,091,148	$ 3,375,967	$ 9,256,623	$ 9,608,261
Royalties/licensing fees	160,417	9,915	204,229	9,915
Total revenue	5,251,565	3,385,882	9,460,852	9,618,176
Cost of sales	1,501,467	1,410,700	3,280,412	3,511,725
Gross profit	3,750,098	1,975,182	6,180,440	6,106,451
OPERATING EXPENSES				
General and administrative	1,850,561	1,444,156	3,465,060	3,230,544
Research and development	278,917	169,383	621,106	432,356
Net operating expense	2,129,478	1,613,539	4,086,166	3,662,900
Income from operations	1,620,620	361,643	2,094,274	2,443,551
OTHER INCOME (EXPENSE)				
Other income	35,254	2,118	41,488	2,635
Other expense	(7,783)	(9,771)	(7,783)	(9,771)
Net other income	27,471	(7,653)	33,705	(7,136)
Income before income taxes	1,648,091	353,990	2,127,979	2,436,415
Provision for income taxes	-	31,963	78,000	65,203
NET INCOME	$ 1,648,091	$ 322,027	$ 2,049,979	$ 2,371,212
Earnings per common share				
Basic	$ 0.10	$ 0.02	$ 0.13	$ 0.15
Diluted	$ 0.10	$ 0.02	$ 0.12	$ 0.14
Weighted average shares outstanding				
Basic	15,854,677	15,825,005	15,854,841	15,825,005
Diluted	16,869,000	16,578,939	16,914,284	16,421,419

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

VIRTRA, INC.
CONDENSED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Preferred stock		Common stock		Additional	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	paid-in capital	Stock	Deficit	Total
Balance at December 31, 2016	-	$ -	15,855,005	$ 1,586	$ 14,128,044	$ -	$ (7,719,351)	$ 6,410,279
Stock based compensation	-	-	-	-	117,975	-	-	117,975
Stock warrants vested-MREC investment	-	-	-	-	1,516,246	-	-	1,516,246
Stock options repurchased	-	-	-	-	(35,000)	-	-	(35,000)
Treasury stock	-	-	-	-	-	(13,800)	-	(13,800)
Net income	-	-	-	-	-	-	2,049,979	2,049,979
Balance at June 30, 2017	-	$ -	15,855,005	$ 1,586	$ 15,727,265	$ (13,800)	$ (5,669,372)	$ 10,045,679

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

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

	Six Months Ended	
	June 30, 2017	June 30, 2016
Cash flows from operating activities:		
Net income	$ 2,049,979	$ 2,371,212
Adjustments to reconcile net income to net cash provided (used) in operating activities		
Depreciation and amortization	117,108	78,719
Stock compensation	117,975	63,990
Cash settlement of stock options	50,250	290,224
Changes in operating assets and liabilities:		
Accounts receivable	(480,579)	(1,117,809)
Inventory	(13,749)	(70,485)
Unbilled revenue	(2,260,108)	(107,297)
Prepaid expenses and other current assets	(55,466)	(105,237)
Accounts payable and other accrued expenses	439,559	13,859
Deferred revenue	784,641	23,957
Net cash provided by operating activities	749,610	1,441,133
Cash flows from investing activities:		
Purchase of property and equipment	(70,923)	(221,374)
Net cash used in investing activities	(70,923)	(221,374)
Cash flows from financing activities:		
Treasury stock	(13,800)	-
Repurchase of stock options	(85,250)	(467,724)
Net cash used in financing activities	(99,050)	(467,724)
Net increase in cash	579,637	752,035
Cash, beginning of period	3,703,579	3,317,020
Cash, end of period	$ 4,283,216	$ 4,069,055
Supplemental disclosure of cash flow information:		
Cash paid:		
Taxes	$ 78,000	$ 142,413

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

Notes to Condensed Financial Statements
(Unaudited)

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, the Company affected a 10 for 1 reverse stock split of the Company's issued and outstanding common stock (the "Reverse Stock Split"). All references to shares of its 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).

The Company corporate office is located in Tempe, Arizona. All transactions in the financial statements and accompanying notes are presented in US Dollars.

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Certain information and note disclosures normally included in complete annual financial statements prepared in accordance with GAAP have been condensed or omitted. However, the Company believes that the disclosures included in these unaudited condensed financial statements are adequate to make the information presented not misleading. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, which include normal recurring adjustments, considered necessary for a fair presentation of such interim results. The results for the three and six months ended June 30, 2017 are not necessarily indicative of the results for any subsequent period. These unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2016 included in the Company's Annual Report.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of financial instruments approximates their carrying values at June 30, 2017 and December 31, 2016 due to their short maturities. These financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable are charged off after all reasonable collection efforts have been taken. As of June 30, 2017 and December 31, 2016, the Company recorded an allowance for doubtful accounts of $0 and $20,000, respectively.

Inventories

Inventories are stated at the lower of cost or net realizable value 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 net realizable value. As of June 30, 2017 and December 31, 2016, the Company recorded reserves of $28,000 and $17,000, respectively.

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 other 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. Management regularly evaluates the recoverability and classification of its investment. During the periods ended June 30, 2017 and December 31, 2016, the Company did not recognize any losses due to other-than-temporary declines of the value of the 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 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 calculated using the straight-line method over the estimated economic lives of the fixed assets or 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, 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 both products and services. The Company's revenue recognition qualifies under ASC 605-25, *Multiple Element Arrangements* with the delivery of the simulator and installation being two separate deliverables and as such, qualifies 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 earned which is 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, are recorded in US Dollars.

Products

Revenue from the sale of products is recognized when products have been shipped to the customer and title and risk of loss passes to the customer. For customers other than United States government agencies, the Company generally requires advance deposits prior to shipment. Customer deposits are recorded as a current liability under deferred revenue and totaled $953,041 and $51,334 as of June 30, 2017 and December 31, 2016, respectively.

Services

Services include installation of product, separately priced extended limited warranties on parts and labor and technical support. Revenue is recognized for service contracts as earned which is generally upon completion of installation or, if extended warranties, on a straight-line basis over the term of the contract. The Company offers a standard warranty on its products from manufacturing defects on a limited basis for a period of one year after purchase and also offers separately priced extended warranties for periods of up to four years beginning after the expiration of the standard one-year warranty. After the standard warranty expires but during the term of the extended warranty, if the device fails to operate properly from defects in materials and workmanship, the Company will repair or replace the defective product at no additional charge. The Company records a gross to net revenue adjustment for the one year standard warranty and accrues annually the estimated cost of complying with the warranty agreements for all extended warranty years. Deferred revenue for separately priced extended warranties longer than one year totaled $1,897,504 and $2,014,571 as of June 30, 2017 and December 31, 2016, respectively.

Cost of Sales

Cost of sales 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 sales.

Advertising Costs

Advertising costs relating to domestic and international tradeshows, website and sales promotional materials are expensed as incurred. Advertising expense was $173,595 and $101,415 for the three months ended June 30, 2017 and 2016, respectively and $307,123 and $160,662 for the six months ended June 30, 2017 and 2016, respectively.

Research and Development Costs

Research and development costs include labor and expenses directly related to research and development support and are expensed as incurred. Research and development costs were $278,917 and $169,383 for the three months ended June 30, 2017 and 2016, respectively and $621,106 and $432,342 for the six months ended June 30, 2017 and 2016, respectively.

Concentration of Credit Risk and Major Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are maintained with financial institutions having high credit ratings. 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 and per ownership category. The Company had uninsured cash and cash equivalents of $3,832,091and $2,986,694 as of June 30, 2017 and December 31, 2016, respectively.

The Company sells its products internationally primarily to governmental entities and in the United States primarily to federal and state agencies. One federal agency comprised 17% and one state agency comprised 27% of the total net sales for the three months ending June 30, 2017, and two international customers comprised 45% and one state agency comprised 11% of the total net sales for the three months ending June 30, 2016. One federal agency comprised 14% and one state agency comprised 20% of the total net sales for the six months ending June 30, 2017, and one international customer comprised 28% and one federal agency comprised 11% of the total net sales for the six months ending June 30, 2016.

One federal agency represented 48%, and one international customer represented 16% of the total accounts receivable balance as of June 30, 2017, respectively. Two federal agencies represented 43%, one international customer represented 21%, and one commercial customer represented 13% of the total accounts receivable balance as of December 31, 2016, respectively.

The Company generally requires significant advance deposits prior to shipments domestically and full prepayment prior to shipments internationally unless credit terms have been established. For customers with established credit terms, and for sales made to domestic government agencies. The Company does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition. Historically, the Company has experienced minimal charges relative to doubtful accounts.

The Company currently purchases small machined parts, custom assemblies and electronic components from suppliers located in the United States. Although the Company obtains many of these components from single-source suppliers, the Company could seek to have the parts, custom assemblies and electronic components manufactured elsewhere. Additionally, the Company has purchased and operates a machine shop to custom manufacture parts and assemblies to mitigate supplier risks, although some risk remains.

Income Taxes

Deferred income tax assets and liabilities are determined based upon differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Accounting standards require the consideration of a valuation allowance for deferred tax assets if it is "more likely than not" that some component or all the benefits of deferred tax assets will not be realized. The Company currently maintains a full valuation allowance on all of its net deferred tax assets.

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 in 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. As of June 30, 2017 and December 31, 2016, the Company concluded that there was no indication of impairment to the carrying value of its long-lived assets so no impairment was recorded.

Stock Based Compensation

The Company calculates the cost of awards of equity instruments based on the grant date fair value of the awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates

The expected term of the options is 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 estimated fair value of stock-based compensation awards and other options is amortized on a straight-line basis over the relevant vesting period. As share-based compensation expense is recognized 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.

Treasury Stock

The Company utilizes the cost method to account for the reacquisition cost of shares repurchased until the shares are either reissued or retired. It is the intention of the Board of Directors to approve the retirement of treasury shares after their purchase, resulting in the cancellation of the treasury stock and a reduction in the number of shares of issued stock.

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 June 30, 2017 and 2016, respectively:

	Three Months Ending June 30,		Six Months Ending June 30,	
	2017	2016	2017	2016
Net income	$ 1,648,091	$ 322,027	$ 2,049,979	$ 2,371,212
Weighted average common stock outstanding	15,854,677	15,825,005	15,854,841	15,825,005
Incremental shares from stock options	683,875	588,256	706,491	537,678
Incremental shares from warrants	330,448	165,678	352,952	58,736
Weighted average common stock outstanding - diluted	16,869,000	16,578,939	16,914,284	16,421,419
Net income per common share and common equivalent shares				
Basic	$ 0.10	$ 0.02	$ 0.13	$ 0.15
Diluted	$ 0.10	$ 0.02	$ 0.12	$ 0.14

For the three months ended June 30, 2017 and 2016, 80,833 and 103,333 shares, respectively, of common stock underlying stock options were excluded from the dilutive stock calculations because their exercise prices were greater than the average fair value of our common stock for the period.

For the six months ended June 30, 2017 and 2016, 53,333 and 125,833 shares, respectively, of common stock underlying stock options were excluded from the dilutive stock calculations because their exercise prices were greater than the average fair value of our common stock for the period.

Recent 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 Company is evaluating the impact of the standard and has not yet determined the effect on its financial position or results of operations.

In July 2015, the FASB issued Accounting Standards Update ("ASU") No. 2015-11 – "Inventory (Topic 330): Simplifying the Measurement of Inventory". The amendment's purpose is to simplify the measurement, reduce costs and increase comparability for inventory measured using first-in, first-out (FIFO) or average cost methods. An entity should measure inventory within the scope of this Update at the lower of cost and net realizable value, which is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This accounting guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. This standard was adopted on January 1, 2017 and its adoption did not to have a material significant impact on the Company's financial statement position and results of operations.

In November 2015, the FASB issued ASU No. 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 adopted this pronouncement and such adoption did not have a material impact on the Company's financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 – "Leases (Topic 842)", which requires leases 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 the Company on January 1, 2019, with early adoption permitted. The Company is currently in the process of assessing the impact of this ASU on its 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. The adoption of this standard did not have a significant impact on the Company's financial position and results of operations.

In July 2017, the FASB issued ASU No. 2017-11 – "Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815)" I. Accounting for Certain Financial Instruments with Down Round Features and II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. Part I applies to entities that issue financial instruments such as warrants, convertible debt or convertible preferred stock that contain down round features. Part II simply replaces the indefinite deferral for certain mandatorily redeemable noncontrolling interests and mandatorily redeemable financial instruments of nonpublic entities contained within Accounting Standards Codification (ASC) Topic 480 with a scope exception and does not impact the accounting for these mandatorily redeemable instruments. This ASU is effective for public companies for the annual reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of the standard may have on its consolidated financial statements.

Note 2. Inventory

Inventory consisted of the following as of:

	June 30, 2017	December 31, 2016
Raw materials	$ 1,361,878	$ 1,085,519
Finished goods	-	251,707
Reserve	(28,185)	(17,282)
Total inventory	$ 1,333,693	$ 1,319,944

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	June 30, 2017	December 31, 2016
Computer equipment	$ 808,397	$ 753,987
Furniture and office equipment	193,209	182,969
Machinery and equipment	925,495	925,495
Leasehold improvements	324,591	318,318
Total property and equipment	2,251,691	2,180,768
Less: Accumulated depreciation	(1,505,402)	(1,366,445)
Property and equipment, net	$ 746,289	$ 814,323

Depreciation expense was $58,901 and $41,168 for the three months ended June 30, 2017 and 2016, respectively. Depreciation expense was $117,108 and $78,719 for the six months ended June 30, 2017 and 2016, respectively.

Note 4. Accrued Expenses

Accrued compensation and related costs consisted of the following as of:

	June 30, 2017	December 31, 2016
Salaries and wages payable	$ 96,098	$ 93,832
401(k) contributions payable	28,943	25,729
Leave payable	247,813	190,518
Profit sharing payable	443,484	307,503
Total accrued compensation and related costs	$ 816,339	$ 617,582

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

	June 30, 2017	December 31, 2016
Manufacturer's warranties	$ 122,000	$ 122,000
Taxes payable	136,551	32,668
Other	40,000	40,000
Total accrued expenses and other current liabilities	$ 298,551	$ 194,668

Profit Sharing

As part of the benefit package maintained by the Company, the Profit Sharing program pays a percentage of Company annual profits 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. For the six months ending June 30, 2017 and 2016, the percentage of annual net profit used for calculations was fifteen percent (15%). Profit sharing expense was $224,450 and $21,688 for the three months ended June 30, 2017 and 2016, respectively. Profit sharing expense was $289,733 and $329,057 for the six months ended June 30, 2017 and 2016, respectively.

Note 5. Collaboration Agreement

On January 16, 2015, the Company entered into a Co-Venture Agreement (the "Co-Venture Agreement") with Modern Round, LLC ("Modern Round"), a wholly owned subsidiary of Modern Round Entertainment Corporation ("MREC"), a related party. MREC is a restaurant and entertainment concept centered on its indoor virtual reality shooting experience. The Co-Venture Agreement provides Modern Round access to certain software and equipment relating to the Company's products in exchange for royalties.

The Company received 1,365,789 units, representing a 5% ownership interest in Modern Round on the date of the Co-Venture Agreement. The Company recorded the investment at the estimated fair value of the units and which were valued at $0.10 per unit based on Modern Round's other membership unit sales. . The Co-Venture Agreement also provides the Company with conditional warrants to purchase an additional 5% of Modern Round as of the date of that agreement, at an exercise price of $0.25.

On April 14, 2015 Modern Round issued the Company an option to purchase 125,000 units of Modern Round. The option fully vested and became exercisable on the date of grant at an exercise price equal to $0.50 per unit and terminates on the tenth anniversary of the date of grant, if not earlier pursuant to the terms of the option. On April 14, 2015 the Company exercised and received 125,000 shares net exercise with a fair market value of $136,479.

On December 31, 2015, Modern Round merged with a subsidiary of MREC pursuant to a Plan of Merger (the "Merger Agreement") and each unit of Modern Round issued and outstanding as of the effective time of the merger automatically converted into the right to receive approximately 1.2277 shares of MREC common stock. As a result of the Merger Agreement, the Company held 1,676,748 shares of MREC common stock, options to purchase 153,459 shares of MREC common stock at an exercise price of $.41 per share, and conditional warrants to purchase 1,676,747 shares of MREC common stock at an exercise price of $.20 per share.

On October 20, 2016, the Company exercised the conditional warrant and purchased 1,676,747 shares of MREC common stock for $335,349 resulting in the Company's aggregate holdings of MREC increasing to 1,801,747 common shares representing approximately 8.9% of the issued and outstanding common shares of MREC. The MREC equity securities have been recorded as a cost method investment as the Company does not have the ability to exercise significant influence over MREC.

As part of the Co-Venture Agreement, the Company granted 919,383 conditional warrants to affiliates of MREC to purchase 5% of the Company's capital stock on a fully diluted basis as of the date of the Co-Venture 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 to the Company of all required US/Canada minimum royalty payments during the first 12-month period. MREC opened its first location on June 1, 2016. On June 1, 2017 the options vested and became exercisable at an exercise price equal to $1.36 per unit and terminate on the fifth anniversary of the date of vesting, if not earlier pursuant to the terms of the option. On June 1, 2017, these warrants vested and were recorded at the Black-Scholes Merton fair value using annual volatility of 91.5%, an annual risk free rate of 1.76%, expected term of five years and a fair value of $2.14 a share for a fair value of $1,516,246 as an additional investment in MREC. See Note 9. Subsequent Events

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 Co-Venture 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 $204,229 and $90,047 as of June 30, 2017 and December 31, 2016, respectively. These conditional warrant issuances are for a period of five years with an exercise price of $1.36. These conditional warrants are considered contingent consideration for the equity investment as they do not meet the definition of a derivative under ASC 815, the contingent consideration is not included in the cost of the equity investment until the contingency is resolved and the warrant becomes exercisable.

The Co-Venture 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 Co-Venture Agreement. The license would become non-exclusive if 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 Co-Venture Agreement date, the respective milestone dates. Throughout the duration of the Co-Venture Agreement, MREC will pay the Company a royalty based on gross revenue, as defined and subject to certain minimum royalties commencing with the first twelve-month period subsequent to the respective milestone date. MREC agrees that if the total royalty payments for locations in the United States and Canada together do not total at least the minimum royalty amount specified in the agreement, MREC may pay to VirTra the difference between the amount of total royalty payments and the minimum specified in the agreement to maintain exclusivity. The Company recognized $204,229 and $9,915 for license fees (royalties) for the six months ended June 30, 2017 and 2016, respectively.

Note 6. Related Party Transactions

During the three months ended June 30, 2017 and 2016, the Company issued 27,500 and 22,500 stock options to the CEO, COO and members of the Board of Directors to purchase shares of common stock at a weighted average purchase price of $2.15 and $1.12, respectively. During the six months ended June 30, 2017 and 2016, the Company issued 55,000 and 45,000 stock options to the CEO, COO and members of the Board of Directors to purchase shares of common stock at a weighted average purchase price of $2.38 and $1.26, respectively. All options are exercisable within seven years of grant date.

During the three and six months ended June 30, 2017 and 2016, the Company redeemed stock options from the CEO and COO that had previously been awarded. As a result, the Company recorded additional compensation expense as follows:

	Three Months Ending June 30,		Six Months Ending June 30,	
	2017	2016	2017	2016
Number of stock options redeemed	25,000	450,000	50,000	450,000
Redemption value	$ 36,750	$ 465,588	$ 82,250	$ 465,588
Amount previously expensed (2010 and 2009)	(17,500)	(177,500)	(35,000)	(177,500)
Additional compensation expense	$ 19,250	$ 288,088	$ 47,250	$ 288,088

Mr. Mitch Saltz, a member of the Company's Board of Directors, is also Chairman of the Board of Directors and a majority stockholder of MREC. The Company entered into the Co-Venture Agreement with MREC as disclosed in Note 5. Through the terms of that agreement, 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. In addition, MREC paid the Company $160,417 and $9,915 for license fees (royalties) for the three months ended June 30, 2017 and 2016, respectively pursuant to the terms of the Co-Venture Agreement and $204,229 and $9,915 for the six months ended June 30, 2017 and 2016, respectively.

Note 7. Commitments and Contingencies

The Company's operating lease obligations relate to the leasing of the Company's corporate office space located at 7970 South Kyrene Road, Tempe, Arizona 85284, which expires in April, 2019, unless renewed and the leasing of the machine shop building located at 2169 East Fifth St., Tempe, Arizona 85284, which expired in March, 2018, unless renewed.

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

Building Lease Schedule	
2017	$ 175,303
2018	324,353
2019	105,542
Total	$ 605,198

The Company has a deferred rent liability of $100,277 and $122,126 as of June 30, 2017 and December 31, 2016, respectively, relative to the increasing future minimum lease payments. Rent expense was $92,891 and $86,544 for the three months ended June 30, 2017 and 2016, respectively. Rent expense was $190,282 and $179,355 for the six months ended June 30, 2017 and 2016, respectively.

General or Threatened Litigation

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company's policy is to not disclose the specifics of any claim or threatened lawsuit until such complaint is actually served on the Company. On October 20, 2016, a former employee filed a lawsuit in the U.S. District Court, District of Arizona alleging the Company's 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.

Note 8. Stockholders' Equity

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 at its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. During the six months ended June 30, 2017, the Company repurchased 6,900 shares at a cost of $13,800. The Company plans to retire any shares purchased through this program before the end of the current year.

Stock Options

The Company periodically issues non-qualified incentive stock options to key employees, officers and directors under a Stock Option Compensation plan approved by the Board of Directors in 2009. Terms of the option grants are at the discretion of the Board of Directors but historically have been seven years. During the three months ended June 30, 2017 and 2016, the Company issued 27,500 and 22,500 stock options, with a weighted average exercise price of $2.15 and $1.12 per share. During the six months ended June 30, 2017 and 2016, the Company issued 55,000 and 45,000 stock options, with a weighted average exercise price of $2.38 and $1.26 per share.

The assumptions used for the periods ended June 30, 2017 and 2016, and the resulting estimates of weighted-average fair value per share of options granted during those periods, are as follows:

	Three Months June 30,		Six Months June 30,	
	2017	2016	2017	2016
Volatility	98% to 100%	104% to 106%	98% to 101%	104% to 107%
Risk-free interest rate	2%	1-2%	2%	1-2%
Expected term	7 years	7 years	7 years	7 years

The following table summarizes all compensation plan stock options as of June 30:

	June 30, 2017		June 30, 2016	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	1,115,833	$ 0.80	1,667,934	$ 0.60
Granted	55,000	2.38	45,000	1.26
Redeemed	(50,000)	1.71	(450,000)	0.40
Exercised	-	-	-	-
Expired / terminated	-	-	(7,434)	0.40
Options outstanding, end of quarter	1,120,833	$ 0.84	1,255,500	$ 0.70
Options exercisable, end of quarter	1,080,833	$ 0.82	1,215,500	$ 0.68

Stock compensation expense was $48,812 and $30,000 for the three months ended June 30, 2017 and 2016, respectively. Stock compensation expense was $117,975 and $63,990 for the six months ended June 30, 2017 and 2016, respectively. There are 40,000 non-vested stock options as of June 30, 2017. Of that amount, 20,000 options will vest equally in October 2017 and October 2018.

Warrants

As part of the Co-Venture Agreement, the Company granted 919,383 conditional warrants to affiliates of Modern Round Entertainment Company ("MREC"), a related party, to purchase 5% of the Company's capital stock on a fully diluted basis. The conditional warrants are exercisable commencing at the earlier of the first anniversary of MREC opening its first range facility utilizing the Company's Technology and the payment of all required minimum royalty/licensing fee payments during the first 12- month period. The Company also granted 919,383 conditional warrants to affiliates of MREC to purchase 5% of the Company's capital stock on a fully diluted basis, which are exercisable any time subsequent to MREC's payment of $2.0 million in royalty fees. The conditional warrants have a contractual term of five years and an exercise price of $1.36. On June 1, 2017, the one-year anniversary of MREC opening its first range facility, 919,383 warrants vested and were recorded at a Black-Scholes Merton fair value using annual volatility of 91.5%, an annual risk free rate of 1.76%, expected term of five years and a fair value of $2.14 a share for a fair value of $1,516,246 as additional investment in MREC.

Note 9. Subsequent Events

On July 1, 2017, the Company granted to members of its Board of Directors options to purchase 27,500 shares of the Company's common stock at an exercise price of $1.88 and a term of seven years.

On July 1, 2017, the Company redeemed from the CEO and COO, 25,000 previously awarded stock options for cash totaling $34,000 of which $12,500 had been previously expensed in 2010 with the balance of $21,500 being recognized as additional compensation cost in July, 2017.

On July 28, 2017, the Company received Notices of Exercise for all 919,383 vested warrants from all the MREC affiliate holders electing to purchase warrants pursuant to the terms of the net exercise provision set forth in the Warrant Agreement. Under the net exercise provision, in lieu of exercising the warrant for cash, the holder may elect to receive shares equal to the value of the warrant (or the portion thereof being exercised) by surrender of the warrant and the Company issuing to holder the number of computed shares resulting in 345,823 shares to be issued. Additionally, the affiliates requested to be cashed out for the net exercise shares, which is under review and consideration by the Company's Board of Directors.

Item 4 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 the Company's financial condition and plan of operations should be read in conjunction with its 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 the Company's 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 the Company indicates that it expects to increase its product sales and potentially establish additional business relationships, these are forward-looking statements. The words expect, anticipate, estimate or similar expressions are also used to indicate forward-looking statements.

Overview

The Company develops, sells and supports use of force training and marksmanship firearms training systems and accessories for law enforcement, military or civilian use. The Company's simulators use software, hardware and content to create uniquely effective and realistic training that does not require live ammunition or less-than-lethal munitions, which can both save money and provide certain training capabilities unavailable to live fire exercises. The Company has developed a higher standard in simulation training including capabilities such as: multi-screen video based scenarios, unique scenario authoring ability, superior training scenarios, the patented Threat-Fire™ shoot-back system, powerful gas-powered simulated recoil weapons, and more.

We also are engaged in licensing our technology to Modern Round Entertainment Corporation ("MREC"), a developer and operator of a combined dining and entertainment concept centered on an indoor shooting experience.

Principal Products

The Company's simulator products include the following:

- 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
- The V-100™ MIL is sold to various military commands throughout the world and can support any local language. The system is extremely compact and can even share space with a standard classroom or squeeze into almost any existing facility. If a portable firearms simulator is needed, this model offers the most compact single-screen simulator on the market today – everything organized into one standard case.
- 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

Results of operations for the three and six months ended June 30, 2017 and June 30, 2016

Revenues

Revenues were $5,251,565 for the three months ended June 30, 2017 compared to $3,385,882 for the same period in 2016. The increase was due to additional sales of simulators, accessories, warranties and other services. Revenues were $9,460,852 for the six months ended June 30, 2017 compared to $9,618,175 for the same period in 2016. The decrease was primarily a result of recognizing $2.7 million in revenue on one single international order during the 2016 period.

Cost of Sales

Cost of sales was $1,501,467 for the three months ended June 30, 2017 compared to $1,410,700 for the same period in 2016. The increase was due to additional sales volume. Cost of sales was $3,280,412 for the six months ended June 30, 2017 compared to $3,511,725 for the same period in 2016. The decrease is a result of the Company producing its own machined parts/products, product sales mix and a reduction in material costs in 2017 compared to the same period in 2016.

Gross Profit

Gross profit was $3,750,098 for the three months ended June 30, 2017 compared to $1,975,182 for the same period in 2016. The increase was due to additional sales volume and a gross profit margin of 71% compared to 58% for the same period in 2016. Gross profit was $6,180,440 for the six months ended June 30, 2017 compared to $6,106,451 for the same period in 2016. The gross profit margin was 65% for the six months ended June 30, 2017 compared to 63% for the same period in 2016. Gross profit increased year over year primarily from the reduction in material costs as noted above. The Gross Profit increases were also due to sales mix of higher margin products that includes training, service and warranty sales.

Operating Expenses

Net operating expense was $2,129,478 for the three months ended June 30, 2017 compared to $1,613,539 for the same period in 2016. Net operating expense was $4,086,166 for the six months ended June 30, 2017 compared to $3,662,900 for the same period in 2016. The three month and six month year over year increases were due to expanding staffing levels, annual increases in payroll and benefits for current staff, sales and marketing expansion, new research and development work, and IT infrastructure upgrades.

Net Income

Net income was $1,648,091 for the three months ended June 30, 2017 compared to $322,027 for the same period in 2016. The increase in the net income resulted from increases in revenue and gross profit partially offset by an increase in operating expenses as noted above. Net income was $2,049,979 for the six months ended June 30, 2017 compared to $2,371,212 for the same period in 2016. The decrease in net income resulted from a slight decrease in revenue and an increase in operating expenses as noted in each respective section.

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 before other non-operating costs and income ("EBITDA") and adjusted EBITDA are non-GAAP measures. Adjusted EBITDA also includes non-cash stock option expense. Other companies may calculate adjusted EBITDA differently. The Company calculates its adjusted EBITDA to eliminate the impact of certain items it does not consider to be indicative of its performance and its 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 the Company's 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 the Company's 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 flows statement data prepared in accordance with U.S. GAAP or as a measure of profitability or liquidity. A reconciliation of net income to adjusted EBITDA is provided in the following table:

RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA

	Three Months Ended				Six Months Ended			
	June 30, 2017	June 30, 2016	Increase (Decrease)	% Change	June 30, 2017	June 30, 2016	Increase (Decrease)	% Change
Net Income	$ 1,648,091	$ 322,027	$ 1,326,064	412%	$ 2,049,979	$ 2,371,212	$ (321,233)	-14%
Adjustments:								
Depreciation and amortization	70,572	50,622	19,950	39%	138,957	96,177	42,781	44%
Non-cash stock option expense	48,812	30,000	18,812	63%	117,975	63,990	53,985	84%
Provision for income taxes	-	31,963	(31,963)	-100%	78,000	65,203	12,797	20%
Adjusted EBITDA	$ 1,767,475	$ 434,612	$ 1,332,863	307%	$ 2,384,911	$ 2,596,582	$ (211,671)	-8%

Liquidity and Capital Resources

Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. The Company had $4,283,216 and $3,703,579 in cash as of June 30, 2017 and December 31, 2016, respectively. The working capital was $7,433,993 and $5,268,654 for the periods ended June 30, 2017 and December 31, 2016, respectively.

Net cash provided by operating activities was $749,610 and $1,441,133 for the six months ended June 30, 2017 and 2016, respectively, resulting from a decrease in net income and significant changes in accounts receivables, prepaid expense, other current assets, accounts payable and other accrued expenses.

Net cash used in investing activities was $70,923 and $221,374 for the six months ended June 30, 2017 and 2016, respectively, resulting from a reduction in purchases of property and equipment.

Net cash used in financing activities was $99,050 and $467,724 for the six months ended June 30, 2017 and 2016, respectively, resulting from the purchase of treasury stock and from the repurchase and cancellation of stock options.

Cash Requirements

The amount of cash and cash equivalents and working capital as of June 30, 2017 along with expected net cash provided by operating activities is believed sufficient to meet the Company's current operating cash needs over the next twelve months. We are, however, seeking to raise additional funds to expand our product and services offered, to enhance our sales and marketing efforts and effectiveness, and to aggressively take advantage of market opportunities. There can be no assurance, however, that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, if and when it is needed, we will be forced to scale down our plans for expanded marketing and sales efforts. 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 the Company's existing stockholders.

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Item 5 Legal proceedings.

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company's policy is to not disclose the specifics of any claim or threatened lawsuit until such complaint is actually served on the Company. On October 20, 2016, a former employee filed a lawsuit in the U.S. District Court, District of Arizona alleging the Company's 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 the Company, management believes that the ultimate outcome of this matter will not have a material effect on its earnings, cash flows or financial position.

Item 6 Defaults upon senior securities.

None.

Item 7 Other information.

None.

Item 8 Exhibits.

A copy of the Co-Venture Agreement was filed by the Company as Item 18 exhibit to its Annual Report published on the OTC Disclosure & News Service on April 7, 2017.

[ISSUER'S CERTIFICATION PAGE FOLLOWS]

Item 9 Certifications.

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

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

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

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

Date: August 14, 2017

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

I, Donna S. Moore, certify that:

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

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

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

Date: August 14, 2017

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