



VirTra
SYSTEMS

*FINANCIAL INFORMATION (UNAUDITED)
QUARTER-END REPORT
September 30, 2011*



www.VirTra.com

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Section One: Issuers' Continuing Disclosure Obligations

PART A GENERAL COMPANY INFORMATION

ITEM 1 VIRTRA SYSTEMS, INC.

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PART B SHARE STRUCTURE

ITEM 2. Shares outstanding

(i) September 30, 2011	
(ii) Number of shares authorized	500,000,000
(iii) Total number of shares issued and outstanding	158,328,245
(iv) Freely tradable shares (public float)	136,612,777
(v) Total number of beneficial shareholders	2,732
(vi) Total number of shareholders of record	190
(i) December 31, 2010	
(ii) Number of shares authorized	500,000,000
(iii) Total number of shares issued and outstanding	158,328,245
(iv) Freely tradable shares (public float)	136,287,385
(v) Total number of beneficial shareholders	2,762
(vi) Total number of shareholders of record	194

PART C FINANCIAL INFORMATION

ITEM 3. Interim Financial Statements

VIRTRA SYSTEMS INC.

Balance Sheets as of September 30, 2011 and December 31, 2010

	9/30/2011 (Unaudited)	12/31/2010 (Unaudited)
<u>ASSETS</u>		
Cash and cash equivalents	\$ 80,077	\$ 535,728
Accounts receivable, net of allowances	1,629,468	1,104,470
Costs and estimated earnings in excess of billings on uncompleted contracts	753,594	243,050
Prepaid expenses & other	101,617	58,783
Inventory	485,218	179,428
Total current assets	3,049,974	2,121,459
Property and equipment, net of accumulated depreciation of \$825,181 and \$657,348, respectively	661,681	594,988
Intellectual property (see Notes 10 and 11), net of accumulated amortization of \$1,384,733 and \$982,256, respectively	6,597,768	6,542,958
Other assets	32,772	30,391
Total non-current assets	7,292,221	7,168,337
TOTAL ASSETS	<u>\$ 10,342,195</u>	<u>\$ 9,289,796</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 129,872	\$ 302,745
Accrued liabilities	169,645	187,005
Borrowing on line of credit	100,000	-
Total current liabilities	399,517	489,750
Redeemable common stock	1,859	1,859
Total non-current liabilities	1,859	1,859
TOTAL LIABILITIES	401,376	491,609
<u>STOCKHOLDERS' EQUITY</u>		
Common stock, \$.005 par value, 500,000,000 shares authorized, 158,328,245 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	791,641	791,641
Additional paid in capital	12,170,075	12,170,075
Accumulated deficit	(3,020,897)	(4,163,529)
Total shareholders' equity	9,940,819	8,798,187
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 10,342,195</u>	<u>\$ 9,289,796</u>

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

VIRTRA SYSTEMS, INC.

Statements of Operations for the three and nine months ended September 30, 2011 and 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
<u>REVENUE</u>	2011	2010	2011	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
New system sales	\$ 1,409,669	\$ 1,919,743	\$ 5,095,472	\$ 4,143,724
Other revenue	629,401	100,810	1,636,763	113,711
Total Revenues	2,039,070	2,020,553	6,732,235	4,257,435
Cost of sales and services	660,070	808,221	2,368,379	1,530,877
Gross margin	1,379,000	1,212,332	4,363,856	2,726,558
<u>OPERATING EXPENSES</u>				
General and administrative expenses	1,004,250	741,659	3,229,464	1,815,922
Income/(Loss) from operations	374,750	470,673	1,134,392	910,636
<u>OTHER INCOME AND (EXPENSE) ITEMS:</u>				
Other Expense	(25)	-	(6,991)	(92,523)
Interest expense and finance charges	(1,492)	(11,444)	(2,930)	(41,068)
Interest & Other income	12,500	(79,225)	18,161	(475)
Total other income and expense items	10,983	(90,669)	8,240	(134,066)
Net income/(loss)	385,733	380,004	1,142,632	776,570
Weighted average shares outstanding - basic and fully diluted	158,328,245	152,945,736	158,328,245	150,754,373
Net gain(loss) per share - basic and fully diluted	\$ 0.0024	\$ 0.0025	\$ 0.0072	\$ 0.0052

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

VIRTRA SYSTEMS, INC.

**Statement of Stockholders' Equity for the Nine Months Ended September 30, 2011
(Unaudited)**

	<u>Common Stock</u>		Additional Paid In Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance at December 31, 2010	<u>158,328,245</u>	<u>\$ 791,641</u>	<u>\$12,170,075</u>	<u>\$ (4,163,529)</u>	<u>\$ 8,798,187</u>
Net income, three months ended 3/31/11				<u>333,352</u>	<u>333,352</u>
Balance at March 31, 2011	<u>158,328,245</u>	<u>\$ 791,641</u>	<u>\$12,170,075</u>	<u>\$ (3,830,177)</u>	<u>\$ 9,131,539</u>
Net income, three months ended 6/30/11				<u>423,547</u>	<u>423,547</u>
Balance at June 30, 2011	<u>158,328,245</u>	<u>\$ 791,641</u>	<u>\$12,170,075</u>	<u>\$ (3,406,630)</u>	<u>\$ 9,555,086</u>
Net income, three months ended 9/30/11				<u>385,733</u>	<u>423,547</u>
Balance at September 30, 2011	<u>158,328,245</u>	<u>\$ 791,641</u>	<u>\$12,170,075</u>	<u>\$ (3,020,897)</u>	<u>\$ 9,940,819</u>

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

VIRTRA SYSTEMS, INC.

Statements of Cash Flows for the nine months ended September 30, 2011 and 2010
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net Income (Loss)	\$ 1,142,632	\$ 776,570
Adjustments to reconcile net loss to net cash provided by/(used in) operations:		
Depreciation and amortization	570,310	449,535
Changes in operating assets and liabilities:		
Accounts receivable	(524,998)	(509,888)
Inventory	(305,790)	(179,428)
Prepaid expenses and other assets	(42,834)	(32,361)
Costs in excess of billings/(billings in excess of costs) and estimated earnings on uncompleted projects	(510,544)	705,018
Accounts payable and accrued liabilities	(172,873)	(326,962)
Other current liabilities	(17,360)	(16,224)
Net cash provided by/(used in) operating activities	138,543	866,260
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Capital expenditures	(233,408)	(544,863)
Capitalized development costs	(457,286)	(372,512)
Net cash provided by/(used in) investing activities	(690,694)	(917,375)
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Proceeds and Equity increase from common stock issuance to accredited investors and others	-	210,334
Principal payments to Dutchess in cash, and notes payable	-	(196,436)
Borrowings on line of credit	400,000	-
Repayments on line of credit	(300,000)	-
Buy-back of stock options	(3,500)	-
Net cash provided by/(used in) financing activities	96,500	13,898
Net change in cash and cash equivalents	(455,651)	(37,217)
Cash and cash equivalents, beginning of period	535,728	109,981
Cash and cash equivalents, end of period	\$ 80,077	\$ 72,764

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

VIRTRA SYSTEMS, INC.

Notes to Financial Statements

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The accompanying un-audited interim financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been included. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the respective full year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Revenue Recognition

Revenue from contracts (such as simulator sales) are recognized on a percentage-of-completion basis, measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs and depreciation costs. General and administrative costs are charged to expense as incurred.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to cost and income and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenue recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent amounts billed in excess of revenue recognition.

Credit Risk

The Company maintains its cash in well known banks selected based upon management's assessment of the banks' financial stability and utilize multiple accounts to reduce risk. Balances periodically exceed the \$250,000 federal depository insurance limit; however, the Company has not experienced any losses on deposits.

Accounts receivable generally arise from sales of equipment and services to various clients throughout the world. Collateral is generally not required for domestic government customers but significant deposits are required for most international customers. At September 30, 2011 we had no reserve for doubtful accounts as all material amounts of our receivables appear to be collectible.

Cash Equivalents

For purposes of reporting cash flows, the Company considers all short-term investments with an original maturity of three months or less to be cash equivalents. We had no cash equivalents at September 30, 2011.

Property and Equipment

Property and Equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from three to seven years. Expenditures for major renewals and betterments that extend the original estimated economic useful lives of the applicable assets are capitalized. Expenditures for normal repairs and maintenance are charged to expense as incurred. The cost and related accumulated depreciation of assets sold or otherwise disposed of are removed from the accounts, and any gain or loss is included in operations.

Shipping and Delivery Costs

The cost of shipping and delivery is charged directly to cost of sales and services at the time of shipment.

Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax basis of assets and liabilities and their financial amounts at year-end. The Company provides a valuation allowance to reduce deferred tax assets to their net realizable value.

Income (Loss) Per Share

Basic income (loss) per share is computed on the basis of the weighted average number of shares of common stock outstanding during each period.

Fair Value of Financial Instruments

The Company includes fair value information in the notes to financial statements when the fair value of its financial instruments is different from book value. When the book value approximates fair value, no additional disclosure is made.

Reclassifications

Certain reclassifications have been made to conform to prior periods' data to the current presentation. These reclassifications have no effect on the results of reported operations or stockholders' equity (deficit).

Note 2 – Going Concern

As reflected in the accompanying financial statements and prior reports, the Company has had operating profits every year since 2008. However, there is no guarantee that the Company will continue with profitable operations in the future.

If the Company is forced to liquidate its assets in an attempt to pay creditors at which time the assets on the accompanying balance sheet will be liquidated at amounts possibly substantially less than reported. It is therefore possible that, should the Company be forced to liquidate, there will be insufficient cash to pay all creditors and provide the Company's shareholders a return on their investment.

Note 3 - Accrued Liabilities

The following table summarizes the major items included in Accrued Liabilities at September 30, 2011 and December 31, 2010:

	<u>9/30/11</u>	<u>12/31/10</u>
Penalties and interest on unpaid payroll taxes	\$ -	\$ 121,411
Accrued payroll	106,544	50,249
Other	63,101	15,345
Total Accrued Liabilities	\$ 169,645	\$ 187,005

Note 4 - Cost and Estimated Earnings in Excess of Billings (and Billings in Excess of Costs and Estimated Earnings) on Uncompleted Contracts

At the end of 3rd Quarter 2011, we had several large projects in the production stage. Our percentage of completion is based on total costs incurred to date compared to the estimated total cost of each contract. Of the partially completed work at September 30, 2011, we have incurred some of the costs on contracts totaling \$3,142,632 of total revenue. We estimate that we will incur additional costs and do not expect to incur any losses on our uncompleted contracts. Our costs and estimated earnings in excess of billings on uncompleted contracts total was \$753,594 at June 30, 2011.

Note 5 - Other Assets

Other assets at September 30, 2011 are comprised of deposits on leased property.

Note 6 – Unpaid Payroll Taxes

Ferris Productions, Inc. had certain payroll tax liabilities which we inherited upon the combination of GameCom, Inc. and Ferris Productions. The combined company also incurred payroll tax liabilities. These liabilities were for unpaid payroll taxes between 2000 and 2003.

We entered into an agreement with the Internal Revenue Service during 2008 to repay the full amount of the liability in quarterly installments of gradually increasing amounts. VirTra made each payment and voluntarily accelerated the payments.

The remaining IRS liability was paid in full by the Company in the 1st quarter of 2011.

Note 7 – Related Party Transactions

Some employees of the company use their personal credit cards for company expenses. If an expense report is submitted near quarter end without time to be paid off, it will appear as a balance owed until such time as it is paid off.

Note 8 – Capitalized Development Costs

VirTra has continued to employ qualified individuals for the exclusive purpose of scenario creation, hardware development and the development of simulation software. At September 30, 2011 we had recorded \$1,382,501 in development cost (Q1 2009 through Q3 2011) which represents resources used during the period. These costs were not included in the \$6,600,000 recorded for Intellectual Property. See note 10. The costs were calculated from payroll for the actual hours spent in both creation and development as well as any other direct costs. These costs will continue to be capitalized in the future, under the description of Intellectual Property, and will be amortized over 5 to 15 years depending on the useful life of the development. Amortization of these costs, and the intellectual property, was \$1,384,733 at September 30, 2011.

Note 10 – Intellectual Property

Prior to becoming a profitable company, VirTra expensed research and development costs as the market value of our developments was unknown. After two consecutive profitable quarters as a company and the judgment that VirTra's current intellectual property has market value, VirTra engaged Dr. Kenneth Lehrer of Lehrer Financial and Economic Advisory Services in February 2009 to perform an independent third party evaluation of VirTra's intellectual property as of December 31, 2008.

Dr. Lehrer considered five different valuation approaches. The discounted net cash flow approach was used in the valuation. Four scenarios were presented under the discounted cash flow model and the final analysis was an estimated value of \$6,600,000 for the intellectual property of VirTra as of December 31, 2008. Therefore, the Company has capitalized and recorded \$6.6 million as the value of its intellectual property assets.

This amount is based upon the valuation methods utilized in the valuation report. Other factors that were brought to bear in determining the final valuation are – quantity and quality of the individual information available, the experience, judgment and education of the appraiser, Dr. Kenneth Eugene Lehrer and the degree of confidence placed on each valuation technique by the appraiser in regard to the specific "concept" or "idea" under analysis.

Note 11 – Land Purchase

During 2009, VirTra management became aware of a unique piece of land that was the right size for a future VirTra headquarters, positioned in a good location, and was offered at a very attractive price by a motivated seller.

Due to the debt owed to the IRS, the entity of VirTra Systems, Inc. was unable to purchase the land directly.

On December 8, 2009 Ferris Properties, LLC. (owned by Bob Ferris, CEO of VirTra and Nichieli Ferris) signed a promissory note for the purchase of approximately 2.2 acres of improved land in Chandler, Arizona from McClintock and Galveston, LLC. The intention is to eliminate the IRS debt and, in the future, obtain a building loan to begin construction of a VirTra headquarter building on this land.

The purchase price for the land is \$695,000, approximately \$160,000 has already been invested. The remaining amount owed is in the form of a \$535,000 loan from the seller to Ferris Properties, LLC which is now to pay interest-only payments at a rate of 4% per annum (\$1,783.33 per month) starting on December 8, 2009 until November 30, 2010. If the building loan has not begun by November 30th, 2010, then Ferris Properties would pay \$10,000 per month plus 5.5% per annum until June 1, 2011 at which time the note is due unless renegotiated.

The transaction is a straight pass-through, whereby Ferris Properties, LLC charges no fees and no expenses to VirTra Systems. All costs and payments imposed by the seller (McClintock and Galveston, LLC) are paid by VirTra Systems, Inc. As soon as permitted, the liability, deed and ownership interest in the land will be transferred to VirTra Systems at no profit to Ferris Properties, LLC.

The land was purchased to permit expected expansion; however, the unexpected Gander Mountain Academy rollout required VirTra to obtain a larger facility in a short period of time, rather than having time to build on the land. In addition, VirTra negotiated a buy-out price for its current building far below the cost of constructing a new building.

In December 2010 the original landowner suspended further payments, and permitted Ferris Properties, LLC to walk away with no further obligations in principal, interest or penalties. Neither Ferris Properties, LLC nor VirTra Systems, Inc. has any further liability or asset associated with the land.

Note 12 – Line of Credit

For the quarter ended September 30, 2011 the Company borrowed \$100,000 under a line of credit facility secured by the Company's receivables and guaranteed by our CEO, Bob Ferris. The terms of the credit agreement allow the Company to access funds equivalent to 75% of eligible accounts receivable aged less than 90 days with a maximum borrowing capacity of \$250,000. The line of credit bears interest at the prime rate plus 150 basis points with a floor of five percent. As of September 30, 2011 the effective interest rate on borrowing under the line of credit was five percent.

Subsequent to the quarter end September 30, 2011 the Company executed a new line of credit that increases the Company's borrowing capacity up to \$750 thousand dollars. Our borrowing capacity is based on a percentage of eligible receivables and inventory and bears interest at prime plus 150 basis points with a floor of five percent.

Note 13 – Subsequent Events

ITEM 4. Management's discussion and Analysis or Plan of Operation.

A. Plan of Operation.

Warfighters and law enforcement officers are expected to make the correct decision, with excellent marksmanship, in split-second life-and-death situations. The more realistic the training, the greater the chance the trainee will succeed when lives hang in the balance and threats are real.

VirTra Systems has created the world's most realistic marksmanship, collective training and judgment use-of-force firearm training systems for military, law enforcement, or security personnel. The VirTra brand enjoys several exclusive simulation capabilities such as high-resolution video across multiple screens, 300 degree simulation platform, best-in-class drop-in recoil kits, the patented Threat-Fire™ electric impulse shoot-back system, and the most realistic training scenario library in the world. These exclusive simulation features help propel our domestic sales and give our growing list of international distributors a real advantage in competing for simulation sales in their territories. VirTra estimates that it currently has penetrated approximately 3% of the market potential of its current product mix.

VirTra's plan of operations includes the following main points:

1. Customers – VirTra will work to expand our list of customers, provide excellent service, and continually improve our simulation product line.
2. Shareholders – One of VirTra's goals is to generate outstanding results for the shareholders.
3. Employees – VirTra must continue to attract and retain the very best staff possible.
4. US Growth – An increase in marketing and awareness will likely lead to an increase in sales. VirTra plans to greatly increase market penetration through effective sales and marketing campaigns.
5. International Growth – VirTra is aggressively increasing quality international distributors and international tradeshow appearances.
6. Equity and debt – VirTra highly values our equity as well as remaining a debt-free company, but ultimately must make the best decisions for the long-term success of the company.

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

Third Quarter 2011 Review

Sales for the 3rd quarter increased \$19 thousand to \$2.04 million for the three months ended September 30, 2011, up one percent from \$2.02 million for the same period last year. Sales for the nine months ended September 30, 2011 increased \$2.47 million to \$6.73 million, up 58% from \$4.26 million for the same period last year.

For the nine months ended September 30, 2011 the expense rate was 48.0% compared to 42.7% for the same period last year.

Net income from operations for the nine months ended September 30, 2011 grew 47.1% to \$1.14 million from \$777 thousand for the same period last year.

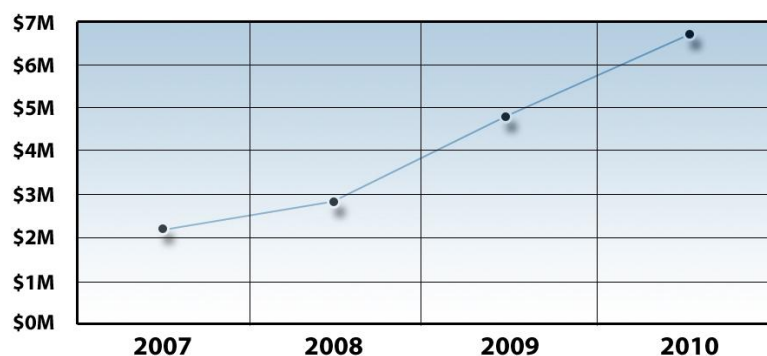
Earnings per share for the third quarter of 2011 were \$0.0024 compared to \$0.0025 per share in Q3 2010. Earnings per share for the nine months ended September 30, 2011, were \$0.0072 compared to \$0.0052 for the same period last year.

VirTra's cash on hand was \$80 thousand as of September 30, 2011 compared to \$536 thousand as of December 31, 2010. For the nine months ending September 30, 2011, shareholder's equity increased \$1.14 million to \$9.94 million - an increase of 13% over the year ended December 31, 2010.

2010 Results Review

Total revenue reached new heights during 2010 as VirTra increased both domestic and international sales. Revenue grew by \$1.98 million, a 43% increase from the previous year.

VirTra Gross Revenue



COGS

Cost of goods sold increased slightly from 2009 to 2010 due to a small decrease in profit margins on overall sales for the year.

Net Operating Profit

VirTra posted a net operating profit level of \$1.51 million which was slightly more than 2009. The expense rate was higher in 2010 than in 2009 as VirTra added needed infrastructure and invested in advertising and marketing for future results. Below is a break-down of the increased costs as compared with 2009:

Item	Amount
G & A Wages: VirTra increased overall staff by 27 employees throughout the year to accommodate growth.	\$349,967
Advertising: larger tradeshow exhibiting, advertising, and costs for a newly redesigned multi-language website	\$292,873
Bad debt expense: a very rare event for VirTra. One-time event.	\$129,248
Depreciation expense: normally increases with overall growth.	\$71,963
Insurance expense: normally increases with overall growth.	\$63,968
Rent expense: increases related to higher lease payments due to more space needed.	\$58,282
Amortization expense: normally increases with overall growth.	\$45,920
Other expenses related to operations.	\$39,396
Total	\$1,051,617

Net Income

For the year ending 2010, VirTra posted Net Income exceeding \$1 million (\$1,019,862), but this was \$395,150 less than the previous year. Below is a break-down of the costs that were higher than in 2009:

Item	Amount
Stock options exercised: Stock options were exercised which created an accounting charge (non-cash event). One-time event and the stock options are now cancelled.	\$215,000
Land purchase termination: VirTra negotiated a buy-out price for its current building far below the cost of constructing a new building, so no need for the land. One-time event with no further costs or liabilities.	\$161,945
Previous management commitments: Various commitments made by previous management. One-time events which created an accounting charge (non-cash event).	\$141,273
Stock options redemption: VirTra redeemed stock options for cash. One-time event and the stock options are now cancelled.	\$5,800
Total	\$524,018

Summary

The year 2010 has included several key milestones for VirTra. The company landed the largest simulation project in its 18 year history with Gander Mountain Academy, which only began in 2010 and already helped set record high revenues for the year. Also, VirTra introduced a brand new product line - the VirTra Range™ to very positive reviews at both military and law enforcement tradeshow.

ITEM 5. Legal Proceedings

VirTra Systems, Inc. has received a letter from a previous VirTra customer located in Oregon, threatening legal action against VirTra. The Oregon company primarily alleges that they have been harmed by VirTra's recently established relationship with Gander Mountain. VirTra management has consulted with legal counsel and considers the assertions to be without merit. Should the Oregon company pursue this matter further, the agreement between the two companies specifies that all disputes will be settled by binding arbitration in Phoenix, Arizona.

ITEM 6. Default upon Senior Securities

There has been no material default in the payment of principal, interest, sinking fund installment, or any other material default not cured within 30 days, with respect to any indebtedness of the issuer.

ITEM 7. Other Information

None

ITEM 8. Exhibits

VirTra entered into a confidential and material contract with Gander Mountain in 2010 and has continued with additional sales in 2011.

ITEM 9. Certification of Chief Executive Officer.

I, Robert D. Ferris, certify that:

1. I have reviewed this Quarterly Disclosure Statement of VirTra Systems, Inc.;
2. 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
3. Based on my knowledge, the Financial Statements and other financial information included or incorporated by reference in this Disclosure Statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

Date: November 14, 2011

/s/ Robert D. Ferris

CEO/Chairman