

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2024

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 001-38420

VIRTRA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

93-1207631

(I.R.S. Employer
Identification No.)

295 E. Corporate Place, Chandler, AZ

(Address of principal executive offices)

85225

(Zip Code)

Registrant's telephone number, including area code: (480) 968-1488

N/A

(Former name, former address, and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.0001 par value	VTSI	Nasdaq Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large, accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large, accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large, accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of May 3 2024, the registrant had 11,109,730 shares of common stock outstanding.

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**PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS**

**VIRTRA, INC.
CONDENSED BALANCE SHEETS
(unaudited)**

March 31, 2024

December 31, 2023

ASSETS

Current assets:

Cash and cash equivalents	\$ 22,415,177	\$ 18,849,842
Accounts receivable, net	10,300,165	15,724,147
Inventory, net	12,292,460	12,404,880
Unbilled revenue	1,681,375	1,109,616
Prepaid expenses and other current assets	832,712	906,803
Total current assets	47,521,889	48,995,288

Long-term assets:

Property and equipment, net	16,799,459	15,487,012
Operating lease right-of-use asset, net	588,794	716,687
Intangible assets, net	565,318	567,540
Security deposits, long-term	35,691	35,691
Other assets, long-term	201,670	201,670
Deferred tax asset, net	3,663,357	3,630,154
Total long-term assets	21,854,289	20,638,754

Total assets	\$ 69,376,178	\$ 69,634,042
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable	\$ 1,695,042	\$ 2,282,427
Accrued compensation and related costs	2,176,078	2,221,416
Accrued expenses and other current liabilities	4,382,361	3,970,559
Note payable, current	226,655	226,355
Operating lease liability, short-term	323,038	317,840
Deferred revenue, short-term	5,538,525	6,736,175
Total current liabilities	14,341,699	15,754,772

Long-term liabilities:

Deferred revenue, long-term	3,004,418	3,012,206
Note payable, long-term	7,751,585	7,813,021
Operating lease liability, long-term	289,687	432,176
Total long-term liabilities	11,045,690	11,257,403

Total liabilities	25,387,389	27,012,175
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Commitments and contingencies (See Note 11)

Stockholders' equity:

Preferred stock \$0.0001 par value; 2,500,000 authorized; no shares issued or outstanding	-	-
Common stock \$0.0001 par value; 50,000,000 shares authorized; 11,109,730 shares issued and outstanding as of March 31, 2024 and 11,107,230 shares issued and outstanding as of December 31, 2023	1,110	1,109
Class A common stock \$0.0001 par value; 2,500,000 shares authorized; no shares issued or outstanding	-	-
Class B common stock \$0.0001 par value; 7,500,000 shares authorized; no shares issued or outstanding	-	-
Additional paid-in capital	32,108,513	31,957,765
Retained earnings	11,879,166	10,662,993
Total stockholders' equity	43,988,789	42,621,867
Total liabilities and stockholders' equity	\$ 69,376,178	\$ 69,634,042

See accompanying notes to unaudited condensed financial statements.

CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended	
	March 31, 2024	March 31, 2023
Revenues:		
Net sales	\$ 8,094,398	\$ 10,026,935
Total revenue	8,094,398	10,026,935
Cost of sales	2,632,257	3,077,997
Gross profit	5,462,141	6,948,938
Operating expenses:		
General and administrative	3,370,422	2,711,337
Research and development	693,380	766,296
Net operating expense	4,063,802	3,477,633
Income from operations	1,398,339	3,471,305
Other income:		
Other income	329,271	183,642
Gain on forgiveness of note payable	-	(67,229)
Other income		
Net other income	329,271	116,413
Income before provision for income taxes	1,727,610	3,587,718
Provision for income taxes	511,437	641,345
Net income	\$ 1,216,173	\$ 2,946,373
Net income per common share:		
Basic	\$ 0.11	\$ 0.27
Diluted	\$ 0.11	\$ 0.27
Weighted average shares outstanding:		
Basic	10,959,298	10,917,311
Diluted	10,961,188	10,919,391

See accompanying notes to unaudited condensed financial statements.

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VIRTRA, INC.
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

For the Three Months Ended March 31, 2024

Preferred Stock		Common Stock		Additional	Treasury	Accumulated	Total
Shares	Amount	Shares	Amount	Paid-In Capital	Stock	Earnings	

Balance at December 31, 2023	-	\$ -	11,107,230	\$ 1,109	\$31,957,765	\$ -	\$ 10,662,993	\$42,621,867
Stock options exercised	-	-	2,500	1	10,749	-	-	10,750
Stock reserved for future services	-	-	-	-	139,999	-	-	139,999
Net income	-	-	-	-	-	-	1,216,173	1,216,173
Balance at March 31, 2024	-	\$ -	11,109,730	\$ 1,110	\$32,108,513	\$ -	\$ 11,879,166	\$43,988,789

For the Three Months Ended March 31, 2023

	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Accumulated Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at December 31, 2022	-	\$ -	10,900,759	\$ 1,089	\$31,420,395	\$ -	\$ 2,260,135	\$33,681,619
Stock options exercised	-	-	7,500	1	16,725	-	-	16,726
Stock issued for services	-	-	16,015	1	74,999	-	-	75,000
Stock reserved for future services	-	-	-	-	24,063	-	-	24,063
Net income	-	-	-	-	-	-	2,946,373	2,946,373
Balance at March 31, 2023	-	\$ -	10,924,274	\$ 1,091	\$31,536,182	\$ -	\$ 5,206,508	\$36,743,781

See accompanying notes to unaudited condensed financial statements.

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

	Three Months Ended March 31	
	2024	2023
Cash flows from operating activities:		
Net income	\$ 1,216,173	\$ 2,946,373
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	236,547	227,570
Right of use amortization	127,893	121,774
Employee stock compensation	139,999	24,063
Bad Debt Expense	245,089	
Stock issued for service	-	75,000
Changes in operating assets and liabilities:		
Accounts receivable, net	5,178,893	(1,686,838)
Inventory, net	112,420	(1,155,466)
Deferred taxes	(33,203)	(865,745)
Unbilled revenue	(571,759)	(430,488)
Prepaid expenses and other current assets	74,091	(1,675)
Other assets	-	(792)
Accounts payable and other accrued expenses	(246,905)	1,610,884
Operating lease right of use	(137,291)	(126,592)
Deferred revenue	(1,205,438)	240,535
Net cash provided by operating activities	<u>5,136,509</u>	<u>978,603</u>
Cash flows from investing activities:		

Purchase of property and equipment	(1,546,772)	(163,441)
Net cash (used in) investing activities	<u>(1,546,772)</u>	<u>(163,441)</u>
Cash flows from financing activities:		
Principal payments of debt	(35,152)	(57,750)
Proceeds from Stock based options	<u>10,750</u>	<u>16,726</u>
Net cash (used in) financing activities:	<u>(24,402)</u>	<u>(41,024)</u>
Net increase in cash	3,565,335	774,138
Cash and restricted cash, beginning of period	<u>18,849,842</u>	<u>13,483,597</u>
Cash and restricted cash, end of period	<u>\$ 22,415,177</u>	<u>\$ 14,257,735</u>
Supplemental disclosure of cash flow information:		
Cash paid:		
Income taxes paid	\$ 24,002	\$ 108,777
Interest paid	\$ 61,552	\$ 3,345

See accompanying notes to unaudited condensed financial statements.

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Significant Accounting Policies

Organization and Business Operations

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” or “our”), located in Chandler, Arizona, is a global provider of judgmental use of force training simulators and firearms training simulators for the law enforcement, military, educational and commercial markets. The Company’s patented technologies, software, and scenarios provide intense training for de-escalation, judgmental use-of-force, marksmanship, and related training that mimics real-world situations. VirTra’s mission is to save and improve lives worldwide through practical and highly effective virtual reality and simulator technology. The Company sells its products worldwide through a direct sales force and international distribution partners. The original business started in 1993 as Ferris Productions, Inc and ultimately became VirTra, Inc., a Nevada corporation.

Basis of Presentation

The unaudited financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with our audited financial statements for the year ended December 31, 2023 included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on April 1, 2024. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading.

The accompanying unaudited financial statements reflect, in our opinion, all normal recurring adjustments necessary to present fairly our financial position on March 31, 2024, and the results of our operations and cash flows for the periods presented. We derived the December 31, 2023, balance sheet data from audited financial statements; however, we did not include all disclosures required by GAAP.

Interim results are subject to seasonal variations, and the results of operations for the three months ended March 31, 2024, are not necessarily indicative of the results to be expected for the full year.

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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts, inventory reserves, accrual for

warranty reserves, the carrying value of long-lived assets and intangible assets, income tax valuation allowances, and the allocation of the transaction price to the performance obligations in our contracts with customers.

Revenue Recognition

The Company adopted the Financial Accounting Standards Board’s (the “FASB”) Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customer (Topic 606) (“ASC 606”) on January 1, 2018, and the Company elected to use the modified retrospective transition method which requires application of ASC 606 to uncompleted contracts at the date of adoption. The adoption of ASC 606 did not have a material impact on the financial statements.

Under ASC 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant judgment is necessary when making these determinations.

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

The Company’s primary sources of revenue are derived from simulator and accessories sales, training and installation, the sale of customizable software and the sale of extended service-type warranties. The Company’s policy is to typically invoice upon completion of installation and/or training until such a time the performance obligations that have been satisfied are included in unbilled. Sales discounts are presented in the financial statements as reductions in determining net revenues. Credit sales are recorded as current assets (accounts receivable and unbilled revenue). Prepaid deposits received at the time of sale and extended warranties purchased are recorded as current and long-term liabilities (deferred revenue) until earned. The following briefly summarizes the nature of our performance obligations and method of revenue recognition:

<u>Performance Obligation</u>	<u>Method of Recognition</u>
Simulator and accessories	Upon transfer of control
STEP Program	Deferred and recognized over the life of the contract
Installation and training	Upon completion or over the period of services being rendered
Extended service-type warranty	Deferred and recognized over the life of the extended warranty
Customized software and content	Upon transfer of control or over the period services are performed depending on the terms of the contract
Customized content scenario	As performance obligation is transferred over time (input method using time and materials expanded)
Design and prototyping	Recognized at the completion of each agreed upon milestone
Sales-based royalty exchanged for license of intellectual property	Recognized as the performance obligation is satisfied over time – which is as the sales occur.

The Company recognizes revenue upon transfer of control or upon completion of the services for the simulator and accessories; for the installation and training and customized software performance obligations as the customer has the right and ability to direct the use of these products and services and the customer obtains all of the remaining benefit from these products and services at that time. Revenue from certain customized content contracts may be recognized over the period the services are performed based on the terms of the contract. For the sales-based royalty exchanged for license of intellectual property, the Company recognized revenue as the sales occur over time.

The Company recognizes revenue on a straight-line basis over the period of services being rendered for the extended service-type warranties as these warranties represent a performance obligation to “stand ready to perform” over the duration of the warranties. As such, the warranty service is performed continuously over the warranty period.

Each contract states the transaction price. The contracts do not include variable consideration, significant financing components or noncash

consideration. The Company has elected to exclude sales and similar taxes from the measurement of the transaction price. The contract's transaction price is allocated to the performance obligations based upon their stand-alone selling prices. Discounts on the stand-alone selling prices, if any, are allocated proportionately to each performance obligation.

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Disaggregation of Revenue

Under ASC 606, disaggregated revenue from contracts with customers depicts the nature, amount, timing, and uncertainty of revenue and cash flows affected by economic factors. The Company has evaluated revenues recognized and the following table illustrates the disaggregation disclosure by customer's location and performance obligation.

	Three Months Ended March 31							
	2024				2023			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	\$ 75,780	\$ 3,811,257	\$ 1,278,257	\$ 5,165,294	\$ 489,810	\$ 4,749,368	\$ 3,134,628	\$ 8,373,806
Extended Service-type warranties	-	870,803	4,202	875,005	23,343	539,208	19,424	581,975
Customized software and content	-	265,406	-	265,406	19,500	7,196	(16,861)	9,835
Installation and training	-	236,339	5,164	241,503	20,562	249,554	53,688	323,804
Design & Prototyping	-	583,326	-	583,326	-	-	-	-
STEP	-	954,349	9,515	963,864	-	730,273	7,242	737,515
Total Revenue	\$ 75,780	\$ 6,721,480	\$ 1,297,138	\$ 8,094,398	\$ 553,215	\$ 6,275,599	\$ 3,198,121	\$ 10,026,935

Commercial customers include selling through prime contractors for military or law enforcement contracts domestically and until it becomes a larger portion of the revenue will include any healthcare sales. Government customers are defined as directly selling to government agencies. For the three months ended March 31, 2024, governmental customers comprised \$6,721,480, or 83% of total net sales, commercial customers comprised \$75,780 or 1% of total net sales and international customers comprised \$1,297,138 or 16% of total net sales. By comparison, for the three months ended March 31, 2023, governmental customers comprised \$6,275,599, or 63% of total net sales, commercial customers comprised \$553,215 or 5% of total net sales and international customers comprised \$3,198,121, or 32% of total net sales. For the three months ended March 31, 2024, and 2023, the Company recorded \$963,864 and \$737,515, respectively, in STEP revenue, or 12% and 7%, respectively, of total net sales.

Customer Deposits

Customer deposits consist of prepaid deposits received for equipment purchase orders and for Subscription Training Equipment Partnership ("STEP") operating agreements that expire annually. Customer deposits are considered a deferred liability until the completion of the customer's contract performance obligation. When revenue is recognized, the deposit is applied to the customer's receivable balance. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled \$1,534,268 and \$2,092,095 on March 31, 2024, and December 31, 2023, respectively. Changes in deferred revenue amounts related to customer deposits will fluctuate from year to year based upon the mix of customers required to prepay deposits under the Company's credit policy. The decrease in deferred revenue from December was due to the Company converting the deposits into revenue as we delivered on our obligations.

Warranty

The Company warranties its products from manufacturing defects on a limited basis for a period of one year after purchase, but also sells separately priced extended service-type warranties for periods of up to four years after the expiration of the standard one-year warranty. During the term of the initial one-year 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 one year or less totaled \$2,417,342 and \$2,627,763 as of

March 31, 2024, and December 31, 2023, respectively. Deferred revenue for separately priced extended warranties longer than one year totaled \$2,930,779 and \$2,974,710 as of March 31, 2024, and December 31, 2023, respectively. The accrual for the one-year manufacturer's warranty liability totaled \$295,000 and \$354,000 as of March 31, 2024, and December 31, 2023, respectively. We did see a small downtick in some warranty repairs, due to new quality controls and equipment, so we were able to decrease the accrual for repair expenses. During the three months ended March 31, 2024, and 2023, the Company recognized revenue of \$875,044 and \$581,975, respectively, related to the extended service-type warranties that was amortized from the deferred revenue balance at the beginning of each period. Changes in deferred revenue amounts related to extended service-type warranties will fluctuate from year to year based upon the average remaining life of the warranties at the beginning of the period and new extended service-type warranties sold during the period.

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

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, certificates of deposit, and accounts receivable.

The Company's cash, cash equivalents and certificates of deposit are maintained with financial institutions with high credit standings and are FDIC insured deposits. 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 \$22,415,177 and \$18,349,842 as of March 31, 2024, and December 31, 2023, 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 U.S. federal, state and municipal agencies.

As of March 31, 2024, the Company had one customer that accounted for 22% of total accounts receivable. As of December 31, 2023, the Company had customers that accounted for 28% and 14% of total accounts receivable.

For the three months ended March 31, 2024 and 2023, the Company had did not have any single customer that accounted for 10% of total revenue.

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, using the treasury stock method, that would occur if outstanding stock options and warrants were exercised. Earnings per share computations are as follows:

	Three Months Ended March 31	
	2024	2023
Net Income	\$ 1,216,173	\$ 2,946,373
Weighted average common stock outstanding	10,959,298	10,917,311
Incremental shares from stock options	1,890	2,080
Weighted average common stock outstanding, diluted	10,961,188	10,919,391
Net Income per common share and common equivalent share		
Basic	\$ 0.11	\$ 0.27
Diluted	\$ 0.11	\$ 0.27

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Note 2. Inventory

Inventory consisted of the following as of:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Raw materials and work in process	\$ 12,782,747	\$ 12,834,368
Reserve	(490,287)	(429,488)
Total Inventory	<u>\$ 12,292,460</u>	<u>\$ 12,404,880</u>

The Company regularly evaluates the useful life of its spare parts inventory but did not have any cause to reclassify any this quarter.

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Land	\$ 1,778,987	\$ 1,778,987
Building & Building Improvements	9,146,556	9,146,556
Computer equipment	1,227,378	1,236,989
Furniture and office equipment	314,006	295,208
Machinery and equipment	4,326,010	2,865,014
STEP equipment	2,301,083	2,241,291
Leasehold improvements	358,584	358,584
Construction in Progress	2,470,054	2,456,259
Total property and equipment	21,922,658	20,375,888
Less: Accumulated depreciation and amortization	<u>(5,123,199)</u>	<u>(4,888,876)</u>
Property and equipment, net	<u>\$ 16,799,459</u>	<u>\$ 15,487,012</u>

Depreciation expenses, including STEP depreciation, were \$234,324 and \$195,034 for the three months ended March 31, 2024, and 2023, respectively.

Note 4. Intangible Assets

Intangible assets consisted of the following as of:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Patents	\$ 160,000	\$ 160,000
Capitalized media content	451,244	451,244
Acquired lease intangible assets	<u>83,963</u>	<u>83,963</u>
Total intangible assets	695,207	695,207
Less accumulated amortization	<u>(129,889)</u>	<u>(127,667)</u>
Intangible assets, net	<u>\$ 565,318</u>	<u>\$ 567,540</u>

Amortization expenses were \$2,222 and \$5,626 for the three months ended March 31, 2024, and 2023, respectively.

VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Note 5. Leases

The Company leases approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our former corporate office, manufacturing, assembly, warehouse, and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. From 2016 through March 2019, the Company leased approximately 4,529 rentable square feet of office and industrial space from an unaffiliated third party for our machine shop at 2169 East 5th Street, Tempe, Arizona 85284. In April 2019, the Company relocated the machine shop from the 5th Street location to 7910 South Kyrene Road, located within the same business complex as our main office. The Company executed a lease amendment to add an additional 5,131 rentable square feet for the machine shop and extended its existing office lease through April 2024. On June 1, 2022, we entered a new lease of approximately 9,350 square feet located at 12301 Challenger Parkway, Orlando, Florida, from an unaffiliated third party through May 2027.

The Company's lease agreements do not contain any residual value guarantees, restrictive covenants, or variable lease payments. The Company has not entered into any financing leases.

In addition to base rent, the Company's lease provides for additional payments for other charges, such as rental tax. The lease includes fixed rent escalations. The Company's lease does not include an option to renew.

The Company determines if an arrangement is a lease at inception. Operating leases are recorded in operating lease right of use assets, net, operating lease liability – short-term, and operating lease liability – long-term on its balance sheets.

Operating lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As the Company's lease does not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The incremental borrowing rate used at adoption was 4.5%. Significant judgement is required when determining the Company's incremental borrowing rate. The Company uses the implicit rate when readily determinable. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Effective June 1, 2022, the Company obtained a right-of-use asset in exchange for a new operating lease liability of \$840,855. Effective January 1, 2019, the Company obtained a right-of-use asset in exchange for a new operating lease liability in the amount of \$1,721,380 and derecognized \$46,523 deferred rent for an adjusted operating lease right-of-use asset in the net amount of \$1,674,857.

Balance Sheet Classification	March 31, 2024	December 31, 2023
Assets		
Operating lease right-of-use assets, December 31, 2023	\$ 716,687	\$ 1,212,814
Amortization for the three months ended March 31, 2024	(127,893)	(496,127)
Total operating lease right-of-use asset, March 31, 2024	<u>\$ 588,794</u>	<u>\$ 716,687</u>
Liabilities		
Current		
Operating lease liability, short-term	\$ 323,038	\$ 317,840
Non-current		
Operating lease liability, long-term	289,687	432,176
Total lease liabilities	<u>\$ 612,725</u>	<u>\$ 750,016</u>

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Future minimum lease payments as of March 31, 2024, under non-cancelable operating leases are as follows:

2024	\$ 190,045
2025	191,478

2026	196,311
2027	99,381
	<u> </u>
Total Lease Payments	677,215
Less: imputed interest	(64,490)
Operating Lease Liability	<u>\$ 612,725</u>

Rent expenses for the three months ended March 31, 2024, and 2023, were \$204,235 and \$108,230, respectively.

Note 6. Accrued Expenses

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

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Salaries and wages payable	\$ 225,152	\$ 457,565
Employee benefits payable	44,261	54,811
Accrued paid time off (PTO)	395,543	361,418
Profit sharing payable	1,511,122	1,347,622
	<u> </u>	<u> </u>
Total accrued compensation and related costs	<u>\$ 2,176,078</u>	<u>\$ 2,221,416</u>

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

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Manufacturer's warranties	\$ 295,000	\$ 354,000
Taxes payable	3,872,036	3,411,669
Miscellaneous payable	215,325	204,890
	<u> </u>	<u> </u>
Total accrued expenses and other current liabilities	<u>\$ 4,382,361</u>	<u>\$ 3,970,559</u>

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

Note 7. Note Payable

On August 25, 2021, the Company completed the purchase of real property located in Chandler, Arizona (the "Property") for \$10,800,000, paid with cash and proceeds from a mortgage loan from Arizona Bank & Trust in the amount of \$8,600,000. The loan terms include interest to be accrued at a fixed rate of 3% per year, 119 regular monthly payments of \$40,978, and one irregular payment of \$5,956,538 due on the maturity date of August 23, 2031. The Company began making monthly payments on September 23, 2021. The payment and performance of the loan is secured by a security interest in the property acquired.

The note payable amounts consist of the following:

	<u>March 31, 2024</u>	<u>December 31, 2023</u>
Short-term liabilities		
Note payable, principal	\$ 221,910	\$ 222,320
Accrued interest to date	4,745	4,035
	<u> </u>	<u> </u>
Note Payable, short-term	<u>\$ 226,655</u>	<u>\$ 226,355</u>
Long-term liabilities		
Note payable, principal	\$ 7,751,585	\$ 7,813,021
	<u> </u>	<u> </u>

Note payable, long term

\$ 7,751,585 \$ 7,813,021

Note 8. Related Party Transactions

During the three months ended March 31, 2024, one Board member purchased 2,500 shares of common stock, \$0.0001 par value per share (the “Common Stock”), pursuant to the exercise of previously awarded stock options at the exercise price of \$10,750.

During the three months ended March 31, 2023, one Board member and the Company’s Executive Chairman (then Co-CEO) purchased 7,500 shares of Common Stock pursuant to the exercise of previously awarded stock options at the exercise price of \$2.23 per share, for a total of \$16,726.

Note 9. Commitments and Contingencies

Litigation

From time to time, the Company is notified of litigation or that a claim is being made against it. The Company evaluates contingencies on an on-going basis and has established loss provisions for matters in which losses are probable and the amount of loss can be reasonably estimated. There is no pending litigation at this time.

Restricted Stock Unit Grants

On August 26, 2021, and April 11, 2022, the Compensation Committee of the Board of Directors granted a total of 392,223, and 288,889 Restricted Stock Units (RSUs), respectively, pursuant to Section 9 of the 2017 Equity Incentive Plan to the co-Chief Executive Officers and the Chief Operating Officer, to be awarded based on achievement of certain performance goals over the next three years. During August 2022, 168,090 Restricted Stock Units were forfeited upon the departure of the Chief Operating Officer.

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VIRTRA, INC.
NOTE TO FINANCIAL STATEMENTS
(Unaudited)

On December 1, 2022, the Company granted a total of 15,000 RSUs to its Chief Financial Officer, which can be awarded based on achievement of performance goals over the next three years. On January 1, 2023, the Company issued 42,735 RSUs to a new member of the Board of Directors which can be awarded only upon a sale of the Company.

It is the Company’s policy to estimate the fair value of the RSU’s on the date of the grant and evaluate the probability of achieving the net profit (net income under GAAP) tranches quarterly. If the target is deemed probable, the expense is amortized on a straight-line basis over the remaining period. The Company determined based on the vesting terms described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2023, was \$4,564,459 and therefore awarded 22,988 (prior to deduction of 9,142 shares to pay the tax withholding liability) and 29,630 (prior to the deduction of 11,394 shares to pay the tax withholding liability) shares of common stock to its Executive Chairman and CEO, respectively. The Company determined based on the vesting terms described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2024, of \$5,000,000 is probable and recorded expenses of \$139,998 related to the RSUs for the three months ended March 31, 2024.

Profit Sharing

VirTra provides a discretionary profit-sharing program that pays out a percentage of Company profits each year as a cash bonus to eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata in April and October of the following year to only active employees. For the three months ended March 31, 2024, and 2023, \$163,500 and \$150,000 was expensed to operations for profit sharing.

Note 10. Stockholders’ Equity

Stock Repurchase

On October 25, 2016, the Company’s Board of Directors authorized the repurchase of up to \$1 million of its common stock under Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. 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. 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. On January 9, 2019, VirTra’s Board of Directors authorized an additional \$1 million be allocated for the repurchase of VirTra’s stock under the existing 10b-18 plan. The stock repurchase program was suspended due to interim rulings for public-company recipients of a PPP loan under the CARES Act. Although the Company’s PPP loan was forgiven on July 20, 2021, the suspension of the stock repurchase program continues to remain in effect.

Non-qualified Stock Options

The Company has periodically issued non-qualified 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. Upon the exercise of these options, the Company expects to issue new authorized shares of its common stock. The following table summarizes all non-qualified stock options as of:

	March 31, 2024		December 31, 2023	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	15,000	\$ 4.03	45,000	\$ 4.26
Granted	-	-	-	-
Redeemed	(5,000)	4.3	(15,000)	5.09
Exercised	(2,500)	4.3	(15,000)	3.66
Expired / terminated	-	-	-	-
Options outstanding, end of period	7,500	\$ 3.76	15,000	\$ 4.03
Options exercisable, end of period	7,500	\$ 3.76	15,000	\$ 4.03

The Company did not have any non-vested stock options outstanding as of March 31, 2024, and December 31, 2023. The weighted average contractual term for options outstanding and exercisable on March 31, 2024, and 2023 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable on March 31, 2024, and 2023 was \$28,875 and \$1,800, respectively. For the three months ended March 31, 2024, and 2023, the Company received payments related to the exercise of options in the amount of \$10,750 and \$16,726, 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 of no intrinsic value.

2017 Equity Incentive Plan

Through March 31, 2024, 224,133 and 288,889 restricted stock units (RSUs) have been granted under the Equity Plan to the Company’s Executive Chairman and CEO, respectively, of which 17,753 and 158,976 shares were issued in settlement of such RSUs. Also, 10,543 and 14,057 restricted shares were issued to the Company’s former COO and Executive Chairman.

Common stock activity

During the three months ended March 31, 2024, one Board member purchased 2,500 shares of Common Stock pursuant to the exercise of previously awarded stock options at the exercise price of \$4.30 per share, for a total of \$10,750.

Note 11. Subsequent Events

None

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2023 and the related Management’s Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2023, filed with the Securities and Exchange Commission (the “SEC”) on April 1, 2024.

Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. The words “anticipates,” “believes,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “will,” “should,” “could,” “predicts,” “potential,” “continue,” “would” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements that we make. The forward-looking statements are applicable only as of the date on which they are made, and we do not assume any obligation to update any forward-looking statements. All forward-looking statements in this Quarterly Report on Form 10-Q are made based on our current expectations, forecasts, estimates and assumptions, and involve risks, uncertainties and other factors that could cause results or events to differ materially from those expressed in the forward-looking statements. In evaluating these statements, you should specifically consider numerous factors, uncertainties and risks that could affect our future results or operations. These factors, uncertainties and risks may cause our actual results to differ materially from any forward-looking statement set forth in this Quarterly Report on Form 10-Q. You should carefully consider these risk and uncertainties described and other information contained in the reports we file with or furnish to the SEC before making any investment decision with respect to our securities. All forward-looking statements attributable to us or people acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Business Overview

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” and “our”) is a global provider of judgmental use of force training simulator and firearms training simulators for the law enforcement, military, educational and commercial markets. The Company’s patented technologies, software, and scenarios provide intense training for de-escalation, judgmental use-of-force, marksmanship, and related training that mimics real-world situations. VirTra’s mission is to save and improve lives worldwide through practical and highly effective virtual reality and simulator technology.

The VirTra firearms training simulator allows marksmanship and realistic scenario-based training to take place daily without the need for a shooting range, protective equipment, role players, safety officers, or a scenario-based training site. We have 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 simulator also allows students to receive immediate feedback from the instructor without the potential for sustaining injuries by the instructor or the students. The instructor can teach and re-mediate critical issues, while placing realistic stress on the students due to the realism and safe training environment created by the VirTra simulator.

Business Strategy

We have two main customer groups, namely, law enforcement and military. These are quite different markets and require different sales and marketing programs as well as personnel. Our focus is to expand the market share and scope of our training simulators sales to these identified customer groups by pursuing the following key growth strategies:

- **Build Our Core Business.** Our goal is to profitably grow our market share by continuing to develop, produce and market the most effective simulators possible. Through disciplined growth in our business, we have achieved a solid balance sheet by increasing our working capital and limiting our bank debt. We plan to add staff to our experienced management team as needed to meet the expected increase in demand for our products and services as we increase our marketing and sales activities.
- **Increase Total Addressable Market.** We plan to increase the size of our total addressable market. This effort will focus on new marketing and new product and/or service offerings for the purpose of widening the number of types of customers who might consider our products or services uniquely compelling.
- **Broaden Product Offerings.** Since its formation in 1993, our company has had a proud tradition of innovation in the field of simulation and virtual reality. We plan to release revolutionary new products and services as well as continue incremental improvements to existing product lines. In some cases, the company may enter a new market segment via the introduction of a new type of product or service.
- **Partners and Acquisitions.** We try to spend our time and funds wisely and not tackle tasks that can be done more efficiently with partners. For example, international distribution is often best accomplished through a local distributor or agent. We are also open to the potential of acquiring additional businesses or of being acquired ourselves, based on what is expected to be optimal for our long-term future and our stockholders.

Product Offerings

Our simulator products include the following:

- V-300™ Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training
 - The V-300™ is the higher standard for decision-making simulation and tactical firearms training. Five screens and a 300-degree immersive training environment ensures that time in the simulator translates into real world survival skills. The system reconfigures to support 15 individual firing lanes.
 - A key feature of the V-300™ shows how quickly judgment decisions must be made, and, sometimes, if they are not made immediately and accurately, it can lead to the possible loss of lives. This feature, among others, supports our value proposition to our customers is that best practices is being prepared enough for the surprises that could be around every corner and the ability to safely neutralize any life-threatening encounters.
- V-180™ Simulator – a 180° screen with video capability is for smaller spaces or smaller budgets
 - The V-180™ is the higher standard for decision-making simulation and tactical firearms training. Three screens and a 180-degree immersive training environment ensure that time in the simulator translates into real world survival skills.
- V-100™ Simulator & V-100™ MIL – a single-screen based simulator systems
 - The V-100™ is the higher standard among single-screen firearms training simulators. Firearms training mode supports up to 4 individual firing lanes at one time. The optional Threat-Fire™ device safely simulates enemy return fire with an electric impulse (or vibration version), reinforcing performance under pressure. We offer an upgrade path, so a V-100™ firearms training and force options simulator can affordably grow into an advanced multi-screen trainer in upgraded products that we offer customers for future purchase.

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- 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 fits 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. The V-100™ MIL is the higher standard among single-screen small arms training simulators. Military Engagement Skills mode supplies realistic scenario training taken from real world events.
- The V-ST PRO™ a highly realistic single screen firearms shooting and skills training simulator with the ability to scale to multiple screens creating superior training environments. The system's flexibility supports a combination of marksmanship and use of force training on up to 5 screens from a single operator station. The V-ST PRO™ is also capable of displaying 1 to 30 lanes of marksmanship featuring real world, accurate ballistics.
- Virtual Interactive Coursework Training Academy (V-VICTA)™ enables law enforcement agencies, to effectively teach, train, test and sustain departmental training requirements through nationally accredited coursework and training scenarios using our simulators.
- Subscription Training Equipment Partnership (STEP)™ is a program that allows agencies to utilize VirTra's simulator products, accessories, and V-VICTA interactive coursework on a subscription basis.
- V-Author™ Software allows users to create, edit, and train with content specific to agency's objectives and environments. V-Author™ is an easy-to-use application capable of almost unlimited custom scenarios, skill drills, targeting exercises and firearms courseware proven to be highly effective for users of VirTra simulation products.
- Simulated Recoil Kits - 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.
- VirTra has installed a volumetric video capture studio in order to create training scenarios that could work in either screen-based simulators or in headset-based simulators. Volumetric video realism far exceeds that of computer-generated avatars which likely gives VirTra a strategic advantage for highly desired de-escalation training, especially when simulating human interaction is required.
- TASER©, OC spray and low-light training devices that interact with VirTra's simulators for training.

Results of operations for the three months ended March 31, 2024, and March 31, 2023

Revenues. Net sales were \$8,094,398 for the three months ended March 31, 2024, compared to \$10,026,935 for the same period in 2023, a decrease of \$1,932,537 or 19%. The decrease in revenue can be attributed to lower bookings in Q4 and Q1 as related to federal funding due to the continuing resolution and many contracts on hold.

Cost of Sales. Cost of sales were \$2,632,257 for the three months ended March 31, 2024, compared to \$3,077,997 for the same period in 2023, a decrease of \$445,740 or 14%. The dollar decrease is correlates with the lower revenues for the current quarter.

Gross Profit. Gross profit was \$5,462,141 for the three months ended March 31, 2024, compared to \$6,948,938 for the same period in 2023, a decrease of \$1,486,797, or 21%. The gross profit margin for the three months ended March 31, 2024, and 2023 was 67% and 69%, respectively. The gross margin was lower in 2024 mostly due to the cost of goods related to the Microsoft Prototype contract. We had a milestone payment in December of 2023 that had little cost associated with it. The costs from the second milestone were recorded this quarter and consumed some of the margin. Our efforts to lower the costs associated with the rest of the systems are evident with these results as only an overall 2% margin decrease was recognized.

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Operating Expenses. Net operating expense was \$4,063,802 for the three months ended March 31, 2024, compared to \$3,477,633 for the same period in 2023, an increase of \$586,169, or 17%. This increase is primarily evident in three areas. One is payroll and benefits as labor rates increase and as we bring on higher level staff to help build infrastructure for the future. The second area is in our IT spending as we prepare the organization to help us become more compliant with new regulations, which is needed for any future government contracts. The third area is travel as we are increasing our footprint in our sales territories.

Operating Income. Operating income was \$1,398,339 for the three months ended March 31, 2024, compared to \$3,471,305 for the same period in 2023, a decrease of 2,072,966 or 60%. This decrease is directly related to the lower revenue and higher operating expense discussed above.

Other Income. Other income net of other expense was \$329,271 for the three months ended March 31, 2024, compared to net other income of \$116,413 for the same period in 2023, an increase of \$212,858, or 183%, primarily from the lease payments from the subtenant at our older facility which was not leased during the 2023 quarter.

Provision (Benefit) for Income Tax. Provision for income tax was \$511,437 for the three months ended March 31, 2024, compared to \$641,345 for the same period in 2023, a decrease of \$129,908, or 20%. Provision for income tax is estimated quarterly applying both federal and state tax rates.

Net Income. Net income was \$1,216,173 for the three months ended March 31, 2024, compared to \$2,946,373 for the same period in 2023, a decrease of \$1,730,200 or 59%. The fluctuations in net income relate to each respective section discussed above.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization. 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 accounting principles generally accepted in the United States of America (“GAAP”). Adjusted EBITDA should not be considered as an alternative for net income (loss), cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity. A reconciliation of net loss to adjusted EBITDA is provided in the following table:

	For the Three Months Ended			
	March 31, 2024	March 31, 2023	Increase (Decrease)	% Change
Net Income	\$ 1,216,173	\$ 2,946,373	\$ (1,730,200)	-59%
Adjustments:				

Provision for income taxes	511,437	641,345	(129,908)	-20%
Depreciation and amortization	236,547	227,570	8,977	4%
Interest (net)	(177,898)	48,183	(226,081)	-469%
EBITDA	1,786,259	3,863,471	(2,077,212)	-54%
Right of use amortization	127,893	121,774	6,119	5%
Adjusted EBITDA	\$ 1,914,152	\$ 3,985,245	\$ (2,071,093)	-52%

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Liquidity and Capital Resources

Liquidity is an enterprise's ability to generate enough cash to meet its needs for cash requirements. The Company had \$22,415,177 and \$18,849,842 of cash and cash equivalents as of March 31, 2024, and December 31, 2023, respectively. Working capital was \$33,180,190 and \$33,240,516 as of March 31, 2024, and December 31, 2023, respectively.

Net cash provided by operating activities was \$5,136,509 and \$978,603 for the three months ended March 31, 2024, and 2023, respectively. Net cash provided by operating activities resulted primarily from the net income for both periods.

Net cash used in investing activities was \$1,546,772 for the three months ended March 31, 2024, compared to net cash used in investing activities of \$163,441 for the comparable 2023 period. Investing activities in 2024 and 2023 consisted of purchases of property and equipment.

Net cash used in financing activities was \$24,402 for the three months ended March 31, 2024, compared to \$41,024 used for the three months ended March 31, 2023. In both periods, cash was used primarily for principal payment of debt offset by the proceeds from the exercise of stock options.

Bookings and Backlog. The Company defines bookings as the total number of newly signed contracts and purchase orders received in a defined time period. The Company received bookings totaling \$2.9 million for the three months ended March 31, 2024. The Company defines backlog as the accumulation of bookings that have not started or are uncompleted performance objectives and cannot be recognized as revenue until delivered in a future quarter. Backlog also includes extended warranty agreements and STEP agreements that are deferred revenue recognized on a straight-line basis over the life of each respective agreement. As of March 31, 2024, the Company's backlog was \$14 million. The breakout of this backlog includes \$5.4 million in capital, \$6.4 million in service and warranties, and \$2.2 million in STEP contracts. Warranties/Service and STEP backlog calculated in this number is revenue that will be recognized on a straight-line basis over the next 7 years. In addition, there is \$6.8 million in renewable STEP contracts over the next 5 years. Management estimates most of the new capital bookings received in the first three months of 2024, will be converted to revenue in 2024. Management estimates the conversion of backlog based on current contract delivery dates; however, contract terms and dates are subject to modification and are routinely changed at the request of the customer.

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Cash Requirements

Our management believes that our current capital resources will be adequate to continue operating the company and maintaining our current business strategy for more than 12 months from the filing of this Quarterly Report. We are, however, open to raising additional funds from the capital markets, at a fair valuation, 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited financial statements, which have been prepared in accordance with GAAP. The preparation of our unaudited financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts and notes receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances, the carrying value of cost basis investments, and the allocation of the transaction price to the performance obligations in our

contracts with customers. We base our estimates on historical experience, our observance of trends in particular areas, and information or valuations and various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual amounts could differ significantly from amounts previously estimated. For a discussion of our critical accounting policies, refer to Part I, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2023. Management believes there have been no changes in our critical accounting policies during the three months ended March 31, 2024.

Recent Accounting Pronouncements

See Note 1 to our financial statements, included in Part I, Item 1., Financial Information of this Quarterly Report on Form 10-Q.

Off-Balance Sheet Arrangements

As of March 31, 2024, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Exchange Act. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our Company’s reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officers and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officers and principal financial officer, evaluated our Company’s disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officers and principal financial officer concluded that as of March 31, 2024, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified in our report on internal control over financial reporting contained in our Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC on April 1, 2024.

Change in internal control over financial reporting

There has been no change in our internal control over financial reporting that occurred during the quarterly period ended March 31, 2024, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, during the quarter ended March 31, 2024, and continuing into 2024, we are implementing more formal review and documentation of workflow processes and increased our ERP training for our staff. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There is no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which we are a party or of which any of our property is the subject.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the filing with the SEC of the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

(c) None.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
31.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officers and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRTRA, INC.

Date: May 14, 2024

By: /s/ John F. Givens II

John F. Givens II
Chief Executive Officer
(principal executive officer)

By: /s/ Alanna Boudreau

Chief Financial Officer
(principal financial officer)