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

**FORM 10-K**

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

For the fiscal year ended **December 31, 2020**

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)

<b>Nevada</b> _____ (State or other jurisdiction of incorporation or organization)	<b>93-1207631</b> _____ (I.R.S. Employer Identification No.)
<b>7970 S. Kyrene Rd. Tempe, AZ</b> _____ (Address of principal executive offices)	<b>85284</b> _____ (Zip Code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports 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 [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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 has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. [ ]

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

The aggregate market value of the voting stock and non-voting common equity held by non-affiliates of the registrant, based upon the closing sale price of the registrant’s common stock on June 30, 2020 was approximately \$27,876,144.

As of March 26, 2021, the registrant had 7,775,030 outstanding shares of common stock.

#### DOCUMENTS INCORPORATED BY REFERENCE

None.

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## PART I

### 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 (the “Securities Act”), 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 Annual Report on Form 10-K 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 various 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 Annual Report on Form 10-K. You should carefully consider these risk and uncertainties described and other information contained in the reports we file with or furnish to the Securities and Exchange Commission (the “SEC”) before making any investment decision with respect to our securities. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this cautionary statement.

## **ITEM 1. BUSINESS.**

### **Our Corporate History**

We are a corporation organized and existing under the laws of the State of Nevada. The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra Systems, Inc., a Texas corporation.

Effective as of October 1, 2016 (the “Effective Date”), we completed a conversion from a Texas corporation to a Nevada corporation pursuant to a Redomestication Plan of Conversion (the “Plan of Conversion”) that was approved by our Board of Directors on June 23, 2016 and by our stockholders on September 16, 2016. On the Effective Date, 7,927,774 shares of common stock of VirTra Systems, Inc., a Texas corporation, were converted into 7,927,774 shares of common stock of VirTra, Inc., a Nevada corporation. No stockholders exercised appraisal rights or dissenters’ rights for such shares in accordance with the Texas Business Organization Code.

As part of the Plan of Conversion, we filed Articles of Incorporation in Nevada whereby we changed our name from VirTra Systems, Inc. to VirTra, Inc. and revised our capitalization. Our Articles of Incorporation filed in Nevada authorize us to issue 62,500,000 shares, of which (1) 60,000,000 shares shall be common stock, par value \$0.0001 per share (the “Common Stock”), of which (a) 50,000,000 shares shall be Common Stock, (b) 2,500,000 shares shall be Class A Common Stock, par value \$0.0001 per share (the “Class A Common Stock”), and (c) 7,500,000 shares shall be Class B Common Stock, par value \$0.0001 per share (the “Class B Common Stock”) and (2) 2,500,000 shares shall be Preferred Stock, par value \$0.0001 per share, which may, at the sole discretion of the Board of Directors, be issued in one or more series (the “Preferred Stock”). We also adopted new bylaws as part of the Plan of Conversion.

Effective March 2, 2018, we effected a 1-for-2 reverse stock split of our issued and outstanding Common Stock (together the “Reverse Stock Split”). All references to shares of our Common Stock in this Annual Report on Form 10-K refer to the number of shares of Common Stock after giving effect to the Reverse Stock Split and are presented as if the Reverse Stock Split had occurred at the beginning of the earliest period presented.

### **Business Overview**

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” and “our”), located in Tempe, Arizona, is a global provider of judgmental use of force training simulators, firearms training simulators and driving 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 on a daily basis 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 is able to 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.

VirTra's Driver Training Simulator is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training. In addition, the driving rig adds realism with vibration and motion while the modern physics-based rendering engine provides not only photo-realistic realism but critical hazards such as dust storms, rain, and sun glare. VirTra's Driver Training Simulator provides an extensive and realistic range of training environments that allow for initial driver familiarization and orientation to advanced concepts, high-risk pursuits and defensive driving drills.

We also are engaged in licensing our technology to That's Eatertainment Corp. ("TEC"), a former related party and a developer and operator of a combined dining and entertainment concept centered on an indoor shooting experience. Mitchell Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. Accordingly, until October 2020, TEC was a related party.

## **Business Strategy**

We have four main customer groups, namely, law enforcement, military, educational (includes colleges and police academies) and civilian. These are very 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 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 to 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

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- 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 have to be made, and if they are not made immediately and quickly, it can lead to the possible loss of lives. This feature, among others, supports our value proposition to our customers that you cannot put a dollar value on 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 ensures 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.
  - 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.
- VirTra Driving Sim is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training.
- 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)<sup>™</sup> is a program that allows agencies to utilize VirTra’s simulator products, accessories, and V-VICTA interactive coursework on a subscription basis.
- V-Author<sup>™</sup> Software allows users to create, edit, and train with content specific to agency’s objectives and environments. V-Author<sup>™</sup> is an easy to use application capable of almost unlimited custom scenarios, skill drills, targeting exercises and firearms course-ware 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<sup>™</sup> device which applies real-world stress on the trainees during simulation training.
- TASER<sup>®</sup>, OC spray and low-light training devices that interact with VirTra’s simulators for training.

### **Modern Round and TEC**

On the civilian side, on January 16, 2015, we entered into a Co-Venture Agreement (the “Co-Venture Agreement”) with Modern Round, Inc. (formerly, Modern Round, LLC) (“Modern Round”). Modern Round is a wholly owned subsidiary of TEC (formerly known as Modern Round Entertainment Corporation), a developer and operator of a combined dining and entertainment concept centered on an indoor virtual shooting entertainment concept. Mitchell Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. Accordingly, until October 2020, Modern Round and TEC were related parties. TEC currently operates two virtual shooting lounge facilities in Peoria and Mesa, Arizona. Under the terms of the agreement, we granted Modern Round, a former related party, an exclusive, non-transferable royalty-bearing right and license to use our software in virtual shooting lounge facilities for sales-based royalties.

### **Operations and Suppliers**

We produce some of our own products. We also rely on a variety of suppliers. Management is uncertain whether we might encounter future delays with suppliers that would have a material impact on us. However, supplier delays would adversely affect us (see Item 1A. Risk Factors, including “—Public health pandemics, epidemics or outbreaks, such as COVID-19, or coronavirus, could adversely impact our business.”)

### **Competition and Competitive Landscape**

We compete against a number of established companies that provide similar products and services, some of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. There are also companies whose products do not compete directly, but are sometimes closely related to the products we offer. Arotech, Inc., Cubic, Inc., Laser Shot, Inc., Meggitt Training Systems, and Ti Training Corp are our main competitors in some or all of our markets.

We believe that our products and services are superior to those offered by our competitors based on our strength in developing higher quality software solutions, our patented accessories and our extensive library of virtual shooting scenario content that would require a substantial investment by a competitor to offer a comparable product.

### **Modern Round Co-Venture Agreement**

The Co-Venture Agreement with Modern Round grants TEC an exclusive non-transferrable license to use the Company’s technology and certain equipment solely for use at locations to operate the concept, as defined in the

Co-Venture Agreement. TEC agreed to pay the Company throughout the term of the Co-Venture Agreement, a royalty based on gross revenue, as defined and subject to certain minimum royalties commencing with the first twelve-month period subsequent to the respective milestone date of June 1, 2017. Under the terms of the original agreement, if the total royalty payments for locations in the United States and Canada together do not total at least the minimum royalty amount specified in the agreement, TEC may pay to VirTra the difference between the amount of total royalty payments and the minimum specified in the agreement to maintain exclusivity. The Co-Venture Agreement also provided for (i) the grant of 1,365,789 membership units of Modern Round (“Units”) to the Company, (ii) a right to participate to the extent of five percent of any offering by Modern Round of its Units, and (iii) warrants to purchase 1,365,789 Units at a price of \$0.25 per share.

On December 31, 2015, Modern Round merged with a subsidiary of MREC pursuant to a Plan of Merger (the “Merger Agreement”) and each unit of Modern Round issued and outstanding as of the effective time of the merger automatically converted into the right to receive approximately 1.2277 shares of MREC common stock. As a result of the Merger Agreement, we held 1,676,748 shares of MREC, options to purchase 153,459 shares of MREC common stock at an exercise price of \$0.41 per share, and conditional warrants to purchase 1,676,747 shares of MREC common stock at an exercise price of \$0.20 per share. On October 25, 2016, we exercised the warrant and purchased 1,676,747 shares of MREC common stock for \$335,349 resulting in our aggregate holdings of MREC increasing to 3,353,495.

On August 16, 2017, the Company amended the Co-Venture Agreement to permit TEC to sublicense the VirTra Technology to third party operators of stand-alone location-based entertainment companies. TEC agreed to pay the Company royalties for any such sublicenses in an amount equal to 10% of the revenue paid to TEC in cases where TEC pays for the cost of the equipment for such location or 14% of the revenue paid to TEC in cases where it does not pay for the cost of the equipment.

On July 23, 2018, the Company amended the Co-Venture Agreement to (i) confirm the minimum royalty deficiency benefit due for the royalty period ended May 31, 2018; (ii) establish payment terms for the minimum royalty deficiency benefit due, to include both cash and convertible promissory note payment; (iii) clarify the exclusivity provisions of the Agreement; and (iv) amend the minimum royalty calculations to only TEC branded facilities.

On July 31, 2019, the Company executed the First Amendment to Convertible Promissory Note with TEC to extend the Convertible Note’s maturity date for one additional year to August 1, 2020 and TEC remitted a payment of 20% of its net proceeds from its recent public offering totaling \$16,000. All other terms and conditions of the Convertible Note remained unchanged. For the years ended December 31, 2020 and 2019, respectively, the Company recognized license fee income (royalties) from TEC of \$45,247 and \$130,625.

As of December 31, 2019, the Company held 560,000 shares of TEC common stock, representing approximately 4.8% of the issued and outstanding common shares of TEC. The Company determined a bona fide offer by TEC to sell investments for an amount less than the carrying amount of the Company’s investment occurred for the year ended December 31, 2019. As a result, an impairment loss of \$280,000 was taken to write-down the TEC investment to the estimated fair value. During 2020, the Company determined the investment to be fully impaired and subsequently wrote down remaining \$840,000. The impairment losses were recorded as an operating expense in 2020 and 2019. The Company recorded its investment at the estimated fair value as of December 31, 2020 and 2019 of \$0 and \$840,000, respectively.

In addition, at December 31, 2020, the Company held a warrant to purchase 25,577 shares of TEC common stock at an exercise price of \$2.4436 per share. This warrant became exercisable on April 14, 2016, the date of grant, and expires on the tenth anniversary of the date of grant, if not earlier pursuant to the terms of the option.

Mitchell Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. Accordingly, until October 2020, TEC was a related party. As of October 11, 2020, TEC is no longer considered a related party.

## **Intellectual Property**

We own or have rights to trademarks or trade names that we use in connection with the operation of our business, including our corporate names, logos and website names. In addition, we own or have the rights to copyrights, trade secrets and other proprietary rights that protect the content of our products and the formulations for such products. This Annual Report on Form 10-K may also contain trademarks, service marks and trade names of other companies, which are the property of their respective owners. Our use or display of third parties' trademarks, service marks, trade names or products in this Annual Report on Form 10-K is not intended to, and should not be read to, imply a relationship with or endorsement or sponsorship of us. Solely for convenience, some of the copyrights, trade names and trademarks referred to in this Annual Report on Form 10-K are listed without their ©, ® and ™ symbols, but we will assert, to the fullest extent under applicable law, our rights to our copyrights, trade names and trademarks. All other trademarks are the property of their respective owners.

We rely on certain proprietary technology and seek to protect our interests through a combination of patents, trademarks, copyrights, know-how, trade secrets and security measures, including confidentiality agreements. Our policy generally is to secure protection for significant innovations to the fullest extent practicable. Further, we seek to expand and improve the technological base and individual features of our products through ongoing research and development programs.

Our patent portfolio includes seven issued U.S. patents, which expire between 2025 and 2037. In 2019, VirTra completed an Asset Purchase Agreement with Tiberius Technology, LLC, that included purchase of a patent and two patent pendings, all patent ownership was transferred effective March 13, 2019 and the two patent pendings were issued as patents.

We own the trademarks for “VirTra,” “VirTra Systems”, “Threat-Fire” and many other branding trademarks. These trademarks are registered in the United States. We consider the protection of our trademarks to be important to our business.

We also have copyright protection for our intellectual property produced for use in our products.

We rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and through other security measures. However, we may be unable to detect the unauthorized use of or take appropriate steps to enforce, our intellectual property rights. Effective trade secret protection may not be available in every country in which we offer or intend to offer our products and services to the same extent as in the United States. Failure to adequately protect our intellectual property could harm or even destroy our brands and impair our ability to compete effectively. Further, enforcing our intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

## **Research and Development**

During the years ended December 31, 2020 and 2019, our research and product development expenses were approximately \$1,603,379 and \$1,345,513, respectively.

## ***Sources and Availability of Raw Materials/Manufacturing and Assembly***

We obtain the key components of our products from a variety of sources that we purchase on a purchase order basis from local suppliers at market prices based on our production requirements. We believe alternative sources generally exist for the components used in our products.

Our manufacturing, assembly, warehouse and shipping facilities are located in Tempe, Arizona. See “—Business – Property.”

## **Employees**

As of December 31, 2020, we employed 92 full-time employees. We believe that we maintain a satisfactory working relationship with our employees and we do not currently have any labor disputes.

## **Property**

We lease approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our corporate office, manufacturing, assembly, warehouse and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. In addition, we lease approximately 5,131 rentable square feet of office and industrial space within the same business complex as our main office from an unaffiliated third party for our machine shop at 7910 South Kyrene Road, Tempe, Arizona 85226. Both properties are under the same lease agreement which expires in April 2024.

## **Operations**

Our operations are conducted from our principal executive office in Tempe, Arizona. We have no offices or employees internationally. However, our U.S.-based sales force works to secure contracts to supply our products in U.S. and foreign markets. As of December 31, 2020, we have performed sales contracts and warranty service obligations in the U.S. and 33 foreign countries. When our products are introduced into an international market, it is either pursuant to a contract directly with a customer located in the foreign country, or pursuant to a contract between our company and a U.S. government agency (such as the U.S. Department of State). In the latter instance, our customer is the relevant U.S. government agency. The government agency may then distribute our products to third parties within the particular country.

## **Regulatory Matters**

Our business is regulated in most of our markets. We deal with numerous U.S. government agencies and entities, including, but not limited to, branches of the U.S. military and the Department of Homeland Security. Similar government authorities exist in our international markets.

We are also subject to export laws and regulations. These laws include, among others, the U.S. Export Administration Regulations, administered by the U.S. Department of Commerce, Bureau of Industry and Security, the International Traffic in Arms Regulations (the "ITAR"), administered by the U.S. Department of State, Directorate of Defense Trade Controls, and trade sanctions, regulations and embargoes administered by the U.S. Department of Treasury, Office of Foreign Assets Control. Among its many provisions, the ITAR requires a license application for the export of firearms and congressional approval for any application with a total value of \$1 million or higher.

Any failures to comply with these laws and regulations could result in civil or criminal penalties, fines, investigations, adverse publicity and restrictions on our ability to export our products and repeat failures could carry more significant penalties. Any changes in export regulations may further restrict the export of our products. The length of time required by the licensing processes can vary, potentially delaying the shipment of products and the recognition of the corresponding revenue. Any restrictions on the export of our products could have a material adverse effect on our competitive position, results of operations, cash flows, or financial condition.

For additional information related to export regulations, see Item 1A, "Risk Factors – Risks Related to Our Business."

## **Government Contracts**

The U.S. government, and other governments, may terminate any of our government contracts at their convenience, as well as for default, based on our failure to meet specified performance requirements. If any of our

U.S. government contracts were to be terminated for convenience, we generally would be entitled to receive payment for work completed and allowable termination or cancellation costs. If any of our government contracts were to be terminated for default, generally the U.S. government would pay only for the work that has been accepted and can require us to pay the difference between the original contract price and the cost to re-procure the contract items, net of the work accepted from the original contract. The U.S. government can also hold us liable for damages resulting from the default. For additional information related to government contracts, see Item 1A. “Risk Factors – Risks Related to Our Business.”

## **Environmental**

We are subject to various federal, state, local and non-U.S. laws and regulations relating to environmental protection, including the discharge, treatment, storage, disposal and remediation of hazardous substances and wastes. We continually assess our compliance status and management of environmental matters to ensure our operations are in substantial compliance with all applicable environmental laws and regulations. Investigation, remediation, operation and maintenance costs associated with environmental compliance and management of sites are a normal, recurring part of our operations. These costs often are allowable costs under our contracts with the U.S. government. It is reasonably possible that continued environmental compliance could have a material impact on our results of operations, financial condition or cash flows if additional work requirements or more stringent clean-up standards are imposed by regulators, new areas of soil and groundwater contamination are discovered and/or expansions of work scope are prompted by the results of investigations.

## **ITEM 1A. RISK FACTORS**

In addition to the other information contained in this Annual Report on Form 10-K, we have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. You should carefully consider the risks described below before making an investment decision.

### **Risks Related to Our Business**

*We depend on government contracts for substantially all of our revenues and the loss of government contracts or a delay or decline in funding of existing or future government contracts could decrease our backlog or adversely affect our sales and cash flows and our ability to fund our growth.*

Our revenues from contracts, directly or indirectly, with foreign and U.S. state, regional and local governmental agencies represented substantially all of our total revenues in fiscal year 2020. Although these various government agencies are subject to common budgetary pressures and other factors, many of our various government customers exercise independent purchasing decisions. As a result of the concentration of business with governmental agencies, we are vulnerable to adverse changes in our revenues, income and cash flows if a significant number of our government contracts, subcontracts or prospects are delayed or canceled for budgetary or other reasons.

The factors that could cause us to lose these contracts and could decrease our backlog or otherwise materially harm our business, prospects, financial condition or results of operations include:

- budget constraints affecting government spending generally, or specific departments or agencies such as U.S. or foreign defense and transit agencies and regional transit agencies, and changes in fiscal policies or a reduction of available funding;
- re-allocation of government resources as the result of actual or threatened terrorism or hostile activities or for other reasons;
- disruptions in our customers’ ability to access funding from capital markets;

- curtailment of governments' use of outsourced service providers and governments' in-sourcing of certain services;
- the adoption of new laws or regulations pertaining to government procurement;
- government appropriations delays or blanket reductions in departmental budgets;
- suspension or prohibition from contracting with the government or any significant agency with which we conduct business;
- increased use of shorter duration awards, which increases the frequency we may need to re compete for work;
- impairment of our reputation or relationships with any significant government agency with which we conduct business;
- decreased use of small business set asides or changes to the definition of small business by government agencies;
- increased use of lowest-priced, technically acceptable contract award criteria by government agencies;
- increased aggressiveness by the government in seeking rights in technical data, computer software, and computer software documentation that we deliver under a contract, which may result in "leveling the playing field" for competitors on follow-on procurements;
- impairment of our ability to provide third-party guarantees and letters of credit; and
- delays in the payment of our invoices by government payment offices.
- The COVID-19 public health pandemic could adversely impact our operations, including our manufacturing and supply chain, sales and marketing and could have an adverse impact on our business and our financial results.

***Government spending priorities and terms may change in a manner adverse to our businesses.***

A significant percentage of our revenue comes from domestic and foreign police forces. If these government entities have to cut their budgets, it is possible that we will lose this source of revenue, which could materially adversely affect our business, prospects, financial condition or results of operations. We are working at diversifying our business so that we are not as dependent, but there is no assurance that we will be successful at doing so.

***Public health pandemics, epidemics or outbreaks, such as COVID-19, or coronavirus, could adversely impact our business.***

In December 2019, a novel strain of coronavirus (COVID-19) emerged in Wuhan, Hubei Province, China. While initially the outbreak was largely concentrated in China and caused significant disruptions to its economy, it has now spread to several other countries, including the United States, and infections have been reported globally. The spread of COVID-19 has affected segments of the global economy and may affect our operations, including the potential interruption of our supply chain.

The spread of COVID-19, or another infectious disease, could also negatively affect the operations at our third-party manufacturers, which could result in delays or disruptions in the supply of our products. In addition, we may take temporary precautionary measures intended to help minimize the risk of the virus to our employees, including temporarily requiring all employees to work remotely, suspending all non-essential travel worldwide for our

employees, and discouraging employee attendance at industry events and in-person work-related meetings, which could negatively affect our business.

The extent to which the coronavirus impacts our operations will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information which may emerge concerning the severity of the coronavirus, the actions to contain the coronavirus or treat its impact, and changes in government spending or priorities, among others. In particular, the continued spread of the coronavirus globally could adversely impact our operations, including among others, our manufacturing and supply chain, sales and marketing and could have an adverse impact on our business and our financial results. The COVID-19 outbreak is a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect demand for our products and likely impact our operating results.

***Intense competition could negatively impact our sales and operating results.***

Our products are sold in highly competitive markets with limited barriers to entry. We compete against a number of established companies that provide similar products and services, some of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. There are also companies whose products do not compete directly, but are sometimes closely related to the products we offer. Arotech, Inc., Cubic Inc., Laser Shot, Inc., Meggitt Training Systems, and Ti Training Corp. are our main competitors in some or all of our markets.

We believe that our products and services are superior to those offered by our competitors based on our strength in developing higher quality software solutions, our patented accessories and our extensive library of training scenario content that would require a substantial investment of money and time by a competitor to offer a comparable product. The introduction by competitors of lower-priced or more innovative products could, however, result in a significant decline in our revenues and have a material adverse effect on our operating results, financial position and cash flows.

***If we are unable to anticipate customer preferences or to effectively identify, market and sell future products, our future revenues and operating results could be adversely affected.***

Our future success depends on our ability to effectively identify, market and sell new products that respond to new and evolving customer preferences. Accordingly, our revenues and operating results may be adversely affected if we are unable to identify or acquire rights to new products that satisfy customer preferences. In addition, any new products that we market may not generate sufficient revenues to recoup their identification, development, acquisition, marketing, selling and other costs.

***Decline in state and local government spending would likely negatively affect our product revenues and earnings.***

Success of each of the products we plan to sell depends substantially on the amount of funds budgeted by state and local government agencies that make up our current and potential customers. Global credit and financial markets have experienced extreme disruptions in the recent past, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that similar disruptions will not occur in the future. Deterioration in general economic conditions may result in lower tax revenues that could lead to reductions in government spending, especially spending for discretionary simulation training products such as ours. Poor economic conditions could in turn lead to substantial decreases in our net sales or have a material adverse effect on our operating results, financial position and cash flows.

***We may not be able to receive or retain the necessary licenses or authorizations required for us to export or re-export our products, technical data or services, or to transfer technology from foreign sources and to work collaboratively with them. Denials of such licenses and authorizations could have a material adverse effect on our business and results of operations.***

U.S. regulations concerning export controls require us to screen potential customers, destinations, and technology to ensure that sensitive equipment, technology and services are not exported in violation of U.S. policy or diverted to improper uses or users. In order for us to export certain products, technical data or services, we are required to obtain

licenses from the U.S. government, often on a transaction-by-transaction basis. These licenses are generally required for the export of the military versions of our products and technical data and for defense services. We cannot be sure of our ability to obtain the U.S. government licenses or other approvals required to export our products, technical data and services for sales to foreign governments, foreign commercial customers or foreign destinations.

In addition, in order for us to obtain certain technical know-how from foreign vendors and to collaborate on improvements on such technology with foreign vendors, we may need to obtain U.S. government approval for such collaboration through manufacturing license or technical assistance agreements approved by U.S. government export control agencies. The U.S. government has the right, without notice, to revoke or suspend export licenses and authorizations for reasons of foreign policy, issues over which we have no control. Failure to receive required licenses or authorizations would hinder our ability to export our products, data and services and to use some advanced technology from foreign sources. This could have a material adverse effect on our business, results of operations and financial condition.

***Our failure to comply with export control rules could have a material adverse effect on our business.***

Our failure to comply with the export control rules described above could expose us to significant criminal or civil enforcement action by the U.S. government, and a conviction could result in denial of export privileges, as well as contractual suspension or debarment under U.S. government contracts, either of which could have a material adverse effect on our business, results of operations and financial condition.

***Failure to comply with the United States Foreign Corrupt Practices Act could subject us to penalties and other adverse consequences.***

We are subject to the United States Foreign Corrupt Practices Act, which generally prohibits United States companies from engaging in bribery or other prohibited payments to foreign officials for the purpose of obtaining or retaining business. Corruption, extortion, bribery, pay-offs, theft and other fraudulent practices occur from time-to-time in the foreign countries where we sell our products and services. We can make no assurance, however, that our employees or other agents will not engage in such conduct for which we might be held responsible. If our employees or other agents are found to have engaged in such practices, we could suffer severe penalties and other consequences that may have a material adverse effect on our business, financial condition and results of operations.

***We may face competition from providers of comparable products. Increased competition in those product categories could negatively affect our future revenues and operating results.***

Since we will not be the only seller and since we have a limited number of patents, the introduction of comparable products designed to compete with our products may increase in the future. With so much focus on homeland security and terrorism, it is possible that more companies will enter our business and sell new and/or innovative training tools. One area of particular concern is new virtual reality (VR) hardware and software. If other companies are able to create new training tools that are more realistic or effective, we may not be able to compete effectively. Introduction by competitors of comparable products, a maturing product lifecycle or other factors could result in a decline in our revenues derived from these products. A significant decline in our sales of these products, without offsetting sales gains, would have a material adverse effect on our operating results, financial position and cash flows.

***We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of our market share and a decrease in our revenues and gross profit.***

The markets for law enforcement, military, educational and commercial simulation training are highly competitive and include many new competitors as well as increased competition from established companies expanding their production and marketing of performance products. Despite owning patents, trademarks and copyrights, our current and future competitors could manufacture and sell products with performance characteristics

and functionality similar to the products we sell and that we plan to sell. Some of our competitors are large companies with strong worldwide brand recognition, such as Cubic and Meggitt that have significantly greater financial, distribution, marketing and other resources than we do. Some of our competitors have significant competitive advantages, including longer operating histories, larger sales forces, bigger advertising budgets, better brand recognition, greater economies of scale and long-term relationships with key military customers that are potentially highly valuable because of the significant volume that our competitors sell to them.

As a result, these competitors may be better equipped than we are to influence customer preferences or otherwise increase their market share by:

- quickly adapting to changes in customer requirements;

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- readily taking advantage of acquisition and other opportunities;
- discounting excess inventory that has been written down or written off;
- devoting resources to the marketing and sale of their products, including significant advertising, media placement and product endorsement;
- adopting aggressive pricing policies; and
- engaging in lengthy and costly intellectual property and other disputes.

***Disruptions could negatively impact revenue and results of operation.***

Our ability to manufacture and/or sell our products may be impaired by damage or disruption to our manufacturing, warehousing or distribution capabilities, or to the capabilities of our suppliers, contract manufacturers, logistics service providers or independent distributors. This damage or disruption could result from execution issues, as well as factors that are hard to predict or are beyond our control, such as product or raw material scarcity, adverse weather conditions, natural disasters, fire, terrorism, pandemics, strikes, cybersecurity breaches, government shutdowns, disruptions in logistics, supplier capacity constraints or other events. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, may adversely affect our business or financial results, particularly in circumstances when a product is sourced from a single supplier or location. Disputes with significant suppliers, contract manufacturers, logistics service providers or independent distributors, including disputes regarding pricing or performance, may also adversely affect our ability to manufacture and/or sell our products, as well as our business or financial results. We are actively monitoring the recent coronavirus outbreak and its potential impact on our supply chain and operations. Although our products are manufactured in North America and we source the significant majority of our ingredients and raw materials from North America, due to current and potential future port closures and other restrictions resulting from the outbreak, global supply may become constrained, which may cause the price of certain ingredients and raw materials used in our products to increase and/or we may experience disruptions to our operations. While we do not expect that the virus will have a material adverse effect on our business or financial results at this time, we are unable to accurately predict the impact that the coronavirus will have due to various uncertainties, including the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.

***Some of the components of our products pose potential safety risks which could create potential liability exposure for us.***

Some of the components of our products contain elements that may pose potential safety risks. In addition to these risks, there can be no assurance that accidents in the facilities that use our products will not occur. Any accident, whether occasioned by the use of all or any part of our products or technology or by our customers' operations, could

adversely affect commercial acceptance of our products and could result in claims for damages resulting from injuries or death. Any of these occurrences would materially adversely affect our operations and financial condition. In the event that our products fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on our financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that we maintain will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

***Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and operating results.***

Companies engaged in the sales of products are frequently subject to litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. Some companies, including some of our competitors, own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. Third parties may in the future assert that we have infringed, misappropriated or otherwise violated their intellectual property rights. Existing laws and regulations are evolving and subject to different interpretations, and various federal and state legislative or regulatory bodies may expand current or enact new laws or regulations. We cannot guarantee you that we are not infringing or violating any third-party intellectual property rights.

We cannot predict whether assertions of third-party intellectual property rights or any infringement or misappropriation claims arising from such assertions will substantially harm our business and operating results. If we are forced to defend against any infringement or misappropriation claims, we may be required to expend significant time and financial resources on the defense of such claims, even if without merit, settled out of court, or determined in our favor. Furthermore, an adverse outcome of a dispute may require us to: pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed a party's intellectual property; cease making, licensing or using products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or materials; or to indemnify our partners and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. In addition, we do not carry broadly applicable patent liability insurance and any lawsuits regarding patent rights, regardless of their success, could be expensive to resolve and would divert the time and attention of our management and technical personnel.

***Our business is dependent on proprietary rights that may be difficult to protect and could affect our ability to compete effectively.***

Our ability to compete effectively will depend on our ability to maintain the proprietary nature of our technology and content through a combination of patent, trademark, copyright and trade secret protection, non-disclosure agreements and licensing arrangements.

Litigation, or participation in administrative proceedings, may be necessary to protect our proprietary rights. This type of litigation can be costly and time consuming and could divert company resources and management attention to defend our rights, and this could harm us even if we were to be successful in the litigation and there is no guarantee we would be successful in such litigation. In the absence of patent protection, and despite our reliance upon our proprietary confidential information, our competitors may be able to use innovations similar to those used by us to design and manufacture products directly competitive with our products. In addition, no assurance can be given that others will not obtain patents that we will need to license or design around. To the extent any of our products are covered by third-party patents, we could need to acquire a license under such patents to develop and market our products.

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. In the event of patent litigation, we

cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third-party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design around such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

We also rely on trade secrets and proprietary know-how that we seek to protect, in part, through non-disclosure and confidentiality agreements with our customers, employees, consultants, and entities with which we maintain strategic relationships. We cannot assure you that these agreements will not be breached, that we would have adequate remedies for any breach or that our trade secrets will not otherwise become known or be independently developed by competitors.

***We depend on our executive officers, the loss of whom could materially harm our business.***

We rely upon the accumulated knowledge, skills and experience of our executive officers and significant employees. Our Chief Executive Officer, President and Chairman of the Board, Robert Ferris, built our business from inception and, along with other members of the management team, are responsible for many of the products and clients that we have today. If they were to leave us or become incapacitated, we might suffer in our planning and execution of business strategy and operations, impacting our financial results. We also do not maintain any key man life insurance policies for any of our employees.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Common Stock may decline.***

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. Further, we are required to report any changes in internal controls on a quarterly basis. In addition, we are required to furnish a report by management on the effectiveness of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the “Sarbanes-Oxley Act”).

We will design, implement, and test the internal controls over financial reporting required to comply with these obligations. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner or assert that our internal control over financial reporting is ineffective, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of the Common Stock could be negatively affected. We also could become subject to investigations by the stock exchange on which the securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***As an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”), we are permitted to rely on exemptions from certain disclosure requirements.***

We qualify as an “emerging growth company” under the JOBS Act. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;

- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to stockholder advisory votes, such as “say-on-pay” and “say-on-frequency”; and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation.

In addition, Section 102 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. We have elected to take advantage of the benefits of this extended transition period. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed \$1 billion, (ii) the date that we become a “large accelerated filer” as defined in Rule 12b-2 under the Exchange Act, which would occur if the market value of our ordinary shares that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter or (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the preceding three year period.

Until such time, however, we cannot predict if investors will find our Common Stock less attractive because we may rely on these exemptions. If some investors find our Common Stock less attractive as a result, there may be a less active trading market for our Common Stock and the price of our securities may be more volatile.

***As an emerging growth company, our auditor is not required to attest to the effectiveness of our internal controls.***

Our independent registered public accounting firm is not required to attest to the effectiveness of our internal control over financial reporting while we are an emerging growth company or a smaller reporting company as defined under rules promulgated by the SEC. This means that the effectiveness of our financial reporting may differ from our peer companies in that they may be required to obtain independent registered public accounting firm attestations as to the effectiveness of their internal controls over financial reporting and we are not. While our management is required to attest to internal control over financial reporting and we will be required to detail changes to our internal controls on a quarterly basis, we cannot provide assurance that the independent registered public accounting firm’s review process in assessing the effectiveness of our internal controls over financial reporting, if obtained, would not find one or more material weaknesses or significant deficiencies. Further, once we cease to be an emerging growth company and no longer qualify as a smaller reporting company, we will be subject to independent registered public accounting firm attestation regarding the effectiveness of our internal controls over financial reporting. Even if management finds such controls to be effective, our independent registered public accounting firm may decline to attest to the effectiveness of such internal controls and issue a qualified report.

***We do incur significant increased costs as a result of operating as a public company, and our management is required to devote substantial time to new compliance initiatives.***

As a public company with an obligation to file reports with the SEC under the Exchange Act, we do incur significant legal, accounting and other expenses that we would not incur as a private company. In addition, the Sarbanes-Oxley Act imposes various requirements on public companies including requiring establishment and maintenance of effective disclosure and financial controls. Our management and other personnel devote a substantial

amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and could continue to increase our legal and financial compliance costs and could make some activities more time-consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, which could make it more difficult for us to attract and retain qualified members of our Board of Directors. We cannot predict or estimate the amount of additional costs we will incur to meet our additional disclosure obligations under the Exchange Act or the timing of such costs.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation and testing of our internal control over financial reporting to allow management to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. In addition, we are required to have our independent registered public accounting firm attest to the effectiveness of our internal control over financial reporting the later of (i) our second annual report on Form 10-K, or (ii) the first annual report on Form 10-K following the date on which we are no longer an emerging growth company and no longer qualify as a smaller reporting company. Our compliance with Section 404 of the Sarbanes-Oxley Act could require that we incur substantial accounting expense and expend significant management efforts including the potential of hiring additional accounting and financial staff with appropriate public company experience and technical accounting knowledge. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Our ability to successfully implement our business plan and comply with Section 404 requires us to be able to prepare timely and accurate financial statements. We expect that we will need to continue to improve existing, and implement new operational and financial systems, procedures and controls to manage our business effectively. Any delay in the implementation of, or disruption in the transition to, new or enhanced systems, procedures or controls, may cause our operations to suffer and we may be unable to conclude that our internal control over financial reporting is effective and to obtain an unqualified report on internal controls from our auditors as required under Section 404 of the Sarbanes-Oxley Act. This, in turn, could have an adverse impact on trading prices for our Common Stock, and could adversely affect our ability to access the capital markets.

### **Risks Relating to Our Stock**

***NASDAQ may delist our Common Stock from trading on its exchange, which could limit stockholders' ability to trade our Common Stock.***

Our Common Stock is listed for trading on NASDAQ requires us to meet certain financial, public float, bid price and liquidity standards on an ongoing basis in order to continue the listing of our Common Stock. If we fail to meet these continued listing requirements, our Common Stock may be subject to delisting. If our Common Stock is delisted and we are not able to list our Common Stock on another national securities exchange, we expect our securities would be quoted on an over-the-counter market. If this were to occur, our stockholders could face significant material adverse consequences, including limited availability of market quotations for our Common Stock and reduced liquidity for the trading of our securities. In addition, we could experience a decreased ability to issue additional securities and obtain additional financing in the future.

***Our Common Stock price is likely to be highly volatile because of several factors, including a limited public float.***

The market price of our Common Stock has been volatile in the past and the market price of our Common Stock could be volatile in the future. You may not be able to resell shares of our Common Stock following periods of volatility because of the market's adverse reaction to volatility.

Other factors that could cause such volatility may include, among other things:

- actual or anticipated fluctuations in our operating results, including the loss of a large or key customer or vendor;
- the absence of securities analysts covering us and distributing research and recommendations about us;
- we may have a low trading volume for a number of reasons, including that a large portion of our stock is closely held;
- overall stock market fluctuations;
- announcements concerning our business or those of our competitors;
- actual or perceived limitations on our ability to raise capital when we require it, and to raise such capital on favorable terms;
- conditions or trends in the industry;
- litigation;
- changes in market valuations of other similar companies;
- future sales of Common Stock;
- departure of key personnel or failure to hire key personnel; and
- general market conditions.

Any of these factors could have a significant and adverse impact on the market price of our Common Stock. In addition, the stock market in general has at times experienced extreme volatility and rapid decline that has often been unrelated or disproportionate to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our Common Stock, regardless of our actual operating performance.

***Because our officers and Board of Directors will make all management decisions, you should only invest in our securities if you are comfortable entrusting our directors to make all decisions.***

Our Board of Directors will have the sole right to make all decisions with respect to our management. Investors will not have an opportunity to evaluate the specific projects that will be financed with future operating income. You should not purchase our securities unless you are willing to entrust all aspects of our management to our officers and directors.

***We may need to raise additional capital. If we are unable to raise necessary additional capital, our business may fail or our operating results and our stock price may be materially adversely affected.***

As an emerging growth company, we may need to secure adequate funding for opportunities we may encounter. Such opportunities may include acquiring complementary businesses, securing new marketing and sales opportunities, giving bonuses to employees to reward them for past service and incentivize them for future successes. Selling additional stock, either privately or publicly, would dilute the equity interests of our stockholders. If we borrow more money, we will have to pay interest and may also have to agree to restrictions that limit our operating flexibility. If we are unable to obtain adequate financing, if needed, we may have to curtail our operations and our business could fail.

***Our issuance of additional Common Stock in exchange for services or to repay debt would dilute your proportionate ownership and voting rights and could have a negative impact on the market price of our Common Stock.***

We may generally issue shares of Common Stock and Common Stock issuable upon exercise of stock options and warrants to pay for debt or services, without further approval by our stockholders based upon such factors as our Board of Directors may deem relevant at that time. It is possible that we will issue additional shares of Common Stock under circumstances we may deem appropriate at the time.

***Shares eligible for future sale may adversely affect the market.***

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, non-affiliate stockholders may sell freely after six months, subject only to the current public information requirement. Affiliates may sell after six months, subject to the Rule 144 volume, manner of sale (for equity securities), current public information, and notice requirements. Of the approximately 7,775,030 shares of our Common Stock outstanding as of March 23, 2021, 7,500 shares are restricted subject to Rule 144 with the remaining shares tradable without restriction. Given the limited trading of our Common Stock, resale of even a small number of shares of our Common Stock pursuant to Rule 144 or an effective registration statement may adversely affect the market price of our Common Stock.

Our equity incentive plan allows us to issue stock options and award shares of our Common Stock. We may in the future create additional equity incentive plans, which may at that time require us to file a registration statement under the Securities Act to cover the issuance of shares upon the exercise or vesting of awards granted or otherwise purchased under those plans. As a result, any shares issued or granted under the plans may be freely tradable in the public market. If equity securities are issued under the plans, if implemented, and it is perceived that they will be sold in the public market, then the price of our Common Stock could decline substantially.

No holders of any shares of our Common Stock have rights to require us to file registration statements for the public resale of such shares.

***Provisions of our Articles of Incorporation and Bylaws may delay or prevent a takeover which may not be in the best interests of our stockholders.***

Provisions of our Articles of Incorporation and our Bylaws may be deemed to have anti-takeover effects, which include when and by whom special meetings of our stockholders may be called, and may delay, defer or prevent a takeover attempt. In addition, certain provisions of the Nevada Revised Statutes also may be deemed to have certain anti-takeover effects which include that control of shares acquired in excess of certain specified thresholds will not possess any voting rights unless these voting rights are approved by a majority of a corporation's disinterested stockholders. Further, our Articles of Incorporation authorize the issuance of up to 2,500,000 shares of preferred stock with such rights and preferences as may be determined from time to time by our Board of Directors in their sole discretion. Our Board of Directors may, without stockholder approval, issue additional series of preferred stock with dividends, liquidation, conversion, voting or other rights that could adversely affect the voting power or other rights of the holders of our Common Stock.

***We have never paid dividends on our Common Stock and have no plans to do so in the future.***

Holders of shares of our Common Stock are entitled to receive such dividends as may be declared by our Board of Directors. To date, we have paid no cash dividends on our shares of Common Stock and we do not expect to pay cash dividends on our Common Stock in the foreseeable future. We intend to retain future earnings, if any, to provide funds for operations of our business. Therefore, any return investors in our Common Stock may have will be in the form of appreciation, if any, in the market value of their shares of Common Stock.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES.**

We lease approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our corporate office, manufacturing, assembly, warehouse and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. In addition, we lease approximately 5,131 rentable square feet of office and industrial space within the same business complex as our main office from an unaffiliated third party for our machine shop at 7910 South Kyrene Road, Tempe, Arizona 85223. Both properties are under the same lease agreement which expires in April 2024.

**ITEM 3. LEGAL PROCEEDINGS.**

From time to time, the Company is notified of threatened 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. In June 2018, the Company initiated a declaratory judgment action in the Superior Court of the State of Arizona. A former customer had raised allegations of breach of contract and breach of warranty and the Company sought relief and clarification from the Superior Court regarding the allegations and the Company's obligations under the contract with the former customer. In May 2019, the Company entered into a settlement agreement of \$76,250. The agreement does not constitute an admission of any unlawful conduct or wrongdoing. Based on a previously negotiated settlement agreement, the Company accrued and paid the full settlement of \$76,250 as of December 31, 2019.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not applicable.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.****Market Information**

Our Common Stock is traded on The NASDAQ Capital Market under the stock symbol, "VTSL."

**Holders of Common Stock**

As of March 26, 2021, 7,775,030 shares of our Common Stock were outstanding and held by approximately 102 holders of record. In addition, we have no shares of Class A Common Stock, Class B Common Stock or Preferred Stock issued and outstanding.

**Issuer Purchases of Equity Securities**

<b>Period</b>	<b>(a) Total Number of Shares (or</b>	<b>(b) Average Price Paid Per Share</b>	<b>(c) Total Number of Shares (or Units)</b>	<b>(d) Maximum Number (or Approximate Dollar</b>
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	Units) Purchased	(or Unit) (1)	Purchased as Part of Publicly Announced Plans or Programs (2)	Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (2)
October 1, 2020 – October 31, 2020	-	\$ -	-	\$ -
November 1, 2020 – November 30, 2020	-	\$ -	-	\$ -
December 1, 2020 – December 31, 2020	-	\$ -	-	\$ -
<b>Total</b>	-	\$ -	-	\$ -

- (1) Average price paid per share includes commissions.
- (2) 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 Exchange Act. 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 the 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 repurchase program was suspended as a result of interim rulings for public-company recipients of a Paycheck Protection Program (“PPP”) loan under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) during the second quarter 2020. The stock repurchase suspension will remain in effect for the duration of the outstanding PPP loan.

## ITEM 6. RESERVED

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis should be read in conjunction with our financial statements and related notes thereto included in this Annual Report on Form 10-K. The discussion contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in those forward-looking statements as a result of many factors, including, but not limited to, those set forth under “Risk Factors” and elsewhere in this Annual Report on Form 10-K.

### Forward-Looking Statements

The information in this discussion contains forward-looking statements and information within the meaning of Section 27A of the Securities Act and Section 21E of 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 Annual Report on Form 10-K 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 various 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 Annual Report on Form 10-K. 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 persons 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 simulators, firearms training simulators and driving 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 on a daily basis without the need for a shooting range, protective equipment, role players, 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 patented gas-powered simulated recoil kits, 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 is able to 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.

VirTra’s Driver Training Simulator is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training. In addition, the driving rig adds realism with vibration and motion while the modern physics-based rendering engine provides not only photo-realistic realism but critical hazards such as dust storms, rain, and sun glare. VirTra’s Driver Training Simulator provides an extensive and realistic range of training environments that allow for initial driver familiarization and orientation to advanced concepts, high-risk pursuits and defensive driving drills.

We also are engaged in licensing our technology to That’s Entertainment Corp. (“TEC”), a developer and operator of a combined dining and entertainment concept centered on an indoor shooting experience. Mitchell Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. Accordingly, until October 2020, TEC was a related party.

## Business Strategy

We have four main customer groups, namely, law enforcement, military, educational (includes colleges and police academies) and civilian. These are very 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 invest in potential growth.
- **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 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 to 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

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- 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 have to be made, and if they are not made immediately and quickly, it can lead to the possible loss of lives. This feature, among others, supports our value proposition to our customers 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 ensures 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.
  - 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.
- VirTra Driving Sim is a vehicle-based simulator, complete with next-generation graphics, motion and a variety of other features. The system is designed to provide safe, reliable environment for efficient skill transfer for all law enforcement driver training.
- 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 course-ware 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.
- TASER©, OC spray and low-light training devices that interact with VirTra's simulators for training.

## Recent Developments

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S., accelerating during half of March and April as federal, state and local governments react to the public health crisis, creating significant uncertainties in the U.S. economy. On March 30, 2020, the Governor for the State of Arizona issued a stay-at-home order which expired on May 15, 2020, upon which Arizona entered Phase I of reopening. The Company carefully reviewed all rules and regulations of the government orders and determined it met the requirements of an essential business to remain open. The Company had the majority of its staff begin working remotely in mid-March, with only essential personnel continue working at the manufacturing and production facilities and currently remains in Arizona's Phase I of reopening. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the Company's results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time. To date, the COVID-19 restrictions have resulted in reduced customer shipments and customer system installations. These recent developments are expected to result in lower recognized revenue and possibly lower gross margin when they occur. To date, there have been no order cancellations; rather, there have only been delays in when orders ship or installations occur and all delayed orders remain in backlog. Although not a material component of our company, a significant adverse change in the business climate could continue to affect the value of the Company's long-term investment in TEC, including the long-term note receivable from TEC. Any future impact cannot be reasonably estimated at this time. The Company is no longer investing in Certificates of Deposits as a precautionary measure to increase its liquid cash position and preserve financial flexibility considering uncertainty in the U.S. and global markets resulting from COVID-19. Additionally, the Company's stock repurchase program was suspended as

a result of interim rulings for public-company recipients of a PPP loan under the CARES Act. The stock repurchase suspension will remain in effect for the duration of the outstanding PPP loan.

### **Results of operations for the years ended December 31, 2020 and December 31, 2019**

**Revenues.** Revenues were \$19,087,631 for the year ended December 31, 2020 compared to \$18,711,923 for the same period in 2019, representing an increase of \$375,708 or 2.0%. The increase was the result of slight increases in sales of simulators, STEP sales, accessories, curriculum and training, and recurring extended warranty revenue in 2020.

**Cost of Sales.** Cost of sales were \$7,187,210 for the year ended December 31, 2020 compared to \$8,998,232 for the same period in 2019, representing a decrease of \$1,811,022, or 20.1%. The year-over-year reduction was due to decreases in material costs, service and warranty costs, and travel expenses for both new and existing customers. In addition, the decrease in cost was a result of an increase in STEP sales where the cost of equipment is reclassified to property and equipment and amortized over the life of the equipment.

**Gross Profit.** Gross profit was \$11,900,421 for the year ended December 31, 2020 compared to \$9,713,691 for the same period in 2019, representing an increase of \$2,186,730, or 22.5%. The gross profit margin was 62.3% for the year ended December 31, 2020 and 51.9% for the same period in 2019. The increase in gross profit was primarily due to differences in the quantity and type of simulator systems, type of accessories and variety of services sold, combined with a decrease in cost of sales.

**Operating Expenses.** Net operating expense was \$10,674,109 for the year ended December 31, 2020 compared to \$9,451,373 for the same period in 2019, representing an increase of \$1,222,736, or 12.9%. During the year ended December 31, 2020, there was a \$346,477 allowance for bad debt on accounts and note receivable and a one-time \$840,000 impairment loss recorded as general and administrative expense on the Statement of Operations. For the year ended December 31, 2019, there was a \$119,750 allowance for bad debt on accounts and note receivable and a \$280,000 impairment loss recorded as general and administrative expenses on the Statement of Operations. Additionally, the year-over-year increase in general and administrative was due to an increase in salaries and benefits, research and development, and facility expenses, partially offset by a decrease in tradeshow and travel related costs.

**Income from Operations.** Income from operations was \$1,226,312 for the year ended December 31, 2020 compared to \$262,318 for the same period in 2019, representing an increase of \$963,994, or 367.4%, resulting from a decrease in cost of sales partially offset by an increase in operating expenses.

**Income Tax Expense.** Income tax expense (benefit) was (\$218,800) for the year ended December 31, 2020 compared to \$446,725 for the same period in 2019, representing a decrease in expense of \$665,525, or -148.9%. The decrease resulted from a true-up of our deferred tax asset and temporary timing differences in deferred revenue, reserves, depreciation and amortization, and net operating loss carryforward, offset by an adjustment for taxes prepaid and refunded from prior year tax overpayments.

**Other Income (Expense).** Other income net of other expense was \$13,035 for the year ended December 31, 2020 compared to \$109,130 for the same period in 2019, representing a decrease of \$96,095, or 88.1%, primarily resulting from a decrease in interest income.

**Net Income (Loss).** Net income was \$1,478,403 for the year ended December 31, 2020 compared to net loss of \$75,277 for the same period in 2019, representing an increase of \$1,553,680, or 2,063.9%, related to each respective section discussed above.

**Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (AEBITDA).** Explanation and Use of Non-GAAP Financial Measures:

Earnings (loss) 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, impairment expense and bad debt expense. Other companies may calculate adjusted EBITDA differently. The Company calculates its adjusted EBITDA to eliminate the impact of certain items it does not consider to be indicative of its performance and its ongoing operations. Adjusted EBITDA is presented herein because management believes the presentation of adjusted EBITDA provides useful information to the Company’s investors regarding the Company’s financial condition and results of operations and because adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company’s industry, several of which present EBITDA and a form of adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company’s results as reported under U.S. GAAP. Adjusted EBITDA should not be considered as an alternative for net income, cash flows from operating activities and other income or cash flow statement data prepared in accordance with U.S. GAAP or as a measure of profitability or liquidity. A reconciliation of net income to adjusted EBITDA is provided in the following table:

	<b>For the Years Ended</b>			
	December 31, 2020	December 31, 2019	Increase (Decrease)	% Change
Net Income (Loss)	\$ 1,478,403	\$ (75,277)	\$ 1,553,680	-2064%
Adjustments:				
(Provision) benefit for income taxes	(218,800)	446,725	(665,525)	-149%
Depreciation and amortization	380,154	307,952	72,202	23%
EBITDA	<u>\$ 1,639,757</u>	<u>\$ 679,400</u>	<u>\$ 960,357</u>	<u>141%</u>
Impairment loss on That’s Eatertainment, former related party	840,000	280,000	560,000	200%
Reserve for note receivable	<u>311,367</u>	<u>108,174</u>	<u>203,193</u>	<u>188%</u>
Adjusted EBITDA	<u>\$ 2,791,124</u>	<u>\$ 1,067,574</u>	<u>\$ 1,723,550</u>	<u>161%</u>

**Liquidity and Capital Resources.** Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. The Company had \$6,841,985 and \$1,415,091 cash and cash equivalents as of December 31, 2020 and 2019, respectively. The Company also held certificates of deposits with maturities less than 12 months, which are recorded as short-term investments, totaling \$0.00 and \$1,915,000 as of December 31, 2020 and 2019, respectively. Working capital was \$10,269,397 and \$7,173,280 as of December 31, 2020 and 2019, respectively.

Net cash provided by operating activities was \$2,245,637 for the year ended December 31, 2020 and net cash used in operating activities was \$1,914,296 for the year ended December 31, 2019. Net cash provided by operating activities for the year ended December 31, 2020 resulted primarily from a decrease in accounts receivable, increases in accounts payable and deferred revenue offset by increases in inventory and unbilled revenue, as well as other changes in operating assets and liabilities. Operating activities in 2019 consisted of changes in working capital with significant cash used for increased accounts receivable and unbilled revenue offset by deferred revenue.

Net cash provided by investing activities was \$1,852,993 for the year ended December 31, 2020 and \$1,181,110 for the year ended December 31, 2019. Investing activities in 2020 consisted of redemptions of certificates of deposits, purchase of intangible assets, and reclassification of inventory to property and equipment. Investing activities in 2019 consisted of reclassification of inventory to, and sales of property and equipment, purchase of intangible assets, and purchase and redemption of certificates of deposit.

Net cash provided by financing activities was \$1,328,263 for the year ended December 31, 2020 and net cash used in financing activities was \$352,104 for the year ended December 31, 2019. Financing activities in 2020 consisted primarily of the proceeds received from the PPP Promissory Note. Financing activities in 2019 consisted of repurchase of stock options, purchase of treasury stock and repayment of the note payable for the machine shop.

## **Backlog**

The Company defines bookings as the total of newly signed contracts and purchase orders received in a defined time period. The Company received bookings totaling \$5.5 million for the three months ended December 31, 2020. The Company defines backlog as the accumulation of bookings from signed contracts and purchase orders that are 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 December 31, 2020, the Company's backlog was \$14.6 million.

Management estimates the majority of the new bookings received in the fourth quarter of 2020 will be converted to revenue in 2021. Management's estimate for the conversion of backlog is based on current contract delivery dates, however, contract terms and install dates are subject to modification and are routinely changed at the request of the customer or due to factors outside the Company's control.

## **Cash Requirements**

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

We have identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the application of the following accounting policies, some of which require management to make subjective or complex judgments. These judgments involve making estimates and assumptions about the effect of matters that are inherently uncertain and may significantly impact quarterly or annual results of operations. For all of these policies, management cautions that future events rarely develop exactly as expected, and the best estimates routinely require adjustment. The methods, estimates, interpretations and judgments we use in applying our most critical accounting policies can have a significant impact on the results that we report in our financial statements.

The following discussion provides supplemental information regarding the significant estimates, judgments and assumptions made in implementing the Company's critical accounting policies.

## ***Basis of Presentation and Use of Estimates***

Our financial statements have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments. Management bases the estimates on historical experience and on various other factors that it believes are reasonable under the circumstances, the results of which form the basis for making

judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. For any given individual estimate or assumption we make, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. 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. Actual results could differ significantly from those estimates.

#### ***Allowance for Doubtful Accounts and Notes Receivable***

The Company only ships product when it has reasonable assurance that it will receive payment from the customer. When such assurance is not available, the Company will require payment in advance. For customers other than United States governmental agencies, the Company generally requires advance deposits prior to shipment. The assessment of a customer's credit-worthiness is reliant on management's judgment regarding such factors as previous payment history, credit rating, credit references and market reputation. If any sales are made that ultimately become uncollectible, the Company charges the uncollected amount against a reserve for uncollectible accounts. This reserve is established and adjusted from time to time based on management's assessment of each outstanding receivable and the likelihood of it being collected.

The Company regularly evaluates the financial condition of the borrowers under its notes receivable considering such factors as those discussed above and the known and inherent risks in the notes. The Company establishes a reserve once it has estimated that all or a portion of the notes receivable is uncollectible.

#### ***Inventory Valuation***

Inventory is stated at the lower of cost or net realizable value with cost being determined on the average cost method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. Provision is made for obsolete, slow moving or defective items where appropriate. This estimated valuation requires that management make certain judgments about the likelihood that specific inventory items may have minimal or no realizable value in the future. These judgments are based on the current quantity of the item on hand compared to historical sales volumes, potential alternative uses of the products and the age of the inventory item.

#### ***Cost Method Investments***

The Company holds an investment in TEC. The stock of TEC does not have a readily determinable fair value and is measured at cost minus impairment, if any. Management regularly evaluates the recoverability of its investment in TEC based on TEC's performance and financial position. During the year ended December 31, 2019, the Company utilized TEC's recent offer to sell, and an investor's bona fide offer to purchase, as an indicator of the fair value of TEC's common stock. During the year ended December 31, 2020, the Company evaluated the recoverability and determined to fully impair. There are no other investments as of December 31, 2020.

#### ***Property and Equipment***

Property and equipment are carried at cost, net of depreciation. Depreciation commences at the time the assets are placed in service. Depreciation is provided using the straight-line method over the estimated economic lives of the assets or for leasehold improvements, over the shorter of the estimated useful life or the remaining lease term. In determining the depreciation rate, historical disposal experience, holding periods and trends in the market are reviewed.

We periodically perform reviews to determine whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable or that the useful life of assets are shorter or longer than originally estimated. We assess the recoverability of our assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their estimated remaining lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets.

***Revenue Recognition***

We account for revenue recognition in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018, using the modified retrospective transition method. We evaluated the distinct performance obligations and the pattern of revenue recognition of our contracts upon adoption of the standard. Consequently, after our review of contracts, we concluded that the impact of adopting the standard did not have a significant effect on our balance sheets, statements of operations, changes in stockholders' equity, or cash flows.

Revenues include sales of products and services and are net of discounts. Product sales consist of simulators, upgrade components, scenarios, scenario software, recoil kits, Threat-Fire<sup>®</sup> and other accessories. Services include installation, training, limited assurance-type warranties, extended service-type warranty agreements and related support.

We determined our revenue recognition through the identification of the contract with a customer, identification of the performance obligations within the contract, determination of the transaction price, allocation of the transaction price to the performance obligations within the contract and recognition of revenue when, or as, the performance obligations have been satisfied.

In reviewing our contracts, the identification of the performance obligations within the contracts, allocation of the transaction price to the performance obligations and the point when performance obligations were satisfied required significant judgment. In identifying the performance obligations, the Company considered whether the customer has a reasonable expectation that the Company will provide those goods or services and would view those goods or services as part of the negotiated exchange. The Company believes that, generally, our performance obligations are explicit in the contracts. The Company allocates the transaction price to the performance obligations based on the relative standalone selling price basis. This required consideration and determination of the stand-alone selling price for each distinct good or service using various sources of information. Under ASC 606, the Company recognizes revenue only when it satisfies a performance obligation by transferring the good or service to the customer. To determine when the performance obligation had been transferred to the customer, the Company considered control of the performance obligation transferred once the customer had the right and ability to direct the use of the product or service and the customer obtained substantially all of the remaining benefit from the products and services.

***Stock-Based Compensation***

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

The expected term of the options is the estimated period of time until exercise and was determined using the SEC's safe harbor rules, using an average of vesting and contractual terms, as we did not have sufficient historical experience of similar awards. Expected stock price volatility is based on historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on United States Treasury zero-coupon issues with an equivalent remaining term. The estimated fair value of stock-based compensation awards and other options is amortized on a straight-line basis over the relevant vesting period. Share-based compensation expense is recognized based on awards ultimately expected to vest. Forfeitures are recorded in subsequent periods when they occur.

***Income Taxes***

We use significant judgment in determining the provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against net deferred tax assets. In preparing our financial statements, we are required to estimate income taxes in each of the domestic and foreign jurisdictions in which we operate. This process involves estimating the actual current tax liability together with assessing temporary differences resulting from differing treatment of items, such as depreciation and amortization of property and equipment and benefits of net operating loss tax carryforwards. These differences result in deferred tax assets, which include tax loss carryforwards, and liabilities. We then assess the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, we establish a valuation allowance. In evaluating our ability to recover our deferred tax assets within the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations. In projecting future taxable income, we begin with historical results and incorporate assumptions about the amount of future state, federal, and foreign pretax operating income adjusted for items that do not have tax consequences. The assumptions about future taxable income require significant judgment and are consistent with the plans and estimates we are using to manage the underlying business. To the extent we establish or change a valuation allowance in a period, we include an adjustment within the tax provision of our statements of operations.

Deferred tax assets reflect current statutory income tax rates in effect for the period in which the deferred tax assets are expected to be realized. As changes in tax laws or statutory tax rates are enacted, deferred tax assets and liabilities are adjusted through the provision of income taxes.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, on the basis of the technical merits. We (1) record unrecognized tax benefits as liabilities in accordance with ASC 740 and (2) adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available. Because of the complexity of some of these uncertainties, the ultimate resolution may result in a payment that is materially different from our current estimate of the unrecognized tax benefit liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

### ***Warranty Reserve***

For sales to customers within the U.S. and for all international sales, we typically provide a one-year assurance-type warranty but may provide longer warranty periods if contractually required. We provide a warranty on our simulators that covers the cost of replacement parts and labor on defective products. We estimate, based upon a review of historical warranty claim experience, the costs that may be incurred under our warranty policies and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. At our discretion, based upon the cost to either repair or replace a product, we have occasionally replaced such products covered under warranty with a new or refurbished model. We periodically assess the adequacy of our recorded warranty liability and make adjustments to the accrual as claims data and historical experience warrants.

### ***Recent Accounting Pronouncements***

See Note 1 to our financial statements, included in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

### ***Off-Balance Sheet Arrangements***

As of December 31, 2020, 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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

#### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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### INDEX TO HISTORICAL FINANCIAL STATEMENTS

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### REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors and Shareholders of  
VirTra, Inc.

#### *Opinion on the Financial Statements*

We have audited the accompanying balance sheets of VirTra, Inc. (the "Company") as of December 31, 2020 and 2019, and the related statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

#### *Basis for Opinion*

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP

www.malonebailey.com

We have served as the Company's auditor since 2018.

Houston, Texas

March 26, 2021

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**VIRTRA, INC.  
BALANCE SHEETS**

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 6,841,984	\$ 1,415,091
Certificates of deposit	-	1,915,000
Accounts receivable, net	1,378,270	2,307,972
Interest receivable	-	7,340
Inventory, net	3,515,997	1,949,414
Unbilled revenue	5,408,598	3,579,942
Prepaid expenses and other current assets	<u>382,445</u>	<u>353,975</u>
<b>Total current assets</b>	<u>17,527,294</u>	<u>11,528,734</u>
<b>Long-term assets:</b>		
Property and equipment, net	1,381,744	1,028,198
Operating lease right-of-use asset, net	1,094,527	1,390,873
Intangible assets, net	271,048	217,930
That's Eatertainment note receivable, long term, net, related party	-	291,110
Security deposits, long-term	86,500	19,712
Other assets, long-term	500,114	351,236
Deferred tax asset, net	1,892,000	1,792,000
Investment in That's Eatertainment, related party	<u>-</u>	<u>840,000</u>
<b>Total long-term assets</b>	<u>5,225,933</u>	<u>5,931,059</u>
<b>Total assets</b>	<u>\$ 22,753,227</u>	<u>\$ 17,459,793</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 345,573	\$ 621,127
Accrued compensation and related costs	843,101	611,487

Accrued expenses and other current liabilities	772,884	334,751
Note payable, current	266,037	-
Operating lease liability, short-term	321,727	297,244
Deferred revenue, short-term	<u>4,708,575</u>	<u>2,490,845</u>
<b>Total current liabilities</b>	<u>7,257,897</u>	<u>4,355,454</u>
<b>Long-term liabilities:</b>		
Deferred revenue, long-term	1,920,346	1,748,257
Note payable, long-term	1,063,243	-
Operating lease liability, long-term	<u>853,155</u>	<u>1,174,882</u>
<b>Total long-term liabilities</b>	<u>3,836,744</u>	<u>2,923,139</u>
<b>Total liabilities</b>	<u>11,094,641</u>	<u>7,278,593</u>
Commitments and contingencies (See Note 11)		
<b>Stockholders' equity:</b>		
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; 7,775,030 shares issued and outstanding as of December 31, 2020 and 7,745,030 shares issued and outstanding as of December 31, 2019	778	775
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	13,893,660	13,894,680
Accumulated deficit	<u>(2,235,852)</u>	<u>(3,714,255)</u>
<b>Total stockholders' equity</b>	<u>11,658,586</u>	<u>10,181,200</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 22,753,227</u>	<u>\$ 17,459,793</u>

See accompanying notes to financial statements.

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**VIRTRA, INC.**  
**STATEMENTS OF OPERATIONS**

	<b>For the Years ended</b>	
	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Revenues:</b>		
Net sales	\$ 19,038,074	\$ 18,558,741
That's Eatertainment royalties/licensing fees, former related party	45,247	130,625
Other royalties/licensing fees	4,310	22,557
<b>Total revenue</b>	<u>19,087,631</u>	<u>18,711,923</u>

Cost of sales	7,187,210	8,998,232
Gross profit	11,900,421	9,713,691
<b>Operating expenses:</b>		
General and administrative	9,070,730	8,105,860
Research and development	1,603,379	1,345,513
Net operating expense	10,674,109	9,451,373
Income from operations	1,226,312	262,318
<b>Other income (expense):</b>		
Other income	49,539	115,736
Other expense	(16,248)	(6,606)
Net other income	33,291	109,130
Income before provision for income taxes	1,259,603	371,448
Provision for income taxes	(218,800)	446,725
<b>Net income (loss)</b>	<b>\$ 1,478,403</b>	<b>\$ (75,277)</b>
Net income (loss) per common share:		
Basic	\$ 0.19	\$ (0.01)
Diluted	\$ 0.19	\$ (0.01)
Weighted average shares outstanding:		
Basic	7,757,037	7,747,655
Diluted	7,835,830	7,747,655

See accompanying notes to financial statements.

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**VIRTRA, INC.**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**For Years Ended December 31, 2020 and 2019**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional</u>	<u>Treasury</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Paid-In</u>	<u>Stock</u>	<u>Deficit</u>	
Balance at January 1, 2019	-	\$ -	7,827,651	\$ 783	\$14,272,834	\$ (37,308)	\$ (3,638,978)	\$10,597,331
Stock options exercised	-	-	10,775	2	11,424	-	-	11,426
Stock options repurchased	-	-	-	-	(34,076)	-	-	(34,076)

Purchase of treasury stock	-	-	-	-	-	(318,204)	-	(318,204)
Treasury stock cancelled	-	-	(93,396)	(10)	(355,502)	355,512	-	-
Net loss	-	-	-	-	-	-	(75,277)	(75,277)
Balance at December 31, 2019	-	\$ -	<u>7,745,030</u>	<u>\$ 775</u>	<u>\$13,894,680</u>	<u>\$ -</u>	<u>\$ (3,714,255)</u>	<u>\$10,181,200</u>
Stock options exercised	-	-	30,000	3	30,163	-	-	30,166
Stock options repurchased	-	-	-	-	(31,183)	-	-	(31,183)
Net Income	-	-	-	-	-	-	1,478,403	1,478,403
Balance at December 31, 2020	-	\$ -	<u>7,775,030</u>	<u>\$ 778</u>	<u>\$13,893,660</u>	<u>\$ -</u>	<u>\$ (2,235,852)</u>	<u>\$11,658,586</u>

See accompanying notes to financial statements.

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**VIRTRA, INC.**  
**STATEMENTS OF CASH FLOWS**

	<u>For the Years Ended</u>	
	<u>December 31 2020</u>	<u>December 31, 2019</u>
Cash flows from operating activities:		
Net Income (loss)	\$ 1,478,403	\$ (75,277)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Depreciation and amortization	380,154	307,952
Right of use amortization	296,346	283,984
Reserve for note receivable	291,110	108,174
Deferred taxes	(100,000)	608,000
Impairment of investment in That's Eatertainment, former related party	840,000	280,000
Changes in operating assets and liabilities:		
Accounts receivable, net	929,702	(1,005,962)
That's Eatertainment note receivable, net, related party	-	(4,673)
Trade note receivable, net	-	652
Interest receivable	7,340	14,045
Inventory, net	(2,291,394)	(819,357)
Unbilled revenue	(1,828,656)	(2,890,789)
Prepaid expenses and other current assets	(28,470)	23,545
Other assets	(148,878)	(58,938)
Security deposits, long-term	(66,788)	320,044
Accounts payable and other accrued expenses	394,193	(108,881)
Payments on operating lease liability	(297,244)	(249,254)
Deferred revenue	<u>2,389,819</u>	<u>1,352,439</u>
Net cash provided by (used in) operating activities	<u>2,245,637</u>	<u>(1,914,296)</u>

Cash flows from investing activities:		
Purchase of certificates of deposit	-	(3,560,000)
Redemption of certificates of deposit	1,915,000	5,135,000
Purchase of intangible assets	(62,007)	(226,078)
Purchase of property and equipment	-	(171,452)
Proceeds from sale of property and equipment	-	3,640
Net cash provided by investing activities	<u>1,852,993</u>	<u>1,181,110</u>
Cash flows from financing activities:		
Repurchase of stock options	(31,183)	(34,076)
Repayment of debt	-	(11,250)
Stock options exercised	30,166	11,426
Purchase of treasury stock	-	(318,204)
Note payable-PPP Loan	1,329,280	-
Net cash provided by (used in) financing activities	<u>1,328,263</u>	<u>(352,104)</u>
Net increase (decrease) in cash	5,426,893	(1,085,290)
Cash, beginning of period	1,415,091	2,500,381
Cash, end of period	<u>\$ 6,841,984</u>	<u>\$ 1,415,091</u>

Supplemental disclosure of cash flow information:

Cash (refunded) paid:

Taxes refunded	\$ (118,800)	\$ (161,275)
Interest paid	8,566	-

Supplemental disclosure of non-cash investing and financing activities:

Conversion of That's Eatertainment note receivable to long term, former related party	\$ -	\$ 292,138
Conversion of inventory to property and equipment	724,811	481,945
Treasury stock cancelled	-	355,512
Operating lease right of use asset and liabilities, net of deferred rent	-	1,674,857

See accompanying notes to financial statements.

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**VirTra, Inc.**  
**Notes to Financial Statements**

**Note 1. Organization and Significant Accounting Policies**

***Organization and Business Operations***

VirTra, Inc. (the "Company," "VirTra," "we," "us" or "our"), located in Tempe, Arizona, is a global provider of judgmental use of force training simulators, firearms training simulators and driving 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. In

September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra, Inc., a Nevada corporation.

During March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus (COVID-19). The pandemic has significantly impacted the economic conditions in the U.S., accelerating during half of March and April as federal, state and local governments react to the public health crisis, creating significant uncertainties in the U.S. economy. On March 30, 2020, the Governor for the State of Arizona issued a stay-at-home order which expired on May 15, 2020, upon which Arizona entered Phase I of reopening. The Company carefully reviewed all rules and regulations of the government orders and determined it met the requirements of an essential business to remain open. The Company had the majority of its staff begin working remotely in mid-March, with only essential personnel continue working at the manufacturing and production facilities and currently remains in Arizona's Phase I of reopening. This situation is rapidly changing and additional impacts to the business may arise that we are not aware of currently. While the disruption is currently expected to be temporary, there is uncertainty around the duration. The ultimate impact of the pandemic on the Company's results of operations, financial position, liquidity or capital resources cannot be reasonably estimated at this time. To date, the COVID-19 restrictions have resulted in reduced customer shipments and customer system installations. These recent developments are expected to result in lower recognized revenue and possibly lower gross margin when they occur. To date, there have been no order cancellations; rather, there have only been delays in when orders ship or installations occur and all delayed orders remain in backlog. Although not a material component of our company, a significant adverse change in the business climate could continue to affect the value of the Company's long-term investment in TEC, including the long-term note receivable from TEC. Any future impact cannot be reasonably estimated at this time. The Company is no longer investing in Certificates of Deposits as a precautionary measure to increase its liquid cash position and preserve financial flexibility considering uncertainty in the U.S. and global markets resulting from COVID-19. Additionally, the Company's stock repurchase program was suspended as a result of interim rulings for public-company recipients of a Paycheck Protection Program ("PPP") loan under the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). The stock repurchase suspension will remain in effect for the duration of the outstanding PPP loan.

### ***Basis of Presentation***

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### ***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 and notes receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets and intangible 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.

### ***Reclassifications***

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on net income or cash flows as previously reported.

### ***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.

The Company's primary sources of revenue are derived from simulator and accessories sales, training and installation, the sale of customizable software, the sale of customized content scenarios, and the sale of extended service-type warranties. 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:

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<u>Performance Obligation</u>	<u>Method of Recognition</u>
Simulator and accessories	Upon transfer of control
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 expended)
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 substantially 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 to the stand-alone selling prices, if any, are allocated proportionately to each performance obligation.

***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.

Total Revenue \$	Year ended December 31,							
	2020				2019			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	\$ 1,052,223	\$12,450,793	\$ 299,430	\$13,802,446	\$ 530,742	\$11,069,039	\$ 1,992,819	\$13,592,600
Extended service-type warranties	74,290	2,408,379	\$ 138,771	2,621,440	35,148	2,132,864	203,421	2,371,433
Customized software and content	100,109	1,957,635	\$ -	2,057,744	103,424	1,457,424	68,702	1,629,550
Installation and training	17,004	534,478	\$ 4,962	556,444	46,630	678,211	240,317	965,158
Licensing and royalties	49,557	-	\$ -	49,557	153,182	-	-	153,182
Total Revenue	<u>\$ 1,293,183</u>	<u>\$17,351,285</u>	<u>\$ 443,163</u>	<u>\$19,087,631</u>	<u>\$ 869,126</u>	<u>\$15,337,538</u>	<u>\$ 2,505,259</u>	<u>\$18,711,923</u>

For the year ended December 31, 2020, governmental customers comprised \$17,351,285, or 91% of total net sales, commercial customers comprised \$1,293,183 or 7% of total net sales and international customers comprised \$443,163, or 2% of total net sales. By comparison, for the year ended December 31, 2019, governmental customers comprised \$15,337,538, or 82% of total net sales, commercial customer comprised \$869,126 or 5% of total net sales and international customers comprised \$2,505,259, or 13% of total net sales. For the years ended December 31, 2020 and 2019, the Company recorded \$794,524 and \$191,289, respectively, in STEP revenue, or 4% and 1%, respectively, of total net sales.

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### ***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 customer's receivable balance. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled \$2,517,175 and \$651,073 at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, the Company recognized revenue of \$325,844 and \$180,041, respectively, related to customer deposits that were included in deferred revenue, long-term, at the beginning of each period. 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.

### ***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 \$2,191,400 and \$1,829,052 at December 31, 2020 and 2019, respectively. Deferred revenue for separately priced extended warranties longer than one year totaled \$1,920,346 and \$1,748,257 at December 31, 2020 and 2019, respectively. The accrual for the one-year manufacturer's warranty liability totaled \$352,000 and \$257,000 at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, the Company recognized revenue of \$2,621,440 and \$2,371,433, 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.

### ***Customer Retainage***

Customer retainage is recorded as a current liability under deferred revenue on the accompanying balance sheets and totaled \$0 and \$10,720 at December 31, 2020 and 2019, respectively. During the years ended December 31, 2020 and 2019, the Company recognized revenue of \$10,720 and \$122,500, respectively, related to customer retainage that were included in the liability at the beginning of each period. Changes in deferred revenue amounts related to customer retainage will fluctuate from year to year based upon the customer's contract completion date, allowing the Company to invoice and recover the retainage.

### ***Licensing and Royalties with Former Related Party***

As discussed further in Note 9. Co-Venture Agreement with Modern Round, the Company licenses intellectual property to Modern Round, LLC ("MR"), a wholly-owned subsidiary of That's Entertainment Corp. ("TEC"), f/k/a Modern Round Entertainment Corp. ("MREC"), a former related party, in exchange for sales-based royalties. Revenues from this agreement are recognized in accordance with the terms of the contract as the sales occur. The Company receives additional immaterial sales-based royalties from strategic partners. Effective October 12, 2020, TEC and MREC no longer meet the requirements to be considered related parties.

### ***STEP Revenue***

The Company's STEP operations consist principally of renting its simulator products under operating agreements expiring in one year. At the commencement of a STEP agreement, any rental payments received are deferred and no income is recognized. Subsequently, payments are amortized and recognized as revenue on a straight-line basis over the term of the agreement. The agreements are generally for a period of 12 months and can be renewed for additional 12-month periods. Agreements may be terminated by either party upon written notice of termination at least sixty days prior to the end of the 12-month period. The payments are generally fixed for the first year of the agreement, with increases in payments in subsequent years to be mutually agreed upon. The agreements do not include variable lease payments or free rent periods. In addition, the agreements do not provide for the underlying assets to be purchased at its fair market values at interim periods or at maturity. Each STEP agreement comes with full customer support and stand-ready advance replacement parts to maintain each system for the duration of the lease. The amount that the Company expects to derive from the STEP equipment following the end of the agreement term is dependent upon the number of agreement terms renewed. The agreements do not include a residual value guarantee.

### ***Fair Value Measurements***

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect our own estimate of assumptions that market participants would use in pricing the asset or liability.

### ***Fair Value of Financial Instruments***

The Company's financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, notes and interest receivables, accounts payable, and accrued liabilities. The fair value of financial instruments, except for long-term notes receivable, approximates their carrying values, using level 3 inputs, at December 31, 2020 and 2019 due to their short maturities. The fair value of the notes receivable approximates its carrying value, using level 3 inputs, at December 31, 2020 and 2019.

#### ***Cash and Cash Equivalents***

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

#### ***Certificates of Deposit and Mutual Funds***

The Company invests its excess cash in certificates of deposit and money market mutual funds issued by financial institutions with high credit ratings. The certificates of deposit generally have average maturities of approximately six months and are subject to penalties for early withdrawal. The money market mutual funds are open ended and can be withdrawn at any time without penalty.

#### ***Accounts and Notes Receivable and Allowance for Doubtful Accounts***

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable do not bear interest and are charged off after all reasonable collection efforts have been taken. The Company maintained an allowance for doubtful accounts of \$34,959 and \$34,177 at December 31, 2020 and 2019, respectively.

Notes receivable are carried at their estimated collectible amounts. Interest income on notes receivable is recognized using the effective interest method. Notes receivable are periodically evaluated for collectability based on the credit history, the current financial condition of the counter party, and the known and inherent risks in the notes. Notes receivable are placed on nonaccrual status when they become 90 days past due and the customer has not made a payment in over 60 days. Upon suspension of the accrual of interest, interest income is subsequently recognized to the extent cash payments are received. Accrual of interest is resumed when notes are removed from non-accrual status. Notes receivable are charged against the allowance for credit losses when they are deemed to be uncollectible. Due to the ongoing uncertainty resulting from the Covid pandemic, the Company has recorded a reserve for the full amount of a note receivable and accrued interest from a former related party totaling \$311,367 in 2020. During 2019, the Company realized a full credit loss against a note receivable totaling \$369,286. The allowance for uncollectible notes receivable was \$311,367 and \$108,174 at December 31, 2020 and 2019, respectively.

#### ***Inventory***

Inventory is stated at the lower of cost or net realizable value with cost being determined on the average cost method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. The Company routinely evaluates the carrying value of inventory for slow moving and potentially obsolete inventory and, when appropriate, will record an adjustment to reduce inventory to its estimated net realizable value. Inventory reserves were \$120,652 and \$120,652 at December 31, 2020 and 2019, respectively.

#### ***Investments in Other Companies***

The Company accounts for investments in other companies that do not have a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The Company has elected to utilize the cost minus

impairment approach because the investment in TEC does not have a readily determinable fair value as of the reporting date. See Note 9. Co-Venture Agreement with Modern Round.

Management regularly evaluates the recoverability of its investment based on the investee company's performance and financial position. For the year ended December 31, 2020 and 2019, the Company recognized an impairment loss of \$840,000 and \$280,000, respectively. Management regularly assesses the classification of its investments.

### ***Property and Equipment***

Property and equipment are carried at cost, net of depreciation. Gains or losses related to retirements or disposition of fixed assets are recognized in operations in the period incurred. Costs of normal repairs and maintenance are charged to expense as incurred, while betterments or renewals are capitalized. Depreciation commences at the time the assets are placed in service or for STEP equipment under agreements, when the equipment is made available for use by the customer. Depreciation is provided using the straight-line method over the estimated economic lives of the assets or for leasehold improvements, over the shorter of the estimated useful life or the remaining lease term. For STEP equipment under agreements, depreciation is provided using the straight-line method over the sixty-month maximum useful life instead of the remaining agreement term. Estimated useful lives are summarized as follows:

Computer equipment	3-5 years
Furniture and office equipment	5-7 years
Machinery and equipment	5-7 years
STEP equipment	5 years
Leasehold improvements	7 years

### ***Intangible Assets***

Intangible assets at December 31, 2020 are comprised of various patents. We compute amortization expense on the patents using the straight-line method over the estimated remaining useful lives of 16 years. We compute amortization expense on media content using the straight-line method over the weighted average remaining period which is 16 years.

### ***Cost of Products Sold***

Cost of products sold represents manufacturing costs, consisting of materials, labor and overhead related to finished goods and components. Cost of products sold includes depreciation of STEP contract fixed assets. Shipping costs incurred related to product delivery are included in cost of products sold.

### ***Advertising Costs***

Costs associated with advertising are expensed as incurred. Advertising expense was \$512,655 and \$828,692 for the years ended December 31, 2020 and 2019, respectively. These costs include domestic and international tradeshows, website, and sales promotional materials.

### ***Research and Development Costs***

Research and development costs are expensed as incurred. Research and development costs primarily include expenses, including labor, directly related to research and development support. Research and development expense was \$1,603,379 and \$1,345,513 for the years ended December 31, 2020 and 2019, respectively.

### ***Legal Costs***

Legal costs relating to loss contingencies are expensed as incurred. See Note 10. Commitments and Contingencies.

### ***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, accounts receivable and notes 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 \$6,338,896 and \$1,069,887 at December 31, 2020 and 2019, 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.

Management performs ongoing evaluations of the collectability of its notes receivable and maintains an allowance for estimated losses. As of December 31, 2020, the Company did not hold any notes receivables. (See Note 2. Notes Receivable and Note 9 Co-Venture Agreement with Modern Round)

Historically, the Company primarily sells its products to U.S. federal and state agencies. For the year ended December 31, 2020, one agency comprised 16% of total net sales. By comparison, for the year ended December 31, 2019, one agency comprised 18% and one agency comprised 12% of total net sales. As of December 31, 2020, one federal agency comprised 8.5% and one state agency comprised 31% of total accounts receivable. By comparison, as of December 31, 2019, one federal agency comprised 30% and one international customer comprised 20% of total accounts receivables.

### ***Income Taxes***

Deferred tax assets and liabilities are recorded based on the difference between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The Company calculates a provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized by identifying the temporary differences arising from the different treatment of items for tax and accounting purposes. In determining the future tax consequences of events that have been recognized in the financial statements or tax returns, judgment and interpretation of statutes are required.

In assessing realizable deferred tax assets, management assesses the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. After review of the deferred tax asset and valuation allowance in accordance with ASC 740, management determined that it is more likely than not that the Company will fully realize all of its deferred tax asset and no valuation allowance was recorded at December 31, 2020 and 2019.

The Company did not recognize any assets or liabilities relative to uncertain tax positions at December 31, 2020 and 2019. Interest or penalties, if any, will be recognized in income tax expense. Since there are no significant unrecognized tax benefits as a result of tax positions taken, there are no accrued penalties or interest. Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements.

The Company reflects tax benefits, only if it is more likely than not that the Company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. Management does not believe that there are any uncertain tax positions at December 31, 2020 or 2019.

The Company is potentially subject to tax audits for its United States federal and various state income and excise tax returns for tax years between 2014 and 2020; however, earlier years may be subject to audit under certain circumstances. Tax audits by their very nature are often complex and can require several years to complete.

### ***Impairment of Long-Lived Assets***

Long lived assets, such as equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the asset. At December 31, 2020 and 2019, the Company concluded that there has been no indication of impairment to the carrying value of its long-lived assets. As such, no impairment has been recorded.

### ***Stock Based Compensation***

The Company measures the cost of awards of equity instruments based on the grant date fair value of the awards. The Company calculates the fair value of stock-based awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates. There were no grants of stock-based awards during the years ended December 31, 2020 and 2019.

The expected term of the options is the estimated period of time until exercise and was determined using an average of vesting and contractual terms, as we did not have sufficient historical experience of similar awards. The risk-free interest rate is based on the implied yield available on United States Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future. The estimated fair value of stock-based compensation awards and other options is amortized to expense on a straight-line basis over the relevant vesting period. The Company has elected to recognize forfeitures as they occur rather than estimating them at the time of grant.

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### ***Net Income (Loss) 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:

	Year Ended December 31,	
	2020	2019
Net income/(loss)	\$ 1,478,403	\$ (75,277)
Weighted average common stock outstanding	7,757,037	7,747,655
Incremental shares from stock options	78,793	-
Weighted average common stock outstanding diluted	7,835,830	7,747,655
Net income/(loss) per common share and common equivalent shares		
Basic	\$ 0.19	\$ (0.01)

Diluted \$ 0.19 \$ (0.01)

The Company has potentially dilutive securities outstanding that are not included in the diluted earnings per share calculation for the years ended December 31, 2020 and 2019 because their effect would be anti-dilutive. These potentially dilutive securities, comprised entirely of the Company's stock options, totaled 98,750 and 26,667 for the years ended December 31, 2020 and 2019, respectively.

### *New Accounting Pronouncements*

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In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"). ASU 2019-12 simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. ASU 2019-12 also simplifies aspects of accounting for franchise taxes and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for annual and interim financial statement periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the impact of the adoption of ASU 2019-12 on its financial statements.

### **Note 2. Notes Receivable**

An unsecured promissory note was executed on March 23, 2018 by a customer converting its past-due trade receivable from the sale of goods and services in the amount of \$400,906. The customer made periodic payments on the note and the principal and accrued interest due as of December 31, 2018 was \$374,034. Due to the uncertainty of collection, the Company had recorded an allowance against the note receivable balance in the amount of \$266,813 at December 31, 2018. During 2019, the Company received a single payment of \$10,000. Legal judgement was pursued and the Company was awarded a court ordered judgement against the customer totaling \$396,575 plus interest to accrue at 6.25% per annum from the date of judgement until paid. In November 2019 the customer dissolved its legal entity and the balance of the note receivable \$102,473 was written off to bad debt expense at December 31, 2019.

The Company accepted an unsecured convertible promissory note (the "Convertible Note") from TEC, a former related party (see Note 8. Co-Venture Agreement with Modern Round), in the amount of \$292,138 for a portion of their minimum royalty payment due as of May 31, 2018. The Convertible Note bears interest at the rate of five percent (5%) per annum and contains a provision requiring remittance of not less than 20% of the net proceeds of any private or public offering of its securities in reduction of the Convertible Note. The Convertible Note has a conversion right, at the sole discretion of the Company, to convert the outstanding balance of principal and accrued interest at any time for shares of common stock of TEC. Prior to the due date, the Company may elect to convert the Convertible Note for shares of common stock in TEC at a twenty-five percent (25%) discount to the price of shares sold to the public in a public offering in connection with a go-public transaction. The issuance of common stock upon conversion shall be made without charge to the Company. No fractional shares shall be issued upon conversion and in lieu of fractional shares, TEC will pay the Company the amount of any obligation that is not converted. Any unpaid balance of principal and accrued interest becomes due and collectible on the earlier of (i) August 1, 2019 (maturity date), or (ii) if declared due and payable in the event of Default. In July 2019, the Convertible Note's maturity date was extended to August 2020, with all other terms remaining unchanged. Under the terms of the Convertible Note, TEC remitted a payment of \$16,000 of which \$14,972 was applied to accrued interest and \$1,028 to principal. In July, 2020, the Convertible Note's maturity date was extended to August, 2023, all other promissory note terms remain unchanged. The Convertible Note's principal and accrued interest due as of December 31, 2020 and 2019 was \$311,367 and \$296,811, respectively. Due to the ongoing effects of COVID-19 and the inability of TEC meet its payment obligations under the terms of the Convertible Note, the Company has recorded a reserve in the full amount of the note and accrued interest. The reserve for collectability as of December 31, 2020 and 2019 was \$311,367 and \$5,701, respectively. See Note 9-Co-Venture Agreement with Modern Round.

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### Note 3. Inventory

Inventory consisted of the following as of:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Raw materials and work in process	\$ 3,636,649	\$ 2,070,066
Reserve	(120,652)	(120,652)
Total inventory	<u>\$ 3,515,997</u>	<u>\$ 1,949,414</u>

During 2020 and 2019, the Company evaluated the useful life of its spare parts inventory. As a result of this evaluation, the Company classified \$500,114 and \$351,236 of spare replacement parts as Other Assets, long-term on the Balance Sheet at December 31, 2020 and 2019, respectively. In addition, during 2020 and 2019, the Company transferred \$724,811 and \$292,138, respectively, from inventory to property and equipment.

### Note 4. Property and Equipment

Property and equipment consisted of the following as of:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Computer equipment	\$ 1,115,326	\$ 1,115,326
Furniture and office equipment	223,925	223,925
Machinery and equipment	1,096,898	1,096,898
Leasehold improvements	334,934	334,934
STEP equipment	<u>1,206,757</u>	<u>481,946</u>
Total property and equipment	3,977,840	3,253,029
Less: Accumulated depreciation	<u>(2,596,096)</u>	<u>(2,224,831)</u>
Property and equipment, net	<u>\$ 1,381,744</u>	<u>\$ 1,028,198</u>

Depreciation expense, including STEP depreciation, was \$371,265 and \$299,804 for the years ended December 31, 2020 and 2019, respectively.

### Note 5. Intangible Asset

Intangible asset consisted of the following as of:

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Patents	\$ 160,000	\$ 160,000
Capitalized media content	128,085	66,078
Total intangible asset	288,085	226,078
Less: Accumulated amortization	<u>(17,037)</u>	<u>(8,148)</u>
Intangible asset, net	<u>\$ 271,048</u>	<u>\$ 217,930</u>

Amortization expense was \$8,889 and \$8,148 for the years ended December 31, 2020 and 2019, respectively. The weighted average remaining period is 16 years.

## Note 6. Leases

The Company leases approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our 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 St., Tempe, Arizona 85284. In April 2019, the Company relocated the machine shop from the Fifth St. 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. 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.

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In addition to base rent, the Company's lease generally 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 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.

The balance sheet classification of lease assets and liabilities was as follows:

Balance Sheet Classification	December 31, 2020	December 31, 2019
<b>Assets</b>		
Operating lease right-of-use assets, beginning of period	\$ 1,390,873	\$ 1,674,857
Amortization for the year ended	\$ (296,346)	\$ (283,984)
Total operating lease right-of-use asset	\$ 1,094,527	\$ 1,390,873
<b>Liabilities</b>		
Current		
Operating lease liability, short-term	\$ 321,727	\$ 297,244
Non-current		
Operating lease liability, long-term	\$ 853,155	\$ 1,174,882
Total lease liabilities	\$ 1,174,882	\$ 1,472,126

Future minimum lease payments as of December 31, 2020 under non-cancelable operating leases are as follows:

	2021	\$	368,060
	2022		379,097
	2023		390,562
	2024		131,152
	Total lease payments		1,268,871
	Less: imputed interest		(93,989)
	Operating lease liability	\$	<u>1,174,882</u>

The Company had a deferred rent liability of \$0 and \$0 as of December 31, 2020 and 2019, respectively, relative to the increasing future minimum lease payments. Rent expense for the years ended December 31, 2020 and 2019 was \$412,315 and \$499,612, respectively.

### Note 7. Accrued Expenses

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Salaries and wages payable	\$ 278,331	\$ 192,161
Employee benefits payable	634	11,259
Accrued paid time off (PTO)	366,827	287,846
Profit sharing payable	<u>197,309</u>	<u>120,221</u>
Total accrued compensation and related costs	<u>\$ 843,101</u>	<u>\$ 611,487</u>

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

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Manufacturer's warranties	\$ 352,000	\$ 257,000
Warranties-other	-	74,176
Loss contingencies	-	-
Taxes payable	316,076	2,382
Miscellaneous payable	<u>104,808</u>	<u>1,193</u>
Total accrued expenses and other current liabilities	<u>\$ 772,884</u>	<u>\$ 334,751</u>

### Note 8. Note Payable

On May 8, 2020, VirTra received a Promissory Note (the "PPP Note") in the amount of \$1,320,714 under the PPP from Wells Fargo Bank, N.A (the "Lender"). The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration (the "SBA") for the PPP loan. The Company intends to use its entire PPP Note amount for designated qualifying expenses and to apply for forgiveness in accordance with the PPP loan terms. No assurance can be given that the Company will obtain forgiveness of the PPP

Note in whole or in part. With respect to any portion of the PPP Note that is not forgiven, the PPP Note will be subject to customary provisions for a loan of this type, including customary events of default relating to, among other things, payment defaults, breaches of the provisions of the PPP Note and cross-defaults on any other loan with the Lender or other creditors.

Under this approach, the Company will initially account for the PPP Note as a debt instrument and apply the interest method considering the six-month payment deferral allowed for the loan. The PPP Note is payable over two years at a fixed interest rate of 1%. The payments due and payable monthly are in the amount of \$55,604 commencing November 6, 2020 and continuing on the 8th day of each month thereafter until maturity on May 8, 2022. Under conventional terms at loan maturity the total repayment could total \$1,320,714 principal and \$18,720 of interest over the two-year period, for a combined repayment of \$1,339,434. Any portion not forgiven, can be prepaid at any time prior to maturity with no prepayment penalties. The Paycheck Protection Program Flexibility Act (the “Flexibility Act”), signed on June 5, 2020, amended certain provisions of the PPP, including the deferral period and repayment terms. The Flexibility Act extends the deferral period of payments of PPP loan principal, interest, and fees to the date when the SBA makes a final decision on the borrower’s application for forgiveness, or 10 months after the last day of the covered period if a borrower has not applied for forgiveness (whichever is earlier). This extension applies regardless of the terms of the PPP and does not require an amendment of the PPP. As such, the Company has not made any payments on the PPP note during 2020.

The entire PPP Note amount is recorded as a financial liability on the Company’s balance sheet with the next twelve months of principal plus accrued interest recorded as short-term liabilities and the remaining principal note balance recorded as a long-term liability. The PPP note payable amounts consist of the following:

	<b>December 31, 2020</b>	<b>December 31, 2019</b>
<b>Short-term liabilities:</b>		
Note payable, principal	\$ 257,471	\$ -
Accrued interest on note	8,566	-
<b>Note payable, short-term</b>	<b>\$ 266,037</b>	<b>\$ -</b>
<b>Long-term liabilities:</b>		
Note payable, long term	\$ 1,063,243	\$ -

#### **Note 9. Co-Venture Agreement with Modern Round**

On January 16, 2015, the Company entered into a Co-Venture Agreement (the “Co-Venture Agreement”) with MR, a wholly-owned subsidiary of TEC, a related party at that time. Mitchell Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. The Co-Venture Agreement granted TEC an exclusive non-transferrable license to use the Company’s technology and certain equipment solely for use at locations to operate the concept, as defined in the Co-Venture Agreement. Additionally, under the terms of the Co-Venture Agreement, equity representing five percent (5%) of Modern Round’s ownership interest, on a fully-diluted basis, was issued to the Company. TEC agreed to pay the Company, during the term of the Co-Venture Agreement, a royalty based on gross revenue, as defined and subject to certain minimum royalties commencing with the first twelve-month period subsequent to the respective milestone date of June 1, 2017. Under the terms of the original agreement, if the total royalty payments for locations in the United States and Canada together did not total at least the minimum royalty amount specified in the agreement, TEC may pay to VirTra the difference between the amount of total royalty payments and the minimum specified in the agreement to maintain exclusivity.

On August 16, 2017, the Company amended the Co-Venture Agreement to permit TEC to sublicense the VirTra technology to third party operators of stand-alone location-based entertainment companies. TEC agreed to pay the Company royalties for any such sublicenses in an amount equal to 10% of the revenue paid to TEC in cases where

TEC pays for the cost of the equipment for such location or 14% of the revenue paid to TEC in cases where it does not pay for the cost of the equipment.

On July 23, 2018, the Company further amended the Co-Venture Agreement to (i) confirm the minimum royalty deficiency benefit due for the royalty period ended May 31, 2018; (ii) establish payment terms for the minimum royalty deficiency benefit due, to include both cash and promissory note payment; (iii) clarify the exclusivity provisions of the Co-Venture Agreement; and (iv) amend the minimum royalty calculations to only TEC branded facilities.

On July 31, 2019, the Company executed the First Amendment to Convertible Promissory Note with TEC to extend the Convertible Note's maturity date for one additional year to August 1, 2020 and TEC remitted a payment in the amount of \$16,000. All other terms and conditions of the Convertible Note remain unchanged.

In April 2018, MR effected a 1-for-12,000 reverse stock split, followed by a 2,000-for-1 forward stock split completed in November 2018. As a result, the Company holds at December 31, 2019, 560,000 shares of TEC common stock representing approximately 4.8% of the issued and outstanding common shares of TEC. During the year ended December 31, 2020 and 2019, the Company recognized an impairment loss of \$840,000 and \$280,000, respectively. The Company recorded its investment at cost minus impairment as of December 31, 2020 and 2019, at \$0 and \$840,000, respectively.

In addition, as of December 31, 2020, the Company held a warrant to purchase 25,577 shares of TEC common stock, at an exercise price of \$2.4436 per share, as adjusted. This warrant became exercisable on the date of grant of April 14, 2015 and expires on the tenth anniversary of the date of grant, if not earlier pursuant to the terms of the option.

As of October 11, 2020, TEC ceased to be a related party.

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#### **Note 10. Related Party Transactions**

During the years ended December 31, 2020 and 2019, the Company redeemed 40,000 and 34,225 previously awarded options reaching expiration from related parties, including the Company's CEO, COO, an employee, a Board Director and other executive officers. These redemptions canceled the stock options and resulted in a total of \$73,987 and \$38,353 in additional compensation expense in 2020 and 2019, respectively.

During the years ended December 31, 2020 and 2019, related parties exercised 30,000 and 5,000 previously awarded options for the exercise price of \$30,163 and \$5,650, respectively, resulting in issuance of common stock to the CEO and one member of the Board of Directors.

Mr. Saltz, who was a member of our Board of Directors until his passing in October 2020, was the former Chairman of the Board and majority stockholder of TEC. The Company has entered into a Co-venture Agreement with TEC (See Note 9 Co-Venture Agreement with Modern Round) The Company owns 560,000 shares of TEC common stock representing approximately 4.8% of the issued and outstanding shares of TEC common stock. The Company recognized \$46,247 and \$130,625 for license fees (royalties) for the years ended December 31, 2020 and 2019, pursuant to the terms of the Co-Venture Agreement. At December 31, 2020 and 2019, TEC had accounts receivable balances outstanding of \$0. As of October 11, 2020, TEC ceased to be a related party.

Mr. Richardson, who is a member of our Board of Directors, is also acting CEO of Natural Point, Inc., a vendor of the Company. In 2020 and 2019, the Company purchased specialized equipment from Natural Point in the amount of \$232,218 and \$167,302, respectively. At December 31, 2020 and 2019 the Company had an outstanding balance payable to Natural Point of \$0 and \$34,865, respectively.

#### **Note 11. Commitments and Contingencies**

### ***General or Threatened Litigation***

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company 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. In June 2018, the Company initiated a declaratory judgment action in the Superior Court of the State of Arizona. A former customer had raised allegations of breach of contract and breach of warranty and the Company sought relief and clarification from the Superior Court regarding the allegations and the Company's obligations under the contract with the former customer. In May 2019, the Company entered into a settlement agreement of \$76,250. The agreement does not constitute an admission of any unlawful conduct or wrongdoing. The Company had established a probable and estimated loss contingency of \$40,000 as of December 31, 2018. The full amount of the settlement has been paid at December 31, 2019.

The Company evaluated the collection history on its trade note receivable (See Note 2. Notes Receivable) and determined the note was in default. Based on collection history, interest accrual was suspended as of the last payment received in February 2019. In accordance with the terms of the note, accelerated payment was demanded. The Company filed a verified complaint in the Superior Court of Arizona for the outstanding principal balance plus accrued interest, late fees and reasonable attorneys' fees. On September 20, 2019, the Superior Court of Arizona awarded, in favor of VirTra, a Form of Judgement totaling \$396,575, with interest accruing at the rate of 6.25% from date of judgment until such amount has been paid in full. In November 2019 the customer dissolved its legal entity and the balance of the note receivable \$102,473 was written off to bad debt expense at December 31, 2019.

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### ***Employment Agreements***

On April 2, 2012, the Company entered into three-year Employment Agreements with its Chief Executive Officer and Chief Operating Officer that call for base annual salaries of \$195,000 and \$175,000, respectively, subject to cost of living adjustments, and containing automatic one-year extension provisions. These contracts have been renewed annually and have been adjusted based on the same percentage increase approved for Company-wide cost-of-living adjustments. As of December 31, 2020, the Chief Executive Officer's base annual salary was \$248,791 and the Chief Operating Officer's base annual salary was \$223,274.

### ***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 only to active employees. For the years ended December 31, 2020 and 2019, the amount expensed to operations was \$206,869 and \$93,160, respectively.

### **Note 12. Income Taxes**

The Company accounts for its deferred tax assets and liabilities, including excess tax benefits of share-based payments, based on the tax ordering of deductions to be used on its tax returns. The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities for the years ended December 31 is as follows:

	2020	2019
Deferred tax assets:		
Net operating loss carry forwards	\$ 324,000	\$ 762,000
Tax Credits	907,000	286,000
Deferred revenue	152,000	58,000
Non-qualified stock option expense	120,000	136,000
Investment in TEC	89,000	51,000

Reserves, accruals and other	254,000	231,000
Accumulated depreciation and amortization	<u>46,000</u>	<u>268,000</u>
Total deferred tax assets	1,892,000	1,792,000
Less: Valuation allowance	<u>-</u>	<u>-</u>
Net deferred tax asset	<u>\$ 1,892,000</u>	<u>\$ 1,792,000</u>

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Internal Revenue Code Section 382 limits the ability to utilize net operating losses if a 50% change in ownership occurs over a three-year period. Such limitation of the net operating losses has not occurred. The Company believes it has approximately \$1.1 million of federal net operating loss carry-forwards as of December 31, 2020, that are available to offset future taxable income that expire starting in 2031, and approximately \$474,000 which can be carried forward indefinitely.

Significant components of the (provision) for income tax for the years ended December 31 as follows:

	2020	2019
Current	\$ (119,000)	\$ (162,000)
Deferred	(100,000)	608,000
Change in valuation allowance	<u>-</u>	<u>-</u>
Provision for income taxes	<u>\$ (219,000)</u>	<u>\$ 446,000</u>

The Company is subject to federal and state taxes. Reconciliations of the Company's effective income tax rate to the federal statutory rate for the years ended December 31 are as follows:

	2020		2019	
	\$	%	\$	%
Federal income tax expense at the statutory rate	\$ 265,000	21.0%	\$ 78,000	21.0%
State income taxes, net of federal benefit	69,000	5.5%	20,000	5.4%
Permanent differences	186,654	14.8%	79,665	21.4%
True ups to tax return and other	(739,654)	-58.7%	268,335	72.2%
Change in federal income tax rates	-	0.0%	-	0.0%
Change in valuation allowance	<u>-</u>	<u>0.0%</u>	<u>-</u>	<u>0.0%</u>
Provision (benefit) for income taxes	<u>\$ (219,000)</u>	<u>-59.0%</u>	<u>\$ 446,000</u>	<u>120.1%</u>

The benefit for income taxes increased in 2020 from a true-up of the deferred tax asset and temporary timing differences in deferred revenue, reserves, depreciation and amortization, and net operating loss carryforward, offset by an adjustment for taxes prepaid and refunded from prior year tax over payments.

### Note 13. Stockholders' Equity

#### *Authorized Capital*

#### *Common Stock.*

*Authorized Shares.* The Company is authorized to issue 60,000,000 shares of common stock, par value \$0.0001 per share, of which (a) 50,000,000 shares shall be common stock, par value \$0.0001, (b) 2,500,000 shares shall be

Class A common stock, par value \$0.0001 per share (the “Class A Common Stock”), and (c) 7,500,000 shares shall be Class B common stock, par value \$0.0001 per share (the “Class B Common Stock”). No shares of Class A Common Stock or Class B Common Stock have been issued.

*Rights and Preferences.* Voting Rights. Except as otherwise required by the Nevada Revised Statutes or as provided by or pursuant to the provisions of the Company’s articles of incorporation:

(i) Each holder of common stock shall be entitled to one (1) vote for each share of common stock held of record by such holder. The holders of shares of common stock shall not have cumulative voting rights.

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(ii) Each holder of Class A Common Stock shall be entitled to ten (10) votes for each share of Class A Common Stock held of record by such holder. The holders of shares of Class A Common Stock shall not have cumulative voting rights.

(iii) The holders of common stock and Class A Common Stock shall vote together as a single class on all matters on which stockholders are generally entitled to vote.

(iv) The holders of Class B Common Stock shall not be entitled to vote on any matter, except that the holders of Class B Common Stock shall be entitled to vote separately as a class with respect to amendments to the Articles of Incorporation that increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely.

### ***Preferred Stock***

*Authorized Shares.* The Company is authorized to issue 2,500,000 shares of preferred stock, par value \$0.0001 per share (the “Preferred Stock”).

*Rights and Preferences.* The Board of Directors is authorized at any time, and from time to time, to provide for the issuance of shares of Preferred Stock in one or more series, and to determine the designations, preferences, limitations and relative or other rights of the Preferred Stock or any series thereof.

### ***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 the 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 Company’s stock repurchase program was suspended as a result of interim rulings for public-company recipients of a PPP loan under the CARES Act. The stock repurchase suspension will remain in effect for the duration of the outstanding PPP loan.

### ***Treasury Stock***

During the year ended December 31, 2020, the Company purchased no treasury shares. During the year ended December 31, 2019, the Company purchased 82,689 treasury shares at an average cost of \$3.85 per share. At December 31, 2019, all treasury shares outstanding had been cancelled and returned to shares authorized.

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Year Ended December 31,

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Period:	2020		2019	
	Total Number of Shares Repurchased	Average Price Paid per Share	Total Number of Shares Repurchased	Average Price Paid per Share
Repurchased Shares - January-March	-	\$ -	68,239	\$ 3.82
Repurchased Shares - April-June	-	\$ -	14,450	\$ 3.97
Repurchased Shares - July-September	-	\$ -	-	\$ -
Repurchased Shares - October-December	-	\$ -	-	\$ -
Total	-	\$ -	82,689	\$ 3.85

Repurchased Shares Status				
Repurchased Shares Cancelled	-		82,689	
Repurchased Shares Held in Treasury	-		-	
Total	-		82,689	

Approximate Funds Remaining in Repurchase Plan as of December 31, 2020	\$ -			
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### 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:

	December 31, 2020		December 31, 2019	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	234,167	\$ 2.47	279,167	\$ 2.25
Granted	-	-	-	-
Redeemed	(40,000)	0.88	(34,225)	1.13
Exercised	(30,000)	1.01	(10,775)	1.06
Expired / terminated	-	-	-	-
Options outstanding, end of year	164,167	\$ 3.13	234,167	\$ 2.47
Options exercisable, end of year	164,167	\$ 3.13	234,167	\$ 2.47

The Company did not have any non-vested stock options outstanding as of December 31, 2020. The weighted average contractual term for options outstanding and exercisable at December 31, 2020 and 2019 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable at December 31, 2020 and 2019 was \$138,487 and \$731,112, respectively. The total intrinsic value of options exercised during the years ended December 31, 2020 and 2019 was \$63,437 and \$14,770, respectively. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the Company's common stock for those stock options that have an exercise price lower than the fair value of the Company's common stock. Options with an exercise price above the fair value of the Company's common stock are considered to have no intrinsic value. For the years ended December 31, 2020 and 2019, the Company received payments related to the exercise of options in the amount of

\$30,166 and \$11,426, respectively. The total fair value of shares vested during the years ended December 31, 2020 and 2019 is \$0 and \$0, respectively.

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2020:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$.80 - \$.99	11,250	\$ 0.98	11,250	\$ 0.98
\$1.00 - \$1.99	33,750	\$ 1.68	33,750	\$ 1.68
\$2.00 - \$2.99	42,500	\$ 2.48	42,500	\$ 2.48
\$3.00 - \$3.99	25,000	\$ 3.50	25,000	\$ 3.50
\$4.00 - \$4.99	25,000	\$ 4.25	25,000	\$ 4.25
\$5.00 - \$5.99	26,667	\$ 5.50	26,667	\$ 5.50
\$.40 - \$2.99	<u>164,167</u>	\$ 3.13	<u>164,167</u>	\$ 3.13

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2019:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$.80 - \$.99	70,000	\$ 0.87	70,000	\$ 0.87
\$1.00 - \$1.99	45,000	\$ 1.60	45,000	\$ 1.60
\$2.00 - \$2.99	42,500	\$ 2.48	42,500	\$ 2.48
\$3.00 - \$3.99	25,000	\$ 3.50	25,000	\$ 3.50
\$4.00 - \$4.99	25,000	\$ 4.25	25,000	\$ 4.25
\$5.00 - \$5.99	26,667	\$ 5.50	26,667	\$ 5.50
\$.40 - \$2.99	<u>234,167</u>	\$ 2.47	<u>234,167</u>	\$ 2.47

### ***2017 Equity Incentive Plan***

On August 23, 2017, our Board approved, subject to stockholder approval at the annual meeting of stockholders on October 6, 2017, the VirTra, Inc. 2017 Equity Incentive Plan (the “Equity Plan”). The Equity Plan is intended to make available incentives that will assist us to attract, retain and motivate employees, including officers, consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of 1,187,500 shares of our common stock was initially authorized and reserved for issuance under the Equity Plan. This reserve automatically increased on January 1, 2019, and each subsequent anniversary through 2027, by an amount equal to the smaller of (a) 3% of the number of shares of common stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Board.

Awards may be granted under the Equity Plan to our employees, including officers, directors or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following: stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units and cash-based awards and other stock-based awards.

At December 31, 2020 and 2019, there were no options issued under the Equity Plan.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

**ITEM 9A. CONTROLS AND PROCEDURES.****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 officer and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officer and principal financial officer, evaluated our company’s disclosure controls and procedures as of the end of the period covered by this annual report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of December 31, 2020, 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.

**Internal control over financial reporting*****Management’s annual report on internal control over financial reporting***

Our management, including our principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2020. Our management’s evaluation of our internal control over financial reporting was based on the 2013 framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that as of December 31, 2020, our internal control over financial reporting was not effective. This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm pursuant to the rules of the SEC for emerging growth companies.

The ineffectiveness of our internal control over financial reporting was due to the following material weaknesses which we identified in our internal control over financial reporting: (i) the lack of multiple levels of management review on complex business, accounting and financial reporting issues, and (ii) we had not implemented adequate system and manual controls. Until such time as we expand our staff to include additional accounting and executive personnel and accounting systems and procedures, it is likely we will continue to report material weaknesses in our internal control over financial reporting.

A material weakness is a deficiency or a combination of control deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

***Limitations on Effectiveness of Controls***

Our principal executive officer and principal financial officer do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system

are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additional controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **Changes in Internal Controls over Financial Reporting**

There was no change in our internal control over financial reporting that occurred during the year ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### **ITEM 9B. OTHER INFORMATION.**

On March 25, 2021, the Company's Board of Directors appointed Marsha J. Foxx, the Company's Interim Vice President Chief Accounting Officer, as the Chief Accounting Officer and Vice President, with all the functions and duties of the principal financial officer and principal accounting officer of the Company.

Set forth below is certain biographical information regarding Ms. Foxx.

Marsha J. Foxx, age 59, brings to the Company over 20 years of experience in financial operations, business transformation strategies, and all phases of the accounting processes and controls. Throughout her career, she has held numerous leadership positions in a variety of industries including technology and healthcare. Prior to joining the Company, she served as vice president finance for Cerberus Cyber Sentinel, a cyber security startup, from 2019 to 2020, and as global executive vice president finance at Column5 Consulting Group from 2018 to 2019. From 2017 to 2018 and in 2020, Ms. Foxx worked as a consultant for Foxx Denn LLC, a management consulting firm owned by her. She also services as vice president finance for Southwest Spine & Sports from 2015-2017. Ms. Foxx served as chief financial officer of Tactical Air Services, a civilian-based military aggressor flight training company. Ms. Foxx holds a Bachelor of Science degree in Business Administration, majoring in Accounting, from Central Michigan University, and has been a Certified Public Accountant (CPA) for over 25 years.

The Company agreed to pay Ms. Foxx an annual base salary of \$140,000.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

#### **Board of Directors and Executive Officers**

The following table sets forth the names, positions and ages of our current directors and executive officers. Each director is elected at our annual meeting of stockholders and holds office for one year, or until his successor is elected and qualified. Officers are elected by our Board of Directors and their terms of office are at the discretion of our Board.

<b>Name</b>	<b>Age</b>	<b>Position/Title</b>
Robert D. Ferris	49	Chief Executive Officer, President and Chairman of the Board
Matthew D. Burlend	47	Chief Operating Officer, Vice President and Director

Marsha J. Foxx	59	Chief Accounting Officer, Vice President
Jeffrey D. Brown	57	Director
John Givens	57	Director
James Richardson	44	Director

Biographical information concerning the directors and executive officers listed above is set forth below:

**Robert D. Ferris.** Mr. Ferris has been our Chief Executive Officer and Chairman of the Board of Directors since 2008 and has been our President since founding Ferris Productions, Inc. (“Ferris Productions”) in 1993. Mr. Ferris has led VirTra in providing the market with revolutionary simulation training products that today impact millions worldwide. He has been awarded multiple patents, spoken at various trade shows, and has written or assisted with various ground-breaking articles and studies in the fields of virtual reality and simulation technology. Mr. Ferris is considered one of the top experts in the world at applying virtual reality and simulation technology to solve real world problems. Mr. Ferris attended the U.S. Air Force Academy and received a Bachelor’s degree in Systems Engineering from the University of Arizona. We believe Mr. Ferris’ history as a founder, officer and director of our company, and his management experience and industry knowledge, provide the requisite qualifications, skills, perspectives and experience that make him well qualified to serve as Chairman of our Board of Directors.

**Matthew D. Burlend.** Mr. Burlend has been our Chief Operating Officer since 2011, Vice President since 2017, and director and Secretary of our Board since 2008. Prior to joining Ferris Productions, Inc. in 1999, Matt was a mechanical engineer focused on the design of automated production equipment for Panduit, a \$1+ billion per year global manufacturing company. In his role with our company, Mr. Burlend has contributed significantly to managing the design, production and support of our simulator products and has achieved a highly successful track record in the daily operations of our core business. At VirTra, Matt worked his way up from engineer to becoming COO in 2011. In addition, he was instrumental in managing the company from a debt position of over \$4 million, to becoming debt-free in less than three years at the height of the Great Recession, to then achieving record profits. Matt graduated from Olivet Nazarene University with a Mechanical Engineering Degree.

**Marsha J. Foxx.** Ms. Foxx joined the Company in December, 2020 as our Interim Vice President Chief Accounting Officer. She brings to the Company over 20 years of experience in financial operations, business transformation strategies, and all phases of the accounting processes and controls. Throughout her career, she has held numerous leadership positions in a variety of industries including technology and healthcare. Prior to joining the Company, she served as vice president of finance for a cyber security startup, as global executive vice president finance for an advanced Enterprise Performance Management (EPM) consultancy, vice president of finance for various healthcare entities, and chief financial officer for a civilian based military aggressor flight training company. In addition, she started her own management consulting firm. Ms. Foxx holds a Bachelor of Science degree in Business Administration, majoring in Accounting, from Central Michigan University, and has been a Certified Public Accountant (CPA) for over 25 years.

**Jeffrey D. Brown.** Mr. Brown has served as a director of our company since 2011. Mr. Brown has been a Certified Public Accountant (“CPA”) since 1993 and a financial planning service provider for over 12 years, performing financial services for a wide range of companies. From 2002 to 2004, Mr. Brown was the Chief Financial Officer for Gold Canyon Candles, a provider of fragranced candles and accessories during a period of rapid growth in revenues. From 1990 to 1994, Mr. Brown was an auditor at Ernst & Young performing audits for a variety of organizations. Mr. Brown received a Bachelor of Science in Accounting from California State University, San Bernardino and his CPA designation in 1993. We believe Mr. Brown’s history as a financial and accounting services professional and a former auditor and management experience provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

**John Givens.** Mr. Givens has served as a director of our company since November 2, 2020. Mr. Givens has over 20 years’ experience as a board member, entrepreneur, and corporate executive. He currently serves as a military board advisor to Bohemia Interactive Simulations (BISim), a global developer of advanced military simulation and

training software. In 2010, Mr. Givens established the US company of BISim, and as president, took military simulations products from inception to production. Mr. Givens has achieved numerous awards and honors, including appointment to the board of directors of the National Center for Simulation (NCS), an association of defense companies, and the “Pioneer Awards” for outstanding contributions and innovations to the training and effectiveness of US and overseas soldiers, sailors, and airmen. Mr. Givens graduated with a Bachelor of Science degree in Computer Science from the Florida Institute of Technology and proudly served in the United States Army. We believe Mr. Givens history as founder and president of BISim, and his business development expertise, technology background and extensive management experience provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

**James Richardson.** Mr. Richardson has served as a director of our company since October 9, 2017. Mr. Richardson is the co-founder and has been the chief executive officer of NaturalPoint Inc. since 1996. NaturalPoint is a world leader in simulation/VR/AR tracking and sells optical motion capture hardware and software, head tracking for PC’s and hands-free ergonomic mouse alternative for assistive technology. Mr. Richardson has had an integral role at NaturalPoint since its formation and is responsible for devising its high-level strategy and the engineering, marketing and sales efforts. Through Mr. Richardson’s efforts, he led to profitable revenue growth, enabling it to gain significant market share culminating in its sale to Planar Systems, Inc., a developer, manufacturer and marketer of electronic display products and systems for \$125 million in cash. Mr. Richardson studied Mechanical Engineering at the University of California at Berkeley. We believe Mr. Richardson’s history as a founder and officer of NaturalPoint, and his technology background and management experience provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

There are no family relationships between any of the executive officers and directors.

### **Involvement in Certain Legal Proceedings**

None of our directors, executive officers, significant employees or control persons has been involved in any legal proceeding listed in Item 401(f) of Regulation S-K in the past 10 years.

### **Board Composition**

Our business and affairs are managed under the direction of our Board of Directors. The number of directors is fixed by our Board of Directors, subject to our articles of incorporation and our bylaws. Currently, our Board of Directors consists of five directors.

### **Director Independence**

Our Board of Directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, our Board of Directors has determined that (i) Messrs. Brown, Richardson, and Givens do not have a material relationship with us that could compromise his or her ability to exercise independent judgment in carrying out his or responsibilities and that each of these directors is “independent” as that term is defined under the listing standards of NASDAQ and (ii) Messrs. Ferris and Burlend are non-independent directors. Therefore, a majority of our Board of Directors consist of “independent directors” as defined under the listing standards of NASDAQ. Mitchell A. Saltz, who served as a director until his passing on October 11, 2020, also was an independent director.

### **Board Leadership Structure and Board’s Role in Risk Oversight**

Our Board of Directors has a Chairman, Mr. Ferris. The Chairman has authority, among other things, to preside over Board meetings and set the agenda for Board meetings. Accordingly, the Chairman has substantial ability to shape the work of our Board of Directors. Because a majority of our Board of Directors is independent, we believe that separation of the roles of Chairman and Chief Executive Officer is not necessary at this time to ensure appropriate

oversight by the Board of Directors of our business and affairs. However, no single leadership model is right for all companies and at all times. The Board of Directors recognizes that depending on the circumstances, other leadership models, such as the appointment of a lead independent director, might be appropriate. Accordingly, the Board of Directors may periodically review its leadership structure. In addition, the Board of Directors will hold executive sessions in which only independent directors are present.

Our Board of Directors is generally responsible for the oversight of corporate risk in its review and deliberations relating to our activities. Our principal source of risk falls into two categories, financial and product commercialization. The audit committee will oversee management of financial risks; our Board of Directors regularly reviews information regarding our cash position, liquidity and operations, as well as the risks associated with each. The Board of Directors regularly reviews plans, results and potential risks related to our product development and commercialization efforts. Our compensation committee is expected to oversee risk management as it relates to our compensation plans, policies and practices for all employees including executives and directors, particularly whether our compensation programs may create incentives for our employees to take excessive or inappropriate risks which could have a material adverse effect on us.

## **Board Committees**

Our Board of Directors has established three standing committees—the audit committee, compensation committee, and nominating and corporate governance committee—each of which operate under a charter that has been approved by our Board of Directors. We have appointed persons to the Board of Directors and committees of the Board as required meeting the corporate governance requirements of the NASDAQ Listing Rules.

### ***Audit Committee***

We have appointed three members of our Board of Directors to the audit committee, Messrs. Givens, Brown, and Richardson. Mr. Saltz served on the audit committee until October 11, 2020. Mr. Brown serves as the chairman of the audit committee and satisfies the definition of “audit committee financial expert” within the meaning of SEC regulations and the NASDAQ Listing Rules. In making a determination on which member will qualify as a financial expert, our Board of Directors considered the formal education and nature and scope of such members’ previous experience.

Our audit committee is responsible for, among other things:

- To oversee our accounting and financial reporting and disclosure processes and the audit of our financial statements.
- To select and retain an independent registered public accounting firm to act as our independent auditors.
- To review with management, the internal audit department and our independent auditors the adequacy and effectiveness of our financial reporting processes, internal control over financial reporting and disclosure controls and procedures, including any significant deficiencies or material weaknesses.
- To review and discuss with our independent auditors and management our annual audited financial statements (including the related notes), the form of audit opinion to be issued by the auditors on the financial statements and the disclosure under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” to be included in our annual report on Form 10-K.
- To review and approve the functions of our accounting department and approve the hiring or dismissal of the Chief Financial Officer, or such person as may, from time to time, be delegated such internal audit function by the Board.
- To review and discuss with management policies and guidelines to govern the process by which management assesses and manages our risks.
- To establish and oversee procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.
- To review, approve and oversee any transaction between us and any related person and any other potential conflict of interest situations.
- To meet at least four times a year to fulfill its responsibilities.

- To review the audit committee charter at least annually and recommend any proposed changes to the Board for approval.

### *Compensation Committee*

We have appointed three members of our Board of Directors, Messrs. Givens, Brown, and Richardson, to the compensation committee. Mr. Saltz served as the chairman of the compensation committee until October 11, 2020. Our compensation committee will assist our Board of Directors in the discharge of its responsibilities relating to the compensation of our executive officers.

Our compensation committee is responsible for, among other things:

- To review and approve the compensation of the Chief Executive Officer and to approve the compensation of all other executive officers.
- To review, and approve and, when appropriate, recommend to the Board for approval, any employment agreements and any severance arrangements or plans, including any benefits to be provided in connection with a change in control, for the CEO and other executive officers, which includes the ability to adopt, amend and terminate such agreements, arrangements or plans.
- To review our incentive compensation arrangements.
- To review and recommend to the Board for approval the frequency with which we will conduct Say on Pay Votes.
- To review director compensation for service on the Board and Board committees at least once a year and to recommend any changes to the Board.
- To meet at least two times a year.
- To review the compensation committee charter at least annually and recommend any proposed changes to the Board for approval.

### *Nominating and Corporate Governance Committee*

We have appointed three members of our Board of Directors, Messrs. Givens Brown, and Richardson, to the nominating and corporate governance committee. Mr. Richardson serves as the chairman of the nominating and corporate governance committee. Mr. Saltz served on the nominating and corporate governance committee until October 11, 2020.

Our nominating and corporate governance committee is responsible for, among other things:

- To determine the qualifications, qualities, skills, and other expertise required to be a director and to develop, and recommend to the Board for its approval, criteria to be considered in selecting nominees for director.
- To select and approve the nominees for director to be submitted to a stockholder vote at the annual meeting of stockholders.
- To review the Board's committee structure and composition and to appoint directors to serve as members of each committee and committee chairmen.
- To develop and recommend to the Board for approval standards for determining whether a director has a relationship with us that would impair its independence.
- To review and discuss with management the disclosure regarding the operations of the nominating and corporate governance committee and director independence, and to recommend that this disclosure be included in our proxy statement or annual report on Form 10-K, as applicable.
- To monitor compliance with our Code of Ethics and Business Conduct (the "Code of Ethics"), to investigate any alleged breach or violation of the Code of Ethics and to enforce the provisions of the Code of Ethics.
- To meet at least two times a year.
- To review the nominating and corporate governance committee charter at least annually and recommend any proposed changes to the Board for approval

### Code of Ethics and Business Conduct and Whistleblower Protection Policy

We have adopted a written Code of Ethics, which outlines the principles of legal and ethical business conduct under which we do business. In addition, we have adopted a written Whistleblower Protection Policy to prevent adverse employment action of any kind against any of our employees who lawfully report information about (i) fraudulent activities within our company (including wire fraud, mail fraud and bank fraud), (ii) violations of the Sarbanes-Oxley Act pertaining to fraud against stockholders of the Company, (iii) questionable accounting, internal accounting controls or auditing matters of the Company, and (iv) conduct by our executives that violate our Code of Ethics, or that cause reports and other public disclosures by us that are not full, fair and accurate. To advance this commitment, we have adopted this Whistleblower Protection Policy. The Code of Ethics and Whistleblower Protection Policy are applicable to all of our directors, officers and employees and are available on our corporate website, [www.virtra.com](http://www.virtra.com). We intend to disclose any amendments to our Code of Ethics, or waivers of its requirements, on our website or in filings under the Exchange Act to the extent required by applicable rules and exchange requirements.

### Director Compensation

2020 Director Compensation Table

Name	Fees earned or paid in cash	Stock Awards	Option Awards	Non-equity incentive plan compensation	Nonqualified deferred compensation earnings	All Other Compensation	Total
Mitchell A. Saltz <sup>(1)</sup>	\$18,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$18,000
Jeffrey D. Brown	\$24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$24,000
John Givens <sup>(2)</sup>	\$ 6,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,000
James Richardson	\$24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$24,000

(1) Mr. Saltz served as a member of our Board of Directors until his passing on October 11, 2020.

(2) Mr. Givens was appointed as a member of our Board of Directors on November 2, 2020.

We approved the payments of quarterly and annual cash retainers to each non-employee director (Messrs. Saltz, Brown, Richardson and Givens) to cover all Board and committee meetings, actions by written consent, and attendance fees. The cash retainers are in lieu of previously Board-approved awards of stock options and any other compensation to non-employee directors for serving on the Board of directors and committees. We reimburse our non-employee directors for reasonable travel expenses incurred in attending Board and committee meetings. We also may allow our non-employee directors to participate in any equity compensation plans that we have adopted or may adopt in the future. Historically, our directors that are our employees have not received compensation for their service as directors.

### ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes all compensation recorded by us in the past two fiscal years for:

- our principal executive officer or other individual acting in a similar capacity during the fiscal year ended December 31, 2020,
- our two most highly compensated executive officers, other than our principal executive officers, who were serving as executive officers at December 31, 2020, and
- up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer at December 31, 2020.

For definitional purposes, these individuals are sometimes referred to as the “named executive officers.”

#### 2020 Summary Compensation Table

<b>Name and Principal Position</b>	<b>Fiscal Year Ended</b>	<b>Salary (\$)</b>	<b>Bonus (\$)</b>	<b>Stock Awards (\$)</b>	<b>Option Awards (\$)</b>	<b>All Other Compensation (\$)</b>	<b>Total (\$)</b>
Robert D. Ferris, Chief Executive Officer	12/31/2020	\$239,222	\$ 8,910	-	-	-	\$248,132
	12/31/2019	\$241,545	\$31,750	-	-	-	\$273,295
Matthew D. Burlend, Chief Operating Officer	12/31/2020	\$223,274	\$34,615	-	\$ -	-	\$257,889
	12/31/2019	\$216,771	\$40,602	-	\$ -	-	\$257,373
Judy A. Henry , Former Chief Financial Officer	12/31/2020	\$171,733	\$ 6,271	-	\$ -	-	\$178,004
(1)	12/31/2019	\$170,001	\$ 4,160	-	\$ -	-	\$174,161

(1) Ms. Henry retired on December 11, 2020.

#### Executive Employment Agreements

On April 2, 2012, we entered into three-year Employment Agreements with each of Messrs. Ferris and Burlend that call for base annual salaries of \$195,000 and \$175,000, respectively, subject to increases based on the cost of living at a minimum. The agreements automatically extend for additional periods of one year. These contracts have been renewed annually with upward adjustments each year applying the same percentage increase approved for Company-wide cost-of-living adjustments. On January 1, 2020, Messrs. Ferris’ and Burlend’s annual base salary was \$248,791 and \$223,274, respectively. The employment agreements entitle these executives to an annual cash bonus determined by our Board of Directors based on our performance. In addition, the agreements entitle these executives to participate in any stock option or restricted stock plan adopted by our Board of Directors. The amount of an award under any such plan and the vesting terms shall be as determined by the Board. In addition, we provide the executives with family medical insurance, \$15,000 in life insurance, and participation in a 401(k) retirement plan.

Pursuant to the terms of the employment agreements, we may terminate an executive’s employment for cause as defined in the employment agreement and such cause is deemed to exist as determined by our Board of Directors at a Board meeting at which the executive and his counsel are first given the opportunity to address the Board with respect to such determination. If Messrs. Ferris or Burlend is terminated by us for any reason other than for cause, or if either of them voluntarily terminate their own respective employment for good reason but not including a change in control, then we shall, subject to the terms of the respective employment agreements, be obligated to pay the executive who terminated his employment an amount equal to the greater of (a) the executive’s annual base salary in effect on the day preceding the date of such termination or (b) the executive’s annual base salary during the twelve full calendar months preceding the date of such termination, times three. If a change of control of our company occurs while the executive is our employee and within 36 months from the date of such change in control we terminate the executive’s employment for any reason (except for the death or disability of the executive or for Cause) or the executive terminates his employment for any reason, then we shall, subject to certain limitations, pay the executive any earned and accrued but unpaid base salary through the date of termination plus an amount of severance pay equal to the greater of (a) the

executive's annual base salary in effect on the day preceding the date on which the change of control occurred or (b) the executive's annual base salary during the twelve full calendar months preceding the date on which the change of control occurred, times four. In addition, any stock options awarded to the executives shall immediately vest and become exercisable upon a change of control. If the executive is terminated for any reason other than the executive's voluntary termination for good reason as defined in the employment agreement, the executive whose employment has been terminated is prohibited for a period of two years from the date of termination of the employment agreement from direct competition with us, and shall not solicit any of our employees or customers. The employment agreements require us to indemnify each of the respective executives to the fullest extent permitted under Nevada law, our articles of incorporation and bylaws, which ever affords the greater protection to the executive.

During the year ended December 31, 2020, the Company's Chief Operating Officer redeemed 15,000 previously awarded options reaching expiration. The redemptions resulted in \$15,083 of additional compensation expense.

During the year ended December 31, 2020, the Chief Executive Officer exercised 20,000 previously awarded options for an aggregate exercise price of \$20,110, resulting in the issuance by the Company of 20,000 shares of Common Stock.

## **Employee Benefit and Equity Incentive Plans**

### ***Stock Options***

Prior to October 2017, we periodically issued non-qualified incentive stock options to the 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. These awards were suspended as of October 1, 2017. As of December 31, 2020, there were 164,167 options outstanding and 164,167 options exercisable at a weighted exercise price of \$3.13 and \$3.13, respectively.

On March 9, 2016, our Board of Directors approved a program under which we may repurchase outstanding vested Company stock options on an exception basis. Under the terms of the program, our Chief Executive Officer or Chief Operating Officer may cause us to redeem for cash any positive stock options for the net value of the stock option (stock price on the redemption date minus strike price). The cash redemption of stock options held by the Chief Executive Officer or Chief Operating Officer must be approved by our independent directors. We retain the right to reject any redemption request that is not in the best interest of our company.

### ***Profit Sharing***

We have a discretionary profit-sharing program that pays out a percentage of our profits each year as a cash bonus to active and eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata to employees in good standing at time of distribution in April and October of the following year after the completion of the annual financial audit. For the years ending December 31, 2020 and 2019, the amount expensed to operations for this program was \$206,869 and \$93,160, respectively.

### ***2017 Equity Incentive Plan***

On August 23, 2017, our Board approved, subject to stockholder approval at the annual meeting of stockholders on October 6, 2017, the VirTra, Inc. 2017 Equity Incentive Plan (the "Equity Plan"). The Equity Plan is intended to make available incentives that will assist us to attract, retain and motivate employees, including officers, consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and units and other cash-based or stock-based awards.

A total of 1,187,500 shares of our Common Stock were initially authorized and reserved for issuance under the Equity Plan. This reserve automatically increased on January 1, 2019 and will automatically increase each subsequent

anniversary through 2027, by an amount equal to the smaller of (a) 3% of the number of shares of Common Stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Board.

Appropriate adjustments will be made in the number of authorized shares and other numerical limits in the Equity Plan and in outstanding awards to prevent dilution or enlargement of participants' rights in the event of a stock split or other change in our capital structure. Shares subject to awards which expire or are cancelled or forfeited will again become available for issuance under the Equity Plan. The shares available will not be reduced by awards settled in cash or by shares withheld to satisfy tax withholding obligations. Only the net number of shares issued upon the exercise of stock appreciation rights or options exercised by means of a net exercise or by tender of previously owned shares will be deducted from the shares available under the Equity Plan.

The Equity Plan will be generally administered by the compensation committee of our Board of Directors. Subject to the provisions of the Equity Plan, the compensation committee will determine in its discretion the persons to whom and the times at which awards are granted, the sizes of such awards and all of their terms and conditions. However, the compensation committee may delegate to one or more of our officers the authority to grant awards to persons who are not officers or directors, subject to certain limitations contained in the Equity Plan and award guidelines established by the committee. The compensation committee will have the authority to construe and interpret the terms of the Equity Plan and awards granted under it. The Equity Plan provides, subject to certain limitations, for indemnification by us of any director, officer or employee against all reasonable expenses, including attorneys' fees, incurred in connection with any legal action arising from such person's action or failure to act in administering the Equity Plan.

The Equity Plan authorized the compensation committee, without further stockholder approval, to provide for the cancellation of stock options or stock appreciation rights with exercise prices in excess of the fair market value of the underlying shares of Common Stock in exchange for new options or other equity awards with exercise prices equal to the fair market value of the underlying Common Stock or a cash payment.

The Equity Plan limits the grant date fair value of all equity awards and the amount of cash compensation that may be provided to a non-employee director in any fiscal year to an aggregate of \$300,000.

Awards may be granted under the Equity Plan to our employees, including officers, directors or consultants or those of any present or future parent or subsidiary corporation or other affiliated entity. All awards will be evidenced by a written agreement between us and the holder of the award and may include any of the following:

- *Stock options.* We may grant nonstatutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code of 1986, as amended), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our Common Stock at an exercise price per share determined by the administrator, which may not be less than the fair market value of a share of our Common Stock on the date of grant.
- *Stock appreciation rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our Common Stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our Common Stock or in cash.
- *Restricted stock.* The administrator may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote the shares and to receive any dividends paid, except that the dividends will be subject to the same vesting conditions as the related shares.
- *Restricted stock units.* Restricted stock units represent rights to receive shares of our Common Stock (or their value in cash) at a future date without payment of a purchase price, subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of Common Stock are issued in settlement of such awards. However, the

administrator may grant restricted stock units that entitle their holders to dividend equivalent rights subject to the same vesting conditions as the related units.

- *Performance shares and performance units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our Common Stock, while performance unit awards are rights denominated in dollars. The administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the Equity Plan, such as revenue, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our Common Stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of Common Stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights subject to the same vesting conditions as the related units.
- *Cash-based awards and other stock-based awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our Common Stock, as determined by the administrator. Their holder will have no voting rights or right to receive cash dividends unless and until shares of our Common Stock are issued pursuant to the award. The administrator may grant dividend equivalent rights with respect to other stock-based awards.

In the event of a change in control as described in the Equity Plan, the acquiring or successor entity may assume or continue all or any awards outstanding under the Equity Plan or substitute substantially equivalent awards. Any awards which are not assumed or continued in connection with a change in control or are not exercised or settled prior to the change in control will terminate effective as of the time of the change in control. The compensation committee may provide for the acceleration of vesting of any or all outstanding awards upon such terms and to such extent as it determines, except that the vesting of all awards held by members of the Board of Directors who are not employees will automatically be accelerated in full. The Equity Plan also authorizes the compensation committee, in its discretion and without the consent of any participant, to cancel each or any outstanding award denominated in shares upon a change in control in exchange for a payment to the participant with respect to each share subject to the cancelled award of an amount equal to the excess of the consideration to be paid per share of Common Stock in the change in control transaction over the exercise price per share, if any, under the award.

The Equity Plan will continue in effect until it is terminated by the administrator, provided, however, that all awards will be granted, if at all, within 10 years of its effective date. The administrator may amend, suspend or terminate the Equity Plan at any time, provided that without stockholder approval, the plan cannot be amended to increase the number of shares authorized, change the class of persons eligible to receive incentive stock options, or effect any other change that would require stockholder approval under any applicable law or listing rule.

### Outstanding Equity Awards at 2020 Fiscal Year-End

The following table provides information concerning unexercised options, stock that has not vested and equity incentive plan awards for each named executive officer outstanding as of December 31, 2020:

OPTION AWARDS						
<u>Name</u>	<u>Grant Date</u>	<u>Number of Securities Underlying Unexercised Options (#) Exercisable</u>	<u>Number of Securities Underlying Unexercised Options (#) Unexercisable</u>	<u>Equity Incentive Plan Awards: Number of Securities</u>	<u>Option Exercise Price (\$)</u>	<u>Option Expiration Date</u>

				<b>Underlying Unexercised Unearned Options (#)</b>			
Robert D. Ferris	4/1/2014	5,000	-	-	\$	1.45	4/1/2021
	7/1/2014	5,000	-	-	\$	0.98	7/1/2021
	10/1/2014	5,000	-	-	\$	2.10	10/1/2021
	1/2/2015	5,000	-	-	\$	2.88	1/2/2022
	4/1/2015	5,000	-	-	\$	3.19	4/1/2022
	7/1/2015	5,000	-	-	\$	1.90	7/1/2022
	10/1/2015	5,000	-	-	\$	1.70	10/1/2022
	1/4/2016	5,000	-	-	\$	2.80	1/2/2023
	4/1/2016	5,000	-	-	\$	2.23	4/1/2023
	7/1/2016	5,000	-	-	\$	4.19	7/1/2023
	10/1/2016	5,000	-	-	\$	5.88	10/1/2023
	1/1/2017	5,000	-	-	\$	5.20	1/1/2024
	4/1/2017	5,000	-	-	\$	4.30	4/1/2024
	7/1/2017	5,000	-	-	\$	3.76	7/1/2024
<b>Total</b>		<u>70,000</u>					

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#### OPTION AWARDS

Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards:			Option Expiration Date
				Number of Securities Underlying Unexercised Options (#) Unearned	Option Exercise Price (\$)		
Matthew D. Burlend	4/1/2014	3,750	-	-	\$	1.45	4/1/2021
	7/1/2014	3,750	-	-	\$	0.98	7/1/2021
	10/1/2014	3,750	-	-	\$	2.10	10/1/2021
	1/2/2015	3,750	-	-	\$	2.88	1/2/2022
	4/1/2015	3,750	-	-	\$	3.19	4/1/2022
	7/1/2015	3,750	-	-	\$	1.90	7/1/2022
	10/1/2015	3,750	-	-	\$	1.70	10/1/2022
	1/4/2016	3,750	-	-	\$	2.80	1/2/2023
	4/1/2016	3,750	-	-	\$	2.23	4/1/2023
	7/1/2016	3,750	-	-	\$	4.19	7/1/2023
	10/1/2016	3,750	-	-	\$	5.88	10/1/2023
	1/1/2017	3,750	-	-	\$	5.20	1/1/2024
	4/1/2017	3,750	-	-	\$	4.30	4/1/2024
	7/1/2017	3,750	-	-	\$	3.76	7/1/2024
<b>Total</b>		<u>52,500</u>					

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## Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under any equity compensation plans approved by our stockholders as well as any equity compensation plans not approved by our stockholders as of December 31, 2020.

<i>Plan category</i>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (c)</b>
<b>Plans approved by our stockholders:</b>			
VirTra, Inc. 2017 Equity Incentive Plan	-	\$ -	1,259,819
<b>Plans not approved by stockholders:</b>			
Stock Option Plan <sup>(1)</sup>	234,167	\$ 2.47	-

(1) Prior to the approval of the VirTra, Inc. 2017 Equity Incentive Plan, we periodically issued non-qualified stock options to key employees, officers and directors under a stock option compensation plan approved solely by the Board of Directors since 2009. Terms of the options granted were at the discretion of the Board of Directors and were generally seven years in term prior to expiration.

## ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth information about the beneficial ownership of our Common Stock at March 26, 2021 for:

- each person known to us to be the beneficial owner of more than 5% of our Common Stock;
- each named executive officer;
- each of our directors; and
- all of our executive officers and directors as a group.

Unless otherwise noted below, the address for each beneficial owner listed on the table is in care of VirTra, Inc., 7970 S. Kyrene Road, Tempe, AZ 85284. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of Common Stock that they beneficially own, subject to applicable community property laws. We have based our calculation of the percentage of beneficial ownership on 7,775,030 shares of our Common Stock outstanding as of March 26, 2021.

In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of Common Stock subject to options or issuable upon conversion of preferred stock held by that person that are currently exercisable or exercisable within 60 days of March 26, 2021. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
<b><i>Directors and Named Executive Officers:</i></b>		
Robert D. Ferris <sup>(1)</sup>	447,219	5.7%
Jeffrey D. Brown <sup>(2)</sup>	49,193	*
Mitchell A. Saltz <sup>(3)</sup>	29,167	*
James Richardson	-	-
Matthew D. Burlend <sup>(4)</sup>	52,500	*
Judy A. Henry <sup>(5)</sup>	5,935	*
All named executive officers and directors as a group (seven persons)	584,014	7.4%

\* Represents less than 1%

- (1) The number of shares beneficially owned by Mr. Ferris includes: 377,219 shares of our Common Stock presently outstanding, and options to purchase 70,000 shares of our Common Stock at prices ranging from \$0.84 to \$5.88.
- (2) The number of shares beneficially owned by Mr. Brown includes: 16,693 shares of our Common Stock presently outstanding and options to purchase 37,500 shares of our Common Stock at prices ranging from \$0.80 to \$5.40.
- (3) Mr. Saltz ceased to be a director on October 11, 2020. The number of shares beneficially owned by Mr. Saltz includes: 20,000 shares of our Common Stock presently outstanding and options to purchase 9,167 shares of our Common Stock at per share prices ranging from \$3.76 to \$5.38.
- (4) The number of shares beneficially owned by Mr. Burlend includes: options to purchase 52,500 shares of our Common Stock at prices ranging from \$0.84 to \$5.88.
- (5) Ms. Henry ceased to be an executive officer on December 11, 2020. The number of shares beneficially owned by Ms. Henry includes: 5,935 shares of our Common Stock presently outstanding.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements and indemnification arrangements, discussed in Item 10. “Directors, Executive Officers and Corporate Governance” and Item 11. “Executive Compensation” above, the following is a description of each transaction since January 1, 2019 and each currently proposed transaction in which:

- We have been or will be a participant;
- the amount involved exceeds the lesser of \$120,000 or one percent of the average of our total assets at year-end for the last two completed fiscal years; and
- any of our directors, executive officers or beneficial owners of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

On January 16, 2015, we entered into a Co-Venture Agreement with Modern Round and in connection with this agreement we agreed to develop interactive games, skills drills, and advanced training simulation content for Modern Round and license VirTra Technology to Modern Round for a portion of its total revenue, acquired rights to purchase TEC common stock and issued to affiliates of TEC that included Mr. Saltz, who was then a member of our Board of Directors, warrants to purchase an aggregate of 919,382 shares of our Common Stock at a price of \$2.72 per share. Pursuant to our rights to acquire shares of TEC common stock pursuant to this agreement, we acquired 560,000 shares of TEC common stock representing approximately 4.8% of its issued and outstanding common stock. See “Business Overview - Modern Round Co-Venture Agreement.”

Mr. Saltz was member of the Company’s Board of Directors until his passing in October 2020, as well as the former Chairman of the Board and a majority stockholder of TEC. Through the terms of the Co-Venture Agreement, the Company acquired 560,000 shares of TEC common stock representing approximately 4.8% of the issued and outstanding shares of TEC common stock. In addition, TEC paid the Company for license fees (royalties) pursuant to the terms of the Co-Venture Agreement \$45,247 and \$130,625 for the years ended December 31, 2020 and 2019, respectively. TEC ceased to be a related party on October 11, 2020.

During the years ended December 31, 2020 and 2019, respectively, the Company did not issue stock options to the Chief Executive Officer, Chief Operating Officer or the members of the Board of Directors.

During the year ended December 31, 2020 and 2019, the Company redeemed 15,000 and 34,225, respectively, previously awarded options reaching expiration from related parties, including the Company’s Chief Executive Officer, Chief Operating Officer and one member of the Board of Directors. These redemptions eliminated the stock options and resulted in a total of \$15,083 and \$38,353 in additional compensation expense in 2020 and 2019, respectively.

During the years ended December 31, 2020 and 2019, related parties exercised 30,000 and 5,000 previously awarded options for the exercise price of \$30,162 and \$5,650, respectively, resulting in purchase and issuance of Common Stock to the Chief Executive Officer and one member of the Board of Directors.

Mr. Richardson, who is a member of our Board of Directors, is also acting CEO of Natural Point, Inc. (“Natural Point”), a vendor of the Company. In 2020 and 2019, the Company purchased specialized equipment from Natural Point in the amount of \$232,218 and \$167,302, respectively. As of December 31, 2020 and 2019, the Company had outstanding balances due to Natural Point of \$0 and \$34,865, respectively.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.**

The following table shows the fees that were billed for the audit and other services provided by MaloneBailey LLP (“MaloneBailey”), our independent registered public accounting firm, for the fiscal years ended December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Audit Fees	\$ 74,305	\$ 68,016
Audit-Related Fees	-	-
Tax Fees	14,900	5,000
All Other Fees	-	-
Total	<u>\$ 89,205</u>	<u>\$ 73,016</u>

*Audit Fees* - This category includes the audit of our annual financial statements included in our Annual Report on Form 10-K, review of financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with engagements for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

*Audit-Related Fees* - This category consists of assurance and related services by the independent registered public accounting firm that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under “Audit Fees.” The services for the fees disclosed under this category include consultation regarding our correspondence with the SEC, other accounting consulting and other audit services.

*Tax Fees* - This category consists of professional services rendered by our independent registered public accounting firm for tax compliance and tax advice. The services for the fees disclosed under this category include tax return preparation and technical tax advice.

*All Other Fees* - This category consists of fees for other miscellaneous items.

Pursuant to the audit committee's charter, all audit and permissible non-audit services provided by the independent registered public accounting firm must be pre-approved. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of service. The independent registered public accounting firm and management are required to periodically report to the audit committee regarding the extent of services provided by the independent registered public accounting firm. Consistent with the audit committee's policy, all audit and permissible non-audit services provided by our independent registered public accounting firm during the fiscal years ended December 31, 2020 and 2019 were pre-approved by the audit committee.

In considering the nature of the services provided by the independent registered public accounting firms for the fiscal year ended December 31, 2020, the audit committee determined that such services were compatible with the provision of independent audit services. The audit committee discussed these services with the independent registered public accounting firms and management for the fiscal year ended December 31, 2020 to determine that they were permitted under the rules and regulations concerning auditors' independence promulgated by the SEC to implement the Sarbanes-Oxley Act, as well as rules of the American Institute of Certified Public Accountants.

#### PART IV

#### ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements

The consolidated financial statements and Report of Independent Registered Public Accounting Firm are listed in the Index to Financial Statements on page F-1 and included beginning on page F-2.

(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the SEC are either not required under the related instructions, are not applicable (and therefore have been omitted), or the required disclosures are contained in the financial statements included herein.

(3) Exhibits.

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<b>Exhibit No.</b>	<b>Exhibit Description</b>
3.1	<a href="#"><u>Articles of Incorporation of VirTra, Inc. filed September 22, 2016 (incorporated by reference to Exhibit 2.1 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
3.2	<a href="#"><u>Certificate of Change of VirTra, Inc. filed on October 7, 2016 (incorporated by reference to Exhibit 2.2 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>

3.3	<a href="#"><u>Certificate of Change of VirTra, Inc. filed on February 12, 2018 (incorporated by reference to Exhibit 2.3 to the registrant's Post-Qualification Offering Circular Amendment No. 1 to Form 1-A (File No. 024-10739) filed with the Commission on February 21, 2018).</u></a>
3.4	<a href="#"><u>Bylaws of VirTra, Inc. (incorporated by reference to Exhibit 2.4 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.1	<a href="#"><u>Lease Agreement dated July 8, 2010 between VirTra Systems, Inc. and DMC Portfolio, LLC. as amended (incorporated by reference to Exhibit 6.1 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.2†	<a href="#"><u>Employment Agreement dated April 2, 2012 between VirTra Systems, Inc. and Robert Ferris (incorporated by reference to Exhibit 6.2 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.3†	<a href="#"><u>Employment Agreement dated April 2, 2012 between VirTra Systems, Inc. and Matt Burlend (incorporated by reference to Exhibit 6.3 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.4	<a href="#"><u>Co-Venture Agreement dated January 16, 2015, by and between Modern Round, L.L.C. and VirTra Systems, Inc. (incorporated by reference to Exhibit 6.4 to the registrant's Amendment No. 1 to Offering Circular on Form 1-A/A (File No. 024-10739) filed with the Commission on October 17, 2017).</u></a>
10.5	<a href="#"><u>First Amendment to Co-Venture Agreement dated August 16, 2017, by and between Modern Round, L.L.C. and VirTra Systems, Inc. (incorporated by reference to Exhibit 6.5 to the registrant's Amendment No. 1 to Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on October 17, 2017).</u></a>
10.6†	<a href="#"><u>2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.6 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.7†	<a href="#"><u>Form of Stock Option Agreement for 2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.7 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
10.8†	<a href="#"><u>Form of Notice of Grant of Stock Option for 2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.8 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).</u></a>
21.1	<a href="#"><u>List of Subsidiaries.</u></a>
24.1	<a href="#"><u>Power of Attorney (set forth on signature page hereto).</u></a>
31.1	<a href="#"><u>Certification of Principal Executive Officer.</u></a>
31.2	<a href="#"><u>Certification of Principal Financial Officer.</u></a>
32.1	<a href="#"><u>Certification of Principal Executive Officer and Principal Financial Officer.</u></a>
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation

101.DEF           XBRL Taxonomy Extension Definition  
101.LAB           XBRL Taxonomy Extension Labels  
101.PRE           XBRL Taxonomy Extension Presentation

† Management contract, compensation plan or arrangement.

#### ITEM 16. FORM 10-K SUMMARY

None.

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#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 29, 2021

By: /s/ Robert D. Ferris

Robert D. Ferris  
Chief Executive Officer and President

#### POWER OF ATTORNEY

The registrant and each person whose signature appears below hereby appoint Robert D. Ferris and Marsha J. Foxx, and each of them, as attorneys-in-fact with full power of substitution, severally, to execute in the name and on behalf of the registrant and each such person, individually and in each capacity stated below, one or more amendments to the annual report on Form 10-K, which amendments may make such changes in the report as the attorney-in-fact acting deems appropriate and to file any such amendment to the report with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on March 29, 2021.

<u>Name</u>	<u>Title</u>
<u>/s/ Robert D. Ferris</u> Robert D. Ferris	Chief Executive Officer, President, and Chairman of the Board (Principal Executive Officer)
<u>/s/ Marsha J. Foxx</u> Marsha J. Foxx	Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)
<u>/s/ Matthew D. Burlend</u> Matthew D. Burlend	Director, Chief Operating Officer and Vice President
<u>/s/ Jeffrey D. Brown</u> Jeffrey D. Brown	Director
<u>/s/ James Richardson</u> James Richardson	Director

/s/ John Givens  
John Givens

Director

**Exhibit 21.1**

**VirTra, Inc.**

**Subsidiaries**

None.

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**Exhibit 31.1**

**CERTIFICATIONS**

I, Robert D. Ferris, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2020 of VirTra, Inc.;

2. Based on my knowledge, this report 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 such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2021

*/s/ Robert D. Ferris*

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Robert D. Ferris  
Chief Executive Officer and President (principal executive officer)

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**Exhibit 31.2**

## **CERTIFICATIONS**

I, Marsha J. Foxx, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2020 of VirTra, Inc.;

2. Based on my knowledge, this report 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 such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2021

*/s/ Marsha J. Foxx*

Marsha J. Foxx

Chief Accounting Officer (principal financial officer)

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**Exhibit 32.1**

**CERTIFICATION  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report on Form 10-K of VirTra, Inc. (the "Company") for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Robert D. Ferris, Chief Executive Officer and President of the Company, and I, Marsha J. Foxx, Chief Accounting Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 29, 2021

*/s/ Robert D. Ferris*

Robert D. Ferris, Chief Executive Officer and President  
(principal executive officer)

Date: March 29, 2021

*/s/ Marsha J. Foxx*

Marsha J. Foxx, Chief Accounting Officer (principal  
financial officer)

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