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

FORM 10-Q

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

For the quarterly period ended June 30, 2022

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

For the transition period from _____________ to ______________

Commission file number: 001-38420

VIRTRA, INC.
(Exact name of registrant as specified in its charter)

Nevada	**93-1207631**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
295 E. Corporate Place, Chandler, AZ	**85225**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of August 11, 2022, the registrant had 10,876,945 shares of common stock outstanding.

VIRTRA, INC.
FORM 10-Q

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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VIRTRA, INC.
BALANCE SHEETS

	June 30, 2022 (Unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,016,233	$ 19,708,565
Accounts receivable, net	6,388,087	3,896,739
Inventory, net	8,831,786	5,014,924
Unbilled revenue	4,820,051	3,946,446
Prepaid expenses and other current assets	848,759	940,887
Total current assets	35,904,916	33,507,561
Long-term assets:		
Property and equipment, net	14,185,424	12,864,766
Operating lease right-of-use asset, net	623,648	784,306
Intangible assets, net	579,963	535,079
Security deposits, long-term	35,691	19,712
Other assets, long-term	376,461	189,734
Deferred tax asset, net	1,418,723	1,674,234
Total long-term assets	17,219,910	16,067,831
Total assets	$ 53,124,826	$ 49,575,392
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,458,968	$ 789,394
Accrued compensation and related costs	1,229,404	1,062,078
Accrued expenses and other current liabilities	1,270,086	991,744
Note payable, current	233,673	236,291
Operating lease liability, short-term	361,403	347,772
Deferred revenue, short-term	4,373,173	4,135,565
Total current liabilities	8,926,707	7,562,844
Long-term liabilities:		
Deferred revenue, long-term	2,679,248	1,992,625

Note payable, long-term	8,165,838	8,280,395
Operating lease liability, long-term	321,217	505,383
Other long-term liabilities	5,436	5,436
Total long-term liabilities	11,171,739	10,783,839
Total liabilities	20,098,446	18,346,683
Commitments and contingencies (See Note 9)		
Stockholders' equity:		
Preferred stock $0.0001 par value; 2,500,000 authorized; no shares issued or outstanding	-	-
Common stock $0.0001 par value; 50,000,000 shares authorized; 10,876,945 shares issued and outstanding as of June 30, 2022 and 10,807,130 shares issued and outstanding as of December 31, 2021	1,087	1,081
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	31,356,608	30,923,391
Retained earnings	1,668,685	304,237
Total stockholders' equity	33,026,380	31,228,709
Total liabilities and stockholders' equity	$ 53,124,826	$ 49,575,392

See accompanying notes to unaudited financial statements.

VIRTRA, INC.
STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2022	June 30, 2021	June 30, 2022	June 30, 2021
Revenues:				
Net sales	$ 7,997,383	$ 5,255,192	$ 14,750,611	$ 9,697,101
Total revenue	7,997,383	5,255,192	14,750,611	9,697,101
Cost of sales	3,253,651	2,120,492	6,319,789	3,993,896
Gross profit	4,743,732	3,134,700	8,430,822	5,703,205
Operating expenses:				
General and administrative	3,085,051	2,002,612	5,381,443	3,712,845
Research and development	617,058	311,320	1,296,453	605,537
Net operating expense	3,702,109	2,313,932	6,677,896	4,318,382

Income from operations	1,041,623	820,768	1,752,926	1,384,823
Other income (expense):				
Other income	57,056	34,379	111,379	50,758
Other expense	(64,621)	(32,608)	(129,173)	(35,042)
Net other income (expense)	(7,565)	1,771	(17,794)	15,716
Income before provision for income taxes	1,034,058	822,539	1,735,132	1,400,539
Provision for income taxes	246,684	293,180	370,684	216,017
Net income	$ 787,374	$ 529,359	$ 1,364,448	$ 1,184,522
Net income per common share:				
Basic	$ 0.07	$ 0.05	$ 0.13	$ 0.13
Diluted	$ 0.07	$ 0.05	$ 0.13	$ 0.13
Weighted average shares outstanding:				
Basic	10,866,775	10,644,363	10,837,186	9,209,808
Diluted	10,892,302	10,693,238	10,867,667	9,209,509

See accompanying notes to unaudited financial statements.

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

For the Three Months Ended June 30, 2022

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Earnings	Total
Balance at March 31, 2022	-	$ -	10,809,630	$ 1,081	$30,957,616	$ -	$ 881,311	$31,840,008
Stock options exercised	-	-	2,500	-	4,750	-	-	4,750
Stock issued for services	-	-	64,815	6	349,995	-	-	350,001
Stock reserved for future services	-	-	-	-	44,247	-	-	44,247
Net income	-	-	-	-	-	-	787,374	787,374
Balance at June 30, 2022	-	$ -	10,876,945	$ 1,087	$31,356,608	$ -	$ 1,668,685	$33,026,380

For the Six Months Ended June 30, 2022

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Treasury Stock	Accumulated Earnings	Total
Balance at December 31, 2021	-	$ -	10,807,130	$ 1,081	$30,923,391	$ -	$ 304,237	$31,228,709
Stock options exercised	-	-	5,000	-	12,725	-	-	12,725
Stock issued for services	-	-	64,815	6	349,995	-	-	350,001
Stock reserved for future services	-	-	-	-	70,497	-	-	70,497
Net income	-	-	-	-	-	-	1,364,448	1,364,448
Balance at June 30, 2022	-	$ -	10,876,945	$ 1,087	$31,356,608	$ -	$ 1,668,685	$33,026,380

For the Three Months Ended June 30, 2021

	Preferred Stock		Common Stock		Additional Paid-In	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Total
Balance at March 31, 2021	-	$ -	7,777,530	$ 778	$13,897,280	$ -	$ (1,580,689)	$12,317,369
Stock options exercised	-	-	2,500	-	2,450	-	-	2,450
Stock issued for cash in offering, net	-	-	3,000,000	300	16,794,700	-	-	16,795,000
Net income	-	-	-	-	-	-	529,359	529,359
Balance at June 30, 2021	-	$ -	10,780,030	$ 1,078	$30,694,430	$ -	$ (1,051,330)	$29,644,178

For the Six Months Ended June 30, 2021

	Preferred Stock		Common Stock		Additional Paid-In	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Stock	Deficit	Total
Balance at December 31, 2020	-	$ -	7,775,030	$ 778	$13,893,660	$ -	$ (2,235,852)	$11,658,586
Stock options exercised	-	-	5,000	-	6,070	-	-	6,070
Stock issued for cash in offering, net	-	-	3,000,000	300	16,794,700	-	-	16,795,000
Net loss	-	-	-	-	-	-	1,184,522	1,184,522
Balance at June 30, 2021	-	$ -	10,780,030	$ 1,078	$30,694,430	$ -	$ (1,051,330)	$29,644,178

See accompanying notes to unaudited financial statements.

VIRTRA, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash flows from operating activities:		
Net income	$ 1,364,448	$ 1,184,522
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	446,688	201,156
Right of use amortization	160,658	153,299
Employee stock compensation	70,497	-
Stock issued for service	350,001	-
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,491,348)	(4,136,335)
Inventory, net	(3,816,862)	(1,693,598)
Deferred taxes	255,511	294,113
Unbilled revenue	(873,605)	1,374,667
Prepaid expenses and other current assets	92,128	(353,765)
Other assets	(186,727)	21,148
Security deposits, long-term	(15,979)	66,788
Accounts payable and other accrued expenses	1,115,242	933,840
Payments on operating lease liability	(170,535)	(157,713)
Deferred revenue	921,613	3,049,784
Net cash provided by (used in) operating activities	(2,778,270)	937,906

Cash flows from investing activities:		
Purchase of intangible assets	(86,012)	(92,886)
Purchase of property and equipment	(1,725,726)	(602,009)
Net cash used in investing activities	(1,811,738)	(694,895)
Cash flows from financing activities:		
Principal payments of debt	(115,049)	-
Stock issued for cash in offering, net	-	16,795,000
Stock options exercised	12,725	6,070
Net cash provided by (used in) financing activities	(102,324)	16,801,070
Net increase (decrease) in cash and restricted cash	(4,692,332)	17,044,081
Cash and cash equivalents, beginning of period	19,708,565	6,841,984
Cash and cash equivalents, end of period	$ 15,016,233	$ 23,886,065
Supplemental disclosure of cash flow information:		
Cash (refunded) paid:		
Income taxes paid (refunded)	$ 99,035	$ (78,096)
Interest paid	128,507	5,763
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of inventory to property and equipment	$ 294,016	$ -

See accompanying notes to unaudited financial statements.

VIRTRA, INC.
NOTES TO FINANCIAL STATEMENTS
(Unaudited)

Note 1. Organization and Significant Accounting Policies

Organization and Business Operations

VirTra, Inc. (the “Company,” “VirTra,” “we,” “us” or “our”), located in Chandler, Arizona, is a global provider of judgmental use of force training simulators, 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. 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 remained in effect for the duration of the outstanding PPP loan and continues to remain in effect even though the PPP loan has been forgiven and is no longer outstanding.

The Russian-Ukraine conflict is a global concern. The Company does not have any significant direct exposure to Russia or Ukraine through its operations, employee base, investments, or sanctions. We have no basis to evaluate the possible risks of this conflict.

Basis of Presentation

The unaudited financial statements included herein have been prepared by us without audit pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") and should be read in conjunction with our audited financial statements for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed with the SEC on August 2, 2022. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading.

The accompanying unaudited financial statements reflect, in our opinion, all normal recurring adjustments necessary to present fairly our financial position at June 30, 2022 and the results of our operations and cash flows for the periods presented. We derived the December 31, 2021 balance sheet data from audited financial statements; however, we did not include all disclosures required by GAAP.

Interim results are subject to seasonal variations, and the results of operations for the six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the full year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets and intangible assets, income tax valuation allowances, and the allocation of the transaction price to the performance obligations in our contracts with customers.

Revenue Recognition

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

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

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

Performance Obligation	Method of Recognition
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 expanded)
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.

Disaggregation of Revenue

	Three Months ended June 30,							
	2022				2021			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	$ 3,521,100	$ 1,422,233	$ 1,737,301	$ 6,680,634	$ 543,890	$ 3,503,592	$ 106,933	$ 4,154,415
Extended service-type warranties	30,546	747,878	27,646	806,070	25,547	673,970	28,965	728,482
Customized software and content	-	60,392	126,000	186,392	-	146,543	21,170	167,713
Installation and training	35,343	249,847	39,097	324,287	15,043	186,909	-	201,952
Licensing and royalties	-	-	-	-	2,630	-	-	2,630
Total Revenue	$ 3,586,989	$ 2,480,350	$ 1,930,044	$ 7,997,383	$ 587,110	$ 4,511,014	$ 157,068	$ 5,255,192

	Six Months ended June 30,							
	2022				2021			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	$ 5,101,292	$ 4,646,791	$ 2,643,938	$ 12,392,021	$ 815,528	$ 5,181,515	$ 1,184,118	$ 7,181,161
Extended service-type warranties	62,033	1,478,238	45,308	1,585,579	47,621	1,344,554	49,015	1,441,190
Customized software and content	-	2,106	209,000	211,106	-	613,956	73,443	687,399
Installation and training	47,208	407,400	107,297	561,905	49,864	306,707	26,350	382,921
Licensing and royalties	-	-	-	-	4,430	-	-	4,430

Total Revenue	$ 5,210,533	$ 6,534,535	$ 3,005,543	$ 14,750,611	$ 917,443	$ 7,446,732	$ 1,332,926	$ 9,697,101

For the six months ended June 30, 2022, governmental customers comprised $6,534,535, or 44% of total net sales, commercial customers comprised $5,210,533, or 35% of total net sales, and international customers comprised $3,005,543, or 20% of total net sales. By comparison, for the six months ended June 30, 2021, governmental customers comprised $7,446,732, or 77% of total net sales, commercial customers comprised $917,443, or 9% of total net sales, and international customers comprised $1,332,926, or 14% of total net sales.

Customer Deposits

Customer deposits consist of prepaid deposits received for equipment purchase orders and for Subscription Training Equipment Partnership ("STEP") operating agreements that expire annually. Customer deposits are considered a deferred liability until the completion of the customer's contract performance obligation. When revenue is recognized, the deposit is applied to customer's receivable balance. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totalled $3,212,846 and $2,371,531 at June 30, 2022 and December 31, 2021, respectively. Changes in deferred revenue amounts related to customer deposits will fluctuate from year to year based upon the mix of customers required to prepay deposits under the Company's credit policy.

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 totalled $1,160,327 and $1,764,034 as of June 30, 2022 and December 31, 2021, respectively. Deferred revenue for separately priced extended warranties longer than one year totalled $2,311,052 and $1,815,871 as of June 30, 2022 and December 31, 2021, respectively. The accrual for the one-year manufacturer's warranty liability totalled $434,000 and $384,000 as of June 30, 2022 and December 31, 2021, respectively. During the six months ended June 30, 2022 and 2021, the Company recognized revenue of $916,069 and $682,842, 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.

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 $14,515,248 and $19,207,786 as of June 30, 2022 and December 31, 2021, respectively.

Most sales are to governments that are typically made on credit and the Company generally does not require collateral. Management performs ongoing credit evaluations of its customers' financial condition and maintains an allowance for estimated losses. Historically, the Company has experienced minimal charges relative to doubtful accounts.

Historically, the Company primarily sells its products to United States federal and state agencies. For the six months ended June 30, 2022, no single customer comprised more than 10% of total net sales. By comparison, for the six months ended June 30, 2021, one federal agency comprised 10% of total net sales.

As of June 30, 2022, one commercial customer comprised 13.7% of total accounts receivable. By comparison, as of December 31, 2021, the Company did not have any customer that accounted for more than 10% of total accounts receivable.

Net Income per Common Share

The net income per common share is computed by dividing net income by the weighted average of common shares outstanding. Diluted net income per share reflects the potential dilution, using the treasury stock method, that would occur if outstanding stock options and warrants were exercised. Earnings per share computations are as follows:

Schedule of Earnings Per Share

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net Income	$ 787,374	$ 529,359	$ 1,364,448	$ 1,184,522
Weighted average common stock outstanding	10,866,775	10,644,363	10,837,186	9,209,808
Incremental shares from stock options	25,527	48,875	30,481	(299)
Weighted average common stock outstanding diluted	10,892,302	10,693,238	10,867,667	9,209,509
Net income per common share and common equivalent shares				
Basic	$ 0.07	$ 0.05	$ 0.13	$ 0.13
Diluted	$ 0.07	$ 0.05	$ 0.13	$ 0.13

Note 2. Inventory

Inventory consisted of the following as of:

	June 30, 2022	December 31, 2021
Raw materials and work in process	$ 9,134,217	$ 5,229,636
Reserve	(302,431)	(214,712)
Total inventory	$ 8,831,786	$ 5,014,924

The Company regularly evaluates the useful life of its spare parts inventory and as a result, the Company classified $322,968 and $136,241 of spare parts as Other Assets, long-term on the Balance Sheet at June 30, 2022 and December 31, 2021, respectively.

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	June 30, 2022	December 31, 2021
Land	$ 1,778,987	$ 1,778,987
Building & Building Improvements	9,097,454	9,005,205
Computer equipment	1,204,720	1,171,319

Furniture and office equipment	272,806	262,814
Machinery and equipment	2,739,881	1,970,007
STEP equipment	1,790,268	1,496,252
Leasehold improvements	334,934	334,934
Construction in Progress	533,194	7,000
Total property and equipment	17,752,244	16,026,518
Less: Accumulated depreciation and amortization	(3,566,820)	(3,161,752)
Property and equipment, net	$ 14,185,424	$ 12,864,766

Depreciation expense, including STEP depreciation, was $405,162 and $196,711 for the six months ended June 30, 2022 and 2021, respectively.

Note 4. Intangible Asset

Intangible asset consisted of the following as of:

	June 30, 2022	December 31, 2021
Patents	$ 160,000	$ 160,000
Capitalized media content	417,240	331,228
Acquired lease intangible assets	83,963	83,963
Total intangible assets	661,203	575,191
Less accumulated amortization	(81,240)	(40,112)
Intangible assets, net	$ 579,963	$ 535,079

Amortization expense was $41,128 and $4,445 for the six months ended June 30, 2022 and 2021, respectively.

Note 5. Leases

The balance sheet classification of lease assets and liabilities as of June 30, 202 was as follows:

Balance Sheet Classification	**June 30, 2022**
Assets	
Operating lease right-of-use assets, December 31, 2021	$ 784,306
Amortization for the six months ended June 30, 2022	(160,658)
Total operating lease right-of-use asset, June 30, 2022	$ 623,648
Liabilities	
Current	
Operating lease liability, short-term	$ 361,403
Non-current	
Operating lease liability, long-term	321,217
Total lease liabilities	$ 682,620

Future minimum lease payments as of June 30, 2022 under non-cancellable operating leases are as follows:

2022	$ 190,941
2023	390,562
2024	131,152
Total lease payments	712,655
Less: imputed interest	(30,035)
Operating lease liability	$ 682,620

The balance sheet classification of lease assets and liabilities as of December 31, 2021 was as follows:

Balance Sheet Classification		**December 31, 2021**
Assets		
Operating lease right-of-use assets, December 31, 2020	$	1,094,527
Amortization for the year ended December 31, 2021		(310,221)
Total operating lease right-of-use asset, December 31, 2021	$	784,306
Liabilities		
Current		
Operating lease liability, short-term	$	347,772
Non-current		
Operating lease liability, long-term		505,383
Total lease liabilities	$	853,155

Future minimum lease payments as of December 31, 2021 under non-cancellable operating leases are as follows:

2022	$ 379,097
2023	390,562
2024	131,152
Total lease payments	900,811
Less: imputed interest	(47,656)
Operating lease liability	$ 853,155

Rent expense for the three months ended June 30, 2022 and 2021 was $195,201 and $115,140, respectively. Rent expense for the six months ended June 30, 2022 and 2021 was $404,453 and $258,897, respectively.

Note 6. Accrued Expenses

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

		June 30, 2022		December 31, 2021
Salaries and wages payable	$	367,803	$	422,562
Employee benefits payable		(2,266)		16,523
Accrued paid time off (PTO)		574,185		483,311
Profit sharing payable		289,682		139,682
Total accrued compensation and related costs	$	1,229,404	$	1,062,078

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

	June 30, 2022	December 31, 2021
Manufacturer's warranties	$ 434,000	$ 384,000
Taxes payable	222,466	113,921
Miscellaneous payable	613,620	493,823
Total accrued expenses and other current liabilities	$ 1,270,086	$ 991,744

Note 7. Note Payable

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

The note payable amounts consist of the following:

	June 30, 2022	December 31, 2021
Short-term liabilities:		
Note payable, principal	$ 229,560	$ 231,871
Accrued interest on note	4,113	4,420
Note payable, short-term	$ 233,673	$ 236,291
Long-term liabilities:		
Note payable, principal	$ 8,165,838	$ 8,280,395
Note payable, long term	$ 8,165,838	$ 8,280,395

Note 8. Related Party Transactions

During the six months ended June 30, 2022, the Company redeemed 17,500 previously awarded stock options nearing expiration from related parties consisting of the Company's Co-CEO and COO. The redemption eliminated the stock options and resulted in a total of $47,800 in additional compensation expense. During the six months ended June 30, 2022, one Board member purchased 5,000 shares of common stock, $0.0001 par value per share which was then issued to him for previously awarded stock options at an exercise price of $12,725 cash paid.

During the six months ended June 30, 2021, the Company redeemed 17,500 previously awarded stock options nearing expiration from related parties consisting of the Company's Co-CEO and COO. The redemption eliminated the stock options and resulted in a total of $116,717 in additional compensation expense. During the six months ended June 30, 2021, one Board member purchased 5,000 shares of Common Stock, which was then issued to him for previously awarded stock options at an exercise price of $6,070 cash paid.

Note 9. 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. There is no threatened litigation at this time.

Restricted Stock Unit Grants

The Company granted 224,133 and 168,090 performance-based restricted stock units ("RSUs") in August 2021 to one of its Co-Chief Executive Officers and Chief Operating Officer, respectively. The Company granted 288,889 performance-based RSUs in April 2022 to its other Co-Chief Executive Officer. It is the Company's policy to estimate the fair value of the RSU's on the date of the grant and evaluate the probability of achieving the net profit (net income under GAAP) tranches quarterly. If the target is deemed probable, the expense is amortized on a straight-line basis over the remaining time period. The Company determined based on the vesting terms of the RSU grants that achieving net profit (net income under GAAP) for the twelve months ending June 30, 2022, of $2,500,000 is probable, and recorded expense for the three months and six months ending June 30, 2022, of $26,250 and $70,497, respectively.

Profit Sharing

VirTra provides a discretionary profit-sharing program that pays out a percentage of Company profits each year as a cash bonus to eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata in April and October of the following year to only active employees. For the six months ended June 30, 2022 and 2021, $150,000 and $150,000 was expensed to operations for profit sharing. For the three months ended March 31, 2022, $75,000 was expensed to operations for profit sharing. For the three months ended March 31, 2021, no amount was expenses to operations due to uncertainty related to on-going COVID restrictions.

Note 10. Stockholders' Equity

Stock Repurchase

On October 25, 2016, the Company's Board of Directors authorized the repurchase of up to $1 million of its common stock under Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Purchases made pursuant to this authorization will be made in the open market, in privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with 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 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 remained in effect until the PPP loan was forgiven on July 20, 2021, and has continued to remain in effect.

Treasury Stock

During the six months ended June 30, 2022, the Company purchased no additional treasury shares.

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:

	June 30, 2022			June 30, 2021		
	Number of Stock Options		Weighted Exercise Price	Number of Stock Options		Weighted Exercise Price
Options outstanding, beginning of year	112,500	$	3.51	164,167	$	3.13
Granted	-		-	-		-
Redeemed	(17,500)		2.55	(17,500)		1.21
Exercised	(5,000)		2.55	(5,000)		1.21
Expired / terminated	-		-	-		-
Options outstanding, end of period	90,000	$	3.76	141,667	$	3.43
Options exercisable, end of period	90,000	$	3.76	141,667	$	3.43

The Company did not have any non-vested stock options outstanding as of June 30, 2022 and December 31, 2021. The weighted average contractual term for options outstanding and exercisable at June 30, 2022 and 2021 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable at June 30, 2022 and 2021 was $56,700 and $557,707, respectively. The total intrinsic value of options exercised and redeemed during the six months ended June 30, 2022 and 2021 was $141,272 and $27,315, respectively. For the three months ended June 30, 2022 and 2021, the Company received payments related to the exercise of options in the amount of $4,750 and $2,450, 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.

2017 Equity Incentive Plan

Through June 30, 2022, 224,133, 288,889, and 168,090 restricted stock awards and 14,057 and 10,543 restricted shares have been granted under the Equity Plan to the Company's Co-CEO's and COO, respectively.

Common stock activity

On April 11, 2022, the Company issued Mr. Givens a signing bonus of 64,815 shares of common stock, valued at $5.40 per share for a total value of $350,001, which are restricted from transfer until the earlier of: i) 12 months of employment having lapsed or ii) the Company terminating employment with Mr. Givens without cause.

Mr. Givens was also granted 288,889 performance-based restricted stock units pursuant to VirTra's 2017 Equity Incentive Plan. Beginning on the last business day of August 2022, a tranche of restricted stock units, having an approximate value of $40,000, based on current grant day prices, may vest if the Company has achieved net profit for the twelve months ending June 30, 2022 of at least $2,500,000. For every $500,000 earned in excess of $2,500,000 another tranche will vest. If the maximum net profit of $7,000,000 is achieved, ten tranches would vest. Similarly, on the last business day of August 2023, a tranche of restricted stock units may vest if the Company has achieved a net profit of at least $3,000,000, with the potential to have additional tranches vest up to a maximum of $9,000,000 in net profit. This vesting arrangement continues with the last business day of August 2024, with the minimum net profit threshold being $3,500,000 and the maximum net profit being $11,000,000.

The vesting schedule notwithstanding, the Compensation Committee shall have the discretion to declare the vesting of any number of restricted stock units should the Company experience unusual results of operations, such as falling below the net profit threshold one year and exceeding the maximum net profit the following year, so long as the total number of restricted stock units declared to be vested does not exceed the amount awarded. Additionally, while a maximum net profit per year has been set for allocation of the available shares at this time, it is very possible that the Company will exceed these levels during the next 3 years and if such performance occurs, the Compensation Committee will meet to determine if additional compensation is in the best interests of the Company at that time.

On March 31, 2021, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with certain institutional investors (the "Purchasers"), pursuant to which the Company agreed to sell to the Purchasers an aggregate of 3,000,000 shares (the "RDO Shares") of the Company's common stock, $0.0001 par value per share, at a price of $6.00 per share in a registered director offering (the "Offering"). The RDO Shares were offered and sold by the Company pursuant to an effective shelf registration statement on Form S-3 (File No. 333-238624), which was filed by the Company with the SEC on May 22, 2020 and subsequently declared effective on June 2, 2020, and a related prospectus.

The Company also entered into a placement agent agreement (the "Placement Agency Agreement") on March 31, 2021 with Roth Capital Partners, LLC ("Roth"), pursuant to which Roth agreed to serve as placement agent for the issuance and sale of the RDO Shares. The Company agreed to pay Roth an aggregate fee equal to 6.5% of the gross proceeds received by the Company from the sale of the securities in the transaction. The Company also agreed to pay Roth a reimbursement for legal fees and expenses in an amount not to exceed $35,000.

Roth acted as the lead placement agent in the Offering. Lake Street Capital Markets acted as co-placement agent for the Offering. Maxim Group LLC acted as a financial advisor to the Company in connection with the Offering.

A prospectus supplement and the accompanying prospectus relating to and describing the terms of the Offering, dated March 31, 2021, was filed with the SEC on April 2, 2021.

On April 5, 2021, the Company closed the Offering. The total gross proceeds of the Offering were $18.0 million, before deducting the placement agents' fees and other estimated Offering expenses which totalled $1,205,000.

Note 11. Subsequent Events

None.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes included in this Quarterly Report on Form 10-Q and the audited financial statements and notes thereto as of and for the year ended December 31, 2021 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission (the "SEC") on August 2, 2022.

Forward-Looking Statements

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

Business Strategy

We have two main customer groups, namely, law enforcement and military. 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 continue incremental improvements to existing product lines. In some cases, the company may enter a new market segment via the introduction of a new type of product or service.

- ***Partners and Acquisitions.*** We try to spend our time and funds wisely and not tackle tasks that can be done more efficiently with partners. For example, international distribution is often best accomplished through a local distributor or agent. We are also open to the potential of acquiring additional businesses or of being acquired ourselves, based on what is expected to be optimal for our long-term future and our stockholders.

Product Offerings

Our simulator products include the following:

- V-300® Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training
  - The V-300® is the higher standard for decision-making simulation and tactical firearms training. Five screens and a 300-degree immersive training environment ensures that time in the simulator translates into real world survival skills. The system reconfigures to support 15 individual firing lanes.
  - A key feature of the V-300®shows how quickly judgment decisions 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 four (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 the industry's only 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 squeeze into almost any existing facility. If a portable firearms simulator is needed, this model offers the most compact single-screen simulator on the market today – everything organized into one standard case. The V-100® MIL is the higher standard among single-screen small arms training simulators. Military Engagement Skills mode supplies realistic scenario training taken from real world events.
  - The V-ST PRO® a highly-realistic single screen firearms shooting and skills training simulator with the ability to scale to multiple screens creating superior training environments. The system's

flexibility supports a combination of marksmanship and use of force training on up to 5 screens from a single operator station. The V-ST PRO® is also capable of displaying 1 to 30 lanes of marksmanship featuring real world, accurate ballistics.

- Virtual Interactive Coursework Training Academy (V-VICTA)™ enables law enforcement agencies, to effectively teach, train, test and sustain departmental training requirements through nationally accredited coursework and training scenarios using our simulators.

- Subscription Training Equipment Partnership (STEP)™ is a program that allows agencies to utilize VirTra's simulator products, accessories, and V-VICTA™ interactive coursework on a subscription basis.

- V-Author® Software allows users to create, edit, and train with content specific to agency's objectives and environments. V-Author® is an easy to use application capable of almost unlimited custom scenarios, skill drills, targeting exercises and firearms 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. These drop-in conversion kits fit into real weapons but safely simulate the most powerful recoil on the market and even lock-back when out-of-ammunition or simulating a dud.

- 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, in effect until May 15, 2020. 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. 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 only 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 affect the value of the Company's long-term investment in TEC, currently there has not been a negative impact and 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 has continued in effect, even though the PPP loan has been forgiven and is no longer outstanding.

Results of operations for the three and six months ended June 30, 2022 and June 30, 2021

Revenues. Revenues were $7,997,383 for the three months ended June 30, 2022 compared to $5,255,192 for the same period in 2021, an increase of $2,742,191, or 52%. Revenues were $14,750,611 for the six months ended June 30, 2022 compared to $9,697,101 for the same period in 2021, an increase of $5,053,510, or 52%. The increase in revenues for the three and six months ended June 30, 2022 resulted from an increase in the number of simulators and accessories completed, delivered and revenue recognized compared to the same periods in 2021.

Cost of Sales. Cost of sales were $3,253,651 for the three months ended June 30, 2022 compared to $2,120,492 for the same period in 2021, an increase of $1,133,159, or 53%. Cost of sales were $6,319,789 for the six months ended June 30, 2022 compared to $3,993,896 for the same period in 2021, an increase of $2,325,893, or 58%. The increase was due to additional material costs due to higher quantities of simulator systems and accessories sold. The cost of sales on a dollar basis varies from quarter-to-quarter as a result of sales volume and product mix.

Gross Profit. Gross profit was $4,743,732 for the three months ended June 30, 2022 compared to $3,134,700 for the same period in 2021, an increase of $1,609,032, or 51%. Gross profit was $8,430,822 for the six months ended June 30, 2022 compared to $5,703,205 for the same period in 2021, an increase of $2,727,617, or 48%. The gross profit margin for the three months ended June 30, 2022 and 2021 was 59% and 60%, respectively. The gross profit margin was 57% for the six months ended June 30, 2022 and 59% for the same period in 2021. The decrease in gross profit margin percentage was due to increased costs, and the product mix of systems, accessories and services sold.

Operating Expenses. Net operating expense was $3,702,109 for the three months ended June 30, 2022 compared to $2,313,932 for the same period in 2021, an increase of $1,388,177, or 60%. Net operating expense was $6,677,896 for the six months ended June 30, 2022 compared to $4,318,382 for the same period in 2021, an increase of $2,359,514, or 55%. The increase was primarily due to expenses related to the move into the new building and increased payroll costs.

Operating Income. Income from operations was $1,041,623 for the three months ended June 30, 2022 compared to $820,768 for the same period in 2021, an increase of $220,855 or 27%. Operating income was $1,752,926 for the six months ended June 30, 2022 compared to $1,384,823 for the same period in 2021, an increase of $368,103, or 27%.

Other Income (Expense). Other expense net of other income was $7,565 for the three months ended June 30, 2022 compared to other income net of other expense of $1,771 for the same period in 2021, a decrease of $9,336, or 527%, primarily from increased interest expense on note payable. Other expense net of other income was $17,794 for the six months ended June 30, 2022 compared to other income net of other expense of $15,716 for the same period in 2021, a decrease of $33,510, or 213%.

Provision for Income Tax Benefit. Income tax expense was $246,684 for the three months ended June 30, 2022 compared to an income tax expense of $293,180 for the same period in 2021, a decrease of $46,496, or 16%. Income tax expense was $370,684 for the six months ended June 30, 2022 compared to an income tax expense of $216,017 for the same period in 2021, an increase of $154,667, or 72%. Provision (benefit) for income tax is estimated quarterly applying both federal and state tax rates.

Net Income (Loss). Net income was $787,374 for the three months ended June 30, 2022, compared to $529,359 for the same period in 2021, an increase of $258,015, or 49%. Net income was $1,364,448 for the six months ended June 30, 2022 compared to $1,184,522 for the same period in 2021, an increase of $179,926, or 15%. The fluctuations in net income (loss) relates to each respective section discussed above.

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

Earnings before interest, income taxes, depreciation and amortization and before other non-operating costs and income ("EBITDA") and adjusted EBITDA are non-GAAP measures. Adjusted EBITDA also includes non-cash stock option expense. Other companies may calculate adjusted EBITDA differently. The Company calculates its adjusted EBITDA to eliminate the impact of certain items it does not consider to be indicative of its performance and its ongoing operations. Adjusted EBITDA is presented herein because management believes the presentation of adjusted EBITDA provides useful information to the Company's investors regarding the Company's financial condition and results of operations and because adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Company's industry, several of which present EBITDA and a form of adjusted EBITDA when reporting their results. Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under accounting principles generally accepted in the United States of America ("GAAP"). Adjusted EBITDA should not be considered as an alternative for net income (loss), cash flows from operating activities and other income or cash flow statement data prepared in accordance with GAAP or as a measure of profitability or liquidity. A reconciliation of net loss to adjusted EBITDA is provided in the following table:

	For the Three Months Ended				For the Six Months Ended			
	June 30, 2022	June 30, 2021	Increase (Decrease)	% Change	June 30, 2022	June 30, 2021	Increase (Decrease)	% Change
Net Income	$ 787,374	$ 529,359	$ 258,015	49%	$1,364,448	$1,184,522	$ 179,926	15%
Adjustments:								
Provision for income taxes	246,684	293,180	(46,496)	-16%	370,684	216,017	154,667	72%
Depreciation and amortization	230,942	103,865	127,077	122%	446,688	201,155	245,533	122%
EBITDA	$1,265,000	$ 926,404	$ 338,596	37%	$2,181,820	$1,601,694	$ 580,126	36%
Right of use amortization	80,805	77,090	3,715	5%	160,658	153,299	-	
Adjusted EBITDA	$1,345,805	$1,003,494	$ 342,311	34%	$2,342,478	$1,754,993	$ 580,126	33%

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 $15,016,233 and $19,708,565 of cash and cash equivalents as of June 30, 2022 and December 31, 2021, respectively. Working capital was $26,978,209 and $25,944,717 as of June 30, 2022 and December 31, 2021, respectively.

Net cash used in operating activities was $2,778,270 for the six months ended June 30, 2022 and net cash provided by operating activities was $937,906 for the six months ended June 30, 2021. Net cash used in operating activities resulted primarily from increases in accounts receivable, inventory, and prepaid expenses, offset by increases in trade accounts payable, accrued compensation, unbilled revenues, and deferred revenues, as well as other changes in operating assets and liabilities.

Net cash used in investing activities was $1,811,738 for the six months ended June 30, 2022, compared to net cash used in investing activities of $694,895 for the six months ended June 30, 2021. Investing activities in 2022 and 2021 consisted of purchase of intangible assets, and manufacturing equipment.

Net cash used in financing activities was $102,234 for the six months ended June 30, 2022, compared to net cash provided by financing activities of $16,801,070 for the six months ended June 30, 2021. Financing activities in 2021 consisted of the issuance of additional common stock for cash and stock options exercised and redeemed, compared to financing activities in 2022 which consisted of stock options exercised and principal payments on note payable.

Bookings and 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 totalling $9.9 million for the six months ended June 30, 2022. The

Company defines backlog as the accumulation of bookings that have not started or are uncompleted performance objectives and cannot be recognized as revenue until delivered in a future quarter. Backlog also includes extended warranty agreements and STEP agreements that are deferred revenue recognized on a straight-line basis over the life of each respective agreement. As of June 30, 2022, the Company's backlog was $16.5 million. Management estimates the majority of the new bookings received in the first six months of 2022 will be converted to revenue in 2022. Management estimates the conversion of backlog based on current contract delivery dates; however, contract terms and dates are subject to modification and are routinely changed at the request of the customer. Additionally, due to the impact of COVID-19, management's estimates will change in accordance with federal and state guidelines. 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, only delays in when orders ship or installations occur and all delayed orders remain in backlog.

Cash Requirements

Our management believes that our current capital resources will be adequate to continue operating the company and maintaining our current business strategy for more than 12 months from the filing of this Quarterly Report. We are, however, open to raising additional funds from the capital markets, at a fair valuation, to expand our product and services offered, to enhance our sales and marketing efforts and effectiveness, and to aggressively take advantage of market opportunities. There can be no assurance, however, that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we are not able to obtain the additional financing on a timely basis, if and when it is needed, we will be forced to scale down our plans for expanded marketing and sales efforts.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based on our unaudited financial statements, which have been prepared in accordance with GAAP. The preparation of our unaudited financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to areas that require a significant level of judgment or are otherwise subject to an inherent degree of uncertainty. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts and notes receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances, the carrying value of cost basis investments, and the allocation of the transaction price to the performance obligations in our contracts with customers. We base our estimates on historical experience, our observance of trends in particular areas, and information or valuations and various other assumptions that we believe to be reasonable under the circumstances and which form the basis for making judgments about the carrying value of assets and liabilities that may not be readily apparent from other sources. Actual amounts could differ significantly from amounts previously estimated. For a discussion of our critical accounting policies, refer to Part I, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021. Management believes that there have been no changes in our critical accounting policies during the six months ended June 30, 2022.

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

As of June 30, 2022, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term "off-balance sheet arrangement" generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

We maintain "disclosure controls and procedures," as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Exchange Act. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive 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 quarterly report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer concluded that as of June 30, 2021, our disclosure controls and procedures were not effective. The ineffectiveness of our disclosure controls and procedures was due to material weaknesses, which we identified in our report on internal control over financial reporting contained in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on August 2, 2022.

Change in internal control over financial reporting

There has been no change in our internal control over financial reporting that occurred during the quarterly period ended June 30, 2022 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. Subsequent to June 30, 2022, we have implemented more formal review and documentation of workflow processes, and increased our ERP training for our staff. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 9 to our unaudited financial statements, included in Part I, Item 1., Financial Information of this Quarterly Report on Form 10-Q, which information is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the filing with the SEC of the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 6. EXHIBITS

Exhibit No.	Exhibit Description
10.1	John F. Givens II (incorporated by reference to Exhibit 10.14 to the registrant's annual report on Form 10-K (File No. 001-38420) filed August 2, 2022)
31.1	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Principal Executive Officers and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

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

VIRTRA, INC.

Date: August 19, 2022

By: */s/ Robert D. Ferris*
Robert D. Ferris
Co-Chief Executive Officer and President
(principal executive officer)

By: */s/ John F. Givens II*
John F. Givens II
Co-Chief Executive Officer
(principal executive officer)

By: */s/ Marsha J. Foxx*
Marsha J. Foxx,
Chief Accounting Officer
(principal financial and principal accounting officer)

Exhibit 31.1

CERTIFICATIONS

I, Robert D. Ferris, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2022 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: August 19, 2022	*/s/ Robert D. Ferris*
	Robert D. Ferris Co-Chief Executive Officer and President (principal executive officer**)**

Exhibit 31.2

CERTIFICATIONS

I, John F. Givens II, certify that:

b. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2022 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-15I and 15d-15I) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(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;

(b) 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;

I 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):

(b) 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: August 19, 2022

/s/ John F. Givens II
John F. Givens II
Co-Chief Executive Officer (principal executive officer)

Exhibit 31.3

CERTIFICATIONS

I, Marsha J. Foxx, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2022 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: August 19, 2022

/s/ Marsha J. Foxx

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

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 quarterly report on Form 10-Q of VirTra, Inc. (the "Company") for the quarter ended June 30, 2022 as filed with the Securities and Exchange Commission (the "Report"), each of the undersigned, Robert D. Ferris, Co-Chief Executive Officer and President of the Company, John F. Givens, II, Co-Chief Executive Officer, and Marsha J. Foxx, Chief Accounting Officer of the Company, hereby certifies, 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: August 19, 2022	*/s/ Robert D. Ferris* Robert D. Ferris, Co-Chief Executive Officer and President (principal executive officer)
Date: August 19, 2022	*/s/ John F. Givens II* John F. Givens II, Co-Chief Executive Officer (principal executive officer)
Date: August 19, 2022	*/s/ Marsha J. Foxx* Marsha J. Foxx, Chief Accounting Officer (principal financial officer)