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, 2023

☐ 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 10, 2023, the registrant had 10,926,774 shares of common stock outstanding.

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PART I: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

VIRTRA, INC.
CONDENSED BALANCE SHEETS

	June 30, 2023	December 31, 2022
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,342,974	$ 13,483,597
Accounts receivable, net	17,931,407	3,002,887
Inventory, net	9,967,539	9,592,328
Unbilled revenue	2,422,109	7,485,990
Prepaid expenses and other current assets	546,332	531,051
Total current assets	44,210,361	34,095,853
Long-term assets:		
Property and equipment, net	15,149,168	15,267,133
Operating lease right-of-use asset, net	968,234	1,212,814
Intangible assets, net	571,985	587,777
Security deposits, long-term	35,691	35,691
Other assets, long-term	202,462	376,461
Deferred tax asset, net	5,361,667	2,238,762
Total long-term assets	22,289,207	19,718,638
Total assets	$ 66,499,568	$ 53,814,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,156,170	$ 1,251,240
Accrued compensation and related costs	1,653,150	1,494,890
Accrued expenses and other current liabilities	5,633,901	1,917,922
Note payable, current	246,215	232,537
Operating lease liability, short-term	569,692	557,683
Deferred revenue, short-term	8,379,515	4,302,492
Total current liabilities	17,638,643	9,756,764
Long-term liabilities:		
Deferred revenue, long-term	2,539,330	1,605,969
Note payable, long-term	7,932,521	8,050,116
Operating lease liability, long-term	450,337	720,023
Total long-term liabilities	10,922,188	10,376,108
Total liabilities	28,560,831	20,132,872
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; 10,926,774 shares issued and outstanding as of June 30,2023 and 10,900,759 shares issued and outstanding as of December 31,2022	1,092	1,089
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	31,704,501	31,420,395
Retained earnings	6,233,144	2,260,135
Total stockholders' equity	37,938,737	33,681,619
Total liabilities and stockholders' equity	$ 66,499,568	$ 53,814,491

See accompanying notes to unaudited condensed financial statements.

VIRTRA, INC.
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Revenue:				
Net Sales	$ 10,336,903	$ 7,997,383	$ 20,363,838	$ 14,750,611
Total Revenue	10,336,903	7,997,383	20,363,838	14,750,611
Cost of sales	4,416,202	3,253,651	7,494,199	6,319,789
Gross Profit	5,920,701	4,743,732	12,869,639	8,430,822
Operating Expenses:				
General and administrative	3,280,344	3,085,051	5,991,681	5,381,443
Research and Development	711,754	617,058	1,478,050	1,296,453
Net Operating expense	3,992,098	3,702,109	7,469,731	6,677,896
Income from operations	1,928,603	1,041,623	5,399,908	1,752,926
Other Income (expense):				
Other Income	208,599	57,056	392,240	111,379
Other Expense	(133,078)	(64,621)	(200,305)	(129,173)
Net other income (expense)	75,521	(7,565)	191,935	(17,794)
Income before provision for income taxes	2,004,124	1,034,058	5,591,843	1,735,132
Provision for income taxes	977,489	246,684	1,618,834	370,684
Net Income	$ 1,026,635	$ 787,374	$ 3,973,009	$ 1,364,448
Net income per common share:				
Basic	$ 0.09	$ 0.07	$ 0.36	$ 0.13
Diluted	$ 0.09	$ 0.07	$ 0.36	$ 0.13
Weighted average shares outstanding:				
Basic	10,924,714	10,866,775	10,921,033	10,837,186
Diluted	10,933,130	10,892,302	10,925,702	10,867,667

See accompanying notes to unaudited condensed financial statements.

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

For the Three Months Ended June 30, 2023

	Preferred Stock		Common Stock		Additional Paid-In	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Stock	Earnings	Total
Balance at March 31, 2023	-	$ -	10,924,274	$ 1,091	$31,536,182	-	$ 5,206,508	$36,743,781
Stock options exercised	-	-	2,500	1	10,475	-	-	10,476
Stock options repurchased	-	-	-	-	(17,568)	-	-	(17,568)
Stock reserved for future services	-	-	-	-	175,412	-	-	175,412
Net income	-	-	-	-	-	-	1,026,635	1,026,635
Balance at June 30, 2023	-	$ -	10,926,774	$ 1,092	$31,704,501	$ -	$ 6,233,144	$37,938,737

For the Three Months Ended June 30, 2022

	Preferred Stock		Common Stock		Additional Paid-In	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Stock	Earnings	Total
Balance at March 31, 2022	-	$ -	10,809,630	1,081	30,957,616	$ -	$ 881,311	$31,840,008
Stock options exercised	-	-	5,000	-	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, 2023

	Preferred Stock		Common Stock		Additional Paid-In	Treasury	Accumulated	
	Shares	Amount	Shares	Amount	Capital	Stock	Earnings	Total
Balance at December 31, 2022	-	$ -	10,900,759	$ 1,089	$31,420,395	-	$ 2,260,135	$33,681,619
Stock options exercised	-	-	10,000	2	27,200	-	-	27,202
Stock options repurchased	-	-	-	-	(17,568)	-	-	(17,568)
Stock issued for services	-	-	16,015	1	74,999	-	-	75,000
Stock reserved for future services	-	-	-	-	199,475	-	-	199,475
Net income	-	-	-	-	-	-	3,973,009	3,973,009
Balance at June 30, 2023	-	$ -	10,926,774	$ 1,092	$31,704,501	$ -	$ 6,233,144	$37,938,737

For the Six Months Ended June 30, 2022

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

See accompanying notes to unaudited condensed financial statements.

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

	Six Months Ended June 30	
	2023	**2022**
Cash flows from operating activities:		
Net income	$ 3,973,009	$ 1,364,448
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	479,889	446,688
Right of use amortization	244,580	160,658
Employee stock compensation	199,475	70,497
Stock issued for service	75,000	350,001
Changes in operating assets and liabilities:		
Accounts receivable, net	(14,928,520)	(2,491,348)
Inventory, net	(375,211)	(3,816,862)
Deferred taxes	(3,122,905)	255,511
Unbilled revenue	5,063,881	(873,605)
Prepaid expenses and other current assets	(15,281)	92,128
Other assets	173,999	(186,727)
Security deposits, long-term	-	(15,979)
Accounts payable and other accrued expenses	3,792,847	1,115,242
Payments on operating lease liability	(257,677)	(170,535)
Deferred revenue	5,010,384	921,613
Net cash provided by (used in) operating activities	313,470	(2,778,270)
Cash flows from investing activities:		
Purchase of intangible assets	-	(86,012)
Purchase of property and equipment	(345,640)	(1,725,726)
Net cash (used in) investing activities	(345,640)	(1,811,738)
Cash flows from financing activities:		
Principal payments of debt	(118,087)	(115,049)
Stock options exercised	9,634	12,725
Net cash (used in) financing activities	(108,453)	(102,324)
Net increase (decrease) in cash and restricted cash	(140,623)	(4,692,332)
Cash and restricted cash, beginning of period	13,483,597	19,708,565
Cash and restricted cash, end of period	$ 13,342,974	$ 15,016,233
Supplemental disclosure of cash flow information:		
Cash (refunded) paid:	$ 134,514	$ 99,035
Income taxes paid (refunded)	$ -	$ 128,507
Supplemental disclosure of non-cash investing and financing activities:		
Conversion of inventory to property and equipment	$ -	$ 294,016

See accompanying notes to unaudited condensed 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 and firearms training simulators for the law enforcement, military, educational and commercial markets. The Company’s patented technologies, software, and scenarios provide intense training for de-escalation, judgmental use-of-force, marksmanship and related training that mimics real-world situations. VirTra’s mission is to save and improve lives worldwide through practical and highly effective virtual reality and simulator technology. The Company sells its products worldwide through a direct sales force and international distribution partners. The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra, Inc., a Nevada corporation.

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, 2022 included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the SEC on March 31, 2023. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted as permitted by the SEC, although we believe the disclosures that are made are adequate to make the information presented herein not misleading.

The accompanying unaudited financial statements reflect, in our opinion, all normal recurring adjustments necessary to present fairly our financial position on June 30, 2023, and the results of our operations and cash flows for the periods presented. We derived the December 31, 2022, 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, 2023, 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 a time the performance obligations that have been satisfied are included in unbilled. Sales discounts are presented in the financial statements as reductions in determining net revenues. Credit sales are recorded as current assets (accounts receivable and unbilled revenue). Prepaid deposits received at the time of sale and extended warranties purchased are recorded as current and long-term liabilities (deferred revenue) until earned. The following briefly summarizes the nature of our performance obligations and method of revenue recognition:

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 on 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.

	Three Months Ended June 30,							
	2023				2022			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	$ 73,099	$ 8,506,291	$ 373,166	**$ 8,952,556**	$ 3,521,100	$ 1,422,233	$ 1,737,301	**$ 6,680,634**
Extended Service-type warranties	21,367	599,390	16,257	**637,014**	30,546	747,878	27,646	**806,070**
Customized software and content	4,800	277,555	82,855	**365,210**	-	60,392	126,000	**186,392**
Installation and training	19,702	154,280	208,141	**382,123**	35,343	249,847	39,097	**324,287**
Total Revenue	**$ 118,968**	**$ 9,537,516**	**$ 680,419**	**$ 10,336,903**	**$ 3,586,989**	**$ 2,480,350**	**$ 1,930,044**	**$ 7,997,383**

	Six Months Ended June 30,							
	2023				2022			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	$ 562,908	$ 13,985,932	$ 3,515,037	**$ 18,063,877**	$ 5,101,292	$ 4,646,791	$ 2,643,938	**$ 12,392,021**
Extended Service-type warranties	44,711	1,138,598	35,680	**1,218,989**	62,033	1,478,238	45,308	**1,585,579**
Customized software and content	24,300	284,751	65,994	**375,045**	-	2,106	209,000	**211,106**
Installation and training	40,264	403,834	261,829	**705,927**	47,208	407,400	107,297	**561,905**
Total Revenue	**$ 672,183**	**$ 15,813,115**	**$ 3,878,540**	**$ 20,363,838**	**$ 5,210,533**	**$ 6,534,535**	**$ 3,005,543**	**$ 14,750,611**

For the six months ended June 30, 2023, governmental customers comprised $15,813,114, or 78% of total net sales, commercial customers comprised $672,185, or 3% of total net sales, and international customers comprised $3,878,540, or 19% of total net sales. By comparison, 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 36%, of total net sales, and international customers comprised $3,005,543, or 20%, of total net sales. Previously, VirTra considered a sale to a prime contractor for a government end-user as “commercial”. However, beginning in 2022, VirTra now classifies such sales as “government”.

Customer Deposits

Customer deposits consist of prepaid deposits received for equipment purchase orders and for Subscription Training Equipment Partnership (“STEP”) operating agreements that expire annually. Customer deposits are considered a deferred liability until the completion of the customer’s contract performance obligation. When revenue is recognized, the deposit is applied to the customer’s receivable balance. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled $8,379,514 and $2,719,108 on June 30, 2023, and December 31, 2022, 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 totaled $1,044,472 and $1,583,384 as of June 30, 2023, and December 31, 2022, respectively. Deferred revenue for separately priced extended warranties longer than one year totaled $2,444,652 and $1,601,472 as of June 30, 2023, and December 31, 2022, respectively. The accrual for the one-year manufacturer’s warranty liability totaled $308,000 and $358,000 as of June 30, 2023, and December 31, 2022, respectively, as there was a significantly lower amount of warranty expenses that justified a decrease in accrual. During the six months ended June 30, 2023, and 2022, the Company recognized revenue of $1,218,990 and $916,069, 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, and accounts receivable.

The Company's cash, cash equivalents and certificates of deposit are maintained with financial institutions with high credit standings and are FDIC insured deposits. The FDIC insures deposits according to the ownership category in which the funds are insured and how the accounts are titled. The standard deposit insurance coverage limit is $250,000 per depositor, per FDIC-insured bank, per ownership category. The Company had uninsured cash and cash equivalents of $12,842,974 and $12,983,597 as of June 30, 2023, and December 31, 2022, respectively.

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

Historically, the Company primarily sells its products to U.S. federal and state agencies.

As of June 30, 2023, the Company had one customer that accounted for 17% of the 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:

	Three Months Ended June 30,	
	2023	**2022**
Net Income	$ 1,026,635	$ 787,374
Weighted average common stock outstanding	10,924,714	10,866,775
Incremental shares from stock options	8,416	25,527
Weighted average common stock outstanding, diluted	10,933,130	10,892,302
Net income per common share and common equivalent share		
Basic	$ 0.09	$ 0.07
Diluted	$ 0.09	$ 0.07

	Six Months Ended June 30,	
	2023	**2022**
Net Income	$ 3,973,009	$ 1,364,448
Weighted average common stock outstanding	10,921,033	10,837,186
Incremental shares from stock options	4,669	30,481
Weighted average common stock outstanding, diluted	10,925,702	10,867,667
Net income per common share and common equivalent share		
Basic	$ 0.36	$ 0.13
Diluted	$ 0.36	$ 0.13

Note 2. Inventory

Inventory consisted of the following as of:

	June 30, 2023		December 31, 2022	
Raw materials and work in process	$	10,349,715	$	9,894,759
Reserve		(382,176)		(302,431)
Total Inventory	$	9,967,539	$	9,592,328

The Company regularly evaluates the useful life of its spare parts inventory and as a result, the Company classified $0 and $294,016 of spare parts as Other Assets, long-term on the Balance Sheet at June 30, 2023 and December 31, 2022, respectively.

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	June 30, 2023		December 31, 2022	
Land	$	1,778,987	$	1,778,98
Building & Building Improvements		9,129,364		9,129,36
Computer equipment		1,209,371		1,210,02
Furniture and office equipment		307,708		289,37
Machinery and equipment		2,820,194		2,788,80
STEP equipment		2,002,084		1,954,43
Leasehold improvements		347,384		347,38
Construction in Progress		1,998,248		1,749,33
Total property and equipment		19,593,340		19,247,70
Less: Accumulated depreciation and amortization		(4,444,172)		(3,980,56
Property and equipment, net	$	15,149,168	$	15,267,13

Depreciation expenses, including STEP depreciation, were $463,605 and $196,711 for the six months ended June 30, 2023, and 2022, respectively.

Note 4. Intangible Assets

Intangible assets consisted of the following as of:

	June 30, 2023	December 31, 2022
Patents	$ 160,000	$ 160,000
Capitalized media content	451,244	451,244
Acquired lease intangible assets	83,963	83,963
Total intangible assets	695,207	695,207
Less accumulated amortization	(123,222)	(107,430)
Intangible assets, net	$ 571,985	$ 587,777

Amortization expense was $15,792 and $41,128 for the six months ended June 30, 2023, and 2022, respectively.

Note 5. Leases

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

On March 1,2023 the company entered into a sublease for its 7970 South Kyrene location for the last 13 months of the lease agreement.

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

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

Balance Sheet Classification	June 30, 2023	December 31, 2022
Assets		
Operating lease right-of-use assets, beginning of period	$ 1,212,814	$ 784,306
Additional property in Orlando	-	840,843
Amortization for the period ended	(244,580)	(412,335)
Total operating lease right-of-use asset	$ 968,234	$ 1,212,814
Liabilities		
Current		
Operating lease liability, short-term	$ 569,692	$ 557,683
Non-current		
Operating lease liability, long-term	450,337	720,023
Total lease liabilities	$ 1,020,029	$ 1,277,706

Future minimum lease payments as of June 30, 2023, under non-cancelable operating leases are as follows:

2023	$ 345,999
2024	317,377
2025	191,478
2026	196,314
2027	99,383
Total lease payments	1,150,551
Less: imputed interest	(130,522)
Operating lease liability	$ 1,020,029

Rent expenses for the six months ended June 30, 2023, and 2022 were $284,139 and $404,453, respectively.

Note 6. Accrued Expenses

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

	June 30, 2023	December 31, 2022
Salaries and wages payable	$ 409,804	$ 502,940
Employee benefits payable	30,751	31,618
Accrued paid time off (PTO)	690,107	590,491
Profit sharing payable	522,488	369,841
Total accrued compensation and related costs	$ 1,653,150	$ 1,494,890

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

	June 30, 2023	December 31, 2022
Manufacturer’s warranties	$ 308,000	$ 358,000
Taxes payable	5,198,435	1,294,110
Miscellaneous payable	127,466	265,812
Total accrued expenses and other current liabilties	$ 5,633,901	$ 1,917,922

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, 2023	December 31, 2022
Short-term liabilities		
Note payable, principal	$ 246,215	$ 227,324
Accrued interest to date	5,648	5,213
Note Payable, short-term	$ 251,863	$ 232,537
Long-term liabilities		
Note payable, principal	$ 7,932,521	$ 8,050,116
Note payable, long tern	$ 7,932,521	$ 8,050,116

Note 8. Related Party Transactions

During the six months ended June 30, 2023, one Board member and the Company's Co-CEO each purchased 10,000 shares of common stock, $0.0001 par value per share (the "Common Stock"), pursuant to the exercise of previously awarded stock options at the exercise price of $27,202. Also, during the six months ended June 30, 2023, the Company redeemed 10,000 previously award stock options nearing expiration from the Company's Co-CEO, which resulted in a total of $21,150 in additional compensation expense.

During the six months ended June 30, 2022, the Company redeemed 17,500 previously awarded stock options nearing expiration from the Company's Co-CEO and former COO. The redemption eliminated the stock options and resulted in a total of $47,800 in additional compensation expense in 2022. Also, during the six months ended June 30, 2022, the Company issued 5,000 shares of Common Stock to one member of the Board of Directors for previously awarded stock options at an exercise price of $12,725.

Note 9. Commitments and Contingencies

Litigation

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

Restricted Stock Unit Grants

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

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

It is the Company's policy to estimate the fair value of the RSU's on the date of the grant and evaluate the probability of achieving the net profit (net income under GAAP) tranches quarterly. If the target is deemed probable, the expense is amortized on a straight-line basis over the remaining period. The Company determined based on the vesting terms described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2022, was $2,720,015 and therefore awarded 5,747 (prior to deduction of 1,840 shares to pay the tax withholding liability) and 7,407 shares of common stock to its Co-Chief Executive Officers. The Company determined based on the vesting terms described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2023, of $3,000,000 is probable and recorded expenses of $199,475 and $70,497 related to the RSUs for the six months ended June 30, 2023, and 2022, respectively. The Company recorded expenses of $24,063 and $26,250 for the three months ended June 30, 2023 and 2022, 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, 2023, and 2022, $300,000 and $150,000 was expensed to operations for profit sharing.

Note 10. Stockholders' Equity

Stock Repurchase

On October 25, 2016, the Company's Board of Directors authorized the repurchase of up to $1 million of its common stock under Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. Purchases made pursuant to this authorization will be made in the open market, in privately negotiated transactions, or pursuant to any trading plan that may be adopted in accordance with Rule 10b-18. The timing, manner, price and amount of any repurchases will be determined by the Company in its discretion and will be subject to economic and market conditions, stock price, applicable legal requirements and other factors. On January 9, 2019, VirTra's Board of Directors authorized an additional $1 million be allocated for the repurchase of VirTra's stock under the existing 10b-18 plan. The stock repurchase program was suspended as a result of interim rulings for public-company recipients of a PPP loan under the CARES Act. Although the Company's PPP loan was forgiven on July 20, 2021, the suspension of the stock repurchase program continues to remain in effect.

Non-qualified Stock Options

The Company has periodically issued non-qualified stock options to key employees, officers and directors under a stock option compensation plan approved by the Board of Directors in 2009. Terms of option grants are at the discretion of the Board of Directors and are generally seven years. Upon the exercise of these options, the Company expects to issue new authorized shares of its common stock. The following table summarizes all non-qualified stock options as of:

	June 30, 2023		December 31, 2022	
	Number of Stock Options	Weighted Exercise Price	Number of Stock Options	Weighted Exercise Price
Options outstanding, beginning of year	45,000	$ 4.26	112,500	$ 3.51
Granted	-	-	-	-
Redeemed	(10,000)	5.04	(27,500)	2.44
Exercised	(10,000)	2.72	(17,500)	2.33
Expired / terminated	-	-	(22,500)	4.05
Options outstanding, end of period	25,000	$ 4.57	45,000	$ 4.26
Options exercisable, end of period	25,000	$ 4.57	45,000	$ 4.26

The Company did not have any non-vested stock options outstanding as of June 30, 2023, and December 31, 2022. The weighted average contractual term for options outstanding and exercisable on June 30, 2023, and 2022 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable on June 30, 2023, and 2022 was $9,750 and $56,700, respectively. For the three months ended June 30, 2023, and 2022, the Company received payments related to the exercise of options in the amount of $10,475 and $4,750, respectively, and for the six months ended June 30, 2023 and 2023, the Company received $27,202 and $12,725, 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, 2023, 224,133 and 288,889 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 former COO, respectively.

Common stock activity

During the three months ended June 30, 2023, one Board member purchased 2,500 shares of Common Stock pursuant to the exercise of previously awarded stock options at the exercise price of $4.19 per share, for a total of $10,475. During the six months ended June 30, 2023, one board member and one of the Co-CEO's purchased 10,000 shares for a total price of $27,202.

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, 2022 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, 2022, filed with the Securities and Exchange Commission (the "SEC") on March 31, 2023.

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 people acting on our behalf are expressly qualified in their entirety by this cautionary statement.

Business Overview

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

The VirTra firearms training simulator allows marksmanship and realistic scenario-based training to take place daily without the need for a shooting range, protective equipment, role players, safety officers, or a scenario-based training site. We have developed a higher standard in simulation training including capabilities such as: multi-screen, video-based scenarios, unique scenario authoring ability, superior training scenarios, the patented Threat-Fire® shoot-back system, powerful gas-powered simulated recoil weapons, and more. The simulator also allows students to receive immediate feedback from the instructor without the potential for sustaining injuries by the instructor or the students. The instructor can teach and re-mediate critical issues, while placing realistic stress on the students due to the realism and safe training environment created by the VirTra simulator.

Business Strategy

We have two main customer groups, namely, law enforcement and military. These are 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 its formation in 1993, our company has had a proud tradition of innovation in the field of simulation and virtual reality. We plan to release revolutionary new products and services as well as continue incremental improvements to existing product lines. In some cases, the company may enter a new market segment via the introduction of a new type of product or service.

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

Product Offerings

Our simulator products include the following:

- V-300™ Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training

  - The V-300™ is the higher standard for decision-making simulation and tactical firearms training. Five screens and a 300-degree immersive training environment ensures that time in the simulator translates into real world survival skills. The system reconfigures to support 15 individual firing lanes.

  - A key feature of the V-300™ shows how quickly judgment decisions must be made, and, sometimes, if they are not made immediately and accurately, it can lead to the possible loss of lives. This feature, among others, supports our value proposition to our customers is that best practices is being prepared enough for the surprises that could be around every corner and the ability to safely neutralize any life-threatening encounters.

- V-180™ Simulator – a 180° screen with video capability is for smaller spaces or smaller budgets

  - The V-180™ is the higher standard for decision-making simulation and tactical firearms training. Three screens and a 180-degree immersive training environment ensure that time in the simulator translates into real world survival skills.

- V-100™ Simulator & V-100™ MIL – a single-screen based simulator systems

  - The V-100™ is the higher standard among single-screen firearms training simulators. Firearms training mode supports up to 4 individual firing lanes at one time. The optional Threat-Fire™ device safely simulates enemy return fire with an electric impulse (or vibration version), reinforcing performance under pressure. We offer an upgrade path, so a V-100™ firearms training and force options simulator can affordably grow into an advanced multi-screen trainer in upgraded products that we offer customers for future purchase.

  - The V-100™ MIL is sold to various military commands throughout the world and can support any local language. The system is extremely compact and can even share space with a standard classroom or fits into almost any existing facility. If a portable firearms simulator is needed, this model offers the most compact single-screen simulator on the market today – everything organized into one standard case. The V-100™ MIL is the higher standard among single-screen small arms training simulators. Military Engagement Skills mode supplies realistic scenario training taken from real world events.

  - The V-ST PRO™ a highly realistic single screen firearms shooting and skills training simulator with the ability to scale to multiple screens creating superior training environments. The system’s flexibility supports a combination of marksmanship and use of force training on up to 5 screens from a single operator station. The V-ST PRO™ is also capable of displaying 1 to 30 lanes of marksmanship featuring real world, accurate ballistics.

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

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

- V-Author™ Software allows users to create, edit, and train with content specific to agency's objectives and environments. V-Author™ is an easy-to-use application capable of almost unlimited custom scenarios, skill drills, targeting exercises and firearms courseware proven to be highly effective for users of VirTra simulation products.

- Simulated Recoil Kits - a wide range of highly realistic and reliable simulated recoil kits/weapons

- Return Fire Device – the patented Threat-Fire™ device which applies real-world stress on the trainees during simulation training.

- VirTra has installed a volumetric video capture studio in order to create training scenarios that could work in either screen-based simulators or in headset-based simulators. Volumetric video realism far exceeds that of computer-generated avatars which likely gives VirTra a strategic advantage for highly desired de-escalation training, especially when simulating human interaction is required.

- TASER©, OC spray and low-light training devices that interact with VirTra's simulators for training.

Results of operations for the three and six months ended June 30, 2023, and June 30, 2022

Revenues. Net sales were $10,336,903 for the three months ended June 30, 2023, compared to $7,997,383 for the same period in 2022, an increase of $2,339,520 or 29%. Net sales were $20,363,838 for the six months ended June 30, 2023, compared to $14,750,611 for the same period in 2022, an increase of $5,613,227, or 38% The increase in revenues for the three and six months ended June 30, 2023, resulted from an improvement in operations which helped to move through the backlog and ship orders at a record pace.

Cost of Sales. Cost of sales were $4,416,202 for the three months ended June 30, 2023, compared to $3,253,651 for the same period in 2022, an increase of $1,162,551, or 36%. Cost of sales were $7,494,199 for the six months ended June 30, 2023, compared to $6,319,789, or 19% increase. The increase was partly related to the increase in the amount of products shipping in the quarter. There was also a one-time inventory adjustment made when we went live with our new ERP system, which had the effect of increasing the cost of sales for this quarter.

Gross Profit. Gross profit was $5,920,701 for the three months ended June 30, 2023, compared to $4,743,732 for the same period in 2022, an increase of $1,176,969, or 25%. Gross profit was $12,869,639 for the six months ended June 30, 2023 compared to $8,430,822 for the same period in 2022, an increase of $4,438,817, or 53%. The gross profit margin for the three months ended June 30, 2023, and 2022 was 57% and 59%, respectively. The gross profit margin was 63% for the six months ended June 30, 2023 and 57% for the same period in 2022. The increase in gross profit was driven by the mix of systems sold with a streamlined production line to help lower cost of goods sold in comparison to the growth of sales.

Operating Expenses. Net operating expense was $3,992,098 for the three months ended June 30, 2023, compared to $3,702,109 for the same period in 2022, an increase of $289,989, or 8%. Net operating expense was $7,469,731 for the six months ended June 30, 2023 compared to $6,677,896 for the same period in 2022, an increase of $791,835, or 12%. The increase was primarily due to an increase in salaries and benefits due to additional staff and the expenses for the new Orlando office and a $181,597 increase in research and development.

Operating Income. Operating income was $1,928,603 for the three months ended June 30, 2023, compared to an operating income of $1,041,623 for the same period in 2022, an increase of $886,980 or 85%. Operating income was $5,399,908 for the six months ended June 30, 2023 compared to $1,752,926 for the same period in 2022, an increase of $3,646,982, or 208%.

Other Income. Other income net of other expense was $75,522 for the three months ended June 30, 2023, compared to net other expense of ($7,565) for the same period in 2022, an increase of $83,087, or 110%, primarily from the additional rental income from the sublet property. Other income net of other expense was $191,935 for the six months ended June 30, 2023 compared to other income net of other expense of ($17,794), an increase of $209,729, or 117 %.

Provision (Benefit) for Income Tax. Provision for income tax was $977,489 for the three months ended June 30, 2023, compared to $246,684 for the same period in 2022, an increase of $730,805, or 296%. Provision for income tax was $ 1,618,834 for the six months ended June 30, 2023, compared to $ 370,684 for the same period in 2022, an increase of $ 1,248,150, or 337%. Provision for income tax is estimated quarterly applying both federal and state tax rates.

Net Income. Net income was $1,026,636 for the three months ended June 30, 2023, compared to net income of $787,374 for the same period in 2022, an increase of $239,262 or 30%. Net income was $ 3,973,009 for the six months ended June 30, 2023, compared to $1,364,448 for the same period in 2022, an increase of $2,608,561, or 191%. The fluctuations in net income relate to each respective section discussed above.

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

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

	For the Three Months Ended				For the Six Months Ended			
	June 30 2023	June 30 2022	Increase (Decrease)	% Change	June 30 2023	June 30 2022	Increase (Decrease)	% Change
Net Income	$ 1,026,635	$ 787,374	$ 239,261	30%	$ 3,973,009	$ 1,364,448	$ 2,608,561	191%
Adjustments:								
Provision for income taxes	977,489	246,684	730,805	296%	1,618,834	370,684	1,248,150	337%
Depreciation and amortization	253,911	230,942	22,969	10%	481,481	446,688	34,793	8%
Interest (net)	61,237		61,237	100%	109,420		109,420	100%
EBITDA	$ 2,319,271	$ 1,265,000	$ 1,054,271	83%	$ 6,182,743	$ 2,181,820	$ 4,000,923	183%
Right of use amortization	244,581	80,805	163,776	203%	366,355	160,658	205,697	128%
Adjusted EBITDA	$ 2,563,852	$ 1,345,805	$ 1,218,047	91%	$ 6,549,098	$ 2,342,478	$ 4,206,620	180%

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 $13,342,974 and $13,483,597 of cash and cash equivalents as of June 30, 2023, and December 31, 2022, respectively. Working capital was $26,571,718 and $24,339,089 as of June 30, 2023, and December 31, 2022, respectively.

Net cash provided by operating activities was $313,470 and used in operating activities $2,778,270 for the six months ended June 30, 2023, and 2022, respectively. Net cash provided by operating activities resulted primarily from the net income for the 2023 period.

Net cash used in investing activities was $345,640 for the six months ended June 30, 2023, compared to net cash used in investing activities of $1,811,738 for the six months ended June 30, 2022. Investing activities in 2023 and 2022 consisted of purchases of intangible assets and purchases of property and equipment.

Net cash used in financing activities was $108,453 for the six months ended June 30, 2023, compared to $102,324 for the six months ended June 30, 2022. In both periods, cash was used primarily for principal payment of debt offset by the proceeds from the exercise of stock options.

Bookings and Backlog

The Company defines bookings as the total of newly signed contracts and purchase orders received in a defined time period. The Company received bookings totaling $8.4 million for the six months ended June 30, 2023. 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, 2023, the Company's backlog was $16.4 million. The breakout of this backlog includes $7.8 million in capital, $6.3 million in service and warranties, and $2.3 million in STEP contracts. Warranties/Service and STEP backlog calculated in this number is revenue that will be recognized on a straight-line basis over the next 7 years. In addition, there is $7 million in renewable STEP contracts over the next 5 years. Management estimates the majority of the new bookings received in the first six months of 2023 will be converted to revenue in 2023. 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.

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, 2022. Management believes that there have been no changes in our critical accounting policies during the six months ended June 30, 2023.

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, 2023, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of disclosure controls and procedures

We maintain “disclosure controls and procedures,” as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Exchange Act. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company’s reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officers and principal financial officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive officers and principal financial officer, evaluated our company’s disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Based on this evaluation, our principal executive officers and principal financial officer concluded that as of June 30, 2023, 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, 2022, filed with the SEC on March 31, 2023.

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, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, during the quarter ended June 30, 2023, and continuing into 2023, we are implementing more formal review and documentation of workflow processes and increased our ERP training for our staff. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Not required for smaller reporting companies.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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, 2022.

ITEM 6. EXHIBITS

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

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 14, 2023

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/ Alanna Boudreau*
Chief Financial Officer
(principal financial 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, 2023, 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 14, 2023

/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, 2023, 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 14, 2023	*/s/ John F. Givens II*
	John F. Givens II Co-Chief Executive Officer (principal executive officer)

Exhibit 31.3

CERTIFICATIONS

I, Alanna Boudreau, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2023, 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, considering 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, 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 14, 2023

/s/ Alanna Boudreau

Alanna Boudreau
Chief Financial 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, 2023 as filed with the Securities and Exchange Commission (the "Report"), we, Robert D. Ferris, Co-Chief Executive Officer, John F. Givens II, Co-Chief Executive Officer, and Alanna Boudreau, Chief Financial 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 our 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 14, 2023

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

Date: August 14, 2023

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

Date: August 14, 2023

/s/ Alanna Boudreau
Alanna Boudreau, Chief Financial Officer
(principal financial officer)