

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

FORM 10-K

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

For the fiscal year ended **December 31, 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 (State or other jurisdiction of incorporation or organization)	93-1207631 (I.R.S. Employer Identification No.)
295 E. Corporate Place, Chandler, AZ (Address of principal executive offices)	85225 (Zip Code)

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

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

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

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

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

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

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

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

Large, accelerated filer
Non-accelerated filer

Accelerated filer
 Smaller reporting company
 Emerging growth company

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

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

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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

The aggregate market value of the voting stock and non-voting common equity held by non-affiliates of the registrant, based upon the closing sale price of the registrant's common stock on June 30, 2023, was approximately \$ 79,117,563 .

As of March 29, 2024, the registrant had 11,109,730 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None .

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS.

Our Corporate History

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

Effective as of October 1, 2016, we completed a conversion from a Texas corporation to a Nevada corporation pursuant to a Redomestication Plan of Conversion (the "Plan of Conversion") that was approved by our Board of Directors on June 23, 2016, and by our stockholders on September 16, 2016.

As part of the Plan of Conversion, we filed Articles of Incorporation in Nevada whereby we changed our name from VirTra Systems, Inc. to VirTra, Inc. and revised our capitalization. Our Articles of Incorporation filed in Nevada authorize us to issue 62,500,000 shares, of which (1) 60,000,000 shares shall be common stock, par value \$0.0001 per share (the "Common Stock"), of which (a) 50,000,000 shares shall be Common Stock, (b) 2,500,000

shares shall be Class A Common Stock, par value \$0.0001 per share (the "Class A Common Stock"), and (c) 7,500,000 shares shall be Class B Common Stock, par value \$0.0001 per share (the "Class B Common Stock") and (2) 2,500,000 shares shall be Preferred Stock, par value \$0.0001 per share, which may, at the sole discretion of the Board of Directors, be issued in one or more series (the "Preferred Stock"). We also adopted new bylaws as part of the Plan of Conversion.

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

Business Overview

VirTra, Inc. (the "Company," "VirTra," "we," "us" and "our"), located in Chandler, Arizona, is a global provider of judgmental use of force training simulators and firearms training simulators for the law enforcement, military, 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 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 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.

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- **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 to continue incremental improvements to existing product lines. In some cases, the Company may enter a new market segment via the introduction of a new type of product or service.
- **Partners and Acquisitions.** We try to spend our time and funds wisely and not tackle tasks that can be done more efficiently with partners. For example, international distribution is often best accomplished through a local distributor or agent. We are also open to the potential of acquiring additional businesses or of being acquired ourselves, based on what is expected to be optimal for our long-term future and our stockholders.

Product Offerings

Our simulator products include the following:

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

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- 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. 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. True-Fire™ is a patented solution that uniquely empowers VirTra customers with such reliable and accurate firing events so they can perform simulator-based weapon qualification and courses of fire (COF). During 2022, VirTra's engineering team further enhanced True-Fire™ technology with new patent pending features. In addition, VirTra has formulated the unique ArmorGen(TM) coating to certain recoil kit parts to increase durability and reduce maintenance requirements beyond any other coating we have tested.
- 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. By using this studio, along with outside filming, we are able to offer customers the ability to purchase custom scenarios to meet their specific needs.
- TASER®, OC spray and low-light training devices that interact with VirTra's simulators for training.

Operations and Suppliers

We produce some of our own products. We also rely on a variety of suppliers. Management is uncertain whether we might encounter future delays with suppliers that would have a material impact on us.

Competition and Competitive Landscape

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

We believe that our products and services are superior to those offered by our competitors based on our association with industry experts, the strength in developing a more effective training solution ecosystem, our patented products and our extensive library of training content that would require time and a substantial investment by a competitor to offer a comparable product.

VirTra buys and tests new headsets on a regular basis and has made some software and content preparations to add a headset-based product to our offerings. VirTra recoil kits, return fire devices and other accessories would likely also work with a headset-based product.

Intellectual Property

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

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

Our patent portfolio includes seven issued U.S. patents, which expire between 2025 and 2037. In 2019, VirTra completed an Asset Purchase Agreement with Tiberius Technology, LLC, that included purchase of a patent and two pending patents, all patent ownership was transferred effective March 13, 2019, and the two pending patents were issued as patents. In 2022, we submitted patent applications that will remain confidential until awarded or will remain confidential if not awarded or abandoned.

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

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

We rely on the laws of unfair competition and trade secrets to protect our proprietary rights. We attempt to protect our trade secrets and other proprietary information through confidentiality and non-disclosure agreements with customers, suppliers, employees and consultants, and through other security measures. However, we may be unable to detect the unauthorized use of or take appropriate steps to enforce our intellectual property rights. Effective trade secret protection may not be available in every country in which we offer or intend to offer our products and services to the same extent as in the United States. Failure to adequately protect our intellectual property could harm or even destroy our brands and impair our ability to compete

effectively. Further, enforcing our intellectual property rights could result in the expenditure of significant financial and managerial resources and may not prove successful. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful.

Research and Development

During the years ended December 31, 2023, and 2022, our research and product development expenses were \$2,794,314 and \$2,606,840, respectively.

Sources and Availability of Raw Materials/Manufacturing and Assembly

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

Our manufacturing, assembly, warehouse and shipping facilities are in Chandler, Arizona. See Item 2 – Properties.

Employees

As of March, 22, 2024, we employed 112 full-time employees. We maintain a satisfactory working relationship with our employees.

Operations

Our operations are conducted from our principal executive office in Chandler, Arizona. In 2022 we opened a facility in Orlando, Florida to support east coast operations. We do not currently have any employees internationally; however, our U.S.-based sales force works to secure contracts to supply our products in U.S. and foreign markets. As of December 31, 2023, we have performed sales contracts and warranty service obligations in the U.S. and various foreign countries. When our products are introduced into an international market, it is either pursuant to a contract directly with a vetted customer located in the foreign country, a vetted foreign distributor, a foreign government agency, or pursuant to a contract between our company and a U.S. government agency (such as the U.S. Department of State). In the latter instance, our customer is the relevant U.S. government agency. The government agency may then distribute our products to third parties within the particular country.

Regulatory Matters

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

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

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

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

Government Contracts

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

Environmental

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

fund our growth.

Our revenues from contracts, directly or indirectly, with foreign and U.S. Federal, state, regional and local governmental agencies represented substantially all of our total revenues in fiscal year 2023. Although these various government agencies are subject to common budgetary pressures and other factors, many of our various government customers exercise independent purchasing decisions. As a result of the concentration of business with governmental agencies, we are vulnerable to adverse changes in our revenues, income and cash flows if a significant number of our government contracts, subcontracts or prospects are delayed or canceled for budgetary or other reasons.

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

- budget constraints affecting government spending generally, or specific departments or agencies such as U.S. or foreign defense and transit agencies and regional transit agencies, and changes in fiscal policies or a reduction of available funding;
- re-allocation of government resources as the result of actual or threatened terrorism or hostile activities or for other reasons;
- increasing customers' demands for broad uncapped indemnifications provisions with no termination date and unwillingness to agree to request to remove such clauses when possible or negotiate caps and a defined end point to our obligations;
- disruptions in our customers' ability to access funding from capital markets;
- curtailment of governments' use of outsourced service providers and governments' in-sourcing of certain services;
- the adoption of new laws or regulations pertaining to government procurement;
- government appropriations delays or blanket reductions in departmental budgets;

- suspension or prohibition from contracting with the government or any significant agency with which we conduct business;
- increased use of shorter duration awards, which increases the frequency we may need to recompete for work;
- impairment of our reputation or relationships with any significant government agency with which we conduct business;
- decreased use of small business set asides or changes to the definition of small business by government agencies;
- increased use of lowest-priced, technically acceptable contract award criteria by government agencies;
- increased aggressiveness by the government in seeking rights in technical data, computer software, and computer software documentation that we deliver under a contract, which may result in "leveling the playing field" for competitors on follow-on procurements;
- impairment of our ability to provide third-party guarantees and letters of credit;
- delays in the payment of our invoices by government payment offices; and
- national or international health emergencies, such as the COVID-19 public health pandemic.

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

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

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

Our products are sold in highly competitive markets with limited barriers to entry. We compete against established companies that provide similar products and services, some of which have financial, technical, marketing, sales, manufacturing, distribution and other resources significantly greater than ours. There are also companies whose products do not compete directly but are sometimes closely related to the products we offer (see Competition and Competitive Landscape Discussion in Item 1 above).

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

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

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

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

The success of each of the products we plan to sell depends substantially on the amount of funds budgeted by federal, state and local government agencies that make up our current and potential customers. Global credit and financial markets have experienced extreme disruptions in the recent past, including severely diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. There can be no assurance that similar disruptions will not occur in the future. Deterioration in general

economic conditions may result in lower tax revenues that could lead to reductions in government spending, especially spending for discretionary simulation training products such as ours. Poor economic conditions could in turn lead to substantial decreases in our net sales or have a material adverse effect on our operating results, financial position and cash flows.

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

U.S. regulations concerning export controls require us to screen potential customers, destinations, and technology to ensure that sensitive equipment, technology and services are not exported in violation of U.S. policy or diverted to improper uses or users. For us to export certain products, technical data or services, we are required to obtain licenses from the U.S. government, often on a transaction-by-transaction basis. These licenses are generally required for the export of the military versions of our products and technical data and for defense services. We cannot be sure of our ability to obtain the U.S. government licenses or other approvals required to export our products, technical data and services for sales to foreign governments, foreign commercial customers or foreign destinations.

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

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

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

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

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

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

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

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

The markets for law enforcement and military simulation training are highly competitive and include many new competitors as well as increased competition from established companies expanding their production and marketing of products. Despite owning patents, trademarks and copyrights, our current and future competitors could manufacture and sell products with performance characteristics and functionality like the products we sell and that we plan to sell. Some of our competitors are large companies with strong worldwide brand recognition that have significantly greater financial, distribution, marketing and other resources than we do (see Competition and Competitive Landscape section above). Some of our competitors have significant competitive advantages, including longer operating histories, larger sales forces, bigger advertising budgets, better brand recognition, greater economies of scale and long-term relationships with key military customers that are potentially highly valuable because of the significant volume that our competitors sell to them.

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

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

Disruptions could negatively impact revenue and results of operation.

Our ability to manufacture and/or sell our products may be impaired by damage or disruption to our manufacturing, warehousing or distribution capabilities, or to the capabilities of our suppliers, contract manufacturers, logistics service providers or independent distributors. This damage or disruption could result from execution issues, as well as factors that are hard to predict or are beyond our control, such as product or raw material scarcity, adverse weather conditions, natural disasters, fire, terrorism, pandemics, strikes, cybersecurity breaches, government shutdowns, disruptions in logistics, supplier capacity constraints or other events. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, may adversely affect our business or financial results, particularly in circumstances when a product is sourced from a single supplier or location. Disputes with significant suppliers, contract manufacturers, logistics service providers or independent

distributors, including disputes regarding pricing or performance, may also adversely affect our ability to manufacture and/or sell our products, as well as our business or financial results. We are actively monitoring the economic instability and its potential impact on our supply chain and operations. Although our products are manufactured in North America and we source the significant majority of our ingredients and raw materials from North America, due to current and potential future port closures and other restrictions resulting from the outbreak, global supply may become constrained, which may cause the price of certain ingredients and raw materials used in our products to increase and/or we may experience disruptions to our operations. While we do not expect that the virus will have a material adverse effect on our business or financial results at this time, we are unable to accurately predict the impact that the coronavirus will have due to various uncertainties, including the ultimate geographic spread of the virus, the severity of the disease, the duration of the outbreak, and actions that may be taken by governmental authorities.

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

Some of the components of our products contain elements that may pose potential safety risks. In addition to these risks, there can be no assurance that accidents in the facilities that use our products will not occur. Any accident, whether occasioned using all or any part of our products or technology or by our customers' operations, could adversely affect commercial acceptance of our products and could result in claims for damages resulting from injuries or death. Any of these occurrences would materially adversely affect our operations and financial condition. If our products fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on our financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that we maintain will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all.

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

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

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

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

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

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

Despite our efforts to safeguard and maintain our proprietary rights, we may not be successful in doing so. In addition, competition is intense, and there can be no assurance that our competitors will not independently develop or patent technologies that are substantially equivalent or superior to our technology. In the event of patent litigation, we cannot assure you that a court would determine that we were the first creator of inventions covered by our issued patents or pending patent applications or that we were the first to file patent applications for those inventions. If existing or future third-party patents containing broad claims were upheld by the courts or if we were found to infringe third-party patents, we may not be able to obtain the required licenses from the holders of such patents on acceptable terms, if at all. Failure to obtain these licenses could cause delays in the introduction of our products or necessitate costly attempts to design such patents, or could foreclose the development, manufacture or sale of our products. We could also incur substantial costs in defending ourselves in patent infringement suits brought by others and in prosecuting patent infringement suits against infringers.

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

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

We rely upon the accumulated knowledge, skills and experience of our executive officers and significant employees. Our Executive Chairman of the Board, Robert Ferris, built our business from inception and, along with other members of the management team, are responsible for many of the products and clients that we have today. Our Chief Executive Officer, John Givens, has unique expertise and long-standing relationships in the military simulation market that could have a material impact on our company's future. If they were to leave us or become incapacitated, we might suffer in our planning and execution of business strategy and operations, impacting our financial results. We also do not maintain any key man life insurance policies for any of our employees.

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

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

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

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

We qualify as an "emerging growth company" under the JOBS Act through December 31, 2023. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

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

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

In addition, Section 102 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. The company has implemented new standards such as the lease and revenue standards without using the extended option. Our financial statements may therefore not be comparable to those of companies that comply with such new or revised accounting standards.

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

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

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

As a public company with an obligation to file reports with the SEC under the Exchange Act, we do incur significant legal, accounting and other expenses that we would not incur as a private company. In addition, the Sarbanes-Oxley Act imposes various requirements on public companies including requiring establishment and maintenance of effective disclosure and financial controls. Our management and other personnel devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations have increased and could continue to increase our legal and financial compliance costs and could make some activities more time-consuming and costly. For example, we expect that these rules and regulations may make it more difficult and more expensive for us to obtain directors' and officers' liability insurance, which could make it more difficult for us to attract and retain qualified members of our Board of Directors. We cannot predict or estimate the amount of additional costs we will incur to meet our additional disclosure obligations under the Exchange Act or the timing of such costs.

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

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

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

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

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

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

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

- actual or anticipated fluctuations in our operating results, including the loss of a large or key customer or vendor;
- the absence of securities analysts covering us and distributing research and recommendations about us;
- we may have a low trading volume for a few reasons, including that a large portion of our stock is closely held;
- overall stock market fluctuations;
- announcements concerning our business or those of our competitors;
- actual or perceived limitations on our ability to raise capital when we require it, and to raise such capital on favorable terms;

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- conditions or trends in the industry;
- litigation;
- changes in market valuations of other similar companies;
- future sales of Common Stock;
- departure of key personnel or failure to hire key personnel; and
- general market conditions.

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

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

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

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

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

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, non-affiliate stockholders may sell freely after six months, subject only to the current public information requirement. Affiliates may sell after six months, subject to the Rule 144 volume, manner of sale (for equity securities), current public information, and notice requirements. Of the approximately 11,109,730 shares of our Common Stock outstanding as of March 29, 2024, 7,500 shares are restricted subject to Rule 144 with the remaining shares tradable without restriction. Given the limited trading of our Common Stock, resale of even a small number of shares of our Common Stock pursuant to Rule 144 or an effective registration statement may adversely affect the market price of our Common Stock.

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

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

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The provisions of our Articles of Incorporation and Bylaws may delay or prevent a takeover which may not be in the best interests of our

stockholders.

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS.

Not applicable.

ITEM 1C. CYBERSECURITY.

We are committed to our goal to protect sensitive business-related and personal information, as well as our information systems. Although the size and scope of our operations is limited compared to larger global operations, we are subject to numerous and evolving cybersecurity risks that could adversely and materially affect our business, financial condition and results of operations. In that regard, we have increased our investment in information systems by hiring a Director of Technology in 2024 to replace limited outsourced services previously utilized. We are currently working towards CMMC certification and expect to be ready for a third-party assessment sometime during the 2025 fiscal year.

Our Management Leadership Team, with oversight from the Board of Directors, plans to implement a comprehensive cybersecurity program, including incident response process, aligned with the National Institute of Standards and Technology (NIST) Cybersecurity Framework and NIST Computer Security Incident Handling Guide (NIST SP 800-61) to assess, identify, address and manage risks from cybersecurity threats that may result in material adverse effects on the confidentiality, integrity and availability of our business and information systems.

Our Director of Technology reports to our Chief Financial Officer and has operational responsibility for our information security programs, protections, and efforts, along with leading efforts for implementing, monitoring, and maintaining cybersecurity and data security strategy, policy, standards, architecture, and practices across our business. We anticipate that our Director of Technology will update the Chief Financial Officer and Chief Executive Officer on these matters and work closely with these Senior Executives to oversee compliance with legal, regulatory, and contractual security requirements with the guidance of outside counsel.

We anticipate that our Board, in coordination with the Audit Committee, will oversee the Company's enterprise risks arising from cybersecurity threats and will periodically review the measures we have implemented to identify and mitigate data protection and cybersecurity risks. We do not currently have a Cybersecurity Incident Response Plan ("CSIRP") to provide the organizational and operational structure, processes, and procedures for investigating, containing, documenting and mitigating cybersecurity incidents. We expect to implement a risk-based approach to identifying, preventing and mitigating cybersecurity threats and incidents, while also implementing controls and procedures that provide for the prompt escalation of certain cybersecurity incidents so that decisions regarding the public disclosure and reporting of such incidents can be made by management in a timely manner.

We also rely on information technology and third-party vendors to support our operations, including our secure processing of personal, confidential, sensitive, proprietary and other types of information. Despite ongoing efforts to continuously improve our and our vendors' ability to protect against cyber incidents, we may not be able to protect all information systems, and such incidents may lead to reputational harm, revenue and customer loss, legal actions, statutory penalties, among other consequences. While we have not experienced any material cybersecurity threats or incidents in recent years, there can be no guarantee that we will not be the subject of future threats or incidents.

ITEM 2. PROPERTIES.

We lease approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our corporate office, manufacturing, assembly, warehouse and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. Beginning in April of 2023 we subleased this location for the duration of the contract with the lease term ending in 2024 along with our lease expiration. In addition, we lease approximately 5,131 rentable square feet of office and industrial space within the same business complex as our main office from an unaffiliated third party for our machine shop at 7910 South Kyrene Road, Tempe, Arizona 85223. Both properties are under the same lease agreement which expires on April 30, 2024. In 2022, the Company moved all the operations from 7970 South Kyrene into the newly purchased building on 295 East Corporate Place. We moved the rest of the operations from 7910 Kyrene into the 295 East Corporate Place location in 2023.

On August 25, 2021, we purchased an industrial building of approximately 76,650 square feet situated on approximately 4.3 acres at 295 East Corporate Place in Chandler, Arizona. We believe that this building allows for our expected growth in simulator development and production, recoil kit development and production, training content creation as well as administrative, customer and technology support as we plan to scale. Approximately 15,000 square feet of the new building housed two pre-existing tenants with multi-year rent agreements, and we canceled the leases of both tenants and took ownership of 11,775 square feet on October 1, 2022. We gave notice to the second tenant, and we took over the additional 5,207 square feet in May 2023. Ultimately, we expect this purchase to result in spending less per month on facilities while having access to a larger and centralized facility to enhance efficiency. In addition to the centralization we were also able to convert the additional space to a dedicated training and demo space. This will allow us to offer onsite training in the use of our systems and allow us to do remote demos of our systems to our harder to reach departments.

On June 1, 2022, we moved into a newly leased space in Orlando, Florida, that is approximately 9,350 square feet. We believe this space will be instrumental in growing our military business and supporting an east coast customer service

ITEM 3. 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 4. MINE SAFETY DISCLOSURES.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

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

Holders of Common Stock

As of March 29, 2024, 11,109,730 shares of our Common Stock were outstanding and held by approximately 39 holders of record. In addition, we have no shares of Class A Common Stock, Class B Common Stock or Preferred Stock issued and outstanding.

ITEM 6. [RESERVED]

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

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

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 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.

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- 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 years ended December 31, 2023, and December 31, 2022

Revenues. Revenues were \$38,043,360 for the year ended December 31, 2023, compared to \$28,302,244 for the same period in 2022, representing an increase of \$9,741,116 or 34%. The increase was the result of increases in sales of simulators, STEP sales, accessories, custom content, custom design work, curriculum, and training, and recurring extended warranty revenue in 2023.

Cost of Sales. Cost of sales were \$11,378,264 for the year ended December 31, 2023, compared to \$12,047,366 for the same period in 2022, representing a decrease of \$669,102 or 6%. The year-over-year decrease was due to a significant increase in capitalized labor as multiple projects are set to complete in 2024 as well as our ability to decrease our cost of items going into our production builds and an increase in STEP contract renewals that have minimal costs associated in future years.

Gross Profit. Gross profit was \$26,665,096 for the year ended December 31, 2023, compared to \$16,254,878 for the same period in 2022, representing an increase of \$10,410,218 or 64%. The gross profit margin was 70% for the year ended December 31, 2023, and 57% for the same period in 2022. The gross profit increase was mainly due to the increase in simulator system sales and recurring STEP revenue that helped increase revenue while decreasing the cost of goods sold. Also contributing to this increase was an unusual event of signed contract for custom work that included a large \$3 million kickoff milestone payment for which no significant costs are associated

Operating Expenses. Net operating expense was \$17,029,508 for the year ended December 31, 2023, compared to \$13,661,173 for the same period in 2022, representing an increase of \$3,368,335, or 25%, with general and administrative expenses increasing by \$3,180,861 or 29% and research and development expenses increasing by \$187,474 or 7%. The increase in general and administrative expenses was driven by an increase in labor costs, cost associated with the final move into the Chandler building, the costs associated with the relaunch of the ERP system, a full year of costs from the Orlando office and additional travel expenses for tradeshows and international sales.

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Income from Operations. Income from operations was \$9,635,588 for the year ended December 31, 2023, compared to \$2,593,705 for the same period in 2022, representing an increase of \$7,041,883, or 271%, resulting from an increase in revenue, and a decrease in cost of goods despite an increase in operating expenses.

Other Income. Other income was \$586,082 for the year ended December 31, 2023, compared to other expense of \$66,165 for the same period in 2022, representing a positive change of \$652,247. This increase is due to subleasing one of the Kyrene buildings along with making cash moves to increase our interest earnings

Income Tax Expense. Income tax expense was \$1,818,812 for the year ended December 31, 2023, compared to an expense of \$571,642 for the same period in 2022, representing an increase in expense of \$1,247,170 or 218%.

Net Income. Net income was \$8,402,858 for the year ended December 31, 2023, compared to \$1,955,898 for the same period in 2022,

representing an increase of \$6,446,960 or 330%. All the factors above played a role in the final numbers finished, including our attention to improving COGS dollars and increasing our revenue by having better production to turn bookings directly into sales and managing our larger contracts in a way to maximize profits

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

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

	For the Years Ended			
	December 31, 2023	December 31, 2022	Increase (Decrease)	% Change
Net Income	\$ 8,402,858	\$ 1,955,898	\$ 6,446,960	330%
Adjustments:				
Provision for income taxes	1,818,812	571,642	1,247,170	218%
Depreciation and amortization	928,545	887,118	41,427	5%
Interest (net)	(20,440)	190,772	(211,212)	(111)%
EBITDA	\$ 11,129,775	\$ 3,605,430	\$ 7,524,345	209%
Right of use amortization	496,127	412,335	83,792	20%
Adjusted EBITDA	\$ 11,625,902	\$ 4,017,765	\$ 7,608,137	189%

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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 \$18,849,842 and \$13,483,597 of cash and cash equivalents as of December 31, 2023, and 2022, respectively. Working capital was \$33,240,516 and \$24,339,089 as of December 31, 2023, and 2022, respectively.

Net cash provided by operating activities was \$6,682,616 for the year ended December 31, 2023, as compared to \$2,693,351 of cash used in operating activities for the year ended December 31, 2022. The net cash increase is driven by our changes in terms and condition where we are collecting more money upfront and at a quicker speed than in years past which is allowing us to decrease our unbilled and increase our while also increasing our deferred revenue

Net cash used in investing activities was \$1,128,187 for the year ended December 31, 2023, and net cash used by investing activities was \$3,341,198 for the year ended December 31, 2022. Investing activities in 2023 consisted of the increasing our plant, property and equipment by finishing the remodel of the Chandler office including opening a training center. In 2022, this amount was higher as the bulk of the remodeling work was completed during this period.

Net cash used in financing activities was \$188,184 for the year ended December 31, 2023, as compared to \$190,419 used in financing activities for the year ended December 31, 2022. Financing activities in 2023 consisted mainly of debt repayment offset by proceeds from the exercise of stock options. Financing activities in 2022 consisted mainly of debt repayments.

Backlog

The Company defines bookings as the total number of newly signed contracts and purchase orders received in a defined period. The Company received bookings totaling \$13.5 million for the three months ended December 31, 2023. This brings the total booking for the year ended 2023 to \$33.6 million. The Company defines backlog as the accumulation of bookings from signed contracts and purchase orders that are not started, or are uncompleted performance objectives, and cannot be recognized as revenue until delivered in a future quarter. The Company splits the backlog into three categories. The first is capital which includes sales of all the simulators, corresponding accessories, installs, training custom content and custom design work. The second and third are extended warranty agreements and STEP agreements that are deferred revenue recognized on a straight-line basis over the life of each respective agreement. As of December 31, 2023, the Company's backlog was \$10.5 million in Capital, \$6.3 million in Service and \$2.6 million in STEP for a total of \$19.4 million. In addition to the signed STEP contracts, there are \$6.9 million in renewable STEP contract options in which it has been calculated that we only have a 5% of option years that do not renew.

Management estimates the majority of the new bookings received in the fourth quarter of 2023 will be converted to revenue in 2024. Management's estimate for the conversion of backlog is based on current contract delivery dates, however, contract terms and install dates are subject to modification and are routinely changed at the request of the customer or due to factors outside the Company's control.

Cash Requirements

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

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Critical Accounting Policies

We have identified the following policies below as critical to our business and results of operations. Our reported results are impacted by the

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

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

Basis of Presentation and Use of Estimates

Our financial statements have been prepared in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments. Management bases the estimates on historical experience and on various other factors that it believes are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. For any given individual estimate or assumption, we make, it is possible that other people applying reasonable judgment to the same facts and circumstances could develop different estimates. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances, the carrying value of cost basis investments, and the allocation of the transaction price to the performance obligations in our contracts with customers. Actual results could differ significantly from those estimates.

Allowance for Doubtful Accounts

The Company only ships products when it has reasonable assurance that it will receive payment from the customer. When such assurance is not available, the Company will require payment in advance. For customers other than United States governmental agencies, the Company generally requires advance deposits prior to shipment. The assessment of a customer's creditworthiness is reliant on management's judgment regarding such factors as previous payment history, credit rating, credit references and market reputation. The company has decided to take a more conservative approach to the bad debt reverse by calculating a percentage of all outstanding AR and updating the reverse quarterly base-on AR buckets

Inventory Valuation

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

Property and Equipment

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

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

Revenue Recognition

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

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

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

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

Stock-Based Compensation

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

The expected term of the options is the estimated period of time until exercise and was determined using the SEC's safe harbor rules, using an

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

Income Taxes

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

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

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

Warranty Reserve

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

Recent Accounting Pronouncements

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

Off-Balance Sheet Arrangements

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

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO HISTORICAL FINANCIAL STATEMENTS

Audited financial statements for the years ended December 31, 2023, and 2022

[Report of Independent Registered Public Accounting Firm \(Haynie & Company, Salt Lake City, Utah, PCAOB ID 457\)](#)

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[Balance Sheets as of December 31, 2023 and 2022](#)

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[Statements of Operations for the years ended December 31, 2023 and 2022](#)

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[Statements of Changes in Stockholders' Equity for the years ended December 31, 2023 and 2022](#)

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[Statements of Cash Flows for the years ended December 31, 2023 and 2022](#)

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[Notes to Financial Statements for the years ended December 31, 2023 and 2022](#)

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying balance sheets of VirTra, Inc. (the Company) as of December 31, 2023 and 2022, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2023, and the related notes (collectively referred to as the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Haynie & Company

Haynie & Company
Salt Lake City, Utah
April 1, 2024

PCAOB # 457

We have served as the Company's auditor since 2022



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VIRTRA, INC. BALANCE SHEETS

	December 31, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 18,849,842	\$ 13,483,597
Accounts receivable, net	15,724,147	3,002,887
Inventory, net	12,404,880	9,592,328
Unbilled revenue	1,109,616	7,485,990
Prepaid expenses and other current assets	906,803	531,051
Total current assets	48,995,288	34,095,853
Long-term assets:		
Property and equipment, net	15,487,012	15,267,133
Operating lease right-of-use asset, net	716,687	1,212,814
Intangible assets, net	567,540	587,777
Security deposits, long-term	35,691	35,691
Other assets, long-term	201,670	376,461

Deferred tax asset, net	3,630,154	2,238,762
Total long-term assets	20,638,754	19,718,638
Total assets	69,634,042	\$ 53,814,491
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,282,427	\$ 1,251,240
Accrued compensation and related costs	2,221,416	1,494,890
Accrued expenses and other current liabilities	3,970,559	1,917,922
Note payable, current	226,355	232,537
Operating lease liability, short-term	317,840	557,683
Deferred revenue, short-term	6,736,175	4,302,492
Total current liabilities	15,754,772	9,756,764
Long-term liabilities:		
Deferred revenue, long-term	3,012,206	1,605,969
Note payable, long-term	7,813,021	8,050,116
Operating lease liability, long-term	432,176	720,023
Total long-term liabilities	11,257,403	10,376,108
Total liabilities	27,012,175	20,132,872
Commitments and contingencies (See Note 11)		
Stockholders' equity:		
Preferred stock \$ 0.0001 par value; 2,500,000 authorized; no shares issued or outstanding		
Common stock \$ 0.0001 par value; 50,000,000 shares authorized; 11,107,230 shares and 10,900,759 shares issued and outstanding as of December 31, 2023 and 2022, respectively	1,109	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	31,957,765	31,420,395
Retained earnings	10,662,993	2,260,135
Total stockholders' equity	42,621,867	33,681,619
Total liabilities and stockholders' equity	\$ 69,634,042	\$ 53,814,491

See accompanying notes to financial statements.

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VIRTRA, INC.
STATEMENTS OF OPERATIONS

	For the years ended	
	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Revenues:		
Net sales	\$ 38,043,360	\$ 28,302,244
Total revenue	<u>38,043,360</u>	<u>28,302,244</u>
Cost of sales	<u>11,378,264</u>	<u>12,047,366</u>
Gross profit	<u>26,665,096</u>	<u>16,254,878</u>
Operating expenses:		
General and administrative	14,235,194	11,054,333
Research and development	2,794,314	2,606,840
Net operating expense	<u>17,029,508</u>	<u>13,661,173</u>
Income from operations	<u>9,635,588</u>	<u>2,593,705</u>
Other income (expense):		
Other income	888,464	194,523
Other (expense) income	(302,382)	(260,688)
Net other income (expense)	<u>586,082</u>	<u>(66,165)</u>
Income before provision for income taxes	<u>10,221,670</u>	<u>2,527,540</u>
Provision (Benefit) for income taxes	<u>1,818,812</u>	<u>571,642</u>

Net income	\$ 8,402,858	\$ 1,955,898
Net income per common share:		
Basic	\$ 0.77	\$ 0.18
Diluted	\$ 0.77	\$ 0.18
Weighted average shares outstanding:		
Basic	10,958,448	10,863,680
Diluted	10,963,477	10,873,606

See accompanying notes to financial statements.

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VIRTRA, INC.
STATEMENTS OF CHANGES IN STOCKHOLDERS'S EQUITY
For Years Ended December 31, 2023 and 2022

	Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance on December 31, 2021	-	\$ -	10,807,130	\$ 1,081	\$30,923,391	\$ -	\$ 304,237	\$31,228,709
Stock Options Exercised	-	-	17,500	1	40,844	-	-	40,845
Stock issued for services	-	-	76,129	6	349,995	-	-	350,001
RSUs Issued (stock for services)	-	-	-	1	760	-	-	761
Stock reserved for future services	-	-	-	-	105,405	-	-	105,405
Net Income	-	-	-	-	-	-	1,955,898	1,955,898
Balance on December 31, 2022	-	\$ -	10,900,759	1089	31,420,395	\$ -	2,260,135	33,681,619
Stock Options Exercised	-	-	15,000	1	54,899	-	-	54,900
Stock issued for services	-	-	16,015	1	74,999	-	-	75,000
RSUs issued (stock for services)	-	-	175,456	18	-	-	-	18
Stock reserved for future services	-	-	-	-	407,472	-	-	407,472
Net income	-	-	-	-	-	-	8,402,858	8,402,858
Balance on December 31, 2023	-	\$ -	11,107,230	\$ 1,109	\$31,957,765	\$ -	\$ 10,662,993	\$42,621,867

See accompanying notes to financial statements.

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VIRTRA, INC.
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Net income	\$ 8,402,858	\$ 1,955,898
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	928,545	887,118
Right of use amortization	496,127	412,335
Bad debt expense	308,657	-
Employee stock compensation	482,490	456,167
Changes in operating assets and liabilities:		
Accounts receivable, net	(13,029,917)	893,852
Inventory, net	(2,812,552)	(4,577,404)
Deferred taxes	(1,391,392)	(564,528)
Unbilled revenue	6,376,374	(3,539,544)
Prepaid expenses and other current assets	(375,752)	409,836
Other assets	174,791	(186,727)
Operating lease right of use liability	(527,690)	(416,292)
Security deposits, long-term	-	(15,979)
Accounts payable and other accrued expenses	3,810,157	1,811,646
Payments on operating lease liability	-	
Deferred revenue	3,839,920	(219,729)
Net cash provided by (used in) operating activities	6,682,616	(2,693,351)
Cash flows from investing activities:		
Purchase of intangible assets	-	(120,016)
Purchase of property and equipment	(1,128,187)	(3,221,182)
Net cash (used in) investing activities	(1,128,187)	(3,341,198)

Cash flows from financing activities:		
Principal payments of debt	(243,084)	(231,264)
Stock issued for options exercised	54,900	40,845
Net cash (used in) financing activities	<u>(188,184)</u>	<u>(190,419)</u>
Net increase (decrease) in cash and restricted cash	5,366,245	(6,224,968)
Cash and restricted cash, beginning of period	13,483,597	19,708,565
Cash and restricted cash, end of period	<u>\$ 18,849,842</u>	<u>\$ 13,483,597</u>
Supplemental disclosure of cash flow information:		
Cash (refunded) paid:		
Income taxes paid (refunded)	\$ -	\$ 108,777
Interest paid	\$ 248,653	\$ 128,507
Supplemental disclosure of non-cash investing and financing activities:		
Addition of new lease and corresponding ROU asset and lease liability	\$ -	\$ 294,016
Conversion of inventory to property and equipment	\$ -	\$ 840,843

See accompanying notes to financial statements.

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VirTra, Inc.
Notes to Financial Statements

Note 1. Organization and Significant Accounting Policies

Organization and Business Operations

VirTra, Inc. (the "Company," "VirTra," "we," "us" or "our"), located in 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.

Basis of Presentation

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

Use of Estimates

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

Revenue Recognition

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

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

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The Company's primary sources of revenue are derived from simulator and accessories sales, training and installation, the sale of customizable software, the sale of customized content scenarios, and the sale of extended service-type warranties. Sales discounts are presented in the financial statements as reductions in determining net revenues. Credit sales are recorded as current assets (accounts receivable and unbilled revenue). Prepaid deposits received at the time of sale and extended warranties purchased are recorded as current and long-term liabilities (deferred revenue) until earned. The following briefly summarizes the nature of our performance obligations and method of revenue recognition:

Performance Obligation	Method of Recognition
Simulator and accessories	Upon transfer of control
STEP Program	Deferred and recognized over the life of the contract
Installation and training	Upon completion or over the period of services being rendered
Extended service-type warranty	Deferred and recognized over the life of the extended warranty
Customized software and content	Upon transfer of control or over the period services are performed depending on the terms of the contract

Customized content scenario	As performance obligation is transferred over time (input method using time and materials expended)
Design and prototyping	Recognized at the completion of each agreed upon milestone
Sales-based royalty exchanged for license of intellectual property	Recognized as the performance obligation is satisfied over time – which is as the sales occur

The Company recognizes revenue upon transfer of control or upon completion of the services for the simulator and accessories; for the installation and training and customized software performance obligations as the customer has the right and ability to direct the use of these products and services and the customer obtains 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.

	Year ended December 31,							
	2023				2022			
	Commercial	Government	International	Total	Commercial	Government	International	Total
Simulators and accessories	\$ 746,071	\$18,766,022	\$ 5,062,049	\$24,574,142	\$ 1,542,752	\$18,241,100	\$ 3,747,746	\$23,531,598
Extended Service-type warranties	196,951	3,575,733	124,894	3,897,578	117,984	2,647,908	75,895	2,841,787
Customized software and content	195,175	820,570	229,804	1,245,549		776,930	231,555	1,008,485
Installation and training	99,639	775,479	341,189	1,216,307	101,280	706,021	104,407	911,708
Licensing and royalties	-	-	-	-	8,666	-	-	8,666
Design & Prototyping		7,109,784	-	7,109,784	-	-	-	-
Total Revenue	\$ 1,237,836	\$31,047,588	\$ 5,757,936	\$38,043,360	\$ 1,770,682	\$22,371,959	\$ 4,159,603	\$28,302,244

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Commercial customers include selling through prime contractors for military or law enforcement contracts, domestically. Government customers are defined as directly selling to government agencies. For the year ended December 31, 2023, governmental customers comprised \$ 31,047,588 , or 82 % of total net sales, commercial customers comprised \$ 1,237,836 or 3 % of total net sales and international customers comprised \$ 5,757,936 or 15 % of total net sales. By comparison, for the year ended December 31, 2022, governmental customers comprised \$ 22,371,959 , or 79 % of total net sales, commercial customers comprised \$ 1,770,682 or 6 % of total net sales and international customers comprised \$ 4,159,603 , or 15 % of total net sales. For the years ended December 31, 2023, and 2022, the Company recorded \$ 3,525,873 and \$ 2,912,451 , respectively, in STEP revenue, or 9 % and 10 %, respectively, of total net sales.

Customer Deposits

Customer deposits consist of prepaid deposits received for equipment purchase orders and for Subscription Training Equipment Partnership ("STEP") operating agreements that expire annually. Customer deposits are considered a deferred liability until the completion of the customer's contract performance obligation. When revenue is recognized, the deposit is applied to the customer's receivable balance. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled \$ 4,047,269 and \$ 2,719,108 on December 31, 2023, and 2022 respectively. During the years ended December 31, 2023, and 2022, the Company recognized revenue of \$ 1,962,782 and \$ 1,550,333 , respectively, related to customer deposits that were included in deferred revenue, long-term, at the beginning of each period. Changes in deferred revenue amounts related to customer deposits will fluctuate from year to year based upon the mix of customers required to prepay deposits under the Company's credit policy.

Warranty

The Company warranties its products from manufacturing defects on a limited basis for a period of one year after purchase, but also sells separately priced extended service-type warranties for periods of up to four years after the expiration of the standard one-year warranty. During the term of the initial one-year warranty, if the device fails to operate properly from defects in materials and workmanship, the Company will fix or replace the defective product. Deferred revenue for separately priced extended warranties one year or less totaled \$ 2,627,763 and \$ 1,583,384 on December 31, 2023, and 2022, respectively. Deferred revenue for separately priced extended warranties longer than one year totaled \$ 2,974,710 and \$ 1,601,472 on December 31, 2023, and 2022, respectively. The accrual for the one-year manufacturer's warranty liability totaled \$ 354,000 and \$ 358,000 on December 31, 2023, and 2022, respectively. During the years ended December 31, 2023, and 2022, the Company recognized revenue of \$ 3,897,578 and \$ 2,841,788 , 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.

STEP Revenue

The Company's STEP operations consist principally of leasing its simulator products under operating agreements expiring in one year. At the commencement of a STEP agreement, any lease payments received are deferred and no income is recognized. Subsequently, payments are amortized and recognized as revenue on a straight-line basis over the term of the agreement. The agreements are generally for a period of 12 months and can be renewed for an additional 12-month period up to two additional 12-month periods maximum of 36-months for the entire agreement. This is a change from

prior years which allowed for renewals up to 48 months for a total of 60 months. Agreements may be terminated by either party upon written notice of termination at least sixty days prior to the end of the 12-month period. The payments are generally fixed for the first year of the agreement, with increases in payments in subsequent years to be mutually agreed upon. The agreements do not include variable lease payments or free rent periods. In addition, the agreements do not provide for the underlying assets to be purchased at their fair market values at interim periods or at maturity. Each STEP agreement comes with full customer support and stand-ready advance replacement parts to maintain each system for the duration of the lease. The amount that the Company expects to derive from the STEP equipment following the end of the agreement term is dependent upon the number of agreement terms renewed. The agreements do not include a residual value guarantee. Management notes with 4-year history of providing this service and additional revenue stream the company has only had cancellation of a total of 5 STEP agreements before the 5-year end date of the contract this equates to less than 5% of all agreements.

Fair Value Measurements

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

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

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

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

Fair Value of Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable, notes payable and accrued liabilities. The carrying amount of cash and cash equivalents, receivable, payables and accruals approximates fair value due to the short-term nature of these items. The notes payable also approximate fair value based on evaluations of market interest notes.

Cash and Cash Equivalents

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

Certificates of Deposit and Mutual Funds

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

Accounts and Allowance for Doubtful Accounts

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable does not bear interest and are charged off after all reasonable collection efforts have been taken. The Company maintained an allowance for doubtful accounts of \$ 343,695 and \$ 35,039 on December 31, 2023, and 2022, respectively.

Inventory

Inventory is stated at the lower of cost or net realizable value with cost being determined on the average cost method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. The Company routinely evaluates the carrying value of inventory for slow moving and potentially obsolete inventory and, when appropriate, will record an adjustment to reduce inventory to its estimated net realizable value. Inventory reserves were \$ 429,488 and \$ 302,431 on December 31, 2023, and 2022, respectively.

Property and Equipment

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

Computer equipment	3 - 5 years
Furniture and office equipment	5 - 7 years
Leased STEP equipment	5 years
Leasehold improvements	7 years
Building	39.5 years
Building Improvements	7 years

Intangible Assets

Intangible assets on December 31, 2023 and 2022 are comprised of various patents. We compute amortization expense on the patents using the straight-line method over the estimated remaining useful lives of 16 years. We compute amortization expense on media content using the straight-line method over the weighted average remaining period which is 15 years.

Cost of Products Sold

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

Advertising Costs

Costs associated with advertising are expensed as incurred. Advertising expenses were \$ 156,010 and \$ 710,011 for the years ended December 31, 2023 and 2022, respectively. These costs include domestic and international trade shows, websites, and sales promotional materials.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs primarily include expenses, including labor, directly related to research and development support. Research and development expenses were \$ 2,794,314 and \$ 2,606,840 for the years ended December 31, 2023 and 2022, respectively.

Legal Costs

Legal costs relating to loss contingencies are expensed as incurred. See Note 9. Commitments and Contingencies.

Concentration of Credit Risk and Major Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents, certificates of deposit 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 \$ 18,349,842 and \$ 12,983,597 on December 31, 2023 and 2022, respectively.

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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.

As of December 31, 2023, the Company had customers that accounted for 28 % and 14 % of total accounts receivable. As of December 31, 2022, the Company did not have any customers that accounted for more than 10% of total accounts receivable.

As of December 31, 2023, the company had one customer that accounted for 19 % of the total revenue. As of December 2022 the company had one customer that accounted for 10 % of the total revenue

Income Taxes

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

In assessing realizable deferred tax assets, management assesses the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. After review of the deferred tax asset and valuation allowance in accordance with ASC 740, management determined that it is more likely than not that the Company will fully realize all its deferred tax asset and no valuation allowance was recorded on December 31, 2023 and 2022.

The Company did not recognize any assets or liabilities relative to uncertain tax positions on December 31, 2023 and 2022. Interest or penalties, if any, will be recognized in income tax expense. Since there are no significant unrecognized tax benefits because of tax positions taken, there are no accrued penalties or interest. Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements.

The Company receives tax benefits, only if it is more likely than not that the Company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized. Management does not believe that there are any uncertain tax positions on December 31, 2023 or 2022.

The Company is potentially subject to tax audits for its United States federal and various state income and excise tax returns for tax years between 2016 and 2022; however, earlier years may be subject to audit under certain circumstances. Tax audits by their very nature are often complex and can require several years to complete.

Impairment of Long-Lived Assets

Long lived assets, such as equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the asset. On December 31, 2023 and 2022, the Company concluded that there has been no indication of impairment to the carrying value of its long-lived assets. As such, no impairment has been recorded.

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Stock Based Compensation

The Company measures the cost of awards of equity instruments based on the grant date fair value of the awards. The Company calculates the fair value of stock-based awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates. See Note 9. Commitments and Contingencies and Note 11. Stockholders' Equity regarding stock-based awards made during the year ended December 31, 2023 and 2022.

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

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:

	Twelve Months Ended December 31,	
	2023	2022
Net Income	\$ 8,402,858	\$ 1,955,898
Weighted average common stock outstanding	10,958,448	10,863,680
Incremental shares from stock options	5,029	9,918
Weighted average common stock outstanding, diluted	<u>10,963,477</u>	<u>10,873,606</u>
Net income per common share and common equivalent share		
Basic	\$ 0.77	\$ 0.18
Diluted	<u>\$ 0.77</u>	<u>\$ 0.18</u>

Note 2. Inventory

Inventory consisted of the following as of:

	December 31, 2023	December 31, 2022
Raw materials and work in process	\$ 12,834,368	\$ 9,894,759
Reserve	(429,488)	(302,431)
Total inventory	<u>\$ 12,404,880</u>	<u>\$ 9,592,328</u>

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During 2022, the Company evaluated some of the items included in inventory and determined that they were truly assets of the Company, including items used in its demonstration rooms. As such, we reclassified \$ 294,016 as fixed assets on the Balance Sheet on December 31, 2022.

Note 3. Property and Equipment

Property and equipment consisted of the following as of:

	December 31, 2023	December 31, 2022
Land	\$ 1,778,987	\$ 1,778,987
Building & Building Improvements	9,146,556	9,129,364
Computer equipment	1,236,989	1,210,021
Furniture and office equipment	295,208	289,379
Machinery and equipment	2,865,014	2,788,803
STEP equipment	2,241,291	1,954,430
Leasehold improvements	358,584	347,384
Construction in Progress	<u>2,456,259</u>	<u>1,749,332</u>
Total property and equipment	20,375,888	19,247,700
Less: Accumulated depreciation and amortization	<u>(4,888,876)</u>	<u>(3,980,567)</u>
Property and equipment, net	<u>\$ 15,487,012</u>	<u>\$ 15,267,133</u>

Depreciation expenses, including STEP depreciation, were \$ 908,308 and \$ 818,816 for the years ended December 31, 2023, and 2022, respectively.

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 (Note 7). The Property consists of approximately 4.3 acres and an industrial building of approximately 76,650 square feet. The Company moved all of its operations and headquarters to the Property during 2022. Approximately 15,000 square feet of the building is dedicated to two pre-existing tenants with multi-year rent agreements.

Under the provision of ASC 805, the Company determined this acquisition was an asset acquisition. This determination was based on substantially all of the fair value of the gross assets acquired was concentrated in the similarly identifiable assets of the Property. The fair value was allocated to the land, building, and acquired leases based upon their relative fair values at the date of acquisition in accordance with ASC 805-50-30-3.

The fair value of the in-place leases is the estimated cost to replace the leases (including loss of rent, estimated commissions and legal fees paid in similar leases). The capitalized in-place leases are amortized over the remaining term of the leases as amortization expense. The fair value of the above or below market lease is the present value of the difference between the contractual amount to be paid pursuant to the in-place lease and the estimated current market lease rate expected over the remaining non-cancelable life of the lease. The capitalized above or below market lease values are

amortized as a decrease or increase to the rental income over the remaining term of the lease.

Upon closing, the Company assumed interest in two in-place leases. The first tenant took occupancy in November 2006 and is paying the annual Triple Net rate of \$ 11.34 per square foot. The rate increased to \$ 11.68 per square foot on November 1, 2021, increasing to \$ 12.03 on November 1, 2022, the tenant was given notice in December 2022 and the lease expired on May 1, 2023 .

	December 31, 2021
Land	\$ 1,778,987
Building and building improvements	8,937,050
Acquired Lease Intangible Assets	83,963
 Total Purchase Price	 \$ 10,800,000

Note 4. Intangible Assets

Intangible assets consisted of the following as of: Schedule of Intangible Asset

	December 31, 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	(127,667)	(107,430)
 Intangible assets, net	 \$ 567,540	 \$ 587,777

Amortization expense was \$ 20,237 and \$ 67,318 for the years ended December 31, 2023 and 2022, respectively. The weighted average remaining period is 9.5 years.

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 St., Tempe, Arizona 85284. In April 2019, the Company relocated the machine shop from the Fifth St. location to 7910 South Kyrene Road, located within the same business complex as our main office. The Company executed a lease amendment to add an additional 5,131 rentable square feet for the machine shop and extended its existing office lease through April 30, 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 unaffiliated third party through May 2027.

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

In addition to base rent, the Company's lease 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	December 31, 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 year ended	(496,127)	(412,335)
Total operating lease right-of-use asset	<u>\$ 716,687</u>	<u>\$ 1,212,814</u>
Liabilities		
Current		
Operating lease liability, short-term	\$ 317,840	\$ 557,683
Non-current		
Operating lease liability, long-term	432,176	720,023
Total lease liabilities	<u>\$ 750,016</u>	<u>\$ 1,277,706</u>

Future minimum lease payments as of December 31, 2023, under non-cancelable operating leases are as follows:

	2024	\$ 317,938
	2025	191,478
	2026	196,311
	2027	99,381
Total lease payments		805,108
Less: imputed interest		(55,092)
Operating lease liability		\$ 750,016

The Company had a deferred rent liability of \$ 0 on December 31, 2023, and 2022, relative to the increasing future minimum lease payments. Rent expenses for the years ended December 31, 2023, and 2022 were \$ 551,412 and \$ 356,555 , respectively.

Note 6. Accrued Expenses

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Salaries and wages payable	\$ 457,565	\$ 502,940
Employee benefits payable	54,811	31,618
Accrued paid time off (PTO)	361,418	590,491
Profit sharing payable	<u>1,347,622</u>	<u>369,841</u>
Total accrued compensation and related costs	\$ 2,221,416	\$ 1,494,890

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

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Manufacturer's warranties	\$ 354,000	\$ 358,000
Taxes payable	3,411,669	1,294,110
Miscellaneous payable	<u>204,890</u>	<u>265,812</u>
Total accrued expenses and other current liabilities	\$ 3,970,559	\$ 1,917,922

Note 7. Note Payable

On May 8, 2020, VirTra received a Promissory Note (the "PPP Note") in the amount of \$ 1,320,714 under the PPP from Wells Fargo Bank, N.A (the "Lender"). The PPP Loan was payable over two years at a fixed interest rate of 1 %. The PPP, established as part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. Under the terms of the PPP loan, up to the entire amount of principal and accrued interest may be forgiven to the extent PPP loan proceeds are used for qualifying expenses as described in the CARES Act and applicable implementing guidance issued by the U.S. Small Business Administration (the "SBA") for the PPP loan. The Company used its entire PPP Loan amount for designated qualifying expenses and on June 16, 2021, applied for forgiveness in accordance with the PPP Loan terms.

On July 20, 2021, the Company received notification from the Lender that the SBA had approved the Company's PPP Loan forgiveness application for the entire amount of the PPP Loan. The forgiveness of the PPP Loan is recognized in Other Income in the accompanying statement of income.

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

The note payable amounts consist of the following:

	<u>December 31, 2023</u>	<u>December 31, 2022</u>
Short-term liabilities:		
Note payable, principal	\$ 222,320	\$ 227,324
Accrued interest on note	<u>4,035</u>	<u>5,213</u>
 Note payable, short-term	 <u>\$ 226,355</u>	 <u>\$ 232,537</u>
Long-term liabilities:		
Note payable, principal	\$ 7,813,021	\$ 8,050,116
 Note payable, long term	 <u>\$ 7,813,021</u>	 <u>\$ 8,050,116</u>

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Note 8. Related Party Transactions

During the years ended December 31, 2023 and 2022, the Company redeemed 15,000 and 27,500 previously awarded options reaching expiration from related parties, including the Company's Executive Chairman, Bob Ferris and former COO, Matt Burlend. These redemptions canceled the stock

options and resulted in a total of \$ 29,251 and \$ 74,368 in additional compensation expense in 2023 and 2022, respectively.

During the years ended December 31, 2023 and 2022, related parties exercised 15,000 and 17,500 previously awarded options for the exercise price of \$ 54,900 and \$ 40,855 , respectively, resulting in issuance of common stock to the Executive Chairman and one member of the Board of Directors.

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.

Employment Agreements

On April 2, 2012, the Company entered into three-year Employment Agreements with its Chief Executive Officer and Chief Operating Officer that called for base annual salaries of \$ 195,000 and \$ 175,000 , respectively, subject to cost-of-living adjustments, and containing automatic one-year extension provisions. These contracts have been renewed annually and have been adjusted based on the same percentage increase approved for Company-wide cost-of-living adjustments. As of December 31, 2023, the Chief Executive Officer's base annual salary was \$ 349,860 .

On May 2, 2022, VirTra, Inc. announced the appointment of John F. Givens II as its co-Chief Executive Officer, effective April 11, 2022. Mr. Givens has been serving as a director of VirTra since November 2020. VirTra agreed to pay Mr. Givens an initial annual base salary of \$ 298,990 , subject to annual review. VirTra issued Mr. Givens a signing bonus of 64,815 shares of common stock 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 granted 288,889 Restricted Stock Units, to be awarded based on the achievement of certain performance goals over the next three years.

The Company entered into a three-year employment agreement with Mr. Givens effective August 15, 2023 that provides for an annual base salary of \$ 349,860 , subject to increases based on the cost of living at a minimum. The agreement automatically extends for additional periods of one year. The contract shall be renewed annually with upward adjustments each year applying the same percentage increase approved for Company-wide cost-of-living adjustments. The employment agreement entitles Mr. Givens to an annual cash bonus if so determined by VirTra's Board of Directors. In addition, the agreement entitles Mr. Givens to participate in any equity incentive plan adopted by the company.

Restricted Stock Units

Beginning on the last business day of August 2022, a tranche of restricted stock units may vest if the Company has achieved net profit (net income under GAAP) for the twelve months ending June 30, 2022, of at least \$2,500,000. For every \$500,000 earned more than \$2,500,000 another tranche will vest. If the maximum net profits (net income under GAAP) 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 (net income under GAAP) 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 (net income under GAAP). This vesting arrangement continues with the last business day of August 2024, with the minimum net profit (net income under GAAP) threshold being \$3,500,000 and the maximum net profit (net income under GAAP) being \$11,000,000.

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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 described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2022, of \$ 2,500,000 was probable, and recorded an expense for the period ending December 31, 2021, of \$ 52,498 . The Company determined 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.

During August 2022, 168,090 Restricted Stock Units were forfeited upon the departure of the Chief Operating Officer.

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 an expense of \$ 105,405 related to the RSUs for the period ending December 31, 2022. The company determined that the net profit (net income under GAPP) over 4,500,000 would be probable and recorded an expense of \$ 199,477 from January 1st 2023-June 30th ,2023 The Company determined that the net profit (net income under GAAP) for the twelve months ended June 30, 2023 was at least \$ 4,500,000 and therefore awarded 22,988 (prior to deduction of 9,142 shares to pay the tax withholding liability) and 29,360 (prior to deduction of 11,394 shares to pay the tax withholding liability) shares of common stock to its Executive Chairman and Chief Executive Officer, respectively.

The Company determined based on vesting terms described above that the net profit (net income under GAAP) for the twelve months ending June 30, 2024 of 4,500,000 is probable and recorded an expense of \$ 207,995 related to the RSU expense from July 1,2023 to December 31,2023.

In October 2023, the Chief Executive Officer was issued 133,333 shares upon settlement of restricted stock units.

Profit Sharing

VirTra provides a discretionary profit-sharing program that pays out a percentage of Company profits each year as a cash bonus to eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata in April and October of the following year only to active employees. For the years ended December 31, 2023 and 2022, the amount expensed to operations was \$ 1,260,431 and \$ 294,705 , respectively.

Note 10. Income Taxes

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

	Years ending December 31,	
	2023	2022
Deferred Tax Assets:		

Net Operating Loss Carry Forwards	\$ -	\$ -
Tax Credits	560,971	471,186
Deferred Revenue	1,525,489	759,304
Stock Compensation	395,485	291,279
Reserves, Accruals, Other	356,689	299,358
Intangibles	1,420,445	986,534
Capital Loss Carryforward		70,423
Right of Use Liability	189,289	-
Total Deferred Tax Assets	\$ 4,448,368	\$ 2,878,084
Deferred Tax Liabilities:		
Fixed Assets	\$ (637,337)	\$ (639,322)
Right of Use Asset	(180,877)	
Total Deferred Tax Liabilities	\$ (818,214)	\$ (639,322)
Valuation Allowance	-	-
Net Deferred Taxes	\$ 3,630,154	\$ 2,238,762

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Internal Revenue Code Section 382 limits the ability to utilize net operating losses if a 50% change in ownership occurs over a three-year period. The Company does not believe that such a limitation of the net operating losses has occurred.

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

	2023	2022
Current	\$ 4,924,686	\$ 1,136,170
Deferred	(3,105,874)	(564,528)
Change in valuation allowance	-	-
Provision (benefit) for income taxes	\$ 1,818,812	\$ 571,642

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

	2023	2022
Federal income tax expense at the statutory rate	21.0%	21.0%
State income taxes, net of federal benefit	.12%	3.1%
Research credits	- 4.85%	- 5.5%
Permanent differences	0.38%	0.2%
PPP Loan Forgiveness	0.0%	- 9.9%
Other	-.14%	0.0%
Change in valuation allowance	0.0%	0.0%
Provision (benefit) for income taxes	16.51%	8.9%

Note 11. Stockholders' Equity

Authorized Capital

Common Stock.

Authorized Shares. The Company is authorized to issue 60,000,000 shares of common stock, par value \$ 0.0001 per share, of which (a) 50,000,000 shares shall be common stock, par value \$ 0.0001 , (b) 2,500,000 shares shall be Class A common stock, par value \$ 0.0001 per share (the "Class A Common Stock"), and (c) 7,500,000 shares shall be Class B common stock, par value \$ 0.0001 per share (the "Class B Common Stock"). No shares of Class A Common Stock or Class B Common Stock have been issued.

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

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

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

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

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

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Preferred Stock

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

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

Treasury Stock

During the years ended December 31, 2023, and 2022, the Company purchased no 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:

	December 31, 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	(15,000)	5.09	(27,500)	2.44
Exercised	(15,000)	3.66	(17,500)	2.33
Expired / terminated	-	-	(22,500)	4.05
Options outstanding, end of year	15,000	\$ 4.03	45,000	\$ 4.26
Options exercisable, end of year	15,000	\$ 4.03	45,000	\$ 4.26

The Company did not have any non-vested stock options outstanding as of December 31, 2023. The weighted average contractual term for options outstanding and exercisable on December 31, 2023 and 2022 was 7 years. The aggregate intrinsic value of the options outstanding and exercisable on December 31, 2023 and 2022 was \$ 81,600 and \$ 82,800 , respectively. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the Company's common stock for those stock options that have an exercise price lower than the fair value of the Company's common stock. Options with an exercise price above the fair value of the Company's common stock are considered to have no intrinsic value. For the years ended December 31, 2023 and 2022, the Company received payments related to the exercise of options in the amount of \$ 54,900 and \$ 40,845 , respectively. The total fair value of shares vested during the years ended December 31, 2023 and 2022 is \$ 0 .

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The following table summarizes information about stock options outstanding and exercisable as of December 31, 2023:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$ 1.00 - \$ 1.99	-	\$ -	-	\$ -
\$ 2.00 - \$ 2.99	-	\$ -	-	\$ -
\$ 3.00 - \$ 3.99	7,500	\$ 3.76	7,500	\$ 3.76
\$ 4.00 - \$ 4.99	7,500	\$ 4.30	7,500	\$ 4.30
\$ 5.00 - \$ 5.99	-	\$ -	-	\$ -
	<u>15,000</u>	<u>\$ 4.03</u>	<u>15,000</u>	<u>\$ 4.03</u>

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2022:

Range of Exercise Price	Number of Options Outstanding	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
\$ 1.00 - \$ 1.99	-	\$ -	-	\$ -
\$ 2.00 - \$ 2.99	7,500	\$ 2.23	7,500	\$ 2.23
\$ 3.00 - \$ 3.99	7,500	\$ 3.76	7,500	\$ 3.76
\$ 4.00 - \$ 4.99	15,000	\$ 4.24	15,000	\$ 4.24
\$ 5.00 - \$ 5.99	15,000	\$ 5.54	15,000	\$ 5.54
	<u>45,000</u>	<u>\$ 4.26</u>	<u>112,500</u>	<u>\$ 4.26</u>

2017 Equity Incentive Plan

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

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

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

Common stock activity

In December 2023, the Chief Financial Officer and the Company's general counsel were awarded 5,000 (prior to deduction of 1,709 share to pay tax withholding to equal 3,291) and 10,438 (prior to deduction of 3,688 shares to pay tax withholding to equal 6,750) shares of common stock upon settlement of restricted stock units.

In October 2023, the Chief Executive Officer was issued 133,333 shares upon settlement of restricted stock units.

On September 1, 2023, the Company awarded 22,988 (prior to deduction of 9,142 shares to pay the tax withholding liability) and 29,360 (prior to deduction of 11,394 shares to pay the tax withholding liability) shares of common stock to its Executive Chairman and Chief Executive Officer, respectively, in settlement of RSUs, based on the Company's performance for the twelve months ended June 30, 2023.

During the year ended December 31, 2023, a total of 15,000 shares of common stock were issued pursuant to the exercise of stock options.

The Board of Directors appointed Jim McDonnell as an independent member to the Board effective January 1, 2023 and granted him 10,684 restricted shares of the Company's common stock which are subject to vesting requirements and 42,735 restricted stock units which vest only upon the sale of the Company.

Also on January 1, 2023, 5,331 shares were issued to an employee as a signing bonus.

On September 23, 2022, the Compensation Committee of the Board of Directors 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 then Co-Chief Executive Officers in settlement of RSUs, based on the Company's performance for the twelve months ended June 30, 2022.

On April 11, 2022, the Compensation Committee of the Board of Directors approved a sign on bonus of 64,815 restricted shares to the CEO (then co-CEO) John Givens.

Note 12. Subsequent Events

None.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure controls and procedures

We maintain "disclosure controls and procedures," as that term is defined in Rule 13a-15(e), promulgated by the SEC pursuant to the Exchange Act. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive 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 annual report on Form 10-K. Based on this evaluation, our principal executive officers and principal financial officer concluded that as of December 31, 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.

Internal control over financial reporting

Management's annual report on internal control over financial reporting

Our management, including our principal executive officers and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Our management, with the participation of our principal executive officers and principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2023. Our management's evaluation of our internal control over financial reporting was based on the 2013 framework in Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that as of December 31, 2023, our internal control over financial reporting was not effective. This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm pursuant to the rules of the SEC for emerging growth companies.

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

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

Limitations on Effectiveness of Controls

Our principal executive officers and principal financial officer do not expect that our disclosure controls or our internal control over financial reporting

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

Changes in Internal Controls over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the year ended December 31, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. However, subsequent to December 31, 2023, we implemented more formal review and documentation of workflow processes, and increased ERP training.

ITEM 9B. OTHER INFORMATION.

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Board of Directors and Executive Officers

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

Name	Age	Position/Title
Robert D. Ferris	51	Executive Chairman of the Board
John F. Givens II	59	Chief Executive Officer and Director
Alanna Boudreau	44	Chief Financial Officer
Jeffrey D. Brown	59	Director
Gregg C.E. Johnson	58	Director
Jim McDonnell	64	Director

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

Robert D. Ferris. Mr. Ferris has been our Chief Executive Officer and Chairman of the Board of Directors since 2008 and has been our President since founding Ferris Productions, Inc. ("Ferris Productions") in 1993. In August of 2023 Mr. Ferris was moved to the role Executive Chairman of the Board. Mr. Ferris has led VirTra in providing the market with revolutionary simulation training products that today impact millions worldwide. He has been awarded multiple patents, spoken at various trade shows, and has written or assisted with various ground-breaking articles and studies in the fields of virtual reality and simulation technology. Mr. Ferris is considered one of the top experts in the world at applying virtual reality and simulation technology to solve real world problems. Mr. Ferris attended the U.S. Air Force Academy and received a bachelor's degree in systems engineering from the University of Arizona. We believe Mr. Ferris' history as a founder, officer and director of our company, and his management experience and industry knowledge, provide the requisite qualifications, skills, perspectives and experience that make him well qualified to serve as Chairman of our Board of Directors.

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John F. Givens II. Mr. Givens was appointed as Co-Chief Executive Officer as of April 11, 2022, and has served as a director of our company since November 2, 2020. Mr. Givens was appointed to the role of Chief Executive Officer in August of 2023. Mr. Givens has over 20 years' experience as a board member, entrepreneur, and corporate executive. He currently serves as a military board advisor to Bohemia Interactive Simulations (BISim), a global developer of advanced military simulation and training software. In 2010, Mr. Givens established the US company of BISim, and as president, took military simulations products from inception to production. Mr. Givens has achieved numerous awards and honors, including appointment to the board of directors of the National Center for Simulation (NCS), an association of defense companies, and the "Pioneer Awards" for outstanding contributions and innovations to the training and effectiveness of US and overseas soldiers, sailors, and airmen. Mr. Givens graduated with a Bachelor of Science degree in Computer Science from the Florida Institute of Technology and proudly served in the United States Army. We believe Mr. Givens history as founder and president of BISim, and his business development expertise, technology background and extensive management experience provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

Alanna Boudreau. Ms. Boudreau was appointed as our Chief Financial Officer as of December 2022. She brings over 20 years of experience in managerial, financial and operating functions, most recently serving as group controller for the 600 Group PLC (AIM: SIXH), a publicly listed U.K.-based global industrial laser company. At The 600 Group, she oversaw all accounting activities for a business with over \$30 million of revenues that included two manufacturing plants and offices in Orlando, Florida and United Kingdom. Prior to The 600 Group, Boudreau was an Accounting Manager at Advent Health, a leading U.S.-based nonprofit health care company, where she oversaw accounting functions for 12 locations. Boudreau graduated Summa Cum Laude from the New York Institute of Technology, receiving a Bachelor of Science in Business Administration. She received an MBA from the University of Phoenix.

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

Gregg C.E. Johnson. Mr. Johnson has served as a director of our company since November 2022. He received his law degree in 1988 from Osgoode Hall Law School in Toronto, Canada, and was admitted as a lawyer in Alberta in 1989. He also has extensive experience in corporate

compliance and senior management of high-growth entrepreneurial companies. Since October 2021, Mr. Johnson has been the chief executive officer of Serenus Global Inc., a privately held fast growing medical company based in Tempe, Arizona and Calgary, Alberta. From January 2017 to November 2021, he was the chief executive officer of Upeva, Inc., which provided business advisory services pertaining to capital markets, corporate finance, mergers and acquisitions, crowdfunding, and NASDAQ compliance. Mr. Johnson was the primary advisor to our board on our successful effort to list our stock on NASDAQ as well as a member of VirTra's Advisory Board. He has served as corporate secretary and a director of Vivos Biotechnologies, Inc. (aka Vivos Therapeutics, Inc.), a company which focuses on the development and commercialization of innovative biomedical treatment alternatives, from May 2016 to March 2018. His career has included experience in all stages of public company development and venture capital for emerging growth companies across Canada and the United States. We believe Mr. Johnson's experience in law, business, corporate compliance and emerging companies provide the requisite qualifications, skills, perspectives, and experience that make him well qualified to serve on our Board of Directors.

Jim McDonnell. Mr. McDonnell has served as a director of our company since January 2023. He is a recognized public safety executive and law enforcement leader. After a four-decade career in some of the most challenging areas and times in American policing, he has become a sought-after voice on public safety, security, and counterterrorism issues across the nation. He is well known for his experience serving as Sheriff of Los Angeles County (LASD), Chief of Police in Long Beach, California (LBP), and First Assistant Chief of Police for the Los Angeles Police Department (LAPD). Mr. McDonnell serves as a strategic advisor to several major corporations, municipal government entities, a renowned university, and a non-profit global policy think tank, operating in a wide variety of technology, telecommunications, medical, and public safety specialties. He also sits on several non-profit boards, including the YMCA of Metropolitan Los Angeles, the Peace Officers Association of Los Angeles County, and the University of Southern California Price School of Public Policy's Board of Councilors. Mr. McDonnell has a strong network of police executives across the nation at the federal, state, and local levels. He regularly participates in state and national police executive conferences, including those hosted by the U.S. Department of Justice, U.S. Department of State, Major County Sheriffs of America, Major Cities Chiefs Association, and the Police Executive Research Forum. Sheriff McDonnell is frequently requested as a speaker by media outlets, corporate clients, and academic institutions. He brings a tremendous level of knowledge and expertise in public safety, tactical training, operational growth, and command accountability, as well as an expansive network within the nationwide policing community, which makes him well qualified to serve on our Board of Directors.

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

Involvement in Certain Legal Proceedings

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

Board Composition

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

Director Independence

Our Board of Directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, our Board of Directors has determined that: (i) Messrs. Brown, Johnson and McDonnell did not have a material relationship with us that could compromise their ability to exercise independent judgment in carrying out their responsibilities and that each of these directors was "independent" as that term is defined under the listing standards of NASDAQ and (ii) Messrs. Ferris and Givens were non-independent directors. Therefore, as of the date of this report, a majority of our Board of Directors do not consist of "independent directors" as defined under the listing standards of NASDAQ.

Board Leadership Structure and Board's Role in Risk Oversight

Our Board of Directors has a Chairman, Mr. Ferris. The Chairman has authority, among other things, to preside over the Board meetings and set the agenda for Board meetings. Accordingly, the Chairman has substantial ability to shape the work of our Board of Directors. Because a majority of our Board of Directors will be independent, we believe that separation of the roles of Chairman and Chief Executive Officer is not necessary at this time to ensure appropriate oversight by the Board of Directors of our business and affairs. However, no single leadership model is right for all companies and at all times. The Board of Directors recognizes that depending on the circumstances, other leadership models, such as the appointment of a lead independent director, might be appropriate. Accordingly, the Board of Directors may periodically review its leadership structure. In addition, the Board of Directors will hold executive sessions in which only independent directors are present.

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

Board Committees

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

Audit Committee

We have appointed three members of our Board of Directors to the audit committee, Messrs. Brown, Johnson and McDonnell. Mr. Brown serves as the chairman of the audit committee and satisfies the definition of "audit committee financial expert" within the meaning of SEC regulations and the NASDAQ Listing Rules. In making a determination on which member will qualify as a financial expert, our Board of Directors considered the formal education and nature and scope of such members' previous experience.

Our audit committee is responsible for, among other things:

- To oversee our accounting and financial reporting and disclosure processes and the audit of our financial statements.

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

Compensation Committee

We have appointed three members of our Board of Directors, Messrs. Johnson, Brown and McDonnell, to the compensation committee. Our compensation committee will assist our Board of Directors in the discharge of its responsibilities relating to the compensation of our executive officers.

Our compensation committee is responsible for, among other things:

- To review and approve the compensation of the Chief Executive Officers and to approve the compensation of all other executive officers.

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

Nominating and Corporate Governance Committee

We have appointed three members of our Board of Directors, Messrs. Johnson, Brown and McDonnell, to the nominating and corporate governance committee. Mr. Johnson serves as the chairman of the nominating and corporate governance committee.

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

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

Code of Ethics and Business Conduct and Whistleblower Protection Policy

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

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Director Compensation

2023 Director Compensation Table

Name	Fees earned or paid in cash	Stock Awards	Option Awards	Non-equity incentive plan compensation	Nonqualified deferred compensation earnings	All Other Compensation	Total
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Jeffrey D. Brown	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,000
Gregg C.E. Johnson	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,000
James McDonnell	\$ 24,000	\$ 50,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 74,000

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

ITEM 11. EXECUTIVE COMPENSATION

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

- our principal executive officer or other individual acting in a similar capacity during the fiscal year ended December 31, 2023,
- our two most highly compensated executive officers, other than our principal executive officers, who were serving as executive officers on December 31, 2023, and
- up to two additional individuals for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer on December 31, 2023.

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

2023 Summary Compensation Table

Name and Principal Position	Fiscal Year Ended	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Robert D. Ferris (1) Executive Chairman	12/31/2023	\$ 349,860	\$ 12,334	\$ 80,702	\$ 47,850	\$ -	\$ 410,044
	12/31/2022	\$ 360,481	\$ -	\$ -	\$ -	\$ -	\$ 441,183
John F. Givens II (1) Chief Executive Officer	12/31/2023	\$ 349,860	\$ 6,943	\$ 617,332	\$ -	\$ -	\$ 974,135
	12/31/2022	\$ 188,065	\$ -	\$ 414,914	\$ -	\$ -	\$ 602,979
Alanna Boudreau (2) Chief Financial Officer	12/31/2023	\$ 185,385	\$ 307	\$ 36,800	\$ -	\$ -	\$ 22,492
	12/31/2022	\$ 8,308	\$ -	\$ -	\$ -	\$ -	\$ 8,308

(1) Messrs. Ferris and Givens served as Co-Chief Executive Officers from April 2022 until August 15, 2023, when Mr. Ferris became the Executive Chairman of the Board and Mr. Givens became the Chief Executive Officer.
(2) Ms. Boudreau became the Chief Financial Officer of the Company on December 1, 2022.

Executive Employment Agreements

On April 2, 2012, we entered into three-year Employment Agreements with each of Messrs. Ferris and Burlend that call for base annual salaries of \$195,000 and \$175,000, respectively, subject to increases based on the cost of living at a minimum. The agreements automatically extend for additional periods of one year. These contracts have been renewed annually with upward adjustments each year applying the same percentage increase approved for Company-wide cost-of-living adjustments. On January 1, 2021, Messrs. Ferris' and Burlend's annual base salaries were \$248,791 and \$223,274, respectively. The employment agreements entitle these executives to an annual cash bonus determined by our Board of Directors based on our performance. In addition, the agreements entitle these executives to participate in any stock option or restricted stock plan adopted by our Board of Directors. The amount of an award under any such plan and the vesting terms shall be as determined by the Board. In addition, we provide the executives with family medical insurance, \$15,000 in life insurance, and participation in a 401(k)-retirement plan.

Pursuant to the terms of the employment agreements, we may terminate an executive's employment for cause as defined in the employment agreement and such cause is deemed to exist as determined by our Board of Directors at a Board meeting at which the executive and his counsel are first given the opportunity to address the Board with respect to such determination. If Messrs. Ferris or Burlend is terminated by us for any reason other than for cause, or if either of them voluntarily terminate their own respective employment for good reason but not including a change in control, then we shall, subject to the terms of the respective employment agreements, be obligated to pay the executive who terminated his employment an amount equal to the greater of (a) the executive's annual base salary in effect on the day preceding the date of such termination or (b) the executive's annual base salary during the twelve full calendar months preceding the date of such termination, times three. If a change of control of our company occurs while the executive is our employee and within 36 months from the date of such change in control we terminate the executive's employment for any reason (except for the death or disability of the executive or for Cause) or the executive terminates his employment for any reason, then we shall, subject to certain limitations, pay the executive any earned and accrued but unpaid base salary through the date of termination plus an amount of severance pay equal to the greater of (a) the executive's annual base salary in effect on the day preceding the date on which the change of control occurred or (b) the executive's annual base salary during the twelve full calendar months preceding the date on which the change of control occurred, times four. In addition, any stock options awarded to the executives shall immediately vest and become exercisable upon a change of control. If the executive is terminated for any reason other than the executive's voluntary termination for good reason as defined in the employment agreement, the executive whose employment has been terminated is prohibited for a period of two years from the date of termination of the employment agreement from direct competition with us and shall not solicit any of our employees or customers. The employment agreements require us to indemnify each of the respective executives to the fullest extent permitted under Nevada law, our articles of incorporation and bylaws, which ever affords the greater protection to the executive.

On August 26, 2021, the Compensation Committee of the Board of Directors, relying upon third-party studies and recommendations, took several actions to bring the compensation of the Company's Chief Executive Officer (CEO) and Chief Operating Officer (COO) up to industry standards and provide meaningful incentive for future performance. The Committee increased the annual base salaries effective August 15, 2021 to \$349,860 and \$251,140 for the CEO and COO, respectively. While their salaries have been annually increased with Company-wide cost-of-living adjustments, this was the first comprehensive review and adjustment undertaken since 2012.

Beginning on the last business day of August 2022, a tranche of restricted stock units, having approximate values of \$40,000 and \$30,000 for the CEO and COO, respectively, based on current 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 more than \$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.

During the year ended December 31, 2022, Matthew Burlend (the Company's former Chief Operating Officer) redeemed 7,500 previously awarded options reaching expiration. The redemptions resulted in \$20,550 of additional compensation expense.

During the years ended December 31, 2023 and 2022, Bob Ferris redeemed 15,000 and 20,000 previously awarded options reaching expiration. The redemptions resulted in \$29,251 and \$54,051 of additional compensation expense.

On April 11, 2022, John F. Givens II was appointed as the Co-Chief Executive Officer of the Company. VirTra has agreed to pay Mr. Givens an initial annual base salary of \$298,990, subject to annual review. VirTra issued Mr. Givens a signing bonus of 64,815 shares of common stock 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 the Company'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 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 more than \$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 August 31, 2022, 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 entered into a three-year employment agreement with Mr. Givens effective August 15, 2023 that provides for an annual base salary of \$349,860, subject to increases based on the cost of living at a minimum. The agreement automatically extends for additional periods of one year. The contract shall be renewed annually with upward adjustments each year applying the same percentage increase approved for Company-wide cost-of-living adjustments. The employment agreement entitles Mr. Givens to an annual cash bonus if so determined by VirTra's Board of Directors. In addition, the agreement entitles Mr. Givens to participate in any equity incentive plan adopted by the company.

In 2023, the Company determined that the net profit (net income under GAAP) for the twelve months ended June 30, 2023 was at least \$4,500,000 and therefore awarded 22,988 (prior to deduction of 9,142 shares to pay the tax withholding liability) and 29,360 (prior to deduction of 11,394 shares to pay the tax withholding liability) shares of common stock to its Executive Chairman and Chief Executive Officer.

In October 2023, the Chief Executive Officer was issued 133,333 shares upon settlement of restricted stock units.

Employee Benefit and Equity Incentive Plans

Stock Options

Prior to October 2017, we periodically issued non-qualified incentive stock options to the directors under a stock option compensation plan approved by the Board of Directors in 2009. Terms of option grants are at the discretion of the Board of Directors and are generally seven years. These awards were suspended as of October 1, 2017. As of December 31, 2023, there were 15,000 options outstanding and 15,000 options exercisable at a weighted exercise price of \$4.03.

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

Profit Sharing

We have a discretionary profit-sharing program that pays out a percentage of our profits each year as a cash bonus to active and eligible employees. The cash payment is typically split into two equal payments and distributed pro-rata to employees in good standing at the time of distribution in April and October of the following year after the completion of the annual financial audit. For the years ending December 31, 2023, and 2022, the amount expensed to operations for this program was \$1,260,431 and \$300,000, respectively.

2017 Equity Incentive Plan

On October 6, 2017, the VirTra, Inc. 2017 Equity Incentive Plan (the "Equity Plan") was approved by our stockholders. The Equity Plan is intended to make available incentives that will assist us in attracting, retaining and motivating employees, including officers, consultants and directors. We may provide these incentives through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and

units and other cash or stock-based awards.

A total of 1,187,500 shares of our Common Stock were initially authorized and reserved for issuance under the Equity Plan. This reserve automatically increased beginning on January 1, 2018, and automatically increases each subsequent anniversary through 2027, by an amount equal to the smaller of (a) 3% of the number of shares of Common Stock issued and outstanding on the immediately preceding December 31, or (b) an amount determined by the Board.

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

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

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

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

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

- *Stock options.* We may grant non-statutory stock options or incentive stock options (as described in Section 422 of the Internal Revenue Code of 1986, as amended), each of which gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to purchase a number of shares of our Common Stock at an exercise price per share determined by the administrator, which may not be less than the fair market value of a share of our Common Stock on the date of grant.
- *Stock appreciation rights.* A stock appreciation right gives its holder the right, during a specified term (not exceeding 10 years) and subject to any specified vesting or other conditions, to receive the appreciation in the fair market value of our Common Stock between the date of grant of the award and the date of its exercise. We may pay the appreciation in shares of our Common Stock or in cash.
- *Restricted stock.* The administrator may grant restricted stock awards either as a bonus or as a purchase right at such price as the administrator determines. Shares of restricted stock remain subject to forfeiture until vested, based on such terms and conditions as the administrator specifies. Holders of restricted stock will have the right to vote on the shares and to receive any dividends paid, except that the dividends will be subject to the same vesting conditions as the related shares.
- *Restricted stock units.* Restricted stock units represent the right to receive shares of our Common Stock (or their value in cash) at a future date without payment of a purchase price, subject to vesting or other conditions specified by the administrator. Holders of restricted stock units have no voting rights or rights to receive cash dividends unless and until shares of Common Stock are issued in settlement of such awards. However, the administrator may grant restricted stock units that entitle their holders to dividend equivalent rights subject to the same vesting conditions as the related units.
- *Performance shares and performance units.* Performance shares and performance units are awards that will result in a payment to their holder only if specified performance goals are achieved during a specified performance period. Performance share awards are rights denominated in shares of our Common Stock, while performance unit awards are rights denominated in dollars. The administrator establishes the applicable performance goals based on one or more measures of business performance enumerated in the Equity Plan, such as revenue, gross margin, net income or total stockholder return. To the extent earned, performance share and unit awards may be settled in cash or in shares of our Common Stock. Holders of performance shares or performance units have no voting rights or rights to receive cash dividends unless and until shares of Common Stock are issued in settlement of such awards. However, the administrator may grant performance shares that entitle their holders to dividend equivalent rights subject to the same vesting conditions as the related units.
- *Cash-based awards and other stock-based awards.* The administrator may grant cash-based awards that specify a monetary payment or range of payments or other stock-based awards that specify a number or range of shares or units that, in either case, are subject to vesting or other conditions specified by the administrator. Settlement of these awards may be in cash or shares of our Common Stock, as determined by the administrator. Their holder will have no voting rights or right to receive cash dividends unless and until shares of our Common Stock are issued pursuant to the award. The administrator may grant dividend equivalent rights with respect to other stock-based awards.

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

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

The following table provides information concerning unexercised options, stock that has not vested and equity incentive plan awards for each named executive officer outstanding as of December 31, 2023:

OPTION AWARDS						
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Number of Securities Underlying Unexercised Options (#) Unearned	Option Exercise Price (\$)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)
Robert D. Ferris	4/1/2017	5,000	-	-	\$ 4.30	4/1/2024
	7/1/2017	5,000	-	-	\$ 3.76	7/1/2024
Total		10,000				

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth securities authorized for issuance under any equity compensation plans approved by our stockholders as well as any equity compensation plans not approved by our stockholders as of December 31, 2023.

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

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

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

The following table sets forth information about the beneficial ownership of our Common Stock on March 29, 2024, for:

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

Unless otherwise noted below, the address for each beneficial owner listed on the table is in the care of VirTra, Inc., 295 E. Corporate Place, Chandler AZ 85225. We have determined beneficial ownership in accordance with the rules of the SEC. Except as indicated by the footnotes below, we believe, based on the information furnished to us, that the persons and entities named in the tables below have sole voting and investment power with respect to all shares of Common Stock that they beneficially own, subject to applicable community property laws. We have based our calculation of the percentage of beneficial ownership on 11,109,730 shares of our Common Stock outstanding as of March 29, 2024.

In computing the number of shares of Common Stock beneficially owned by a person and the percentage ownership of that person, we deemed outstanding shares of Common Stock subject to options or issuable upon conversion of preferred stock held by that person that are currently exercisable or exercisable within 60 days of March 29, 2024. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Directors and Named Executive Officers:		
Robert D. Ferris ⁽¹⁾	344,029	3.1%
John F. Givens II	236,341	2.1%
Jeffrey D. Brown ⁽²⁾	49,193	*
Alanna Boudreau	7,291	*
Gregg C.E. Johnson	2,100	*
Jim McDonnell	-	-
All named executive officers and directors as a group (six persons)	638,954	5.7%

* Represents less than 1%

(1) The number of shares beneficially owned by Mr. Ferris includes: 236,997 shares of our Common Stock held of record by The Ferris Family Trust, and options to purchase 5,000 shares of our Common Stock at \$3.76.

(2) The number of shares beneficially owned by Mr. Brown includes: 46,693 shares of our Common Stock presently outstanding and options to purchase 2,500 shares of our Common Stock at \$3.76.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

In addition to the compensation arrangements, including employment, termination of employment and change in control arrangements and indemnification arrangements, discussed in Item 10. "Directors, Executive Officers and Corporate Governance" and Item 11. "Executive Compensation" above, the following is a description of each transaction since January 1, 2023, and each currently proposed transaction in which:

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

During the years ended December 31, 2023, and 2022, respectively, the Company did not issue stock options to its executive officers or the members of the Board of Directors. Restricted stock units were awarded to its executive officers in 2023 and 2022 as disclosed in Item 11 above.

During the year ended December 31, 2023, and 2022, the Company redeemed 15,000 and 27,500, respectively, previously awarded options reaching expiration from related parties, including the Company's current Executive Chairman and one employee. These redemptions eliminated the stock options and resulted in a total of \$29,251 and \$74,368 in additional compensation expense in 2023 and 2022, respectively.

During the years ended December 31, 2023, and 2022, related parties exercised 15,000 and 17,500 previously awarded options for the exercise price of \$54,900 and \$40,845, respectively, resulting in purchase and issuance of Common Stock to the Chief Executive Officer and one member of the Board of Directors.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table shows the fees that were billed for the audit and other services provided by Haynie & Company, our independent registered public accounting firm, for the fiscal years ended December 31, 2023, and 2022.

	2023	2022
Audit Fees	\$ 111,204	\$ 141,664
Audit-Related Fees	-	-
Tax Fees	55,500	
All Other Fees		
Total	\$ 111,204	\$ 197,164

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

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

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

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

Pursuant to the audit committee's charter, all audit and permissible non-audit services provided by the independent registered public accounting firm must be pre-approved. These services may include audit services, audit-related services, tax services and other services. Pre-approval is generally provided for up to one year and any pre-approval is detailed as to the service or category of service. The independent registered public accounting firm and management are required to periodically report to the audit committee regarding the extent of services provided by the independent registered public accounting firm. Consistent with the audit committee's policy, all audit and permissible non-audit services provided by our independent registered public accounting firm during the fiscal years ended December 31, 2023, and 2022 were pre-approved by the audit committee.

In considering the nature of the services provided by the independent registered public accounting firms for the fiscal year ended December 31, 2023, the audit committee determined that such services were compatible with the provision of independent audit services. The audit committee discussed these services with the independent registered public accounting firms and management for the fiscal year ended December 31, 2023, to determine that they were permitted under the rules and regulations concerning auditors' independence promulgated by the SEC to implement the Sarbanes-Oxley Act, as well as rules of the American Institute of Certified Public Accountants.

PART IV

ITEM 15. EXHIBIT AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements

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

(2) Financial Statement Schedules

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

(3) Exhibits.

Exhibit No.	Exhibit Description
3.1	Articles of Incorporation of VirTra, Inc. filed September 22, 2016 (incorporated by reference to Exhibit 2.1 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
3.2	Certificate of Change of VirTra, Inc. filed on October 7, 2016 (incorporated by reference to Exhibit 2.2 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
3.3	Certificate of Change of VirTra, Inc. filed on February 12, 2018 (incorporated by reference to Exhibit 2.3 to the registrant's Post-Qualification Offering Circular Amendment No. 1 to Form 1-A (File No. 024-10739) filed with the Commission on February 21, 2018).
3.4	Bylaws of VirTra, Inc. (incorporated by reference to Exhibit 2.4 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
10.1†	Employment Agreement dated April 2, 2012 between VirTra Systems, Inc. and Robert Ferris (incorporated by reference to Exhibit 6.2 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
10.2†	2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.6 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
10.3†	Form of Stock Option Agreement for 2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.6 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
10.4†	Form of Notice of Grant of Stock Option for 2017 Equity Incentive Plan (incorporated by reference to Exhibit 6.7 to the registrant's Offering Circular on Form 1-A (File No. 024-10739) filed with the Commission on September 11, 2017).
10.5†	Restricted Stock Unit Agreement – Robert D. Ferris (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K (File No. 001-38420) filed August 27, 2021).
10.6	Promissory Note to Arizona Bank & Trust dated August 25, 2021 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K (File No. 001-38420) filed August 30, 2021).
10.7	Deed of Trust in favor of Arizona Bank & Trust dated August 25, 2021 (incorporated by reference to Exhibit 10.2 to the registrant's current report on Form 8-K (File No. 001-38420) filed August 30, 2021).

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10.8	Assignment of Rents granted to Arizona Bank & Trust dated August 25, 2021 (incorporated by reference to Exhibit 10.3 to the registrant's current report on Form 8-K (File No. 001-38420) filed August 30, 2021).
10.9†	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).
10.10†	Employment Agreement with John F. Givens II dated August 15, 2023 (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K (File No. 001-38420) filed August 15, 2023).
21.1	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (set forth on signature page hereto).
31.1	Certification of Principal Executive Officer.
31.2	Certification of Principal Financial Officer.
32.1	Certification of Principal Executive Officers and Principal Financial Officer
97.1	Compensation Recovery Policy
101.INS	XBRL Instance
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.DEF	XBRL Taxonomy Extension Definition
101.LAB	XBRL Taxonomy Extension Labels
101.PRE	XBRL Taxonomy Extension Presentation
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

† Management contract, compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRTRA, INC.

Date: April 1, 2024

By: /s/ John F. Givens II

John F. Givens II
Chief Executive Officer

Date: April 1, 2024

By: /s/ Alanna Boudreau

Alanna Boudreau
Chief Financial Officer

POWER OF ATTORNEY

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on April 1, 2024.

Name	Title
<u>/s/ Robert D. Ferris</u> Robert D. Ferris	Executive Chairman
<u>/s/ John F. Givens II</u> John F. Givens II	Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ Alanna Boudreau</u> Alanna Boudreau	Chief Financial Officer (Principal Financial Officer)
<u>/s/ Jeffrey D. Brown</u> Jeffrey D. Brown	Director
<u>/s/ Gregg C.E. Johnson</u> Gregg C.E. Johnson	Director
<u>/s/ James McDonnell</u> James McDonnell	Director

VirTra, Inc.

Subsidiaries

None.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our report dated March __, 2024, with respect to the consolidated financial statements included in the Annual Report of VirTra, Inc. on Form 10-K for the years ended December 31, 2023 and 2022. We consent to the incorporation by reference of said report in the Registration Statements of VirTra, Inc. on Form S-3 (File No. 333-261145) and on Form S-8 (File No. 333-227260).

Haynie & Company

Salt Lake City, Utah
April 1, 2024

CERTIFICATIONS

I, John F. Givens II, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 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: April 1, 2024

/s/ John F. Givens II

John F. Givens II

Chief Executive Officer (principal executive officer)

CERTIFICATIONS

I, Alanna Boudreau, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 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: April 1, 2024

/s/ Alanna Boudreau

Alanna Boudreau

Chief Financial Officer (principal financial officer)

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

In connection with the annual report on Form 10-K of VirTra, Inc. (the "Company") for the fiscal year ended December 31, 2023 as filed with the Securities and Exchange Commission (the "Report"), we, John F. Givens II, 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: April 1, 2024

/s/ John F. Givens II

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

Date: April 1, 2024

/s/ Alanna Boudreau

Alanna Boudreau, Chief Financial Officer (principal financial officer)

VIRTRA, INC.
COMPENSATION RECOVERY POLICY
(Adopted and approved on November 21, 2023, and effective as of October 2, 2023)

1. Purpose. VirTra, Inc. (the “**Company**”) is committed to promoting high standards of honest and ethical business conduct and compliance with applicable laws, rules and regulations. As part of this commitment, the Company has adopted this Compensation Recovery Policy (this “**Policy**”). This Policy is designed to comply with Section 10D of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) and explains when the Company will be required to seek recovery of Incentive Compensation awarded or paid to a Covered Person. Please refer to Exhibit A attached hereto (the “**Definitions Exhibit**”) for the definitions of capitalized terms used throughout this Policy.

2. Miscalculation of Financial Reporting Measure Results. In the event of a Restatement, the Company will seek to recover, reasonably promptly, all Recoverable Incentive Compensation from a Covered Person. Such recovery, in the case of a Restatement, will be made without regard to any individual knowledge or responsibility related to the Restatement. Notwithstanding the foregoing, if the Company is required to undertake a Restatement, the Company will not be required to recover the Recoverable Incentive Compensation if the Compensation Committee determines it Impracticable to do so, after exercising a normal due process review of all the relevant facts and circumstances. If such Recoverable Incentive Compensation was not awarded or paid on a formulaic basis, the Company will seek to recover the amount that the Compensation Committee determines in good faith should be recouped.

3. Other Actions. The Compensation Committee may, subject to applicable law, seek recovery in the manner it chooses, including by seeking reimbursement from the Covered Person of all or part of the compensation awarded or paid, by electing to withhold unpaid compensation, by set-off, or by rescinding or canceling unvested stock. In the reasonable exercise of its business judgment under this Policy, the Compensation Committee may in its sole discretion determine whether and to what extent additional action is appropriate to address the circumstances surrounding a Restatement to minimize the likelihood of any recurrence and to impose such other discipline as it deems appropriate.

4. No Indemnification or Reimbursement. Notwithstanding the terms of any other policy, program, agreement or arrangement, in no event will the Company or any of its affiliates indemnify or reimburse a Covered Person for any loss under this Policy and in no event will the Company or any of its affiliates pay premiums on any insurance policy that would cover a Covered Person’s potential obligations with respect to Recoverable Incentive Compensation under this Policy.

5. Administration of Policy. The Compensation Committee will have full authority to administer this Policy. The Compensation Committee will, subject to the provisions of this Policy and Rule 10D-1 of the Exchange Act, and the Company’s applicable exchange listing standards, make such determinations and interpretations and take such actions in connection with this Policy as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Compensation Committee will be final, binding and conclusive.

6. Other Claims and Rights. The remedies under this Policy are in addition to, and not in lieu of, any legal and equitable claims the Company or any of its affiliates may have or any actions that may be imposed by law enforcement agencies, regulators, administrative bodies, or other authorities. Further, the exercise by the Compensation Committee of any rights pursuant to this Policy will not impact any other rights that the Company or any of its affiliates may have with respect to any Covered Person subject to this Policy.

7. Acknowledgement by Covered Persons; Condition to Eligibility for Incentive Compensation. The Company will provide notice and seek acknowledgement of this Policy from each Covered Person, provided that the failure to provide such notice or obtain such acknowledgement will have no impact on the applicability or enforceability of this Policy. After the Effective Date, the Company must be in receipt of a Covered Person’s acknowledgement as a condition to such Covered Person’s eligibility to receive Incentive Compensation. All Incentive Compensation subject to this Policy will not be earned, even if already paid, until the Policy ceases to apply to such Incentive Compensation and any other vesting conditions applicable to such Incentive Compensation are satisfied.

8. Amendment; Termination. The Board or the Compensation Committee may amend or terminate this Policy at any time.

9. Effectiveness. Except as otherwise determined in writing by the Compensation Committee, this Policy will apply to any Incentive Compensation that is Received by a Covered Person on or after the Effective Date. This Policy will survive and continue notwithstanding any termination of a Covered Person’s employment with the Company and its affiliates.

10. Successors. This Policy shall be binding and enforceable against all Covered Persons and their successors, beneficiaries, heirs, executors, administrators, or other legal representatives.

Exhibit A
VIRTRA, INC.
COMPENSATION RECOVERY POLICY
DEFINITIONS EXHIBIT

“**Applicable Period**” means the three completed fiscal years of the Company immediately preceding the earlier of (i) the date the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes (or reasonably should have concluded) that a Restatement is required or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare a Restatement. The “Applicable Period” also includes any transition period (that results from a change in the Company’s fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence.

“**Board**” means the Board of Directors of the Company.

“**Compensation Committee**” means the Company’s committee of independent directors responsible for executive compensation decisions, or in the absence of such a committee, a majority of the independent directors serving on the Board.

“**Covered Person**” means any person who is, or was at any time, during the Applicable Period, an Executive Officer of the Company. For the avoidance of doubt, a Covered Person may include a former Executive Officer that left the Company, retired, or transitioned to an employee role (including after serving as an Executive Officer in an interim capacity) during the Applicable Period.

“**Effective Date**” means October 2, 2023

"Executive Officer" means the Company's president, principal executive officer, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including an officer of the Company's parent(s) or subsidiaries) who performs similar policy-making functions for the Company.

"Financial Reporting Measure" means a measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements (including but not limited to, "non-GAAP" financial measures, such as those appearing in the Company's earnings releases or Management Discussion and Analysis), and any measure that is derived wholly or in part from such measure. Stock price and total shareholder return (and any measures derived wholly or in part therefrom) shall be considered Financial Reporting Measures.

"Impracticable." The Compensation Committee may determine in good faith that recovery of Recoverable Incentive Compensation is "Impracticable" if: (i) pursuing such recovery would violate home country law of the jurisdiction of incorporation of the Company where that law was adopted prior to November 28, 2022 and the Company provides an opinion of home country counsel to that effect acceptable to the Company's applicable listing exchange; (ii) the direct expense paid to a third party to assist in enforcing this Policy would exceed the Recoverable Incentive Compensation and the Company has (A) made a reasonable attempt to recover such amounts and (B) provided documentation of such attempts to recover to the Company's applicable listing exchange; or (iii) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Internal Revenue Code of 1986, as amended.

"Incentive Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure. Incentive Compensation does not include any base salaries (except with respect to any salary increases earned wholly or in part based on the attainment of a Financial Reporting Measure performance goal); bonuses paid solely at the discretion of the Compensation Committee or Board that are not paid from a "bonus pool" that is determined by satisfying a Financial Reporting Measure performance goal; bonuses paid solely upon satisfying one or more subjective standards and/or completion of a specified employment period; non-equity incentive plan awards earned solely upon satisfying one or more strategic measures or operational measures; and equity awards that vest solely based on the passage of time and/or attaining one or more non-Financial Reporting Measures.

"Received." Incentive Compensation is deemed "Received" in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive Compensation award is attained, even if the payment or grant of the Incentive Compensation occurs after the end of that period.

"Recoverable Incentive Compensation" means the amount of any Incentive Compensation (calculated on a pre-tax basis) Received by a Covered Person during the Applicable Period that is in excess of the amount that otherwise would have been Received if the calculation were based on the Restatement. For the avoidance of doubt Recoverable Incentive Compensation does not include any Incentive Compensation Received by a person (i) before such person began service in a position or capacity meeting the definition of an Executive Officer, (ii) who did not serve as an Executive Officer at any time during the performance period for that Incentive Compensation, or (iii) during any period the Company did not have a class of its securities listed on a national securities exchange or a national securities association. For Incentive Compensation based on (or derived from) stock price or total shareholder return where the amount of Recoverable Incentive Compensation is not subject to mathematical recalculation directly from the information in the applicable Restatement, the amount will be determined by the Compensation Committee based on a reasonable estimate of the effect of the Restatement on the stock price or total shareholder return upon which the Incentive Compensation was Received (in which case, the Company will maintain documentation of such determination of that reasonable estimate and provide such documentation to the Company's applicable listing exchange).

"Restatement" means an accounting restatement of any of the Company's financial statements filed with the Securities and Exchange Commission under the Exchange Act, or the Securities Act of 1933, as amended, due to the Company's material noncompliance with any financial reporting requirement under U.S. securities laws, regardless of whether the Company or Covered Person misconduct was the cause for such restatement. "Restatement" includes any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (commonly referred to as "Big R" restatements), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (commonly referred to as "little r" restatements).
