

**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, 2022**

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

For the transition period from _____ to _____

Commission file number: 001-38420

VIRTRA, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

295 E. Corporate Place, Chandler, AZ

(Address of principal executive offices)

93-1207631

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

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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

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

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

its audit report.

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

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, 2022, was approximately \$49,979,961.

As of March 30, 2023, the registrant had 10,924,724 outstanding shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

None.

TABLE OF CONTENTS

	Page Numbers
<u>PART I</u>	
Item 1. Business	3
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	18
Item 2. Properties	18
Item 3. Legal Proceedings	18
Item 4. Mine Safety Disclosures	18
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	19
Item 6. Reserved	19
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	26
Item 8. Financial Statements and Supplementary Data	27
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures	28
Item 9A. Controls and Procedures	28
Item 9B. Other Information	28
Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspection	28
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	29
Item 11. Executive Compensation	34
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	40
Item 13. Certain Relationships and Related Transactions, and Director Independence	40
Item 14. Principal Accountant Fees and Services	41
<u>PART IV</u>	
Item 15. Exhibit and Financial Statement Schedules	42
Item 16. Form 10-K Summary	43
Signatures	44

PART I

Forward-Looking Statements

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

ITEM 1. BUSINESS.

Our Corporate History

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

Effective as of October 1, 2016, 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.
- **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.
 - 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.
- 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, 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, 2022, and 2021, our research and product development expenses were \$2,606,840 and \$1,865,880, respectively.

Sources and Availability of Raw Materials/Manufacturing and Assembly

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

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

Employees

As of March 10, 2023, we employed 121 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 FL 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, 2022, 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 customer located in the foreign country, or pursuant to a contract between our company and a U.S. government agency (such as the U.S. Department of State). In the latter instance, our customer is the relevant U.S. government agency. The government agency may then distribute our products to third parties within the particular country.

Regulatory Matters

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

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

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

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

Government Contracts

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

Environmental

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

Our revenues from contracts, directly or indirectly, with foreign and U.S. Federal, state, regional and local governmental agencies represented substantially all of our total revenues in fiscal year 2022. Although these various government agencies are subject to common budgetary pressures and other factors, many of our various government customers exercise independent purchasing decisions. As a result of the concentration of business with governmental agencies, we are vulnerable to adverse changes in our revenues, income and cash flows if a significant number of our government contracts, subcontracts or prospects are delayed or canceled for budgetary or other reasons.

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

- budget constraints affecting government spending generally, or specific departments or agencies such as U.S. or foreign defense and transit agencies and regional transit agencies, and changes in fiscal policies or a reduction of available funding;
- re-allocation of government resources as the result of actual or threatened terrorism or hostile activities or for other reasons;
- disruptions in our customers' ability to access funding from capital markets;
- curtailment of governments' use of outsourced service providers and governments' in-sourcing of certain services;
- the adoption of new laws or regulations pertaining to government procurement;
- government appropriations delays or blanket reductions in departmental budgets;
- suspension or prohibition from contracting with the government or any significant agency with which we conduct business;
- increased use of shorter duration awards, which increases the frequency we may need to re-compete for work;
- impairment of our reputation or relationships with any significant government agency with which we conduct business;
- decreased use of small business set asides or changes to the definition of small business by government agencies;
- increased use of lowest-priced, technically acceptable contract award criteria by government agencies;
- increased aggressiveness by the government in seeking rights in technical data, computer software, and computer software documentation that we deliver under a contract, which may result in "leveling the playing field" for competitors on follow-on procurements;
- impairment of our ability to provide third-party guarantees and letters of credit;
- 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 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 (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 flows.

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

The markets for law enforcement 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 Co-Chief Executive Officer, President and Chairman of the Board, Robert Ferris, built our business from inception and, along with other members of the management team, are responsible for many of the products and clients that we have today. Our Co-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. As a result, we are permitted to, and intend to, rely on exemptions from certain disclosure requirements. For so long as we are an emerging growth company, we will not be required to:

- have an auditor report on our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act;
- comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements (i.e., an auditor discussion and analysis);
- submit certain executive compensation matters to stockholder advisory votes, such as “say-on-pay” and “say-on-frequency”; and
- disclose certain executive compensation related items such as the correlation between executive compensation and performance and comparisons of the chief executive officer’s compensation to median employee compensation.

In addition, Section 102 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. 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.

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

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

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

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

We do incur 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.

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

Risks Relating to Our Stock

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

Our Common Stock is listed for trading on NASDAQ 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;
- 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.

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

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

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

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

Shares eligible for future sale may adversely affect the market.

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of Common Stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 promulgated under the Securities Act, subject to certain limitations. In general, pursuant to Rule 144, non-affiliate stockholders may sell freely after six months, subject only to the current public information requirement. Affiliates may sell after six months, subject to the Rule 144 volume, manner of sale (for equity securities), current public information, and notice requirements. Of the approximately 10,924,724 shares of our Common Stock outstanding as of March 30, 2023, 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.

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.

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 2. PROPERTIES.

We lease approximately 37,729 rentable square feet of office and warehouse space from an unaffiliated third party for our corporate office, manufacturing, assembly, warehouse and shipping facility located at 7970 South Kyrene Road, Tempe, Arizona 85284. In addition, we lease approximately 5,131 rentable square feet of office and industrial space within the same business complex as our main office from an unaffiliated third party for our machine shop at 7910 South Kyrene Road, Tempe, Arizona 85223. Both properties are under the same lease agreement which expires in April 2024. In 2022, the Company moved all the operations from 7970 South Kyrene into the newly purchased building on 295 East Corporate Place. The plan will be to move the rest of the operations from 7910 Kyrene into the 295 East Corporate Place location by May of 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 have given notice to the second tenant, and we will take over the additional 5,207 square feet as of May 1, 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.

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.

Not applicable.

PART II

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

Market Information

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

Holders of Common Stock

As of March 30, 2023, 10,924,724 shares of our Common Stock were outstanding and held by approximately 36 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.
 - 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, 2022, and December 31, 2021

Revenues. Revenues were \$28,302,244 for the year ended December 31, 2022, compared to \$24,434,056 for the same period in 2021, representing an increase of \$3,868,188 or 16%. The increase was the result of increases in sales of simulators, STEP sales, accessories, curriculum and training, and recurring extended warranty revenue in 2022.

Cost of Sales. Cost of sales were \$12,047,366 for the year ended December 31, 2022, compared to \$13,028,844 for the same period in 2021, representing a decrease of \$981,478, or 7.5%. The year-over-year decrease was due to a significant increase in capitalized labor as multiple projects are set to complete in 2023 as well as an increase in recurring STEP revenue that has no associated cost of sales for future years.

Gross Profit. Gross profit was \$16,254,878 for the year ended December 31, 2022, compared to \$11,405,212 for the same period in 2021, representing an increase of \$4,849,666 or 43%. The gross profit margin was 57% for the year ended December 31, 2022, and 47% for the same period in 2021. The increase in gross profit was primarily due to the increase in simulator system sales and recurring STEP revenue that helped to increase revenue while decreasing COGS.

Operating Expenses. Net operating expense was \$13,661,173 for the year ended December 31, 2022, compared to \$9,951,175 for the same period in 2021, representing an increase of \$3,709,998, or 37%, with general and administrative expenses increasing by \$2,969,038 or 37% and research and development expenses increasing by \$740,960 or 40%. The increase in general and administrative expenses was driven by an increase in marketing expenses as the tradeshow begins to open back up in 2022 as well as costs related to the moving of facilities and opening the new facility in Orlando.

Income from Operations. Income from operations was \$2,593,705 for the year ended December 31, 2022, compared to \$1,454,037 for the same period in 2021, representing an increase of \$1,139,668, or 78%, resulting from an increase in revenue, and a decrease in cost of goods despite an increase in operating expenses

Other Income (Expense). Other expense net of other income was \$66,165 for the year ended December 31, 2022, compared to net other income \$1,332,102 for the same period in 2021, representing a decrease of \$1,398,267. For the year ended December 31, 2021, we recognized gain resulting from the one-time event of the forgiveness a PPP loan of \$1,320,714.

Income Tax Expense. Income tax expense was \$571,642 for the year ended December 31, 2022, compared to an expense of \$246,050 for the same period in 2021, representing an increase in expense of \$325,592 or 132%.

Net Income. Net income was \$1,955,898 for the year ended December 31, 2022, compared to \$2,540,089 for the same period in 2021, representing a decrease of \$584,191 or 23%. This variance is mostly driven by the difference in no PPP loan forgiveness and an increase in income tax expense. Without the PPP forgiveness in 2021 the net income would have been \$1,219,375, representing an increase of \$736,523 or 60% in 2022 over 2021.

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, 2022	December 31, 2021	Increase (Decrease)	% Change
Net Income (Loss)	\$ 1,955,898	\$ 2,540,089	\$ (584,191)	-23%
Adjustments:				
(Provision) Benefit for income taxes	571,642	246,050	325,592	132%
Depreciation and amortization	887,118	589,059	298,059	51%
Interest (net)	190,772	35,673	155,099	435%
EBITDA	<u>\$ 3,605,430</u>	<u>\$ 3,410,871</u>	<u>\$ 194,559</u>	6%
Impairment loss on That’s Eatertainment, former related party	-	-	-	
Right of use amortization	-	-	-	
Reserve for note receivable	-	-	-	
Gain on forgiveness of note	-	(1,320,714)	1,320,714	-100%
Adjusted EBITDA	<u>\$ 3,605,430</u>	<u>\$ 2,090,157</u>	<u>\$ 1,515,273</u>	72%

Liquidity and Capital Resources. Liquidity is the ability of an enterprise to generate adequate amounts of cash to meet its needs for cash requirements. The Company had \$13,483,597 and \$19,708,565 cash and cash equivalents as of December 31, 2022, and 2021, respectively. Working capital was \$24,339,089 and \$25,944,717 as of December 31, 2022 and 2021, respectively.

Net cash used in operating activities was \$2,693,351 for the year ended December 31, 2022, as compared to \$125,743 of cash used in operating activities for the year ended December 31, 2021. Net cash used in operating activities for the year ended December 31, 2022, resulted primarily from increases in inventory, accounts payable and accrued compensation and unbilled revenue, offset by decreases in accounts receivable and prepaids well as other changes in operating assets and liabilities. Net cash used in operating activities for the year ended December 31, 2021 resulted primarily from increases in accounts receivable, inventory, accounts payable and accrued compensation, offset by decreases in unbilled revenue and deferred revenue as well as other changes in operating assets and liabilities.

Net cash used in investing activities was \$3,341,198 for the year ended December 31, 2022, and net cash used by investing activities was \$3,735,784 for the year ended December 31, 2021. Investing activities in 2022 and 2021 primarily consist of purchases of property and equipment.

Net cash used in financing activities was \$190,419 for the year ended December 31, 2022, as compared to \$16,728,108 provided by financing activities for the year ended December 31, 2021. Financing activities in 2022 consisted mainly of debt repayments. Financing in 2021 consisted of the issuance of additional common stock for cash and stock options exercised, offset by debt repayment.

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 \$6.4 million for the three months ended December 31, 2022. The Company defines backlog as the accumulation of bookings from signed contracts and purchase orders that are not started, or are uncompleted performance objectives, and cannot be recognized as revenue until delivered in a future quarter. Backlog also includes extended warranty agreements and STEP agreements that are deferred revenue recognized on a straight-line basis over the life of each respective agreement. As of December 31, 2022, the Company's backlog was \$27.7 million.

Management estimates the majority of the new bookings received in the fourth quarter of 2022, will be converted to revenue in 2023. 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.

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. If any sales are made that ultimately become uncollectible, the Company charges the uncollected amount against a reserve for uncollectible accounts. This reserve is established and adjusted from time to time based on management's assessment of each outstanding receivable and the likelihood of it being collected.

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 and related support.

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

In reviewing our contracts, the identification of the performance obligations within the contracts, allocation of the transaction price to the performance obligations and the point when performance obligations were satisfied required significant judgment. In identifying the performance obligations, the Company considered whether the customer has a reasonable expectation that the Company will provide those goods or services and would view those goods or services as part of the negotiated exchange. The Company believes that, generally, our performance obligations are explicit in the contracts. The Company allocates the transaction price to the performance obligations based on the relative standalone selling price basis. This required consideration and determination of the standalone 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, 2022, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors. The term “off-balance sheet arrangement” generally means any transaction, agreement or other contractual arrangement to which an entity unconsolidated with us is a party, under which we have any obligation arising under a guarantee contract, derivative instrument or variable interest or a retained or contingent interest in assets transferred to such entity or similar arrangement that serves as credit, liquidity or market risk support for such assets.

ITEM 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, 2022 and 2021	
Report of Independent Registered Public Accounting Firm (Haynie & Company, Salt Lake City, Utah, PCAOB ID 457)	F-1
Balance Sheets as of December 31, 2022 and 2021	F-2
Statements of Operations for the years ended December 31, 2022 and 2021	F-3
Statements of Changes in Stockholders' Equity for the years ended December 31, 2022 and 2021	F-4
Statements of Cash Flows for the years ended December 31, 2022 and 2021	F-5
Notes to Financial Statements for the years ended December 31, 2022 and 2021	F-6