FINANCIAL INFORMATION

YEAR-END REPORT - DECEMBER 31, 2013

VIRTRA SYSTEMS, INC.

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OTC PINK DISCLOSURE OBLIGATIONS

I. NAME OF THE ISSUER AND ITS PREDECESSORS (IF ANY WITHIN PAST FIVE YEARS)

VirTra Systems, Inc.

II. ADDRESS OF THE ISSUER'S PRINCIPAL EXECUTIVE OFFICES

Company Headquarters
7970 S. Kyrene Rd.
Tempe, AZ 85284
Telephone (480) 968-1488
www.virtra.com

IR Contact
Rudy Miller
The Miller Group
7025 North Scottsdale Road
Suite 235
Scottsdale, AZ 85253-3675
Telephone (602) 225-0505
rmiller@themillergroup.com

III. SECURITY INFORMATION

Trading Symbol: **VTSI**
CUSIP: **92827K 10 3**

Exact title and class of securities outstanding: **VIRTRA SYSTEMS, INC. PREFERRED STOCK**
Par or Stated Value: **$0.005**
Total shares authorized: **2,000,000** as of: **December 31, 2013**
Total shares outstanding: **0** as of: **December 31, 2013**

Exact title and class of securities outstanding: **VIRTRA SYSTEMS, INC. COMMON STOCK**
Par or Stated Value: **$0.005**
Total shares authorized: **500,000,000** as of: **December 31, 2013**
Total shares outstanding: **158,285,045** as of: **December 31, 2013**

Transfer Agent
Continental Stock and Transfer & Trust Company
17 Battery Place, 8th Floor
New York, NY 10004
Telephone (212) 509-4000
Fax (212) 616-7610

Is the Transfer Agent registered under the Exchange Act?
Yes. Continental Stock and Transfer & Trust Company is registered under the Exchange Act. Its regulatory authority is the Securities and Exchange Commission and the Banking Commission of New York.

List any restrictions on the transfer of security:
We previously were a shell company; therefore the exemption offered pursuant to Rule 144 is not available. Anyone who purchased securities directly or indirectly from us or any of our affiliates in a transaction or chain of transactions not involving a public offering cannot sell such securities in an open market transaction.

Describe any trading suspension orders issued by the SEC in the past 12 months:
None.

IV. ISSUANCE HISTORY

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

- The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);
- Any jurisdictions where the offering was registered or qualified;
- The number of shares offered;
- The number of shares sold;
- The price at which the shares were offered, and the amount actually paid to the issuer;
- The trading status of the shares; and
- Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

Date	Number of Shares	Price Offered/Paid	Issued To	Nature of Transaction
	158,285,045		December 31, 2011; Total number of shares outstanding	
	-		No events	
	158,285,045		December 31, 2013; Total number of shares outstanding	

V. FINANCIAL STATEMENTS

SEMPLE, MARCHAL & COOPER, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS
SMC
2700 NORTH CENTRAL AVENUE, NINTH FLOOR, PHOENIX, ARIZONA 85004-1147

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
VirTra Systems, Inc.

We have audited the accompanying balance sheets of VirTra Systems, Inc. as of December 31, 2013 and 2012 and the related statements of operations, stockholders' equity (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of VirTra Systems, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Semple, Marchal & Cooper, LLP

Certified Public Accountants

Phoenix, Arizona
March 28, 2014

TEL 602-241-1500 • FAX 602-234-1867 • WWW.SEMPLECPA.COM

VIRTRA SYSTEMS, INC.
BALANCE SHEETS AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 2,358,955	$ 372,119
Accounts receivable	786,877	462,942
Inventory	407,434	370,019
Prepaid expenses and other current assets	44,902	65,558
Total current assets	3,598,168	1,270,638
Property and equipment, net	460,513	612,380
Total assets	$ 4,058,681	$ 1,883,018
Liabilities and Stockholders' Equity/(Deficit)		
Current liabilities:		
Accounts payable	$ 289,820	$ 227,331
Accrued compensation and related costs	588,097	335,879
Accrued expenses and other current liabilities	153,875	118,081
Term loan - short-term	-	80,499
Deferred revenue	1,516,792	1,173,449
Total current liabilities	2,548,584	1,935,239
Long-term liabilities:		
Term loan - long-term	-	143,636
Accrued rent liability - long-term	144,990	131,358
Total liabilities	$ 2,693,574	$ 2,210,233
Commitments and contingencies		
Stockholders' equity/(deficit):		
Preferred stock $0.005 par value; 2,000,000 shares authorized; no shares issued or outstanding as of December 31, 2013 and 2012	$ -	$ -
Common stock $0.005 par value; 500,000,000 shares authorized; 158,328,245 shares issued and 158,285,045 shares outstanding as of December 31, 2013 and 2012, respectively	791,641	791,641
Additional paid-in capital	13,144,044	13,032,498
Treasury stock at cost, 43,200 common shares as of December 31, 2013 and 2012, respectively	(2,981)	(2,981)
Accumulated deficit	(12,567,597)	(14,148,373)
Total stockholders' equity/(deficit)	1,365,107	(327,215)
Total liabilities and stockholders' equity/(deficit)	$ 4,058,681	$ 1,883,018

The accompanying notes are an integral part of the financial statements.

VIRTRA SYSTEMS, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Net revenues	$ 9,819,519	$ 8,829,555
Cost of products sold	3,361,307	3,280,211
Gross margin	6,458,212	5,549,344
General and administrative expenses	4,864,056	5,411,333
Income from operations	1,594,156	138,011
Other income/(expense):		
Other income	847	2,203
Other expense	(14,227)	(26,818)
Net other income/(expense)	(13,380)	(24,615)
Income before income taxes	1,580,776	113,396
Income tax expense/(benefit)	-	-
Net income	$ 1,580,776	$ 113,396
Weighted average of common and common equivalent shares outstanding:		
-Basic	158,285,045	158,285,045
-Diluted	159,199,484	161,637,802
Net income per common and common equivalent share:		
-Basic	$ 0.01	$ 0.00
-Diluted	$ 0.01	$ 0.00

The accompanying notes are an integral part of the financial statements.

VIRTRA SYSTEMS, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY/(DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	Common stock					
	Shares	Amount	Additional paid-in capital	Treasury Stock	Accumulated Deficit	Total
Balance at January 1, 2012	158,285,045	$ 791,641	$ 12,912,365	$ (2,981)	$ (14,261,769)	$ (560,744)
Net income	-	-	-	-	113,396	113,396
Stock-based compensation	-	-	120,133	-	-	120,133
Balance at December 31, 2012	158,285,045	791,641	13,032,498	(2,981)	(14,148,373)	(327,215)
Net income	-	-	-	-	1,580,776	1,580,776
Stock-based compensation	-	-	111,546	-	-	111,546
Balance at December 31, 2013	158,285,045	$ 791,641	$ 13,144,044	$ (2,981)	$ (12,567,597)	$ 1,365,107

The accompanying notes are an integral part of the financial statements.

VIRTRA SYSTEMS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
Cash flows from operating activities:		
Net income	$ 1,580,776	$ 113,396
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	218,059	227,492
Stock-based compensation	111,546	120,133
Changes in operating assets and liabilities:		
Accounts receivable	(323,935)	(97,222)
Inventory	(37,415)	434,529
Prepaid expenses and other assets	20,656	91,622
Accounts payable and other accrued expenses	364,133	3,427
Deferred revenue	343,343	(813,713)
Due to related parties	-	(35,048)
Net cash provided by operating activities	2,277,163	44,616
Cash flows from investing activities:		
Purchase of property and equipment	(66,192)	(40,683)
Net cash used in investing activities	(66,192)	(40,683)
Cash flows from financing activities:		
Draws on line of credit	150,000	1,655,000
Repayments of line of credit	(150,000)	(1,655,000)
Proceeds from term loan	-	250,000
Payments on term loan	(224,135)	(25,865)
Net cash provided by/(used in) financing activities	(224,135)	224,135
Increase/(decrease) in cash and cash equivalents	1,986,836	228,068
Cash and cash equivalents, beginning of period	372,119	144,051
Cash and cash equivalents, end of period	$ 2,358,955	$ 372,119
Cash paid during the period for:		
Interest	$ 7,738	$ 24,429
Taxes	$ -	$ -

The accompanying notes are an integral part of the financial statements.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS

1. Significant Accounting Policies

Organization and Business Operations

VirTra Systems, Inc. (the "Company" or "VirTra") is engaged in the sale and development of judgmental use of force training simulators and firearms training simulators for law enforcement, military and commercial uses. The Company sells simulators and related products worldwide through a direct sales force and international distribution partners. The original business started in 1993 as Ferris Productions, Inc. In September 2001, Ferris Productions, Inc. merged with GameCom, Inc. to ultimately become VirTra Systems, Inc., a Texas Corporation. The corporate office is located in Tempe, Arizona. All transactions are denominated in US dollars.

Basis of Presentation and Use of Estimates

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("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. Significant accounting estimates in these financial statements include valuation assumptions for share-based payments, allowance for doubtful accounts receivable, inventory reserves, accrual for warranty reserves, the carrying value of long-lived assets, income tax valuation allowances and capitalization of labor and overhead to inventory for work in progress. Actual results could differ significantly from those estimates.

Fair Value of Financial Instruments

The fair value of financial instruments approximates their carrying values at December 31, 2013 and 2012 due to their short maturities or for long-term debt based on borrowing rates currently available to the Company for loans with similar terms and maturities. These financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and debt.

Cash and Cash Equivalents

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

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for losses on accounts receivable based on an analysis of historical bad debt experience, current receivables aging, and expected future write-offs, as well as an assessment of specific identifiable customer accounts considered at risk or uncollectible. Accounts receivable are charged off after all reasonable collection efforts have been exhausted. As of December 31, 2013 and 2012, management has determined all receivable balances to be fully collectible and accordingly, no allowance was recognized at such time. Accounts receivable are non-interest bearing and are generally unsecured.

Inventories

Inventories are stated at the lower of cost or market with cost being determined on the first-in, first-out method. Work in progress and finished goods inventory includes an allocation for capitalized labor and overhead. Capitalized labor and overhead included in inventory at December 31, 2013 and 2012 are $3,807 and $2,299, respectively. The Company routinely evaluates the carrying value of inventory and provides reserves when appropriate to reduce inventory to the lower of cost or market to reflect estimated net realizable value. As of December 31, 2013 and 2012, management has determined all inventory is salable at prices greater than cost and accordingly, no reserve has been recognized at December 31, 2013 or 2012.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Property and Equipment

Property and equipment are carried at cost, net of depreciation. Gains or losses related to retirements or disposition of fixed assets are recognized in operations in the period incurred. Costs of normal repairs and maintenance are charged to expense as incurred, while betterments or renewals are capitalized. Depreciation commences at the time the assets are placed in service. 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, which are summarized as follows:

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

Revenue Recognition and Deferred Revenue

Net revenues include sales of products and services. Product sales consist of simulators, upgrade components, scenarios, scenario software, recoil kits, Threat-Fire® and other accessories. Services include limited warranties and related support. The Company recognizes revenue for these products and services when it is realized or realizable and earned. Revenue is considered realized and earned when: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred and/or services have been rendered; (iii) the price is fixed and determinable; and (iv) collection of the resulting receivable is reasonably assured. Shipping fees are charged to customers and recorded as a component of net revenues. All sales and sales contracts, including international sales, have been denominated in US dollars.

Milestone Method

During 2013, the Company entered into a contract that consisted of multiple elements. The multiple elements consisted of the development and delivery of the product, the delivery of the spare parts and an extended warranty. The Company identified all goods and/or services that were to be delivered separately under the contract and allocated revenue to each deliverable based on relative fair values. Fair values are generally established based on the prices charged when sold separately by the Company or based upon estimated selling price.

The development and delivery of product (the “arrangement”) was accounted for under the Milestone Method. The arrangement consists of five major milestones. The milestones are 1) Requirements Review, 2) Design Review, 3) Critical Design Review, 4) Factory Acceptance Testing, and 5) Final Acceptance. Each of the milestones is considered substantive as the consideration is commensurate with our anticipated efforts to achieve the milestone, the consideration for each milestone relates solely to past performance and no portion of the milestone consideration is refundable or adjusted after the milestone has been reached. Further, the consideration is reasonable relative to all of the deliverables and payment terms within the arrangement. The first three milestones have been completed as of December 31, 2013. Revenue recognized during the year ended December 31, 2013 as a result of milestones completed is $974,472.

Revenue from the delivery of spare parts and the extended warranty will be recognized upon delivery and acceptance by the customer and, proportionally over the warranty period, respectively.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Products

Revenue from the sale of products is recognized when title and risk of loss passes to the customer. Delivery is considered complete when products have been shipped to the customer, title and risk of loss has transferred to the customer and customer acceptance has been satisfied. For customers other than United States federal agencies, the Company generally requires deposits in advance of shipment for customer sales orders. Customer deposits are recorded as a current liability under deferred revenue on the accompanying balance sheet and totaled $1,140,800 and $865,205 as of December 31, 2013 and 2012, respectively.

Services

Services include separately priced extended limited warranties on parts and labor, and technical support. Revenue is recognized for service contracts as earned, which is generally on a straight-line basis over the term of the contract. The Company does warranty its products from manufacturing defects on a limited basis for a period of one year after purchase, but also sells separately priced extended warranties for periods of up to four years after the expiration of the standard one year warranty. After the one year standard warranty expires and during the term of the extended warranty, if the device fails to operate properly from defects in materials and workmanship, the Company will fix or replace the defective product. Deferred revenue for separately priced extended warranties totaled $375,992 and $308,244 as of December 31, 2013 and 2012, respectively. The Company's accrual for the one-year manufacturer's warranty liability totaled $40,000 as of December 31, 2013 and 2012.

Cost of products sold

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

Advertising Costs

Costs associated with advertising are expensed as incurred. Advertising expense was approximately $156,000 and $287,000 for the years ended December 31, 2013 and 2012, respectively. These costs include domestic and international trade shows, website, and sales promotional materials.

Research and Development Costs

Research and development costs are expensed as incurred. Research and development costs primarily include expenses directly related to research and development support. Research and development costs were approximately $1,512,000 and $1,298,000 for 2013 and 2012, respectively.

Concentration of Credit Risk and Major Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company's cash and cash equivalents are maintained with financial institutions with high credit standings. All of our non-interest bearing accounts were fully insured at December 31, 2012, due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. As of December 31, 2013, the Company had uninsured cash and cash equivalents of $1,975,496.

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

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Historically, the Company sells its products primarily to federal and state agencies in the United States. In 2013 two international customers comprised 23.5% and 11.1% of total net sales. In 2012 two customers, one of which was an international customer, comprised 14.3% and 12.0% of total net sales. No other single customer exceeded 10% of net sales for 2013 and 2012, respectively. As of December 31, 2013, the Company's accounts receivable balances were with eight customers. As of December 31, 2012, the Company's accounts receivable balances were with six customers.

The Company currently purchases small machined parts, custom cartridge assemblies and electronic components from suppliers located in the United States. Although the Company currently obtains many of these components from single source suppliers, the Company could seek to have the parts, customer cartridges and electronic components manufactured elsewhere. As a result, management believes it could obtain alternative suppliers in most cases without incurring significant production delays. The Company acquires its components on a purchase order basis and does not have long-term contracts with suppliers.

Income Taxes

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

In assessing the realizability of deferred tax assets, management assesses the likelihood that deferred tax assets will be recovered from future taxable income, and to the extent that recovery is not likely or there is insufficient operating history, a valuation allowance is established. The Company adjusts the valuation allowance in the period management determines it is more likely than not that net deferred tax assets will or will not be realized. As of December 31, 2013 and 2012, the Company has provided a valuation allowance for all net deferred tax assets due to the modest income in 2012, and the Company not attaining a level of contract backlog, or recurring revenue, to assure future taxable income.

As of December 31, 2013 and 2012, the Company did not recognize any assets or liabilities relative to uncertain tax positions. Interest or penalties, if any, will be recognized in income tax expense. Since there are no significant unrecognized tax benefits as a result of tax positions taken, there are no accrued penalties or interest. Tax positions are positions taken in a previously filed tax return or positions expected to be taken in a future tax return that are reflected in measuring current or deferred income tax assets and liabilities reported in the financial statements. Tax positions include, but are not limited to, the following:

- an allocation or shift of income between taxing jurisdictions;
- the characterization of income or a decision to exclude reportable taxable income in a tax return; or
- a decision to classify a transaction, entity or other position in a tax return as tax exempt.

The Company reflects tax benefits only if it is more likely than not that the Company will be able to sustain the tax return position, based on its technical merits. If a tax benefit meets this criterion, it is measured and recognized based on the largest amount of benefit that is cumulatively greater than 50% likely to be realized.

The Company is potentially subject to tax audits for its United States federal and Arizona state income tax returns for tax years ended 2011 to 2013 and 2010 to 2013, respectively; however, earlier years may be subject to audit under certain circumstances. Tax audits by their very nature are often complex and can require several years to complete.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Impairment of Long-lived Assets

Long lived assets, such as equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the asset. Assets to be disposed of, if any, would be separately presented in the balance sheet and reported at the lower of their carrying amounts or fair value less costs to sell, and are no longer depreciated. At December 31, 2013 and 2012, the Company concluded that there has been no impairment to the carrying value of its long-lived assets. As such, no impairment has been recorded.

Stock Based Compensation

The Company calculates the fair value of stock-based awards using the Black-Scholes-Merton option pricing valuation model, which incorporates various assumptions including volatility, expected term and risk-free interest rates. The assumptions used for the years ended December 31, 2013 and 2012, and the resulting estimates of weighted-average fair value per share of options granted during those periods, are as follows:

	2013	2012
Volatility	113% to 116%	100% to 122%
Risk-free interest rate	1% to 3%	2% to 3%
Dividend rate	-	-
Expected term	7 years	7 years
Weighted average fair value of options granted	$ 0.04	$ 0.06

The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expectations of future employee behavior. Expected stock price volatility is based on historical volatility of the Company's stock. The risk-free interest rate is based on the implied yield available on United States Treasury zero-coupon issues with an equivalent remaining term. The Company has not paid dividends in the past and does not plan to pay any dividends in the near future. The estimated fair value of stock-based compensation awards and other options is amortized to expense on a straight line basis over the relevant vesting period. As share-based compensation expense recognized is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company's forfeiture rate was calculated based on its historical experience of awards which ultimately vested.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Net income per common share

The net income per common share is computed by dividing net income by the weighted average of common shares outstanding. Diluted net income per share reflects the potential dilution that would occur if outstanding stock options were exercised utilizing the treasury stock method. Dilutive shares consisted of the following as of December 31, 2013, and 2012: As a result of being considered anti-dilutive, 5,359,363 and 79,672 potentially dilutive options were not included in the incremental shares from the assumed exercise of dilutive stock options for the years ended December 31, 2013 and 2012, respectively.

	2013	2012
Net income	$ 1,580,776	$ 113,396
Weighted average of common and common equivalent shares outstanding	158,285,045	158,285,045
Incremental shares from the assumed exercise of dilutive stock options	914,439	3,352,757
Dilutive potential common and common equivalent shares	159,199,484	161,637,802
Net income per common and common equivalent shares:		
-Basic	$ 0.01	$ 0.00
-Diluted	$ 0.01	$ 0.00

New Accounting Pronouncements

No recent accounting pronouncements or changes in accounting pronouncements during the year ended December 31, 2013 are of significance or potential significance to us.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

2. Inventory

Inventory consisted of the following as of December 31:

	2013	2012
Raw materials	$ 393,830	$ 312,907
Work-in-progress	13,604	-
Finished goods	-	57,112
Total inventory	$ 407,434	$ 370,019

3. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2013	2012
Computer equipment	$ 382,967	$ 344,714
Furniture and office equipment	545,704	532,135
Leasehold improvements	259,366	254,488
Total property and equipment in use	1,188,037	1,131,337
Less: Accumulated depreciation	(759,029)	(540,970)
Property and equipment in use, net	429,008	590,367
Construction-in-progress	31,505	22,013
Property and equipment, net	$ 460,513	$ 612,380

As of December 31, 2013 and 2012 construction-in-progress includes leasehold improvements that were in-progress at year end. Depreciation expense was $218,059 and $227,492 for the years ended December 31, 2013 and 2012, respectively.

4. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following at December 31:

	2013	2012
Standard one-year manufacturer's warranty	$ 40,000	$ 40,000
State and local taxes	98,875	62,069
Insurance premiums payable	-	1,012
Other	15,000	15,000
Total accrued expenses and other current liabilities	$ 153,875	$ 118,081

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

5. Related Party Transactions

The Company reimburses its executive officers for business expenses charged to personal credit cards. The Company makes monthly payments directly to the card issuer for these business expenses incurred on behalf of the Company. As of December 31, 2013 and 2012 the balance payable by the Company for the use of these personal credit cards totaled $2,930 and $0, respectively, which is included in accounts payable on the balance sheet.

6. Commitments and Contingencies

Operating Lease Obligations

The Company's operating lease obligations primarily relate to a facility lease for the Company's corporate office space located at 7970 South Kyrene Road, Tempe, Arizona 85284, which expires in December, 2015, unless renewed. Future minimum lease payments under non-cancelable operating leases are as follows (years ended December 31):

2014	$	271,649
2015		316,923
Total	$	588,572

The Company has recognized a liability of $144,990 and $131,358 as of December 31, 2013 and 2012, respectively, relative to the increasing future minimum lease payments in the above table. Rent expense was $194,802 and $210,500 for the years ended December 31, 2013 and 2012, respectively.

General or Threatened Litigation

From time to time, the Company is notified of threatened litigation or that a claim is being made against it. The Company's policy is to not disclose the specifics of any claim or threatened lawsuit until such complaint is actually served on the Company. After consultation with appropriate legal counsel, if it is determined that the Company is not at fault, the Company will defend itself accordingly. Although we do not expect the outcome in any pending individual case to be material, the outcome of any litigation is inherently uncertain and there can be no assurance that any expense, liability or damages that may ultimately result from the resolution of these matters will be covered by our insurance or will not be in excess of amounts provided by insurance coverage and will not have a material adverse effect on our business, operating results or financial condition. As of December 31, 2013 and 2012, respectively, the Company has no accrual for general or threatened litigation and the Company believes its exposure to be de minimis in nature.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

Employment Agreements

On April 2, 2012, the Company entered into three-year Employment Agreements with its Chief Executive Officer and Chief Operating Officer that call for base annual salaries of $195,000 and $175,000, respectively, subject to cost of living adjustments, and contain automatic one-year extension provisions. Capitalized terms in this note are defined in the Employment Agreements. If the Company's Chief Executive Officer or Chief Operating Officer are terminated by the Company for any reason other than for Cause, or if the Executive voluntarily terminates his own employment for Good Reason but not including a Change in Control, then the Company shall, subject to the terms of the Employment Agreements, be obligated to pay the Executive an amount equal to the product of the greater of (a) the Executive's annual base salary in effect on the day preceding the date of such termination or (b) the Executive's annual base salary during the twelve full calendar months preceding the date of such termination, times three. This payment shall be payable in 18 equal monthly payments commencing on the first day of the month following the month in which the termination occurs. If a Change of Control of the Company occurs while the Executive is an employee of the Company and within 36 months from the date of such Change in Control the Company terminates the Executive's employment for any reason (except for the death or disability of the Executive or for Cause) or the Executive terminates his employment for any reason, then the Company shall, subject to certain limitations, pay the Executive any earned and accrued but unpaid base salary through the date of termination plus an amount of severance pay equal to the product of the greater of (a) the Executive's annual base salary in effect on the day preceding the date on which the Change of Control occurred or (b) the Executive's annual base salary during the twelve full calendar months preceding the date on which the Change of Control occurred, times four.

7. Income Taxes

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

	2013	2012
Deferred tax assets:		
Net operating loss carry forwards	$ 2,752,000	$ 3,847,000
Deferred revenue	607,000	469,000
Non-qualified stock option expense	382,000	337,000
Reserves, accruals and other	168,000	129,000
Accumulated depreciation and amortization	1,992,000	2,210,000
Net deferred tax assets	5,901,000	6,992,000
Less: Valuation allowance	(5,901,000)	(6,992,000)
Net deferred tax assets	$ -	$ -

Management has elected to provide a deferred tax asset valuation allowance equal to the potential benefit of the deferred tax assets.

Internal Revenue Code Section 382 limits the ability to utilize net operating losses if a 50% change in ownership occurs over a three year period. Such limitation of the net operating losses may have occurred but we have not analyzed it at this time as the deferred tax asset is fully reserved. We believe we have approximately $8.0 million of federal and $0.3 million state net operating loss carry-forwards that are available to offset future taxable income that expire in various years from 2021 to 2032.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

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

	2013	2012
Current	$ -	$ -
Deferred	1,091,000	42,000
Change in valuation allowance	(1,091,000)	(42,000)
Provision (benefit) for income taxes	$ -	$ -

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

	2013	2012
Federal income tax benefit at the statutory rate	$ 537,000	$ 39,000
State income taxes, net of federal benefit	95,000	7,000
Permanent differences	(8,000)	(4,000)
Expiration of net operating loss carryforwards	467,000	-
Change in valuation allowance	(1,091,000)	(42,000)
Provision (benefit) for income taxes	$ -	$ -

8. Line of Credit

The Company has a line of credit agreement with a financial institution with maximum availability of $750,000. The line of credit is secured by the Company's eligible accounts receivable and inventory and bears interest at varying rates, which at December 31, 2013 and 2012 was prime plus 1.5%, with a floor of 5.0%. Interest expense was approximately $0 and $17,350 for the years ended December 31, 2013 and 2012, respectively. The effective rate of interest for the years ended December 31, 2013 and 2012 was 5.0%. The line of credit, which was amended and renewed in August 2013, primarily to include borrowing against received domestic purchase orders, matures in August 2014, and requires monthly payments of interest only. The line of credit is co-signed by the Company's Chief Executive Officer and his spouse as guarantors. As of December 31, 2013 and 2012, there were no amounts outstanding under the line of credit.

9. Term Loan Payable

As of December 31, 2013 there were no amounts outstanding under the term loan with Arizona Bank & Trust. During the third quarter of 2013, the Company paid Arizona Bank & Trust the outstanding amount of $164,111, satisfying all obligations of the agreement.

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

As of December 31, 2012 the balance of the term loan payable to Arizona Bank & Trust was $224,135. Monthly payments were $7,501 consisting of principal and interest, and the loan would have matured in August, 2015. Interest expense was approximately $7,700 and $4,000 for the years ended December 31, 2013 and 2012, respectively. Interest was 5.0% per annum based on a year of 360 days. The term loan was secured by the Company's eligible accounts receivable and inventory and was guaranteed by a related party.

10. Stockholders' Equity/(Deficit)

Authorized Capital

The Company has authorized the issuance of two classes of stock designated as "common stock" and "preferred stock," each having a par value of $0.005 per share. The Company is authorized to issue 500,000,000 shares of common stock and 2,000,000 shares of preferred stock.

Treasury Stock

The Company did not repurchase any stock in 2013 and 2012.

Stock Options

The Company periodically issues non-qualified incentive stock options to key employees, officers and directors under a plan approved by the Board of Directors in 2009. Terms of option grants are at the discretion of the Board of Directors. The Board of Directors has also approved a quarterly grant of 50,000 stock options to each of the Company's three directors, with an additional 100,000 stock options for the Chief Executive Officer and an additional 50,000 stock options for the Secretary of the Company. Effective April 1, 2012, the Board of Directors changed the quarterly grant to a total of 100,000 stock options per quarter to the CEO, 75,000 stock options per quarter to the COO/Secretary, and 50,000 stock options per quarter to any board member not an employee of the Company. The following table summarizes stock options as of December 31:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Options outstanding, beginning of year	13,599,340	$ 0.05	8,724,340	$ 0.05
Granted	1,900,000	0.04	5,475,000	0.06
Exercised	-	-	-	-
Expired / terminated	-	-	(600,000)	0.08
Options outstanding, end of year	15,499,340	0.05	13,599,340	0.05
Options exercisable, end of year	12,566,007	0.05	10,099,340	0.05
Weighted average fair value of options granted during the year		$ 0.04		$ 0.05

VIRTRA SYSTEMS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUE)

The following table summarizes the Company's non-vested stock options as of December 31:

	2013			2012		
	Number of Options		Weighted Average Grant Date Fair Value	Number of Options		Weighted Average Grant Date Fair Value
Non-vested options outstanding, beginning of year	3,500,000	$	0.05	900,000	$	0.07
Granted	1,000,000		0.04	3,150,000		0.05
Exercised	-		-	-		-
Expired / terminated	-		-	(550,000)		0.07
Vested	(1,566,667)		0.05	-		-
Non-vested options outstanding end of year	2,933,333	$	0.05	3,500,000	$	0.05

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2013:

	Options Outstanding				Options Exercisable		
Range of Exercise Price	Number of Options Outstanding		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options Exercisable		Weighted Average Exercise Price
$0.03 - $0.04	7,174,340	$	0.04	3.5	6,374,340	$	0.04
$0.05 - $0.07	5,250,000		0.06	5.1	3,733,333		0.06
$0.07 - $0.09	3,075,000		0.08	4.3	2,458,334		0.08
$0.03 - $0.09	15,499,340	$	0.05	4.2	12,566,007	$	0.05

The aggregate intrinsic value of options outstanding and options exercisable were $188,950 and $160,338 as of December 31, 2013, respectively. The aggregate intrinsic value of options outstanding and options exercisable were both $52,469 as of December 31, 2012. The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the fair value of the Company's common stock, for those stock options that have an exercise price lower than the fair value of the Company's common stock. Options with an exercise price above the fair value of the Company's common stock are considered to have no intrinsic value. The total fair value of shares vested during the years ended December 31, 2013 and 2012 is $111,546 and $120,133, respectively. As of December 31, 2013, total unrecognized stock-based compensation expense related to non-vested stock options is $135,121, which is expected to be recognized in the next five years.

11. Subsequent Events

The Company has evaluated subsequent events through the date the accompanying financial statements were issued, which was March 28, 2014. No events have occurred which require further disclosure.

VI. ISSUER'S BUSINESS, PRODUCTS AND SERVICES

DESCRIPTION OF THE BUSINESS OPERATIONS

VirTra develops, sells and supports judgment and marksmanship firearms training systems and accessories for law enforcement, military, or civilian use. VirTra's simulators use software, hardware, and content to create uniquely effective and realistic training that does not require live ammunition or less-than-lethal munitions, which can both save money and provide certain training capabilities unavailable to live fire exercises. VirTra has developed a higher standard in simulation training with several exclusive capabilities, including 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.

DATE AND STATE OF INCORPORATION

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. The corporate name was changed to VirTra Systems, Inc. (VirTra) on April 30, 2002.

PRIMARY AND SECONDARY SIC CODES

The issuer's primary SIC Code is: 3699-0300 Electronic Training Devices.
The issuer's secondary SIC Code is: 7373 Computer Integrated Systems Design

FISCAL YEAR END DATE IS DECEMBER 31

PRINCIPAL PRODUCTS OR SERVICES, AND THEIR MARKETS

VirTra's principal products include the following:

- V-300™ Simulator – a 300° wrap-around screen with video capability is the higher standard for simulation training
- V-180™ Simulator – a 180° screen with video capability is for smaller spaces or smaller budgets
- V-100™ Simulator – a single-screen based system that can be upgraded to higher level simulators
- V-Range™ Simulator – a hyper-realistic simulated shooting range simulator, sold in per lane configurations
- Top SME Content – content supplied with our simulators is approved by top Subject Matter Experts (SME)
- V-Author™ Software – allows users to create, edit, and train with content specific to agency's objectives
- Simulated Recoil – 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's principal markets include both domestic and international:

- Military firearms simulation training
- Law Enforcement firearms and judgmental use-of-force simulation training
- Security Agencies and Civilian firearms simulation training

VirTra considers some or all of the markets listed above could experience expansion, due to several ever-changing factors. First, simulation training can save money as compared with live fire and in times of constricting budgets, money savings are often prioritized. Live fire training is very expensive due to ammunition costs, safety and environmental considerations, so simulation training can actually save money in many instances. Second, by using realistic human actors, trainees can be more adequately prepared for threats from any direction while interacting with humans in complex 360° environments (this is not possible with shooting ranges). While VirTra strongly believes live fire training is and will remain a critical component of training, the market may witness a shrinking of live fire training due to the rising cost of ammunition, limited range time, increasing regulatory environment hostile to any new live fire ranges, and training limitations as compared with state-of-the-art firearms simulation training.

Market Penetration

VirTra has hundreds of simulators installed at this time in the US and worldwide. However, VirTra's products are relatively new to their respective markets and management thinks VirTra is in the early stages of market penetration for all three markets.

Distribution Channels

VirTra directly markets and sells its products throughout the United States. VirTra also works with various companies throughout the world to distribute its products or serve as prime contractor on particular programs. For product sales outside the United States, VirTra relies on carefully selected professional distributors or agents to sell its products into the territories they know best.

Suppliers

VirTra produces some of their own products as well as relies on a variety of suppliers. VirTra does not expect to encounter delays with its suppliers in the future that would have a material impact on the Company, but supplier delays could occur in the future and could adversely affect the Company.

The Need for Realistic Training

The world can be a very dangerous place. Both warfighters and law enforcement officers are expected to make the correct decision, with excellent marksmanship, in split-second life-and-death situations. The better and more realistic the training, the greater the chance the trainee will succeed when lives hang in the balance and threats are real. Customers buy VirTra's simulator for realistic training so that a trainee has a better chance to survive lethal encounters as well as avoid the injury or death of others, whenever it is avoidable.

Return Fire

One overwhelming factor in a real engagement is the fact that threats can cause harm or even death; this weighs heavily upon the trainee and certainly affects their responses. VirTra invented the patented Threat-Fire™ device, which safely simulates return fire with a split-second electric shock. VirTra and many instructors consider this ability to safely simulate return fire enhances the effectiveness of any simulation and forces trainees to take the training more seriously.

Licensing

VirTra licenses its software or other intellectual property to other companies from time to time, when such licensing makes business sense to VirTra and would enhance training effectiveness.

Service and Support

VirTra is committed to providing exceptional service and support for its customers. If a problem is encountered, VirTra service and engineering employees go the extra mile to ensure the issue is resolved quickly and efficiently. VirTra has a long tradition of standing behind its products.

Competition

Competitors include, but are not limited to, the following: Cubic Defense Applications, IES Interactive Training Inc., Laser Shot, Meggitt, and Ti Training.

VII. ISSUER'S FACILITIES

VirTra's headquarters is located at: 7970 S. Kyrene Road, Tempe, AZ 85284. To accommodate future growth, on July 8, 2010 VirTra signed a sixty-five month lease with a commencement date of August 1, 2010 and expiring December 31, 2015. The stand-alone building is approximately 40,000 square feet with 80 parking spaces. Approximately 50% of the building is production space and warehouse. The other 50% is office space. It is fully air-conditioned.

VIII. OFFICERS, DIRECTORS, AND CONTROL PERSONS

A. Names of Officers, Directors, and Control Persons. Provided are the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

Name	Position(s)	Date of Appointment
Bob Ferris	Chief Executive Officer and Chairman of the Board of Directors	05/13/08
Matt Burlend	Chief Operating Officer and Secretary	12/30/08
Jeff Brown	Board of Directors Member	08/10/11

B. Legal/Disciplinary History. The list below identifies if any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);
   None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;
   None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated;
   None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.
   None

C. Beneficial Shareholders. Provided is a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders is provided.

Name and Address of Beneficial Owner	Officer or Director	Amount of Beneficial Ownership	Percent of Class
Robert Ferris 7970 S. Kyrene Rd. Tempe, AZ 85284	CEO & Director	15,589,915	9.8%

IX. THIRD PARTY PROVIDERS

Listed below is the name, address, telephone number, and e-mail address of each outside provider that advises the issuer on matters relating to operations, business development and disclosure:

Intellectual Property and Business Counsel
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X. ISSUER CERTIFICATION

I, ***Robert D. Ferris***, certify that:

1. I have reviewed this annual disclosure statement of VirTra Systems, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

   Date: March 28, 2014

/s/ Robert D. Ferris

CEO/Member