THAT’S EATERTAINMENT CORP.
AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

SEMPLE, MARCHAL & COOPER, LLP
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

2700 NORTH CENTRAL AVENUE, NINTH FLOOR, PHOENIX, ARIZONA 85004-1147

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
That's Eatertainment Corp. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of That's Eatertainment Corp. (the "Company") and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of operations, changes in stockholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of its operations, changes in stockholders' equity (deficit), and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Semple, Marchal & Cooper, LLP

Certified Public Accountants

We have served as the Company's auditor since 2014.

Phoenix, Arizona

April 26, 2019

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THAT’S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 97,853	$ 41,336
Accounts receivable - trade	104,755	67,201
Inventory	20,274	28,499
Prepaid expenses	43,889	61,044
Total current assets	266,771	198,080
Property and equipment, net	2,306,465	2,829,718
Other assets	45,004	45,004
Total assets	$ 2,618,240	$ 3,072,802
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 501,858	$ 580,028
Accrued expenses	1,599,297	1,720,384
Deferred revenue	200,818	164,972
Convertible note payable - short-term	250,000	400,000
Convertible notes payable - related parties - short-term	292,138	100,000
Capital lease obligation - short-term	79,370	69,080
Notes payable - other	-	124,416
Total current liabilities	2,923,481	3,158,880
Long-term liabilities:		
Convertible notes payable - long-term	200,000	1,950,000
Deferred rent	290,508	306,650
Capital lease obligation - long-term	29,002	108,372
Secured revolving line of credit - related parties	3,128,500	3,742,500
Total liabilities	6,571,491	9,266,402
Stockholders' deficit:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2018 and 2017	-	-
Common stock, $0.001 par value; 200,000,000 shares authorized, 9,571,464 and 7,110,550 shares issued and outstanding at December 31, 2018 and 2017, respectively	9,571	7,110
Additional paid-in capital	11,806,399	5,445,260
Accumulated deficit	(15,769,221)	(11,645,970)
Total stockholders' deficit	(3,953,251)	(6,193,600)
Total liabilities and stockholders' deficit	$ 2,618,240	$ 3,072,802

The accompanying notes are an integral part of these consolidated financial statements.

THAT’S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Years Ended December 31, 2018	2017
Food and beverage revenues	$ 1,282,786	$ 1,560,365
Amusement and other revenues	975,238	1,172,911
Licensing revenue	137,044	33,942
Discounts and comps	(192,443)	(346,986)
Total revenue, net	2,202,625	2,420,232
Cost of food and beverage	322,783	384,524
Cost of amusement and other	3,747	13,568
Total cost of products	326,530	398,092
Operating payroll and benefits	1,008,009	1,213,768
Other store operating expenses	674,099	786,844
General and administrative expenses	2,855,110	2,772,333
Depreciation expense	579,043	532,190
Total operating costs	5,442,791	5,703,227
Loss from operations	(3,240,166)	(3,282,995)
Interest expense	883,085	562,127
Net loss before income taxes	(4,123,251)	(3,845,122)
Provision for income taxes	-	-
Net loss	$ (4,123,251)	$ (3,845,122)
Net loss per share		
Basic and diluted	$ (0.45)	$ (0.61)
Weighted average common shares outstanding		
Basic and diluted	9,144,113	6,294,026

The accompanying notes are an integral part of these consolidated financial statements.

THAT’S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock		Additional		Treasury Stock		Total
			Paid-in	Accumulated			Stockholders'
	Shares	Par Value	Capital	Deficit	Shares	Cost	Deficit
Balance, December 31, 2016	6,018,774	$ 6,018	$ 3,594,747	$ (7,800,848)	254,073	$ (120,431)	$ (4,320,514)
Stock-based compensation - stock options	-	-	105,917	-	-		105,917
Treasury stock retired	-	-	(120,431)	-	(254,073)	120,431	-
Convertible promissory notes and accrued interest converted to common stock	447,197	447	1,092,178	-	-	-	1,092,625
Issuance of stock to affiliates	644,579	645	772,849	-	-	-	773,494
Net loss for the year ended December 31, 2017	-	-	-	(3,845,122)	-	-	(3,845,122)
Balance, December 31, 2017	7,110,550	7,110	5,445,260	(11,645,970)	-	-	(6,193,600)
Stock-based compensation - stock options	-	-	311,571	-	-		311,571
Shares redeemed in reverse split	-	-	(1,820)	-	-		(1,820)
Convertible promissory notes and accrued interest converted to common stock	970,834	971	2,387,280	-	-	-	2,388,251
Line of credit and accrued interest converted to common stock	1,490,080	1,490	3,664,108	-	-	-	3,665,598
Net loss for the year ended December 31, 2018	-	-	-	(4,123,251)	-	-	(4,123,251)
Balance, December 31, 2018	9,571,464	$ 9,571	$ 11,806,399	$ (15,769,221)	-	$ -	$ (3,953,251)

The accompanying notes are an integral part of these consolidated financial statements.

THAT'S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2018	2017
Cash flows from operating activities:		
Net loss	$ (4,123,251)	$ (3,845,122)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	579,043	532,190
Deferred rent	(16,142)	59,342
Stock option expense	311,571	105,917
Interest on convertible notes converted to equity	638,251	267,625
Interest on secured revolving line of credit converted to equity	553,598	-
Changes in operating assets and liabilities:		
Accounts receivable - trade	(37,554)	(31,728)
Inventory	8,225	836
Prepaid expenses	17,155	(12,066)
Other assets	-	(38,104)
Accounts payable	(78,170)	173,168
Accrued expenses	228,238	427,299
Accrued interest	(57,187)	282,281
Deferred revenue	35,846	38,489
Net cash used in operating activities	(1,940,377)	(2,039,873)
Cash flows from investing activities:		
Purchase of property and equipment	(66,006)	(32,821)
Proceeds from sale of fixed assets	10,216	-
Shares redeemed in reverse split	(1,820)	-
Proceeds from sale of available for sale securities	-	84,000
Net cash provided by and (used in) investing activities	(57,610)	51,179
Cash flows from financing activities:		
Proceeds from related party secured revolving line of credit	2,498,000	1,351,500
Principal payments on notes payable - other	(124,416)	(244,369)
Principal payments on capital lease obligation	(69,080)	(10,609)
Principal payments on convertible notes payable	(250,000)	-
Proceeds from warrant exercise	-	773,494
Proceeds from convertible promissory notes	-	125,000
Net cash provided by financing activities	2,054,504	1,995,016
Net change in cash and cash equivalents	56,517	6,322
Cash and cash equivalents at beginning of period	41,336	35,014
Cash and cash equivalents at end of period	$ 97,853	$ 41,336

The accompanying notes are an integral part of these consolidated financial statements.

THAT'S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2018	2017
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 57,187	$ 12,221
Cash paid during period for income taxes	$ -	$ -
Non-cash investing and financing activities:		
- Stock-based compensation - options	$ 311,571	$ 105,917
- Accounts payable converted to notes payable	$ -	$ 132,865
- Accrued expenses converted to note payable	$ 292,138	$ -
- Convertible promissory note and accrued interest converted to common stock	$ 2,388,251	$ 1,092,625
- Secured revolving line of credit and accrued interest converted to common stock	$ 3,665,598	$ -
- Capital lease obligations utilized in purchase of property and equipment	$ -	$ 188,061

The accompanying notes are an integral part of these consolidated financial statements.

Note 1
Description of the Business and Summary of Significant Accounting Policies

The accompanying consolidated financial statements include the accounts of THAT'S EATERTAINMENT CORP. (formerly Modern Round Entertainment Corporation), and its subsidiaries, Modern Round, Inc., MR Peoria, LLC, MR Riverview, LLC, THAT'S DEVELOPMENT, INC., and Riverview Social, LLC (collectively, "Modern Round," "we," "us," "our," or "our company").

We were incorporated in Nevada in November 2013 under the name Nuvola, Inc. Prior to November 24, 2014, we operated as a subsidiary of Bollente Companies, Inc. ("Bollente"), a company specializing in the manufacturing and sale of high-quality, wholehouse, electric tankless water heaters. On November 24, 2014, Bollente spun off our company by declaring a dividend of the shares of our common stock to the Bollente stockholders. Because of the dividend, we became a company independent of Bollente.

On December 31, 2015, we entered an Agreement and Plan of Merger ("Merger Agreement") with our wholly-owned subsidiary, Nuvola Merger Sub, LLC ("NMS"), a Nevada limited liability company, and Modern Round, L.L.C., a Nevada limited liability company. Upon the terms and subject to the satisfaction of the conditions set forth in the Merger Agreement, NMS was merged with and into Modern Round, L.L.C. with Modern Round, L.L.C. continuing as the surviving entity and as a wholly owned subsidiary of our company. Concurrent with the merger, Modern Round, L.L.C. was converted into a Nevada corporation named Modern Round, Inc.

On May 31, 2018, we filed a Certificate of Amendment with the Secretary of State of Nevada that changed our name to THAT'S EATERTAINMENT CORP.

On April 11, 2018, our Board of Directors approved an amendment to our Amended and Restated Articles of Incorporation to effect a 1-for-12,000 reverse split of our Common Stock (the "Reverse Split"), followed by a 2,000-for-1 forward split of our Common Stock (the "Forward Split"), which was done on November 13, 2018. All references in the accompanying financial statements to the number of common shares and per share amounts have been adjusted retroactively to reflect these stock splits.

Operations

Our principal operations focus on developing, securing suitable sites for, and implementing a combined dining and entertainment concept centered around an indoor simulated shooting experience. We expect that our future operations will include continuing these developments and operating owned and leased locations, initially in North America. We opened our first, and currently only, location in Peoria, Arizona, on June 1, 2016. Modern Round partnered with Lucky Strike Entertainment, LLC ("Lucky Strike") in October 2017 and placed its shooting lounges in Lucky Strike's Albany, NY site. The relationship expanded in 2018 to include Modern Round shooting lounges in Lucky Strike's Chicago, IL, and Manhattan, Albany and West Nyack, NY sites. Modern Round has initiated its new licensing program and has placed shooting lounges in Apex Entertainment's Syracuse, NY location which began operating in March 2019.

We conduct our operations through Modern Round, Inc. and its wholly owned subsidiaries, MR Peoria, LLC and MR Riverview, LLC, and THAT'S DEVELOPMENT, INC. and its wholly owned subsidiary, Riverview Social, LLC. All intercompany accounts and transactions have been eliminated in consolidation.

Basis of Presentation

The consolidated financial statements included herein have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Use of Estimates (continued)

We use significant estimates in the valuation of share-based payments, depreciable lives and the carrying value of property and equipment, and our estimated market value per share.

Cash and Cash Equivalents

We consider all highly liquid instruments, with a maturity of three months or less at the time of purchase, to be cash equivalents. At December 31, 2018 and 2017, we had no uninsured cash and cash equivalents that exceeded the federally insured limit of $250,000.

Revenue Recognition

We currently derive revenue primarily from sales of food and beverages, membership fees, and simulated shooting lounge fees. We recognize revenue when all the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery has occurred or services have been rendered, (iii) seller price is fixed or determinable, and (iv) collectability is reasonably assured. We recognize food and beverage sales and simulated shooting lounge fees on the transaction date, as payment is required at the time of service.

Deferred revenue consists of membership fee revenue, gift card sales, and banquet event sales deposits received. Membership fees are due annually and are not refundable. We recognize membership fee revenue ratably over 12 months, starting in the month the fees are received. We record gift card sales and event sales deposits as deferred revenue, and recognize the sales revenue when the gift cards and event deposits are utilized by our guests. We have not recorded gift card breakage income through December 31, 2018, as we do not have sufficient purchase and utilization history to use as a basis for a breakage policy. Banquet event deposits are generally non-refundable, although guests can re-schedule their events with sufficient notice. We expect that our guests will utilize their deposits, or to retain the balances if a guest does not use the balance.

We also have revenue sharing arrangements with location based entertainment companies such as Lucky Strike Entertainment, LLC. Our economic arrangement with Lucky Strike requires us to incur the cost of equipment procurement, installation of the systems, training and any expenses associated with the servicing of the systems. In return, we receive 50% of gross revenue received from shooting lounge rentals and membership fees. These revenue sharing fees are remitted to us on a monthly basis, and are recorded as licensing revenue.

Accounts Receivable

We record receivables at the amount we expect to collect. We charge earnings and credit the valuation allowance account for uncollectible amounts based on our estimates. Balances are written off as a charge to the valuation allowance and a credit to accounts receivable once all reasonable collection efforts have been made. We consider the following factors when determining collectability of specific accounts: customer credit-worthiness, past history with the customer, current economic industry trends, and changes in payment terms. We review balances that are past due more than 90 days and other higher risk amounts individually for collectability. There were no allowances for uncollectible bad debt at December 31, 2018 and 2017.

Earnings (Loss) per Share

We follow FASB Accounting Standards Codification ("ASC") Topic 260, *Earnings per Share*, to calculate earnings or loss per share. We compute basic net loss per share by dividing net loss applicable to common stockholders by the weighted average number of shares of common stock outstanding during the period. We have potentially dilutive securities outstanding that are not shown in a diluted net loss per share calculation because their effect for both 2018 and 2017 would be anti-dilutive. These potentially dilutive securities include options, warrants, and convertible promissory notes.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Earnings (Loss) per Share (continued)

The following table sets forth the anti-dilutive securities excluded from diluted loss per share:

	December 31,	
Anti-dilutive securities excluded from diluted loss per share (as adjusted):	2018	2017
Stock options and warrants	1,656,331	1,140,676
Shares issuable upon conversion of convertible promissory notes, including accrued interest	419,313	1,132,194
Total	2,075,644	2,272,870

Fair Values of Financial Assets and Liabilities

We measure and disclose certain financial assets and liabilities at fair value, when applicable. ASC Topic 820, *Fair Value Measurement*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Collaborative Arrangement

On January 16, 2015, we entered a Co-Venture Agreement (the "Co-Venture Agreement") with VirTra, Inc. ("VirTra"), a Texas corporation. We have evaluated the Co-Venture Agreement and have determined that it is a collaborative arrangement under FASB ASC Topic 808, *Collaborative Arrangements*, and that we are the principal participant. Thus, we record costs incurred and third party generated revenue on a gross basis in the financial statements. We reevaluate whether this and any arrangement qualifies, or continues to qualify as a collaborative arrangement, whenever there is a change in the roles of the participants or the participants' exposure to significant risks and rewards that are dependent on the ultimate commercial success of the endeavor. VirTra owns approximately 5.9% of the issued and outstanding shares of our common stock.

We have created an entertainment concept centered around an indoor simulated shooting entertainment experience, coupled with restaurant and bar service (the "Concept"). VirTra owns or controls rights to certain software and technology relating to firearms simulation training that assisted in the development and operation of the Concept. We formalized an arrangement with VirTra, through the Co-Venture Agreement, under which both parties collaborate on developing and operating the software and technology relating to firearms simulation training for the Concept.

Pursuant to the Co-Venture Agreement, VirTra developed and integrated certain scenarios and customizations using its software and software developed by Noma Technologies, LLC ("Noma"), an unrelated third party (the "Project"). We retain the rights to the Noma software, and VirTra retains the rights to its existing and future scenarios and the customizations.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Collaborative Arrangement (continued)

Pursuant to the Co-Venture Agreement, VirTra granted us an exclusive, non-transferrable, royalty-bearing right and license to use and distribute the VirTra software, including all scenarios and customizations in locations to operate the Concept. Additionally, pursuant to the terms of the Co-Venture Agreement, we granted VirTra a non-exclusive and non-transferrable right and license to use the Noma software to complete the Project under the Co-Venture Agreement. See Note 6, Commitments and Contingencies; Note 8, Notes Payable; Note 13, Related Party Transactions; and Note 14, Stockholders' Deficit for impacts that relate to this agreement.

Property and Equipment

We record property and equipment at cost. We provide for depreciation on the straight-line method over the estimated useful lives of the assets, or for leasehold improvements, over the shorter of the estimated useful life or the remaining lease term. Estimated useful lives of property and equipment range from three to ten years, see Note 5 Property and Equipment, net. We expense maintenance and repairs that neither materially add to the value of the property nor appreciably prolong its life. We capitalize expenditures that materially increase the useful lives of property and equipment as incurred. We review all capitalized assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of an asset group may not be recoverable. We measure recoverability of assets by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset group. If such assets are determined to be impaired, we measure the impairment by the difference between the carrying amount and the fair value of the assets. We determine fair value based on discounted cash flows or appraised values, depending on the nature of the asset.

Inventory

Inventory consists of products used for food and beverage sales, and are stated at the lower of cost (first-in, first-out) or net realizable value.

Advertising Costs

We expense advertising costs as incurred. Advertising cost for the years ended December 31, 2018 and 2017 was $88,584 and $96,571, respectively.

Software Development Costs

We expense all costs incurred to establish the technological feasibility of a software product to be sold, leased, or otherwise marketed, as incurred. We establish the technological feasibility of a software product when we have completed all planning, designing, coding, and testing activities that are necessary to establish that the product can be produced to meet its design specifications, including functions, features, and technical performance requirements.

We capitalize costs incurred for producing product masters, including coding and testing costs, after establishing technological feasibility. Capitalization of software costs cease when the product is available for use by customers. At each balance sheet date, we compare the unamortized capitalized costs of a software product with the net realizable value of that product. We write off the amount by which the unamortized capitalized costs of a software product exceed the net realizable value of that asset. At December 31, 2018 and 2017, we had no capitalized software development costs. Our research and development cost, including software development, for the years ending December 31, 2018 and 2017 was $116,774 and $460,803, respectively.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Transaction Privilege Taxes

We present governmental authorities' transaction based taxes in the statement of operations on a net basis, excluded from revenue. These taxes consist of state and city transaction privilege taxes (TPT) and use taxes. TPT tax is collected from our guests based on the applicable tax rates and sales transaction totals. The amounts are posted to the balance sheet as a liability. We calculate our TPT liability monthly and expense any TPT under-collections directly to expense. We are also liable for use taxes on inventory items that are used for internal purposes. Use tax is calculated and accrued monthly.

Liquidity

We had a working capital deficit of $2,656,710 and $2,960,800 at December 31, 2018 and 2017, respectively. Net cash outflows from operations for the years ended December 31, 2018 and 2017, were $1,940,377 and $2,039,873, respectively. Major cash uses during the years ended December 31, 2018 and 2017, were pre-opening expenses, purchases of property and equipment, and operating costs for our Peoria, Arizona location, and general and administrative expenses.

We anticipate incurring additional expenses to pursue our planned business operations through fiscal 2019 and 2020. We anticipate incurring increased capital expenditures in relation to opening additional locations, incurring increased sales, marketing, and operating expenses in line with our anticipated growth, and incurring increased research and development costs to continue to develop our entertainment concept, products, and technology. Our plans will require substantially more cash to operate, depending upon how quickly we open additional entertainment facilities and the sales volume generated by those additional locations as well as to fund our current operating deficit. However, if funding is not obtained and sales do not generate sufficient cash flow, we will adjust our strategy and business plans accordingly.

To date, we have been highly dependent upon funding from related parties and convertible debt offerings to support our operations, and anticipate we will need additional funding to support our business model for at least the next 12 to 24 months. Given our current operations, traditional debt financing from banking sources may be difficult to obtain, and we may have to continue to rely on equity or debt investments from non-banking sources. We will also need to obtain additional financing, which may come through private placement offerings or possibly from the public equity markets. There can be no assurance as to the availability or terms upon which such financing and capital might be available, if at all. We currently plan to meet future cash needs, beyond our cash reserves, through cash from operations, line of credit from related parties, and selling debt and equity securities in the public and private securities markets.

Stock-Based Compensation

We expense all share-based payments to employees, including grants of employee stock options, based on their estimated fair values at the grant date, in accordance with ASC 718, *Stock Compensation*. We record compensation expense for stock options over the vesting period using the estimated fair value on the date of grant, as calculated using the Black-Scholes model.

We record compensation cost on a straight-line basis over the requisite service period for the entire award, unless vesting occurs earlier, for awards with service only conditions that have graded vesting schedules. Significant inputs in this model include our company's estimated market value per share, expected term, and expected volatility. We determine expected term for employee options under the simplified method using a weighted average of the contractual term and vesting period of the award. The expected term used for non-employee awards is generally established as the contractual term of the award. In estimating expected volatility, we utilize the historical information of a similar publicly traded entity taking into consideration the industry, stage of life cycle, size, and other factors that are deemed relevant. We account for non-employee stock-based compensation based on the fair value of the related options or warrants using the Black-Scholes model, or the fair value of the goods or services on the grant date, whichever is more readily determinable.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Stock-Based Compensation (continued)

Option holders must send an exercise notice to our corporate office, via certified mail or via hand delivery, to exercise their option to purchase shares of our common stock. The notice must include specific information and warranties as noted in the holder's option agreement, along with payment of the exercise price. Options are considered exercised after (1) we receive the notice and the exercise price amount and (2) the option holder pays, or makes other arrangements that are satisfactory to our directors to pay, any applicable state or federal withholding requirements. Our directors approve the issuance of shares of common stock once the exercise requirements have been met. We issue treasury shares, if available at the time of exercise, but we generally issue new shares of our common stock at the time of exercise.

Convertible Debt

The Company bifurcates conversion options embedded in financial instruments and accounts for them at fair value, if required under GAAP. The Company has determined that none of its embedded conversion options require bifurcation as the underlying securities are not deemed to be readily convertible to cash. A convertible instrument contains a beneficial conversion feature when the conversion price is less than the fair value of the shares into which the instrument is convertible at the commitment date. A beneficial conversion feature would be separated from the convertible instrument and recorded in additional paid-in capital, and the related discount on the convertible debt instrument would be amortized over the term of the loan using the effective interest method. The Company has determined that none of its convertible instruments with fixed conversion prices contained a beneficial conversion feature upon issuance. A contingent beneficial conversion feature is measured using the commitment date stock price, but is not recognized in earnings until the contingency is resolved. An induced conversion occurs when the Company offers additional shares or other consideration to debt holders to incentivize them to convert their convertible instrument. In such circumstances, the Company recognizes an expense equal to the estimated fair value of the shares or other consideration issued to induce conversion, which is classified as interest expense.

Income Taxes

We compute income taxes using the asset and liability method in accordance with FASB ASC Topic 740, *Income Taxes.* Under the asset and liability method, we determine deferred income tax assets and liabilities based on differences between financial reporting and tax bases of assets and liabilities and measure them using currently enacted tax rates and laws. We provide a valuation allowance for deferred tax assets that, based on available evidence, are not expected to be realized.

We first analyze all tax positions to determine if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of any related appeals or litigation processes. After the initial analysis, we measure the tax benefit as the largest amount that is more than fifty percent likely of being realized upon ultimate settlement. Income tax returns are subject to adjustment under audit for approximately the last four years.

If we are required to pay interest on the underpayment of income taxes, we recognize interest expense in the first period the interest becomes due per the provisions of the relevant tax law. If we are subject to payment of penalties, we recognize an expense for the statutory penalty in the period when the position is taken on the income tax return. If the penalty was not recognized in the period when the position was initially taken, the expense is recognized in the period when we change our judgment about meeting minimum statutory thresholds related to the initial position taken.

Note 1
Description of the Business and Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9 *Revenue from Contracts with Customers (Topic 606)*, an accounting standard that supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. New disclosures about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers are also required. The effective date of the new standard was deferred by one year by ASU 2015-14, *Revenue from Contracts with Customers (Topic 606) Deferral of Effective Date*. This accounting guidance will be effective for private entities in annual reporting periods beginning after December 15, 2018. ASU 2014-9 may be applied retrospectively (a) to each reporting period presented or (b) with the cumulative effect in retained earnings at the beginning of the adoption period. In January 2017, the FASB issued ASU 2017-03, which provides clarifications relating to the accounting standards updates noted above. We do not anticipate that the pronouncement will have a material impact on our financial statements when adopted. Most of our revenue comes from transactions which are initiated, performed, and paid for on the date of service.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The update improves financial reporting about leasing transactions by requiring a lessee to record on the balance sheet the assets and liabilities for the rights and obligations created by lease terms of more than 12 months. The amendments in this update are effective for private entities for annual periods beginning after December 15, 2019. We plan to adopt ASU 2016-02 in 2020 and are in the process of aggregating and evaluating lease arrangements and implementing new processes. Although we are still in the process of evaluating the impact of adoption of the ASU on our consolidated financial statements, we currently believe that the most significant change will be related to the recognition of a right-of-use asset and lease liability on our balance sheet for our real estate operating leases. The impact on our results of operations and cash flows is not expected to be material.

In March 2016, the FASB issued ASU 2016-04, *Liabilities – Extinguishments of Liabilities (Subtopic 405-20) Recognition of Breakage for Certain Prepaid Stored-Value Products.* The amendments in this update prescribe that liabilities related to the sale of stored-value products within the scope of this update are financial liabilities. The update also provides a narrow scope exception to the guidance in Subtopic 405-20 to require that breakage for those liabilities be accounted for consistent with the breakage guidance in Topic 606, *Revenue from Contracts with Customers*. The amendments in this update are effective for private entities for annual periods beginning after December 15, 2018. We plan to implement this pronouncement in 2019, when we should have sufficient redemption history that can be used as an estimate in establishing our breakage calculation methodology. At December 31, 2018, we have not recognized any gift card breakage income.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326).* The amendments in this update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this update are effective for private entities for annual periods beginning after December 15, 2020. In January 2017, the FASB issued corrections via ASU 2017-03, that allows for early adoption for years beginning after December 15, 2018, and provides refined guidance on how to record credit losses upon adoption of the amendments. We have reviewed these pronouncements and we do not anticipate that there will be a material impact on our financial statements when the pronouncement becomes effective.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments.* The amendments in this update provide specific guidance on cash flow classification for eight distinct types of cash receipts. The amendments in this update are effective for private entities for annual periods beginning after December 15, 2018. The amendments can be adopted early, however, we have not elected early adoption. We have reviewed the pronouncement and we do not anticipate that there will be a material impact on our financial statements when the pronouncements become effective.

Note 1
Description of the Business and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements (continued)

In June 2018, the FASB issued ASU 2018-07, *Compensation - Stock Compensation (Topic 718) - Improvements to Nonemployee Share Based Payment Accounting*. This ASU expands the scope of Topic 718 to make the guidance to share-based payment awards to nonemployees consistent with the guidance for share-based payment awards to employees. The ASU will be effective for private entities for annual periods beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. We believe that the adoption of this guidance will not have a material impact on our consolidated financial statements.

In November 2018, the FASB issued ASU No. 2018-18, "*Collaborative Arrangements (Topic 808): Clarifying the interaction between Topic 808 and Topic 606*." ASU No. 2018-18 was issued to resolve the diversity in practice concerning the manner in which entities account for transactions based on their assessment of the economics of a collaborative arrangement. This guidance is effective for private entities for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently evaluating the potential effects of this guidance on its consolidated financial statements.

Other than as noted above, we have not implemented any pronouncements that had a material impact on the financial statements, and we do not believe that there are any other new accounting pronouncements that have been issued that might have a material impact on our financial position or results of operations.

Note 2
Accounts Receivable - Trade

At December 31, 2018 and 2017, trade accounts receivable consisted of the following:

	December 31, 2018	December 31, 2017
Accounts receivable - credit card revenues	$ 26,085	$ 42,016
Accounts receivable - licensing	30,431	18,566
Accounts receivable - Groupon	48,239	6,619
Total accounts receivable	$ 104,755	$ 67,201

Note 3
Inventory

At December 31, 2018 and 2017, inventory consisted of the following:

	December 31, 2018	December 31, 2017
Food products	$ 9,406	$ 9,199
Liquor products	5,770	11,019
Beer products	1,385	2,220
Wine products	3,713	6,061
Total inventory	$ 20,274	$ 28,499

Note 4
Prepaid Expenses

At December 31, 2018 and 2017, prepaid expenses consisted of the following:

	December 31, 2018	December 31, 2017
Prepaid insurance	$ 9,680	$ 23,107
Prepaid licenses	1,421	4,417
Prepaid rent	32,788	32,788
Prepaid services - other	-	732
	$ 43,889	$ 61,044

Note 5
Property and Equipment, net

At December 31, 2018 and 2017, property and equipment, net consisted of the following:

	December 31, 2018	December 31, 2017	Estimated Useful Lives (in years)
Leasehold improvements	$ 1,868,270	$ 1,859,347	5 - 10
Audio/Visual equipment	471,505	471,505	4
Computers and IT related	109,260	109,260	3 - 5
Furniture and fixtures	405,475	417,435	5 - 7
Kitchen equipment	444,657	444,657	7
Replica firearms	167,684	167,684	3
Leased equipment	208,957	208,957	5
	3,675,808	3,678,845	
Less: accumulated depreciation	(1,426,033)	(849,127)	
Subtotal	2,249,775	2,829,718	
Construction in progress	56,690	-	N/A
Total	$ 2,306,465	$ 2,829,718	

Depreciation expense was $579,043 and $532,190 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, our capital lease assets were $159,639, net of $49,318 of accumulated depreciation and at December 31, 2017, our capital lease assets were $201,430, net of $7,527 of accumulated depreciation.

Note 6
Commitments and Contingencies

Co-Venture Agreement

The Co-Venture Agreement provides for a 7% royalty payment to VirTra based on gross revenue. The royalty commenced on June 1, 2016 with the opening of our Peoria, Arizona location. The agreement, as amended, also provides for minimum royalty payments determined under a formula, as more fully described below. Accrued royalties to VirTra as of December 31, 2018 and 2017 were $24,991 and $226,673, respectively.

Note 6
Commitments and Contingencies (continued)

Co-Venture Agreement (continued)

During August 2017, we entered into the First Amendment to the Co-Venture Agreement (the "First Amendment") that provided for, among other things, the ability to enter into sublicensing and revenue sharing arrangements with location-based entertainment companies such as Lucky Strike Entertainment, LLC and the level of royalties due with respect to these arrangements. Whereas, we incur a royalty fee of 7.0% on gross revenues in our stand-alone locations, the First Amendment calls for royalty payments of either 10.0% or 14.0% of the revenue paid to us with the applicable rate dependent upon how we procure the shooting lounge equipment. The First Amendment also recognized the cash out exercise of the warrants that were assigned to us by affiliates of the Company, as discussed in Note 13, Related Party Transactions.

In July 2018, we entered into the Second Amendment to the Co-Venture Agreement dated January 16, 2015 with VirTra, Inc. (the "Second Amendment") that, among other things served to redefine the minimum royalty fee due commencing after June 1, 2018 and reaffirm the exclusivity provisions of the Co-Venture Agreement. As we were unable to fund the minimum royalty due under the Co-Venture Agreement for our second year of operations, in tandem with executing the Second Amendment, we agreed to pay VirTra, Inc. $100,000 in cash and convey a convertible promissory note in the principal amount of $292,138 with a term of one-year as satisfaction of the minimum royalty due for the second year of operations. The minimum royalty, as redefined in the Second Amendment, is calculated by multiplying gross revenue by 7%. Gross revenue is calculated by the addition of: 100% of the gross revenue realized in the Peoria location for the 12-month period ended May 31, 2018 and 100% of each new Modern Round location as calculated by multiplying a base rate by the actual square footage of each new location. The base rate is determined by way of applying actual gross revenues attained in Peoria in each of year one and year two of its operations and dividing those figures by the actual square footage of the Peoria location to determine the base rate (the "MR Peoria Base Rate of Year One" and the "MR Peoria Base Rate of Year Two"). The MR Peoria Base Rate of Year One is then applied to the actual square footage of each new Modern Round location to determine the amount to be added to gross revenue for the first twelve months of operation and the MR Peoria Base Rate of Year Two is applied to the calculation for each 12-month period thereafter. Each newly opened Modern Round location is added to the minimum royalty calculation after the passing of 90 days from opening.

Our exclusive license is conditional upon certain milestones. We were required to open a location in the United States and Canada within 24 months, and are required to open an international location within 5 years of the execution of the Co-Venture Agreement. Additionally, we must meet the minimum royalty payments noted when they become effective. We satisfied the United States and Canada provision with the opening of our Peoria, Arizona location in June 2016.

We assumed all development costs under the agreement. During the years ended December 31, 2018 and 2017, we recorded software development costs, including internal payroll costs, under the Co-Venture Agreement in the amount of $5,717 and $340,780, respectively.

Leases

We formed a wholly-owned Arizona limited liability company, MR Peoria, LLC, to conduct operations at our first venue. The building lease for this venue commenced on November 1, 2015 and has an initial term of 10 years and a renewal option for two additional 5 year periods. The lease provided for five free months and then escalating monthly payments from approximately $9,200 to $23,000. In addition, we received a tenant allowance of $10 per square foot, payable in installments upon 50% completion of our buildout, and 50% upon completion of the project and submittal of all releases from our general contractor. The tenant allowance payments are recorded to deferred rent, and are being amortized as a reduction to rent expense from the date they are received through the expiration of the lease period. Leasehold improvements at the location are being amortized from the date they are placed in service, through the earlier of their useful lives or the end of the 10-year lease term.

We amended our corporate office lease agreement in December 2015 to increase our leased space and extend the agreement through March 2019. The monthly lease rates, commencing December 1, 2015, include one month at $3,540, three free months, and 36 months ranging from $7,047 to $7,323 per month.

Note 6
Commitments and Contingencies (continued)

Leases (continued)

During October 2017, we again amended our lease for corporate office space. The lease provides for escalating monthly payments from approximately $4,000 to $4,300 through the maturity date in November 2022, and allows for one month of free rent in 2020 and 2021.

Rent expense for the years ended December 31, 2018 and 2017 was $263,503 and $279,838, respectively.

Future annual minimum lease commitments for the aforementioned leases are as follows:

Year Ending December 31,	Future Minimum Lease Commitments
2019	$ 286,033
2020	288,519
2021	295,062
2022	301,606
2023	260,400
Thereafter	606,631
Total	$ 2,038,251

Severance Agreements

In June 2015, our wholly-owned subsidiary, Modern Round, Inc., entered into severance agreements with two executive officers. The agreements provide that if the employee is terminated, other than for cause, we will pay the employee's base salary for a period of 12 months, all unvested stock will vest immediately, and the employees will be paid a pro-rated bonus for the year.

In November 2017, our President and COO resigned from our company to pursue other interests. Our current members of management have assumed the duties and responsibilities of this officer. We have no further liabilities in conjunction with this officer's resignation.

Standard Location Agreements

Our Standard Location Agreements (the "LS Agreements") with affiliates of Lucky Strike Entertainment, LLC ("Lucky Strike") stipulate a minimum revenue requirement in the aggregate after the conclusion of an initial 90-day grace period. The LS Agreements document the placement of our Modern Round shooting lounges within existing Lucky Strike locations. Our economic arrangement with Lucky Strike requires us to incur the cost of equipment procurement, installation of the systems, training and any expenses associated with the servicing of the systems. In return, we receive 50% of gross revenue received from shooting lounge rentals and membership fees. These revenue sharing fees are remitted to us on a monthly basis. The LS Agreements include a Revenue Commitment requirement that must be met for two (2) consecutive quarters in any twelve (12) month period. The 50% share of the Revenue Commitment for the four (4) locations we have opened is $560,000 annually. Where we have not attained the Revenue Commitment for a Location for two (2) consecutive calendar quarters, such Location may give written notice thereof to us. In such case, we shall have thirty (30) days to make up any shortfall in the Revenue Commitment, either by increasing Gross Revenue, by cash payment, or by our agreement to reduce Fees otherwise payable to us by the corresponding amount, at our sole option. Where we have failed to do any of the foregoing, such Location may terminate the LS Agreement, but only as to such Location. The initial term of each LS Agreement is two (2) years with extension provisions. As of December 31, 2018, we were within the initial 90-day grace period for the Chicago, IL and West Nyack, NY locations. We have not met the minimum revenue requirement for the Albany and Manhattan, NY locations and have recorded a liability of $214,584 and $0 related to this obligation as of December 31, 2018 and 2017, respectively. We have not received written notification with respect to any of the locations.

Note 6
Commitments and Contingencies (continued)

Standard Location Agreements (continued)

In addition, the LS Agreements provided we issue Lucky Strike a warrant to purchase 0.25% of our fully diluted common stock for each machine installed in a location. The warrants vest ratably per month over a five-year period from the date of grant. Each vested warrant is exercisable at a price equal to $2.46 per share and exercisable during the period commencing on the date of installation of the applicable machine and ending after five (5) years. As of December 31, 2018, 624,398 warrants had been issued related to the LS Agreements.

Note 7
Secured Revolving Line of Credit – Related Parties

We entered into a Loan and Security Agreement, (or the "Loan Agreement"), through our wholly-owned subsidiary, Modern Round, Inc. (or "Modern Round"), dated May 11, 2016, with related parties, (i) Black Powder Management, L.L.C., a Nevada limited liability company (or "Black Powder"), and (ii) BK Entertainment LLC, an Arizona limited liability company (or "BK Entertainment"), and together with Black Powder, each, a Lender and collectively, Lenders. The principal of Black Powder serves on our Board of Directors and is an indirect stockholder of more than 10% of our company. The principal of BK Entertainment also serves on our Board of Directors, and BK Entertainment is a stockholder of more than 10% of our company. Pursuant to the Loan Agreement, Lenders agreed to make a revolving credit loan to Modern Round during the Commitment Period (as defined below), in an aggregate principal amount at any one time outstanding not to exceed $1,500,000 ("Maximum Commitment"). The Loan and Security Agreement has been amended on various occasions primarily to increase the Maximum Commitment and to extend the maturity date. On May 25, 2017, the Company executed the Third Amendment to the Loan and Security Agreement that increased the Maximum Commitment to $3,500,000 and extended the maturity date and interest due to June 2019. In November 2017, Lenders agreed to increase the Maximum Commitment to $4,250,000. Subsequent to December 31, 2018 the maturity date of the principal was extended to June 2021. See Note 17, Subsequent Events. Accordingly, the line of credit balance has been presented as long-term liabilities as of December 31, 2018.

The Loan Agreement calls for interest to be payable at 5.0% per annum on the outstanding unpaid principal amount. We are required to pay each Lender, in accordance with such Lender's proportionate share of the outstanding advances, all accrued and unpaid interest in arrears is due upon the Termination Date in June 2019. The principal balance outstanding under the Loan Agreement together with all accrued interest and other amounts payable thereunder, if not sooner paid as provided in the Loan Agreement, will be due and payable on the Termination Date. As used in the Loan Agreement, "Commitment Period" means the period from and including the date of the first advance under the Loan Agreement to and including the Termination Date. "Termination Date" means June 30, 2018, or (i) such earlier date upon which the commitment shall terminate as provided in the Loan Agreement or (ii) such later date upon Modern Round's election to extend the Termination Date in accordance with the Loan Agreement. Lenders may extend the Termination Date for successive one-year periods by providing written notice no later than 90 days prior to the Termination Date, then being extended. As described above, the Termination Date was extended to June 2019, and has subsequently been extended to June 2021.

On March 19, 2018, we executed a Fourth Amendment to the Loan and Security Agreement that provided for the conversion of $3,112,000 of principal and $234,618 of accrued interest into common shares of the Company at a conversion rate of $2.46 per share. The amendment called for the conveyance of two-years of interest to the Lenders in an amount of $318,980 as an incentive. The principal, accrued interest and the incentive interest converted into 1,490,080 common shares. As of December 31, 2018, the issuance of the underlying shares was pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. This was subsequently completed and the shares were issued in March 2019.

Note 7
Secured Revolving Line of Credit – Related Parties (continued)

Pursuant to the Loan Agreement, we granted to the Lenders a security interest in substantially all the personal property assets of Modern Round. Modern Round will be subject to customary negative covenants as set forth in the Loan Agreement. Additionally, each of Modern Round's wholly-owned subsidiaries, MR Riverview, LLC and MR Peoria, LLC, entered a Guaranty and Security Agreement for the benefit of Lenders to guarantee and secure the obligations of Modern Round under the Loan Agreement. As mentioned above, the Lenders agreed to defer interest payments through June 2019. We have recorded $428,298 and $159,247 in interest expense on this debt for the years ended December 31, 2018 and 2017, respectively, which includes $318,980 and $0, of induced conversion expense, respectively. We had an outstanding line of credit balance of $3,128,500 and $3,742,500 at December 31, 2018 and 2017, respectively. As of December 31, 2018, there was $1,121,500 remaining availability on the line of credit.

Note 8
Notes Payable

Convertible Notes Payable

In November and December 2015, prior to the merger, our wholly-owned subsidiary, Modern Round, Inc., issued 8% convertible promissory notes in a private placement in the aggregate principal amount of $1,275,000, of which $775,000 was issued to independent third parties and $500,000 was issued to certain related parties. In January 2016, we approved a private placement of up to $5,000,000 of 8% convertible promissory notes. On August 10, 2016, we closed our convertible debt offering, pursuant to which investors subscribed to $1,875,000 in aggregate principal amount of convertible promissory notes. All the convertible notes payable originally matured between November 2017 and August 2018, and have been extended for various notes. Eight percent interest is accrued and compounds annually, and is due in one payment with the principal at the notes' maturity. The holders have the right to convert their principal and accrued interest balance into common stock shares of the company at a price equal to $2.46 per share.

During the second quarter of 2017 we issued $125,000 of promissory notes in a private placement to independent third parties. The convertible notes payable mature between April and May 2019. Eight percent interest is accrued and compounds annually, and is due in one payment with the principal at the notes' maturity. The holders have the right to convert their principal and accrued interest balance into common stock shares of the company at a price equal to $2.46 per share.

On November 16, 2017 two related party holders exercised their right to convert the notes into common stock shares. The holders converted $400,000 of notes, as well as accrued interest of $64,088, and additional incentive interest of $66,560. On December 29, 2017 four holders exercised their right to convert the notes into common stock shares. The holders converted $425,000 of notes, as well as accrued interest of $66,257, and additional incentive interest of $70,720. The issuance of the underlying shares is in process with our transfer agent.

During 2018, 27 holders exercised their right to convert their notes into common stock shares. The holders converted $1,750,000 of notes, as well as accrued interest of $305,451, and additional incentive interest of $332,800. The issuance of the underlying shares is in process with our transfer agent.

In July 2018, we entered into the Second Amendment to the Co-Venture Agreement dated January 16, 2015 with VirTra, Inc. (the "Second Amendment"). We conveyed a convertible promissory note in the principal amount of $292,138 with a term of one-year as satisfaction of the minimum royalty due for the second year of operations. The note accrues interest at a rate of 5% per annum with all principal and accrued interest due in one installment on August 1, 2019. However, in the event of any private placement or public offering, the Company shall remit twenty percent (20%) of the net proceeds of aforementioned offering to VirTra, Inc. VirTra, Inc. may also elect to convert the unpaid principal amount of the note and any unpaid interest accrued into shares of common stock of the Company at a twenty five (25%) discount to the price of shares sold to the public in a public offering of its common stock in connection with a go-public transaction.

At December 31, 2018 and 2017, the outstanding principal balance of the promissory notes and accrued interest were convertible into approximately 419,313 and 1,132,694 shares of our common stock, respectively.

Note 8
Notes Payable (continued)

Convertible Notes Payable (continued)

We incurred $418,561 and $390,135 in interest expense during the years ended December 31, 2018 and 2017, respectively, related to the Convertible Notes Payable, which includes $332,800 and $137,280, of induced conversion expense, respectively.

Notes Payable – Other

In December 2016 we converted two accounts payable vendor balances totaling $235,920 into notes payable. The notes were payable by March 31, 2017, or sooner if certain specific conditions were met.

In April 2017 we reached an extension agreement related to one of the notes for $150,000. Under the terms of the extension, we were to make 8 equal payments starting May 1, 2017. The balance of $37,500 is included in short-term notes payable on the balance sheet at December 31, 2017, and was repaid during 2018.

In April 2017 we reached an extension agreement related to the other note for $85,920. Under the terms of the extension, an initial payment of $10,000 was to be paid on April 15, 2017 with equal monthly payments of $7,475 through February 2018, and a residual payment of $4,950. The balance of $19,156 is included in short-term notes payable on the balance sheet at December 31, 2017, and was repaid during 2018.

In January 2017 we converted another account payable vendor balance totaling $132,865 into a note. The note payable was originally established with 0% interest and a maturity date of March 31, 2017. The balance of $67,760 is included in short-term notes payable on the balance sheet at December 31, 2017, and was repaid during 2018.

Future Minimum Payments – Notes Payable

Future minimum payments of notes payable as of December 31, 2018 is as follows:

Year	Convertible Notes Payable
2019	$ 542,138
2020	200,000
Thereafter	-
Total	$ 742,138

As of December 31, 2018, we were past due on $250,000 of the notes payable. However, through the financial statement issuance date, $200,000 of past due notes were extended and mature August 1, 2019. The remaining $50,000 of convertible notes remained past due.

Note 9
Capital Lease Obligations

On October 12, 2017 we entered into an equipment lease treated as a capital lease transaction with NFS Leasing for $208,957. Under the terms of the lease we were to make an immediate down payment of $20,896, a security deposit of $7,463 and pay an origination fee of $2,000 with a residual financed balance of $188,061. The lease contained an imputed interest rate of approximately 13.97% and requires us to make 30 monthly payments of $7,463 beginning November 1, 2017.

Note 9
Capital Lease Obligations (continued)

The amount of interest expense related to our capital lease for the years ending December 31, 2018 and 2017 was $20,473 and $4,316, respectively. The following table summarizes future maturities of our capital lease obligations as of December 31, 2018:

Year Ending December 31,	Amount
2019	$ 89,553
2020	29,851
Total Minimum lease payments	119,404
Less: amount representing inerest	(11,032)
Present value of net minimum lease payments	108,372
Less: current maturities	(79,370)
Non-current maturities	$ 29,002

Note 10
Fair Value of Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, notes payable, capital lease obligations, and a secured revolving line of credit. The carrying values of these financial instruments approximate fair value, due to their short maturities, or for notes payable, capital lease obligations, and the secured revolving line of credit, based on borrowing rates currently available to us for loans with similar terms and maturities, which represent Level 3 inputs.

On March 3, 2017, we entered a stock purchase agreement with Bollente Companies, Inc. to sell our available for sale investment of 300,000 common stock shares back to Bollente Companies, Inc. for $0.28 per share. Total proceeds from the sale were $84,000.

Available for sale equity investments had the following activity for the year ended December 31, 2017:

Available for Sale Investments - Equity:	Available for Sale Investment (Fair Value)	Available for Sale Investment - Credit Losses
December 31, 2016	$ 84,000	$ -
Sale of Investment	(84,000)	-
Credit losses	-	-
Other-than-temporary impairment	-	-
December 31, 2017	$ -	$ -

Note 11
Accrued Expenses

Accrued expenses consist of unit-level operating expenses, corporate general and administrative expenses, and interest expense. We determine the balances based on actual amounts billed or reasonable estimates calculated based on historical costs, as applicable.

Accrued expenses at December 31, 2018 and 2017 consisted of the following:

	December 31, 2018	December 31, 2017
Accrued:		
G&A and other operating expenses	$ 1,013,099	$ 723,821
Payroll and related expenses	127,262	110,895
Sales and use taxes	18,816	70,943
VirTra expenses	24,991	248,229
Lucky Strike revenue guarantee	214,584	-
Interest expense	197,870	485,378
Interest expense - related party	2,675	81,118
Total Accrued Expenses	$ 1,599,297	$ 1,720,384

Note 12
Income Taxes

We recorded deferred tax balances related to our net operating loss and timing differences between book and tax accounting during the year ended December 31, 2018 and 2017. We identified these items to be less than fifty percent likely to be recovered. As such, we recorded a full valuation allowance on the net deferred income tax asset of approximately $3,112,000 and $2,083,000, at December 31, 2018 and 2017, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act (the “2017 Tax Act”) was enacted. The most significant impact to us of the 2017 Tax Act was a decrease in the federal corporate income tax rate from 35% to 21% beginning in 2018. As a result of the decrease in the corporate income tax rate, we were required to recognize the effect on our deferred tax assets and liabilities in the tax year ended December 31, 2017, the period in which the legislation was enacted.

The following table sets forth our provision for income taxes for the fiscal years ended:

	December 31, 2018	December 31, 2017
Income tax provision:		
Current provision		
Federal, state, and local	$ -	$ -
Deferred provision (benefit):		
Federal, state, and local	(1,029,000)	(959,000)
Impact to provision (benefit) due to 2017 Tax Act	-	630,000
Valuation allowance	1,029,000	329,000
Provision for income taxes, net	$ -	$ -

Note 12
Income Taxes (continued)

The following table sets forth the reconciliation of the federal statutory rate to the effective income tax rate for the fiscal years ended:

	December 31, 2018	December 31, 2017
Federal corporate statutory rate	21.0%	21.0%
State and local income taxes, net of federal income tax benefit	4.0%	4.0%
Nondeductible expenses	0.0%	-0.1%
Impact of 2017 Tax Act	0.0%	-16.4%
Valuation allowance	-25.0%	-8.5%
Effective tax rate	0.0%	0.0%

The following table sets forth the significant components of our deferred tax assets and liabilities as of the fiscal years ended:

	December 31, 2018	December 31, 2017
Deferred tax assets and (liabilities):		
Net operating loss	$ 3,058,000	$ 2,359,000
Depreciation	(285,000)	(370,000)
Prepaid assets	62,000	58,000
Stock options	114,000	36,000
Interest	163,000	-
Total deferred tax assets and (liabilities), net	3,112,000	2,083,000
Less: valuation allowance	(3,112,000)	(2,083,000)
Deferred income tax asset (liability), net	$ -	$ -

As of December 31, 2018 and 2017, we had federal income tax net operating loss carryforwards of approximately $12,234,000 and $9,435,000, which expire at various dates beginning in 2036. We are generally no longer subject to federal or state income tax examinations for years prior to 2015.

Note 13
Related Party Transactions

In October 2016, VirTra exercised its warrant to purchase shares of our common stock. See Note 14 Stockholders' Deficit, for details on the warrant exercise. Certain of our directors have a minority interest in VirTra, which is a public company, and we share a common director. We recorded expenses under the Co-Venture Agreement of $354,421 (including $348,704 in royalties) and $377,780 (including $333,347 in royalties), for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 we had an outstanding balance with VirTra of $24,991 in accrued royalty expense and a note payable balance of $292,138. At December 31, 2017 we had an outstanding balance with VirTra of $21,556 in accrued expense and $226,673 in accrued royalty expense.

We owed $50,365 and $38,691 in expense reimbursements to our executives and directors at December 31, 2018 and 2017, respectively. The balances are recorded in accounts payable on our consolidated balance sheets.

On March 6, 2018, we settled a note with our former President and COO originally due November 15, 2017. Under the terms of the settlement we paid $100,000 of principal and $35,000 of accrued interest related to the note.

Note 13
Related Party Transactions (continued)

We entered into a Loan and Security Agreement, (or the "Loan Agreement"), as referenced in Note 7 Secured Revolving Line of Credit. On March 19, 2018, we executed a Fourth Amendment to that Loan and Security Agreement that provided for the conversion of $3,112,000 of principal and $234,618 of accrued interest into common shares of the Company at a conversion rate of $2.46 per share. The amendment called for the conveyance of two-years of interest to the Lenders in an amount of $318,980 as an incentive. The principal, accrued interest and the incentive interest converted into 1,490,080 common shares. Interest expense on this debt was $428,298 and $159,247, for the years ending December 31, 2018 and 2017, respectively. At December 31, 2018, $3,128,500 in principal and $105,469 in accrued interest were outstanding to related parties. At December 31, 2017, $3,742,500 in principal and $230,768 in accrued interest were outstanding to related parties.

During August 2017, affiliates of the Company assigned to the Company warrants to purchase common shares of VirTra, Inc. The Company elected to exercise the warrants under the net cash exercise value provision and received proceeds of $773,494. As consideration for the assignment, the Company issued to the affiliates a total of 644,579 common shares. In tandem with the exercise, the Company applied $118,426 of the proceeds received from the exercise toward satisfaction of the minimum royalty due under the Co-Venture Agreement for the first year of operations, and, thus realized net proceeds of $655,068.

Note 14
Stockholders' Deficit

At December 31, 2018, we were authorized to issue 200,000,000 shares of common stock, of which 9,571,464 shares were issued and outstanding. At December 31, 2017, we were authorized to issue 200,000,000 shares of common stock, of which 7,110,550 shares were issued and outstanding. We were authorized to issue 10,000,000 shares of preferred stock with no shares issued or outstanding at December 31, 2018 and 2017. Rights and privileges of preferred stock are to be determined by our Board of Directors. On April 11, 2018, our Board of Directors approved an amendment to our Amended and Restated Articles of Incorporation to effect a 1-for-12,000 reverse split of our Common Stock (the "Reverse Split"), followed by a 2,000-for-1 forward split of our Common Stock (the "Forward Split"), which was done on November 13, 2018. All references to common stock shares and price have been retroactively adjusted in the financial statements.

The Company's shareholders who held less than one whole share following the Reverse Split would not be included in the Forward Split, and were offered a redemption price of $2,400 per post-Reverse Split share. During the year ended December 31, 2018, total redemptions paid for shareholders that remitted their stock certificates totaled $1,820. The total remaining redemptions may be up to approximately $44,000.

During the years ended December 31, 2018 and 2017, we entered into the following additional transactions that affected stockholders' deficit:

During August 2017, affiliates of the Company assigned to the Company warrants to purchase common shares of VirTra, Inc. The Company elected to exercise the warrants under the net cash exercise value provision and received proceeds of $773,493. As consideration for the assignment, the Company issued to the affiliates a total of 644,579 common shares. In tandem with the exercise, the Company applied $118,426 of the proceeds received from the exercise toward satisfaction of the minimum royalty due under the Co-Venture Agreement for the first year of operations, and, thus realized net proceeds of $655,068. See Note 13, Related Party Transactions.

On November 16, 2017 two related party holders exercised their right to convert their notes into common stock shares. The holders were issued 216,877 shares for debt and interest owed in the aggregate amount of $530,648. See Note 8, Notes Payable. The issuance of the underlying shares is in process with our transfer agent.

On December 29, 2017 four holders exercised their right to convert the notes into common stock shares. The holders were issued 230,320 shares for debt and interest owed in the aggregate amount of $561,977. See Note 8, Notes Payable. The issuance of the underlying shares is in process with our transfer agent.

Note 14
Stockholders' Deficit (continued)

On November 16, 2017, we granted an aggregate of 266,534 options to purchase shares of our common stock to a consultant. Of these, 133,267 shares vested immediately and the remaining 133,267 options vest over a five-year period. These options are exercisable at $2.46 per share, and expire 5 years from the grant date. The estimated fair value of $143,928 was determined using the Black-Scholes model using the following assumptions: five-year expected life; 2.90% risk free interest rate; zero dividend rate; and 165% expected volatility.

On January 31, 2018 we granted an aggregate of 8,333 options to purchase shares of our common stock to a consultant. The options vest over a two-year period, are exercisable at $2.46 per share, and expire 10 years from the grant date. The approximate value of $20,000 was determined using the Black-Scholes model using the following assumptions: ten-year expected life; 2.72% risk free interest rate; zero dividend rate; and 223% expected volatility.

On March 19, 2018, we made a modification to 61,384 vested stock options issued to our former President and COO who left the Company in November of 2017. If a holder's employment with the Company is terminated for any reason, all vested options may be exercised for the lesser of three (3) months after employment ceases or the balance of the option's remaining term. Under the terms of the modification we agreed to extend the vested options an additional one (1) year to March 2019. The options were revalued as of March 19, 2018 using the Black-Scholes model using the following assumptions: 1.25 years expected life; 1.9% risk free interest rate; zero dividend rate; and 75% expected volatility. In comparison to the estimated value immediately before the modification, this resulted in the Company recording an additional $27,211 of expense related to the modification of the options during the year ended December 31, 2018.

During 2018, we granted an aggregate of 624,398 options to purchase shares of our common stock to Lucky Strike in conjunction with our LS Agreements, See Note 6 – Commitments and Contingencies. The options vest monthly over a five-year period, are exercisable at $2.46 per share, and expire 5 years from the grant date. The approximate value of $1,420,000 was determined using the Black-Scholes model using the following assumptions: five-year expected life; 1.76% to 3.05% risk free interest rate; zero dividend rate; and 125% to 215% expected volatility.

In November 2018, we engaged StartEngine Capital, LLC ("StartEngine") to provide funding portal services for our contemplated offering under Regulation Crowdfunding ("Reg CF"), as adopted by the U.S. Securities and Exchange Commission ("SEC"). The StartEngine services include, among other things, SEC filing assistance, compliance review, marketing consulting services, campaign page design, and general offering support. The applicable fees include closing commissions dependent upon the dollar amount raised and the form of payment. The offering commenced in February 2019 and remains open as of April 26, 2019, which is the date these financial statements were available to be issued.

During 2018, we converted $1,750,000 of our outstanding convertible promissory notes, as well as accrued interest of $305,451 and additional incentive interest of $332,800 into 970,834 common stock shares at $2.46 per share. See Note 8 Notes Payable. The issuance of the underlying shares is in process with our transfer agent.

During 2018, we converted $3,112,000 of principal, $234,618 of accrued interest, and $318,980 as an incentive into common shares of the Company at a conversion rate of $2.46 per share, related to our related party line of credit. The principal, accrued interest and the incentive interest converted into 1,490,080 common shares. As of December 31, 2018, the issuance of the underlying shares was pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. This was subsequently completed and the shares were issued in March 2019. See Note 7 Secured Revolving Line of Credit – Related Parties.

Note 15
Options and Warrants

Our 2015 Incentive Stock Plan (the "2015 Plan"), which is shareholder approved, permits the grant of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), bonus stock, dividend equivalents, other stock-based awards, and performance awards that may be settled in cash, stock, or other property.

Note 15
Options and Warrants (continued)

Up to 7,000,000 shares of common stock are authorized to be issued under the 2015 Plan. The purpose of the 2015 Plan is to assist us in attracting, motivating, retaining (including through designated retention awards), and rewarding high-quality executives, employees, officers, directors, and individual consultants who provide services to us by enabling such persons to acquire or increase a proprietary interest in our company in order to strengthen the mutuality of interests between such persons and our stockholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of stockholder value. Option awards are generally granted with an exercise price equal to the market price of our Company's stock at the date of the grant; those option awards generally vest over three or five years of continuous service and have 10 year contractual terms. Share awards generally vest over five years. Certain option and share awards provide for accelerated vesting upon a change in control of our Company, as defined in the 2015 Plan. Our option agreements associated with the 2015 Plan provide for the termination of any unexercised portion of an optionee's grant at the tenth anniversary of grant or earlier should certain events occur.

Our 2018 Incentive Stock Plan (the "2018 Plan"), which is shareholder approved, permits the grant of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), bonus stock, dividend equivalents, other stock-based awards, and performance awards that may be settled in cash, stock, or other property.

Up to 2,000,000 shares of common stock are authorized to be issued under the 2018 Plan. The purpose of the 2018 Plan is to assist us in attracting, motivating, retaining (including through designated retention awards), and rewarding high-quality executives, employees, officers, directors, and individual consultants who provide services to us by enabling such persons to acquire or increase a proprietary interest in our company in order to strengthen the mutuality of interests between such persons and our stockholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of stockholder value. Option awards are generally granted with an exercise price equal to the market price of our Company's stock at the date of the grant; those option awards generally vest over three or five years of continuous service and have 10 year contractual terms. Share awards generally vest over five years. Certain option and share awards provide for accelerated vesting upon a change in control of our Company, as defined in the 2018 Plan. Our option agreements associated with the 2018 Plan provide for the termination of any unexercised portion of an optionee's grant at the tenth anniversary of grant or earlier should certain events occur.

The table below sets forth a summary of the options and warrants as of the years ended December 31, 2018 and 2017:

	Weighted Average Exercise Price	Number of Options and Warrants	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2016	$ 2.22	889,488	8.28	$ 0.42
Options and warrants forfeited	2.46	(15,346)	-	0.48
Options and warrants granted	2.46	266,534	4.88	0.54
Outstanding as of December 31, 2017	2.28	1,140,676	6.71	0.42
Options and warrants forfeited	0.66	(117,076)	-	0.44
Options and warrants granted	2.46	632,731	4.26	2.28
Outstanding as of December 31, 2018	$ 2.34	1,656,331	4.84	$ 1.13

Note 15
Options and Warrants (continued)

The table below sets forth a summary of the vested and unvested options and warrants as of the years ended December 31, 2018 and 2017:

	Weighted Average Exercise Price	Number of Options and Warrants	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2017				
Vested	$ 2.22	916,794	6.80	$ 0.42
Non-Vested	$ 2.46	223,882	6.33	$ 0.48
Total		1,140,676		
Outstanding as of December 31, 2018				
Vested	$ 2.27	1,048,747	5.18	$ 0.63
Non-Vested	$ 2.46	607,584	4.24	$ 2.03
Total		1,656,331		

We had $1,234,549 in estimated fair value for non-vested options that remained to be recognized as expense at December 31, 2018. The weighted average period to recognize total compensation costs related to non-vested options is approximately 4.2 years. The intrinsic value of all vested and non-vested options and warrants at December 31, 2018 and 2017 was $0.

Note 16
Employee Benefit Plans

We participate in a multi-employer 401(k) profit sharing plan (the "Plan") maintained by a third-party service provider. The Plan allows substantially all employees to participate once they meet the Plan's enrollment guidelines, and employees may elect to contribute a portion of their salary to the Plan. The matching contributions by the Company are at the discretion of our board of directors, and are subject to certain limitations. We contributed $21,808 and $32,238 to the Plan in the years ended December 31, 2018 and 2017, respectively.

Note 17
Subsequent Events

The Company has evaluated subsequent events through April 26, 2019, which is the date these financial statements were available to be issued.

On November 30, 2018 we entered into an equipment lease treated as a capital lease transaction with NFS Leasing for $51,783, which became effective in January 2019. The lease contained an imputed interest rate of approximately 13.97% and requires us to make 30 monthly payments of $2,055 beginning January 1, 2019.

On January 15, 2019, we reached an agreement with two note holders to extend $200,000 of convertible notes and accrued interest. Under the terms of the extension, the convertible notes maturing October 26, 2018, were extended to August 1, 2019.

In April 2019, we reached an agreement with one note holder to extend $200,000 of convertible notes and accrued interest. Under the terms of the extension, $100,000 of the convertible notes initially maturing April 2019, were extended one year to April 2020. The remaining $100,000 of notes initially maturing April 2020, were extended one year to April 2021. Under the terms of the extension, we are to begin making monthly payments in the amount of $25,000 beginning January 1, 2020 until all outstanding principal is repaid in full. In addition, the conversion price associated with the notes will be restated from $2.46 per share to $1.75 per share. Additional incentive interest of $32,000 will be paid to the holder on the Settlement Date in the form of common stock valued at $1.75 per share, converting into 18,285 shares.

Note 17
Subsequent Events (continued)

On April 22, 2019 we executed a Fifth Amendment to the Loan and Security Agreement that provided for the conversion of \$2,036,500 of principal and \$194,623 of accrued interest into common shares of the Company at a conversion rate of \$1.50 per share. The principal and accrued interest will convert into 1,487,415 common shares. The amendment also extends the principal due date two (2) years to June 11, 2021. Additional incentive interest of \$425,000 will be paid to the Lender in the form of common stock valued at \$1.50 per share, converting to 283,333 common shares.

On February 20, 2019, we commenced an offering of our common stock for an amount up to \$1.07 million at a price of \$2.00 per share under Regulation Crowdfunding ("Reg CF"), as adopted by the U.S. Securities and Exchange Commission ("SEC"). The offering remains open as of April 26, 2019, which is the date these financial statements were available to be issued.