THAT’S EATERTAINMENT CORP.
AND SUBSIDIARIES

FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

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. (formerly Modern Round Entertainment Corporation) (the "Company") and subsidiaries as of December 31, 2017 and 2016, 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, 2017 and 2016, 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

January 7, 2019

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THAT'S EATERTAINMENT CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,336	$ 35,014
Accounts receivable - trade	67,201	35,473
Inventory	28,499	29,335
Prepaid expenses	61,044	48,978
Available for sale securities	-	84,000
Total current assets	198,080	232,800
Property and equipment, net	2,829,718	3,141,026
Other assets	45,004	6,900
Total assets	$ 3,072,802	$ 3,380,726
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$ 580,028	$ 539,725
Accrued expenses	1,720,384	1,010,804
Deferred revenue	164,972	126,483
Convertible note payable - short-term	400,000	775,000
Convertible notes payable - related parties - short-term	100,000	500,000
Capital lease obligation - short-term	69,080	-
Notes payable - other	124,416	235,920
Total current liabilities	3,158,880	3,187,932
Long-term liabilities:		
Convertible notes payable - long-term	1,950,000	1,875,000
Deferred rent	306,650	247,308
Capital lease obligation - long-term	108,372	-
Secured revolving line of credit - related parties	3,742,500	2,391,000
Total liabilities	9,266,402	7,701,240
Stockholders' deficit:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2017 and December 31, 2016	-	-
Common stock, $0.001 par value; 200,000,000 shares authorized, 7,110,550 and 6,018,774 shares issued at December 31, 2017 and December 31, 2016, respectively	7,110	6,018
Additional paid-in capital	5,445,260	3,594,747
Accumulated deficit	(11,645,970)	(7,800,848)
Treasury stock at cost, 0 and 254,073 shares at December 31, 2017, and December 31, 2016, respectively	-	(120,431)
Total stockholders' deficit	(6,193,600)	(4,320,514)
Total liabilities and stockholders' deficit	$ 3,072,802	$ 3,380,726

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, 2017	2016
Food and beverage revenues	$ 1,560,365	$ 843,854
Amusement and other revenues	1,172,911	521,081
Licensing revenue	33,942	32,000
Discounts and comps	(346,986)	(140,386)
Total revenue, net	2,420,232	1,256,549
Cost of food and beverage	384,524	204,477
Cost of amusement and other	13,568	5,611
Total cost of products	398,092	210,088
Operating payroll and benefits	1,213,768	744,382
Other store operating expenses	786,844	471,797
General and administrative expenses	2,772,333	3,195,230
Depreciation expense	532,190	304,637
Impairment of available for sale securities	-	216,000
Pre-opening costs	-	340,867
Total operating costs	5,703,227	5,483,001
Loss from operations	(3,282,995)	(4,226,452)
Interest expense	562,127	278,346
Net loss before income taxes	(3,845,122)	(4,504,798)
Provision for income taxes	-	-
Net loss	$ (3,845,122)	$ (4,504,798)
Net loss per share		
Basic and diluted	$ (0.61)	$ (0.76)
Weighted average common shares outstanding		
Basic and diluted	6,294,026	5,957,121

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, 2017 AND 2016

	Common Stock		Additional		Treasury Stock		Total
	Shares (as adjusted)	Par Value	Paid-in Capital	Accumulated Deficit	Shares (as adjusted)	Cost	Stockholders' Deficit
Balance, December 31, 2015	5,984,006	5,984	$ 3,138,442	$ (3,296,050)	-	$ -	$ (151,624)
Convertible promissory note and accrued interest converted to common stock	9,383	9	28,141	-	-	-	28,150
Stock-based compensation: stock options	-	-	38,896	-	-	-	38,896
Rescission of common stock issued to consultants	(254,073)	(254)	(1,270)	-	254,073	(120,431)	(121,955)
Warrant liability reclassified to equity	-	-	55,467	-	-	-	55,467
Warrant exercise	279,458	279	335,071	-	-	-	335,350
Net loss for the year ended December 31, 2016	-	-	-	(4,504,798)	-	-	(4,504,798)
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)

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, 2017	2016
Cash flows from operating activities:		
Net loss	$ (3,845,122)	$ (4,504,798)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	532,190	304,637
Deferred rent	59,342	210,928
Stock option expense	105,917	38,896
Interest on Convertible notes converted to equity	267,625	-
Amortization of VirTra shares and warrant	-	49,193
Amortization of stock prepayment for professional fees	-	83,185
Accounts payable applied to warrant exercise	-	46,800
Accounts receivable - related parties - write-off	-	36,000
Impairment of available for sale securities	-	216,000
Changes in operating assets and liabilities:		
Accounts receivable - related parties	-	(32,000)
Accounts receivable - trade	(31,728)	(35,473)
Inventory	836	(29,335)
Prepaid expenses	(12,066)	(29,931)
Other assets	(38,104)	(385)
Accounts payable	173,168	401,406
Accrued expenses	427,299	393,805
Accrued interest	282,281	278,346
Deferred revenue	38,489	126,483
Lease payable	-	-
Net cash used in operating activities	(2,039,873)	(2,446,243)
Cash flows from investing activities:		
Purchase of property and equipment	(32,821)	(2,896,834)
Proceeds from sale of available for sale securities	84,000	-
Net cash provided and used in investing activities	51,179	(2,896,834)
Cash flows from financing activities:		
Proceeds from related party secured revolving line of credit	1,351,500	2,391,000
Principal payments on notes payable - other	(244,369)	-
Principal payments on capital lease obligation	(10,609)	-
Proceeds from warrant exercise	773,494	288,550
Proceeds from convertible promissory notes	125,000	1,875,000
Net cash provided by financing activities	1,995,016	4,554,550
Net change in cash and cash equivalents	6,322	(788,527)
Cash and cash equivalents at beginning of period	35,014	823,541
Cash and cash equivalents at end of period	$ 41,336	$ 35,014

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, 2017	Years Ended December 31, 2016
Supplemental disclosure of cash flow information:		
Cash paid during period for interest	$ 12,221	$ -
Cash paid during period for income taxes	$ -	$ -
Non-cash investing and financing activities:		
- Stock-based compensation - options	$ 105,917	$ 38,896
- Accounts payable converted to notes payable	$ 132,865	$ 235,920
- Convertible promissory note and accrued interest converted to common stock	$ 1,092,625	$ 28,150
- Capital lease obligations utilized in purchase of property and equipment	$ 188,061	$ -
- Property and equipment purchases in accounts payable and accrued expenses	$ -	$ 133,865
- Reclassification of warrant liability to equity	$ -	$ 55,467
- Accounts payable applied to warrant exercise	$ -	$ 46,800
- Change in warrant liability value	$ -	$ 19,128

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 Union Brickyard Development, LLC (collectively, “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 in October 2017 and opened its first licensed location in Lucky Strike’s Albany, NY site. The relationship has expanded in 2018 to include Modern Round locations in Lucky Strike’s Manhattan, Chicago and West Nyack, NY sites. Modern Round has initiated its new licensing program and is installing shooting lounges in Apex Entertainment’s Syracuse, NY location in December 2018.

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, Union Brickyard Development, 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”) and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”).

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations. We reclassified $32,000 of prior year Amusement and other revenues to Licensing revenue on the current period financial statement presentation. The change on the 2016 classification does not affect previously reported cash flows from operations in the Consolidated Statement of Cash Flows, and had no effect on the previously reported net loss in the Consolidated Statements of Operations, for any period.

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

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.

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, 2017 and 2016, 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 at December 31, 2017, 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 did not record allowance for event sales deposits at December 31, 2017. We expect that our guests will utilize their deposits, or to retain the balances if a guest does not use the balance. We recorded ancillary licensing revenue of $33,942 and $32,000 for the years ending December 31, 2017 and 2016, respectively.

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: licensee credit-worthiness, past history with the licensee, 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, 2017 and 2016.

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 2017 and 2016 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 (effected for the subsequent stock splits discussed in Note 17):

	December 31, 2017	December 31, 2016
Anti-dilutive securities excluded from diluted loss per share (as adjusted):		
Stock options and warrants	1,140,676	889,488
Shares issuable upon conversion of convertible promissory notes, including accrued interest	1,132,194	1,366,949
Total	2,272,870	2,256,437

Fair Values of Financial Assets and Liabilities

We measure and disclose certain financial assets and liabilities at fair value. 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.

The following sets forth the classes of assets and liabilities measured at fair value on a recurring basis at December 31, 2017 and 2016, using quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3):

December 31, 2017

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total December 31, 2017
Available for sale securities	$ -	$ -	$ -	$ -

December 31, 2016

	Level 1: Quoted Prices in Active Markets for Identical Assets	Level 2: Significant Other Observable Inputs	Level 3: Significant Unobservable Inputs	Total December 31, 2016
Available for sale securities	$ -	$ 84,000	$ -	$ 84,000

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

Fair Values of Financial Assets and Liabilities (continued)

The following sets forth a reconciliation of the opening and closing balances for liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2017 and 2016:

	Activity for the years ended December 31,	
Warrant Liability:	2017	2016
Beginning balance	$ -	$ 74,595
Change in valuation	-	(19,128)
Reclassification to equity	-	(55,467)
Ending balance	$ -	$ -

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 7.9% 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 develops and integrates 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.

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 13, Related Party Transactions; Note 14, Stockholders' Deficit; and Note 17, Subsequent Events for impacts that relate to this agreement.

Investments

We determine the appropriate classification of our investments in equity securities at the time of acquisition and reevaluate such determinations at each balance sheet date. We classify investments in equity securities that are bought and held, principally for selling them in the near term, as trading securities. We report trading securities at fair value, with the unrealized gains and losses recognized in earnings. We had no trading securities at December 31, 2017 and 2016.

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

Investments (continued)

We classify investments in equity securities, not classified as trading, as available for sale, and carry them at fair value, with any unrecognized gains and losses, net of tax, included in the determination of other comprehensive income (loss) and reported in stockholders' deficit. We review our investments in equity securities classified as available for sale at each reporting period to determine if there has been an other-than-temporary decline in fair value. This evaluation is based upon several factors, including stock price performance, financial condition, and near-term prospects of the issuer, as well as our intent and ability to retain the investment for a period sufficient to allow for any anticipated recovery in market value and any subsequent sales. We record other-than-temporary impairments of available for sale equity securities as an impairment expense on the statement of operations.

During the year ended December 31, 2016, we determined that our investment in Bollente equities had an other-than-temporary impairment. We recorded $216,000 in impairment expense on the 2016 statement of operations for the other-than-temporary decline in fair value. On March 3, 2017, we sold the investment in Bollente Companies, Inc. to Bollente Companies, Inc. for $84,000. As of December 31, 2017, our Investment in Available for Sale Securities is $0.

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, 2017 and 2016 was $96,571 and $76,058, 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, 2017 and 2016, we had no capitalized software development costs. Our research and development cost, including software development, for the years ending December 31, 2017 and 2016 was $460,803 and $777,812, 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 $2,960,800 and $2,955,132 at December 31, 2017 and 2016, respectively. Net cash outflows from operations for the years ended December 31, 2017 and 2016, were $2,039,873 and $2,446,243, respectively. Major cash uses during the years ended December 31, 2017 and 2016, 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 2018 and 2019. 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 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. In estimating expected volatility, we utilize the historical information of similar publicly traded entities 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.

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.

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 public business entities in annual financial reporting periods beginning after December 15, 2017 and 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 our revenue comes from transactions which are initiated, performed, and paid for on the date of service. We have limited exposure to contracts with other customers, beyond event sales deposits and a Groupon program, which does not generally constitute a material balance.

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

Recently Issued Accounting Pronouncements (continued)

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 fiscal years beginning after December 15, 2018 for public entities and for private entities for annual periods beginning after December 15, 2019. We plan to adopt ASU 2016-02 in the first quarter of 2019 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 lease. 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 public business entities for financial statements issued for fiscal years beginning after December 15, 2017 and for private entities for annual periods beginning after December 15, 2018. We plan to implement this pronouncement in late 2018, when we should have sufficient redemption history that can be used as an estimate in establishing our breakage calculation methodology. At December 31, 2017, 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 public business entities for financial statements issued for fiscal years beginning after December 15, 2019 and 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 public business entities for financial statements issued for fiscal years beginning after December 15, 2017 and 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.

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 public business entities for annual reporting periods beginning after December 15, 2018 and interim periods within those annual periods and 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.

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

Recently Issued Accounting Pronouncements (continued)

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 public entities for fiscal years beginning after December 15, 2019, and for interim periods within those fiscal years, with early adoption permitted. The 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, 2017 and 2016, trade accounts receivable consisted of the following:

	December 31, 2017	December 31, 2016
Accounts receivable - credit card revenues	$ 42,016	$ 27,771
Accounts receivable - licensing	18,566	-
Accounts receivable - Groupon	6,619	7,702
Total trade receivables	$ 67,201	$ 35,473

Note 3
Inventory

At December 31, 2017 and 2016, inventory consisted of the following:

	December 31, 2017	December 31, 2016
Food products	$ 9,199	$ 9,632
Liquor products	11,019	8,962
Beer products	2,220	2,319
Wine products	6,061	8,422
Total Inventory	$ 28,499	$ 29,335

Note 4
Prepaid Expenses

At December 31, 2017 and 2016, prepaid expenses consisted of the following:

	December 31, 2017	December 31, 2016
Prepaid insurance	$ 23,107	$ 22,070
Prepaid licenses	4,417	1,018
Prepaid rent	32,788	19,184
Prepaid services - other	732	6,706
	$ 61,044	$ 48,978

Note 5
Property and Equipment, net

At December 31, 2017 and 2016, property and equipment, net consisted of the following:

	December 31, 2017	December 31, 2016	Estimated Useful Lives (in years)
Leasehold improvements	$ 1,859,347	$ 1,915,921	5 - 10
Audio/Visual equipment	471,505	454,382	4
Computers and IT related	109,260	109,260	3 - 5
Furniture and fixtures	417,435	349,757	5 - 7
Kitchen equipment	444,657	442,851	7
Replica firearms	167,684	178,265	3
Leased equipment	208,957	-	5
Subtotal	3,678,845	3,450,436	
Less: accumulated depreciation	(849,127)	(309,410)	
Total	$ 2,829,718	$ 3,141,026	

Depreciation expense was $532,190 and $304,637 for the years ended December 31, 2017 and 2016, respectively. 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, 2017 and 2016 were $226,673 and $19,980, respectively.

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.

Note 6
Commitments and Contingencies (continued)

Co-Venture Agreement (continued)

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. See Note 17, Subsequent Events for further impacts of this agreement.

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, 2017 and 2016, we recorded software development costs, including internal payroll costs, under the Co-Venture Agreement in the amount of $340,780 and $102,131, 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.

During the 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, 2017 and 2016 was $279,838 and $321,485, respectively.

Note 6
Commitments and Contingencies (continued)

Leases (continued)

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

Year Ending December 31,	Future Minimum Lease Commitments
2018	$ 279,345
2019	286,033
2020	288,519
2021	295,062
2022	301,606
Thereafter	867,031
Total	$ 2,317,596

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 Strikes 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. 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, 2017, we were within the initial 90-day grace period for the Albany, NY location. Therefore, we were not subject to the Revenue Commitment requirement at that juncture.

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 verbally agreed to increase the Maximum Commitment to $4,250,000.

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.

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 $230,768 and $71,521 in accrued interest on this debt as of December 31, 2017 and 2016, respectively. We had an outstanding balance of $3,742,500 and $2,391,000 at December 31, 2017 and 2016, respectively. As of December 31, 2017, there was $507,500 remaining availability on the line of credit. See Note 17, Subsequent Events.

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 mature between November 2017 and August 2018. 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 (as adjusted).

Note 8
Notes Payable (continued)

Convertible Notes Payable (continued)

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 (as adjusted).

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.

At December 31, 2017 and 2016, the outstanding principal balance of the promissory notes and accrued interest were convertible into approximately 1,132,694 (as adjusted) and 1,366,949 (as adjusted) shares of our common stock, respectively.

We incurred $252,855 and $206,825 in interest expense during the years ended December 31, 2017 and 2016, respectively, related to the Convertible Notes Payable.

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. As of December 31, 2017, the note has an outstanding balance of $37,500. The balance of $37,500 and $150,000 is included in short-term notes payable on the balance sheet at December 31, 2017 and 2016, respectively. The balance as December 31, 2017 was paid 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 and $85,920 is included in short-term notes payable on the balance sheet at December 31, 2017 and 2016, respectfully. The balance of the note was satisfied 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. In April, 2017, we agreed to the outline of an extension agreement through March 31, 2018 with 8% interest assessed. The extension had not been ratified by the vendor as of December 31, 2017. The balance of $67,760 is included in short-term notes payable on the balance sheet at December 31, 2017. The balance of the note was satisfied during 2018.

Note 8
Notes Payable (continued)

Future Minimum Payments – Notes Payable

Future minimum payments of notes payable as of December 31, 2017 is as follows:

Year	Convertible Notes Payable	Notes Payable - Other	Total
2018	$ 500,000	$ 124,416	$ 624,416
2019	1,850,000	-	1,850,000
2020	100,000	-	100,000
Thereafter	-	-	-
Total	$ 2,450,000	$ 124,416	$ 2,574,416

As of December 31, 2017, we were past due on $450,000 of the notes payable. However, through the financial statement issuance date, the notes payable-other were satisfied in full, $1,750,000 of the convertible notes had been converted to equity, $250,000 of the convertible notes had been paid in full, $400,000 of the convertible notes were refinanced, with $200,000 due October 2018, $100,000 due April 2019 and $100,000 due April 2020. The remaining $50,000 of convertible notes remained past due. If the remaining $450,000 of our convertible notes are not converted to common stock shares prior to their maturity, then future minimum payments will be as follows as of the financial statement issuance date:

Year	Convertible Notes Payable
2018	$ 250,000
2019	100,000
2020	100,000
Thereafter	-
Total	$ 450,000

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 year ended December 31, 2017 was $4,316. The following table summarizes future maturities of our capital lease obligations as of December 31, 2017:

Year Ending December 31,		Amount
2018	$	89,553
2019		89,553
2020		29,851
Total Minimum lease payments		208,957
Less: amount representing inerest		(31,505)
Present value of net minimum lease payments		177,452
Less: current maturities		(69,080)
Non-current maturities	$	108,372

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.

We recorded available for sale securities at the original cost basis of $300,000, and based the fair value of available for sale securities on analysis of the stock's trading volume and price as well as guidance from our efforts to sell the securities, which represents Level 2 inputs. We incurred an other-than-temporary impairment on our available for sale equity securities in the amount of $150,000 in September 2016, due to low sales volume, the unlikelihood of us holding the stock until its volume or quoted sales price increased, and from broker feedback on their sale efforts. 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. Based on this transaction, we recorded an other-than-temporary impairment of $66,000 in December 2016. The impairment was recorded as impairment expense on our statement of operations in 2016.

Note 10
Fair Value of Financial Instruments (continued)

Available for sale equity investments had the following activity for the years ended December 31, 2017 and 2016:

Activity for the years ended:	December 31, 2017		December 31, 2016	
Available for Sale Investments - Equity:	Available for Sales Investment (Fair Value)	Available for Sales Investment - Credit Losses	Available for Sales Investment (Fair Value)	Available for Sales Investment - Credit Losses
Beginning balance	$ 84,000	$ -	$ 300,000	$ -
Sale of Investment	(84,000)	-	-	-
Credit losses	-	-	-	-
Other-than-temporary impairment	-	-	(216,000)	-
Ending balance	$ -	$ -	$ 84,000	$ -

We estimated the fair value of the warrant liability using Level 3 inputs and the Black-Scholes model. The estimated fair value as of the June 1, 2016 measurement date was calculated using the following inputs: 1.58 year expected life; $1.20 (as adjusted) exercise price; 135.0% volatility; zero dividend rate; and 0.52% risk free interest rate. The fair value measurement of the warrant liability is sensitive to changes in unobservable inputs, as a change in those inputs might result in significantly higher or lower fair value measurement. See Note 14, Stockholders' Deficit for details regarding the reclassification of the warrant liability and the exercise of the warrants in October 2016.

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, 2017 and 2016 consisted of the following:

Accrued:	December 31, 2017	December 31, 2016
G&A and other operating expenses	$ 723,821	$ 554,903
Payroll and related expenses	110,895	119,723
Sales and use taxes	70,943	30,696
VirTra expenses	248,229	21,267
Interest expense	485,378	167,544
Interest expense - related party	81,118	116,671
Total Accrued Expenses	$ 1,720,384	$ 1,010,804

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, 2017 and 2016. 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 $2,083,000 and $1,754,000, at December 31, 2017 and 2016, respectively.

Note 12
Income Taxes (continued)

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 are 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, 2017	December 31, 2016
Income tax provision:		
Current provision		
Federal, state, and local	$ -	$ -
Deferred provision (benefit):		
Federal, state, and local	(959,000)	(1,754,000)
Impact to provision (benefit) due to 2017 Tax Act	630,000	-
Valuation allowance	329,000	1,754,000
Provision for income taxes, net	$ -	$ -

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, 2017	December 31, 2016
Federal corporate statutory rate	21.0%	35.0%
State and local income taxes, net of federal income tax benefit	4.0%	4.0%
Nondeductible expenses	-0.1%	-0.2%
Impact of 2017 Tax Act	-16.4%	0.0%
Valuation allowance	-8.5%	-38.8%
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, 2017	December 31, 2016
Deferred tax assets and (liabilities):		
Net operating loss	$ 2,359,000	$ 2,252,000
Depreciation	(370,000)	(608,000)
Prepaid assets	58,000	95,000
Stock options	36,000	15,000
Total deferred tax assets and (liabilities), net	2,083,000	1,754,000
Less: valuation allowance	(2,083,000)	(1,754,000)
Deferred income tax asset (liability), net	$ -	$ -

As of December 31, 2017 and 2016, we had federal income tax net operating loss carryforwards of approximately $9,435,000 and $5,774,000, which expire at various dates beginning in 2036. We are generally no longer subject to federal, state, or foreign income tax examinations for years prior to 2015.

Note 13
Related Party Transactions

During March 2016, we terminated an agreement for software development with a party in which our directors have a financial interest. The agreement entered into July 2015, provided for an upfront payment of $31,000 and $25,000 monthly payments through the expected project completion date of March 15, 2016. During the year ended December 31, 2016 we recorded expenses of $46,500 under this agreement. We reached a settlement with this vendor in July 2016 that resolved the vendor's final $11,000 billing.

On May 11, 2016, we entered a Loan and Security Agreement with entities related to our directors. See Note 7 Secured Revolving Line of Credit, for further details. Interest expense on this debt was $159,247 and $71,521, for the years ending December 31, 2017 and 2016, respectively. At December 31, 2017, $3,742,500 in principal and $230,768 in accrued interest were outstanding to related parties. At December 31, 2016, $2,391,000 in principal and $71,521 in accrued interest were outstanding to related parties.

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 $377,780 (including $333,347 in royalties) and $192,178 (including $90,047 in royalties), for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 we had an outstanding balance with VirTra of $21,556 in accrued expense and $226,673 in accrued royalty expense. At December 31, 2016 we had an outstanding balance with VirTra of $1,287 in accrued expense and $19,980 in accrued royalty expense.

We owed $38,691 and $17,209 in expense reimbursements to our executives and directors at December 31, 2017 and 2016, respectively. The balances are recorded in accounts payable on our consolidated balance sheets.

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 (as adjusted). 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, 2017, we were authorized to issue 200,000,000 shares of common stock, of which 7,110,550 shares (as adjusted) were issued and outstanding. At December 31, 2016, we were authorized to issue 200,000,000 shares of common stock, of which 6,272,847 shares (as adjusted) were issued, 6,018,774 shares were outstanding, and 254,073 shares (as adjusted) were held as treasury stock. We were authorized to issue 10,000,000 shares of preferred stock with no shares issued or outstanding at December 31, 2017 and 2016. 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.

During the years ended December 31, 2017 and 2016, we entered the following transactions that affected stockholders' deficit:

In March 2016, we issued 9,383 shares of common stock (as adjusted) in the conversion of principal and accrued interest of $28,150 on a convertible promissory note that was acquired through the December 31, 2015 merger.

In May 2016, we granted an aggregate of 25,000 options (as adjusted) to purchase shares of our common stock to two employees. The options vest over a three-year period, are exercisable at $2.46 per share (as adjusted), and expire 10 years from the grant date. The approximate value of $12,000 was determined using the Black-Scholes model using the following assumptions: six-year expected life; 1.39% risk free interest rate; zero dividend rate; and 205% expected volatility.

Note 14
Stockholders' Deficit (continued)

On June 1, 2016, the VirTra warrant liability provided under the Co-Venture Agreement was valued at $55,467. The warrant liability was reclassified to equity. VirTra met its performance under the warrant agreement based on the opening of our Peoria, Arizona location in June 2016. On October 26, 2016, VirTra exercised its warrant to purchase 279,458 shares (as adjusted) of Modern Round common stock in exchange for $1.20 per share (as adjusted). Total proceeds of $335,350 were reduced by an offset of our outstanding payables balance due to VirTra on the date of the exercise of $46,800, resulting in a net cash inflow of $288,550.

In August 2016, we amended and terminated two consulting agreements due to non-performance. We rescinded 254,073 shares of common stock (as adjusted) and recorded them at a cost of $0.47 per share (as adjusted) under treasury stock on the December 31, 2016 Consolidated Balance Sheet. During 2017, the treasury stock was retired at a cost of $0.47 per share (as adjusted) under treasury stock on the December 31, 2017 Consolidated Balance Sheet.

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 (as adjusted). 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 (as adjusted) shares for debt and interest owed in the aggregate amount of $530,648. See Note 8, Notes Payable. The shares had not been issued as of December 31, 2017, however, they have been reflected as outstanding as the underlying agreements had been executed as of December 31, 2017. The issuance of the underlying shares is pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. We are in the process of arranging the preparation of the required legal opinion.

On December 29, 2017 four holders exercised their right to convert the notes into common stock shares. The holders were issued 230,320 (as adjusted) shares for debt and interest owed in the aggregate amount of $561,977. See Note 8, Notes Payable. The shares had not been issued as of December 31, 2017, however, they have been reflected as outstanding as the underlying agreements had been executed as of December 31, 2017. The issuance of the underlying shares is pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. We are in the process of arranging the preparation of the required legal opinion.

On November 16, 2017, we granted an aggregate of 266,534 (as adjusted) options to purchase shares of our common stock to a consultant. Of these, 133,267 shares (as adjusted) vested immediately and the remaining 133,267 options (as adjusted) vest over a five-year period. These options are exercisable at $2.46 per share (as adjusted), 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.

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.

The table below sets forth a summary of the options and warrants as of the years ended December 31, 2017 and 2016:

	Weighted Average Exercise Price (as adjusted)	Number of Options and Warrants (as adjusted)	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value (as adjusted)
Outstanding at December 31, 2015	$ 1.98	1,143,946	9.20	$ 0.42
Warrants exercised	1.20	(279,458)	-	0.48
Options and warrants granted	2.46	25,000	9.37	0.48
Outstanding as of December 31, 2016	2.22	889,488	8.28	0.42
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

The table below sets forth a summary of the vested and unvested options and warrants as of the years ended December 31, 2017 and 2016:

	Weighted Average Exercise Price (as adjusted)	Number of Options and Warrants (as adjusted)	Weighted Average Remaining Contractual Term	Weighted Average Grant Date Fair Value (as adjusted)
Outstanding as of December 31, 2016				
Vested	$ 2.22	680,337	8.20	$ 0.42
Non-Vested	$ 2.22	209,151	8.51	$ 0.48
Total		889,488		
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		

Note 15
Options and Warrants (continued)

We had $108,738 in estimated fair value for non-vested options that remained to be recognized as expense at December 31, 2017. The weighted average period to recognize total compensation costs related to non-vested options is approximately 2.7 years. The intrinsic value of all vested and non-vested options and warrants at December 31, 2017 and 2016 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 $32,238 and $32,811 to the Plan in the years ended December 31, 2017 and 2016, respectively.

Note 17
Subsequent Events

The Company has evaluated subsequent events through January 7, 2019, which is the date these financial statements were available to be issued.

Subsequent to December 31, 2017, $1,750,000 of our outstanding convertible promissory notes, as well as accrued interest of $305,451 and additional incentive interest of $332,800, converted into 970,834 common stock shares (as adjusted) at $2.46 per share (as adjusted). The issuance of the underlying shares is pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. We are in the process of arranging the preparation of the required legal opinion. After the conversions, $450,000 of the notes remained outstanding. See Note 8, Notes Payable.

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 (as adjusted). 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 adjusted). The issuance of the underlying shares is pending our transfer agent receiving an opinion from our legal counsel addressing the circumstances surrounding the issuance of the shares. We are in the process of arranging the preparation of the required legal opinion.

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"). All references in the accompanying financial statements to the number of common shares and per share amounts have been restated to reflect these stock splits.

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 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 was redefined in the Second Amendment to use our Peoria location as the baseline case for all future calculations of the minimum royalty due. The Peoria locations' first two years of operations were used to calculate a base rate to apply against future gross revenues from Modern Round standalone locations. As stated above, the Second Amendment also served to reaffirm our worldwide exclusivity rights the language of which requires us to, among other things, remain current in all payments due to VirTra, Inc., including all royalty payments.

Note 17
Subsequent Events (continued)

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.

On December 19, 2018, our Board of Directors approved the Reg CF offering for up to $1.07 million.