

VIRTRA SYSTEMS INC
Form 10QSB
May 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended March 31, 2003

or

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

For the transition period from _____ to _____

Commission File Number 000-28381

VIRTRA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Texas
(State or other jurisdiction of incorporation or
organization)

93-1207631
(IRS Employer Identification No.)

440 North Center, Arlington, TX
(Address of principal executive offices)

76011
(Zip Code)

(817) 261-4269

(Registrant's telephone number, including area code)

Check whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

As of May 12, 2003, the Registrant had outstanding 39,220,112 shares of common stock, par value \$.005 per share.

PART I. FINANCIAL INFORMATION

Item 1.

Financial Statements.

Balance Sheet as of March 31, 2003 and December 31, 2002

Statement of Operations for the three months ended March 31, 2003 and 2002

Statement of Changes in Stockholders Deficit for the three months ended
March 31, 2003

Statement of Cash Flows for the three months ended March 31, 2003 and 2002

Selected Notes to Financial Statements

VIRTRA SYSTEMS, INC.

BALANCE SHEET

March 31, 2003 and December 31, 2002

ASSETS

March 31, December 31,
2003 2002
(Unaudited) (Note)

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Current assets:

Cash and cash equivalents	\$ -	\$ 98,442
Accounts receivable	100,846	93,929
Costs and estimated earnings in excess of billings on uncompleted contracts	<u>-</u>	<u>17,342</u>
 Total current assets	 100,846	 209,713
 Property and equipment, net	 301,570	 346,114
Note receivable-related party	67,885	67,885
Intangible assets, net	<u>31,729</u>	<u>36,261</u>
 Total assets	 <u>\$ 502,030</u>	 <u>\$ 659,973</u>

LIABILITIES AND STOCKHOLDERS DEFICIT

Current liabilities:

Notes payable	\$ 859,106	\$ 889,324
Obligations under product financing arrangements	5,426,982	5,240,418
Notes payable-stockholders	910,031	910,031
Convertible debentures	245,736	308,262
Book overdraft	31,585	-
Accounts payable	1,214,491	1,201,849
Accrued liabilities	635,023	643,879
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>52,332</u>	<u>82,613</u>
 Total current liabilities	 9,375,286	 9,276,376

Redeemable common stock, 778,291 shares at \$.005 par value	3,891	3,891
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Stockholders deficit:

Common stock, \$.005 par value, 100,000,000 shares authorized, 38,091,448 and 37,331,448 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively	190,458	186,658
Additional paid-in capital	2,982,639	2,922,833
Accumulated deficit	<u>(12,050,244)</u>	<u>(11,729,785)</u>
 Total stockholders deficit	 <u>(8,877,147)</u>	 <u>(8,620,294)</u>
 Total liabilities and stockholders deficit	 <u>\$ 502,030</u>	 <u>\$ 659,973</u>

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements.

See accompanying notes.

VIRTRA SYSTEMS, INC.

STATEMENT OF OPERATIONS

for the three months ended March 31, 2003 and 2002

—————
(Unaudited)

	2003	2002
Revenue:		
Theme parks and arcades	\$ 45,805	\$ 79,529
Custom applications and other	<u>348,001</u>	<u>127,572</u>
Total revenue	393,806	207,101
Cost of sales and services	<u>160,513</u>	<u>86,780</u>
Gross margin	233,293	120,321
General and administrative expenses	<u>325,330</u>	<u>433,576</u>
Loss from operations	<u>(92,037)</u>	<u>(313,255)</u>

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Other income (expenses):		
Interest expense and finance charges	(228,422)	(480,746)
Other income	<u>-</u>	<u>6,872</u>
Total other income (expenses)	<u>(228,422)</u>	<u>(473,874)</u>
Net loss	<u>\$ (320,459)</u>	<u>\$ (787,129)</u>
Weighted average shares outstanding	<u>37,551,448</u>	<u>33,504,660</u>
Basic and diluted net loss per common share	<u>\$ (0.01)</u>	<u>\$ (0.02)</u>

See accompanying notes.

VIRTRA SYSTEMS, INC.
STATEMENT OF STOCKHOLDERS DEFICIT
for the three months ended March 31, 2003

(Unaudited)

	Common Stock		Additional Paid-In	Accumulated	Total
	Shares	Amount	Capital	Deficit	
Balance at December 31, 2002	37,331,448	\$ 186,658	\$2,922,833	\$(11,729,785)	\$(8,620,294)
Common stock issued upon conversion of debentures	747,105	3,736	58,792	-	62,528
Common stock issued for payment of interest	12,895	64	1,014	-	1,078
Net loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(320,459)</u>	<u>(320,459)</u>
Balance at March 31, 2003 (unaudited)	<u>38,091,448</u>	<u>\$ 190,458</u>	<u>\$2,982,639</u>	<u>\$(12,050,244)</u>	<u>\$(8,877,147)</u>

See accompanying notes

VIRTRA SYSTEMS, INC.
STATEMENT OF CASH FLOWS

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for the three months ended March 31, 2003 and 2002

(Unaudited)

	Three Months Ended	
	March 31,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ (320,459)	\$ (787,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	49,076	136,464
Amortization of debt issuance costs	60,192	268,566
Stock issued for interest and financing fees	1,078	174,500
Stock issued as compensation for services	-	2,000
(Increase) decrease in operating assets	10,425	(5,193)
Increase (decrease) in accounts payable and accrued expenses	<u>99,879</u>	<u>85,960</u>
Net cash used in operating activities	<u>(99,809)</u>	<u>(124,832)</u>
Cash flows from investing activities:		
Capital expenditures	<u>-</u>	<u>-</u>
Net cash used in investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Payments on notes payable	(30,218)	(11,470)
Proceeds from notes payable to stockholders	-	174,500
Increase (decrease) in book overdraft	<u>31,585</u>	<u>(33,172)</u>
Net cash provided by financing activities	<u>1,367</u>	<u>129,858</u>
Net increase (decrease) in cash and cash equivalents	(98,442)	5,026
Cash and cash equivalents at beginning of period	<u>98,442</u>	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ -</u>	<u>\$ 5,026</u>

Non-cash investing and financing activities:

Interest paid	\$ <u>20,351</u>	\$ <u>12,657</u>
Income taxes paid	\$ <u>-</u>	\$ <u>-</u>
Common stock issued upon conversion of debentures	\$ <u>62,528</u>	\$ <u>-</u>

See accompanying notes.

VIRTRA SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

1.

Basis of Presentation

The accompanying unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules of the U.S. Securities and Exchange Commission, and should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2002. They do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements for the year ended December 31, 2002 included in the Company's Form 10-KSB and Form DEF 14A filed with the Securities

and Exchange Commission. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been included. Operating results for the interim periods are not necessarily indicative of the results that may be expected for the respective full year.

2.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

3.

Income Taxes

The difference between the 34% federal statutory income tax rate and amounts shown in the accompanying interim consolidated financial statements is primarily attributable to an increase in the valuation allowance applied against the tax benefit from the future utilization of net operating loss carryforwards.

4.

Subsequent Event

On April 30, 2003, VirTra Systems, Inc. (the Company) entered into an agreement to sell its contracts and the assets used in its theme park operations for \$120,000, payable in four equal installments of \$30,000 upon signing of the term sheet; \$30,000 on April 30, 2003; \$30,000 on May 31, 2003; and \$30,000 on June 30, 2003. The transaction resulted in a loss on sale of assets of approximately \$35,000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The statements contained in this Report that are not historical are forward-looking statements, including statements regarding our expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include our statements regarding liquidity, anticipated cash needs, and availability and anticipated expense levels. All forward-looking statements included in this Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statement. It is important to note that our actual results could differ materially from those in such forward-looking statements. The following discussion and analysis should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this Report.

Overview

Effective May 6, 2002, our name was changed from GameCom, Inc. to VirTra Systems, Inc., pursuant to authority granted to the board of directors by the shareholders at its September, 2001 meeting.