VIRTRA SYSTEMS INC
Form 10QSB
August 16, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2004

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	93-1207631
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
440 North Center, Arlington, TX	76011
(Address of principal executive offices)	(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 |X| NO |_|

As of August 6, 2004, the Registrant had outstanding 51,898,686 shares of common stock, par value $.005 per share.

PART I. FINANCIAL INFORMATION

<u>Item 1</u>.

<u>Financial Statements</u>.

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VIRTRA SYSTEMS, INC.

TABLE OF CONTENTS

Page(s)

VIRTRA SYSTEMS, INC.

BALANCE SHEET

June 30, 2004 and December 31, 2003

ASSETS	June 30, 2004 (Unaudited)	December 31, 2003 (Note)
Current assets:		
Cash and cash equivalents	$ 27,325	$ 80,870
Accounts receivable	112,036	162,174
Costs and estimated earnings in excess of billings on uncompleted contracts	162,235	153,100
Total current assets	301,596	396,144
Property and equipment, net	218,588	206,232
Note receivable-related party	67,885	67,885
Intangible assets, net	9,069	18,133
Total assets	$ 597,138	$ 688,394

LIABILITIES AND STOCKHOLDERS DEFICIT

Current liabilities:		
Notes payable	$ 702,401	$ 778,722
Obligations under product financing arrangements	6,425,836	6,045,083
Notes payable-stockholders	910,031	910,031
Accounts payable	992,735	1,118,580
Accrued liabilities	814,525	703,501

Billings in excess of costs and estimated earnings on uncompleted contracts	-	32,340
Total current liabilities	9,845,528	9,588,257
Redeemable common stock, 490,760 shares at $.005 par value	2,454	2,454
Stockholders deficit:		
Common stock, $.005 par value, 100,000,000 shares authorized, 51,355,733 and 48,568,628 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	256,779	242,843
Additional paid-in capital	4,870,656	4,174,747
Accumulated deficit	(14,378,279)	(13,319,907)
Total stockholders deficit	(9,250,844)	(8,902,317)
Total liabilities and stockholders deficit	$ 597,138	$ 688,394

See accompanying notes to financial statements.

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VIRTRA SYSTEMS, INC.

STATEMENT OF OPERATIONS

for the three months and six months ended June 30, 2004 and 2003

	Three Months Ended June 30,		Six Months Ended June 30,	
	2004	2003	2004	2003
Revenue:				
Custom applications:				
Training/simulation	$ 234,952	$ -	$ 384,254	$ -
Advertising/promotion	128,041	77,523	264,492	425,524
Other revenue	11,125	3,335	22,250	17,080
Total revenue	374,118	80,858	670,996	442,604
Cost of sales and services	252,602	26,412	413,202	174,101
Gross margin	121,516	54,446	257,794	268,503
General and administrative expenses	413,104	287,973	796,817	550,614
Loss from operations	(291,588)	(233,527)	(539,023)	(282,111)
Other income (expenses):				
Interest income	16	-	-	-
Interest expense and finance charges	(243,335)	(249,069)	(519,849)	(477,491)
Gain (loss) on sale of asset	-	(35,189)	500	(35,189)
Total other income (expenses)	(243,319)	(284,258)	(519,349)	(512,680)
Net loss from continuing operations	(534,907)	(517,785)	(1,058,372)	(794,791)
Income (loss) from discontinued operations	-	(10,000)	-	(53,453)
Net loss	$ (534,907)	$ (527,785)	$(1,058,372)	$(848,244)
Weighted average shares outstanding	50,997,552	39,439,281	50,211,971	38,655,365

Basic and diluted net loss per common share	$ (0.01)	$ (0.01)	$ (0.02)	$ (0.02)

See accompanying notes to financial statements.

VIRTRA SYSTEMS, INC.

STATEMENT OF CASH FLOWS

for the six months ended June 30, 2004 and 2003

	Six Months Ended June 30,	
	2004	**2003**
Cash flows from operating activities:		
Net loss	$(1,058,372)	$ (848,244)
Less: net loss from discontinued operations	-	(53,453)
Net loss from continuing operations	(1,058,372)	(794,791)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	49,088	32,774

Gain (loss) on sale of assets	(500)	35,189
Amortization of debt issuance costs and increase in obligation under product financing arrangements	380,753	393,712
Stock issued for interest and financing fees	-	2,551
Stock issued as compensation for services	9,900	-
(Increase) decrease in operating assets	41,003	99,572
Increase (decrease) in accounts payable and accrued expenses	1,095	(89,189)
Net cash used in operating activities	(577,033)	(320,182)
Cash flows from investing activities:		
Proceeds from sale of assets	500	90,000
Capital expenditures	(52,380)	-
Net cash provided by investing activities	(51,880)	90,000
Cash flows from financing activities:		
Proceeds from notes payable	-	35,000
Payments on notes payable	(76,321)	(75,913)
Increase (decrease) in book overdraft	-	14,385
Proceeds from issuance of common stock	651,689	179,032
Net cash provided by financing activities	575,368	152,504
Net cash provided by (used in) discontinued operations	-	(20,764)
Net increase (decrease) in cash and cash equivalents	(53,545)	(98,442)
Cash and cash equivalents at beginning of period	80,870	98,442
Cash and cash equivalents at end of period	$ 27,325	$ -
Supplemental disclosure of cash flow information:		
Interest paid	$ 29,529	$ 22,475
Income taxes paid	$ -	$ -
Non-cash investing and financing activities:		

Common stock issued upon conversion of debentures	$ -	$ 98,295
Receivable from the sale of assets	$ -	$ 30,000
Common stock issued as settlement of accounts payable	$ 48,256	$ -

See accompanying notes to financial statements.

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VIRTRA SYSTEMS, INC.

STATEMENTS OF STOCKHOLDERS DEFICIT

for the six months ended June 30, 2004

	Common Stock		Additional Paid-In	Accumulated	
	Shares	**Amount**	**Capital**	**Deficit**	**Total**
Balance at December 31, 2003	48,568,628	$ 242,843	$4,174,747	$(13,319,907)	$(8,902,317)
Common stock issued for services	30,000	150	9,750	-	9,900
Common stock issued for cash	2,532,105	12,661	639,028	-	651,689
Common stock issued as settlement of accounts payable	225,000	1,125	47,131	-	48,256

Net loss	-	-	-	(1,058,372)	(1,058,372)
Balance at June 30, 2004	51,355,733	$ 256,779	$4,870,656	$(14,378,279)	$(9,250,844)

See accompanying notes to financial statements.

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VIRTRA SYSTEMS, INC.

NOTES TO FINANCIAL STATEMENTS

1.

<u>Basis of Presentation</u>

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, 2003. 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, 2003 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 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.

Discontinued Operations

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 gain on sale of assets of $2,628.

The financial statements have been presented to reflect the sale of the Company s assets related to its theme park operations. Accordingly, the financial statements reflect the theme park operations as discontinued operations for each of the periods presented.

Total revenues included in discontinued operations was $-0- and $32,060 for the six months ended June 30, 2004 and 2003, respectively. There was no effect on basic and diluted net loss per common share, reported in the accompanying statement of operations, from the results of the discontinued operations.

5.

Reclassification

Certain amounts reported in the prior period financial statements have been reclassified to the current period presentation.

6.

Common Stock

In July 2002, the Company entered into an agreement for up to a maximum $5,000,000 sale of its common stock to Dutchess Private Equities Fund, LP (Dutchess). Under this investment agreement the Company has the right to issue a put notice to Dutchess to purchase the Company s common stock. Put notices cannot be issued more frequently than every seven days. The required purchase price is equal to 92% of the average of the four lowest closing bid prices of the common stock during the five-day period immediately following the issuance of the put notice. Each individual put notice is subject to a maximum amount equal to 175% of the daily average volume of the common stock for the 40 trading days before the issuance of the put notice multiplied by the average of the closing bid prices of the common stock for the three trading days immediately preceding the put notice date. Regardless of the amount stated in a put notice, the maximum amount that Dutchess is required to purchase is the lesser of the amount stated in the put notice or an amount equal to 20% of the aggregate trading volume of the common stock during the five days immediately following the date of the put notice times 92% of the average of the four lowest closing bid prices of the common stock during this five-day period. During the six months ended June 30, 2004 the Company sold 2,532,105 shares of its common stock for net proceeds of $651,689 under this agreement.

7.

Stock Options and Warrants

The Company periodically issues incentive stock options to key employees, officers, directors and outside consultants to provide additional incentives to promote the success of the Company s business and to enhance the ability to attract and retain the services of qualified persons. There were no stock options or warrants issued during the six months ended June 30, 2004.

In 1997 and 1998 the Company granted incentive stock options to certain officers and members of the Company s board of directors to purchase 1,499,000 shares of the Company s common stock at par value of $.005 per share. These options are exercisable based on various levels of the Company s stock price: (i) options to purchase 333,000 shares at par value are exercisable if the Company s stock is trading at $1.50 per share; (ii) options to purchase 583,000 shares at par value are exercisable if the Company s stock is trading at $3.00 per share; (iii) options to purchase 333,000 shares at par value are exercisable if the Company s stock is trading at $4.50 per share; and (iv) options to purchase 250,000 shares at par value are exercisable if the Company s common stock is trading at $5.00 per share. In 1999, options to purchase 300,000 shares of common stock were exercised. There is no expiration date on these options; however, these options were cancelled during 2004.

In September 2001 the Company granted incentive stock options to certain officers and members of the Company s board of directors to purchase 1,499,000 shares of the Company s common stock at par value of $.005 per share. These options are exercisable based on various levels of the Company s stock price: (i) options to purchase 333,000 shares at par value are exercisable if the Company s stock is trading at $1.50 per share; (ii) options to purchase 583,000 shares at par value are exercisable if the Company s stock is trading at $3.00 per share; (iii) options to purchase 333,000 shares at par value are exercisable if the Company s stock is trading at $4.50 per share; and (iv) options to purchase 250,000 shares at par value are exercisable if the Company s common stock is trading at $5.00 per share. There is no expiration date on these options; however, these options were cancelled during 2004.

A summary of the Company s stock option activity and related information for the six months ended June 30, 2004 and the year ended December 31, 2003 follows:

	Number of Shares Under Options	**Weighted-Average Exercise Price**
Outstanding - December 31, 2002	3,523,000	$0.12
Granted	-	
Exercised	-	
Forfeited	(350,000)	$0.15

Outstanding	December 31, 2003	3,173,000	$0.12
Granted		-	
Exercised		-	
Forfeited		(2,698,000)	$0.005
Outstanding	June 30, 2004	475,000	$0.42
Exercisable	June 30, 2004	475,000	$0.42

Following is a summary of outstanding stock options at June 30, 2004:

Number of Shares	Vested	Expiration Date	Weighted Average Exercise Price
150,000	150,000	2006	$0.81
100,000	100,000	-	$0.49
75,000	75,000	-	$0.005
150,000	150,000	2012	$0.21
475,000	$ 475,000		

8.

Going Concern Considerations

During the six months ended June 30, 2004 and 2003, the Company has defaulted on its notes payable and obligations under product financing arrangements, has continued to accumulate payables to its vendors and has experienced negative financial results as follows:

	2004	2003
Net loss for the six months ended June 30	$ (1,058,372)	$ (848,244)
Negative cash flows from operations	$ (577,033)	$ (320,182)
Negative working capital	$ (9,543,932)	$ (9,192,113)
Accumulated deficit	$(14,378,279)	$(13,319,907)
Stockholders deficit	$ (9,250,844)	$ (8,902,317)

Management has developed specific current and long-term plans to address its viability as a going concern as follows:

The Company s anticipated entry into the training/simulation market was advanced by the aftermath of September 11, 2001. The Company is currently in advanced discussions with representatives of various government authorities regarding use of the Company s technology in detecting and mitigating the risk of similar problems in the future.

The Company is also attempting to raise funds through debt and/or equity offerings. If successful, these additional funds would be used to pay down debt and for working capital purposes.

In the long-term, the Company believes that cash flows from continued growth in its operations will provide the resources for continued operations.

There can be no assurance that the Company s debt reduction plans will be successful or that the Company will have the ability to implement its business plan and ultimately attain profitability. The Company s long-term viability as a going concern is dependent upon three key factors, as follows:

The Company s ability to obtain adequate sources of debt or equity funding to meet current commitments and fund the continuation of its business operations in the near term.

The ability of the Company to control costs and expand revenues from existing or new businesses.

The ability of the Company to ultimately achieve adequate profitability and cash flows from operations to sustain its operations.

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 their September, 2001 meeting.

VirTra Systems, Inc. was organized in 1996 to operate theme concept microbrewery restaurants. We closed our microbrewery operations in early 1999.

From 1999, when we closed our microbrewery operations, until we acquired Ferris Productions, Inc. as described below, we devoted substantially all of our efforts to developing our 'Net GameLink™ product.

In February, 2000, we changed our jurisdiction of incorporation from Nevada to Texas.

In September, 2001, we completed the acquisition of Ferris Productions, Inc., a leading developer and operator of virtual reality devices. Ferris designed, developed, distributed, and operated technically-advanced products for the entertainment, simulation, promotion, and education markets. The acquisition provided us with a wider array of products within our industry, an experienced management team, an existing revenue stream, and established distribution channels.

The Ferris acquisition was accounted for as a pooling of interests. Ferris was much larger than GameCom in terms of assets, and had substantial revenues whereas GameCom had essentially no revenues at the time of the acquisition.

Our *"immersive virtual reality™"* devices are computer-based, and allow participants to view and manipulate graphical representations of physical reality. Stimulating the senses of sight, sound, touch, and smell simultaneously, our virtual reality devices envelop the participant in dynamic filmed or computer-generated imagery, and allow the participant to interact with what he or she sees using simple controls and body motions. Our historic areas of application have included the entertainment/amusement, advertising/promotion, and training/simulation markets.

We sold our entertainment/amusement sector -- our VR Zones -- in the spring of 2003, in order to more fully focus on the advertising/promotional and training/simulation markets.

We entered the advertising/promotion market with our 2000 *"Drive With Confidence Tour™"* for Buick, featuring a virtual reality "test-drive" of a Buick LeSabre with PGA professional Ben Crenshaw accompanying the participant. This project led us to additional projects within this market, such as:

- a virtual reality bi-plane experience for Red Baron® Pizza,

-

a virtual reality ski jump promotional program for Chevrolet in conjunction with its *"Olympic Torch City Celebration Tour™,"*

•

an interactive promotional project for Shell Oil Product's Pennzoil® division's *"Vroom Tour*™", which featured Jay Leno "inside" an automobile engine demonstrating how oil functions inside an automobile engine, and ended with the visitor driving Pennzoil's Formula One car around the Las Vegas Motor Speedway at speeds in excess of 220 miles per hour,

•

a 50-seat, 3-D immersive theatre for Red Baron® Pizza's *"3-D Flying Adventure™,"* which featured special glasses, Dolby® 5.1 sound, and special effects that literally "jump" off the screen, and

•

a recently-delivered recruitment tool for the United States Army, in which participants ride in an Army Black Hawk helicopter performing an exciting rescue mission.

In May of 2004 we announced our new non-headset virtual reality delivery system for the advertising/promotional market, named the Immersa-Dome™." We hold exclusive rights to the patent behind the Immersa-Dome's technology, and recently delivered our initial sale of four Immersa-Domes to Buick for display in conjunction with its sponsorship of the PGA Tour. We have also received a verbal commitment for the purchase of four additional as-of-yet unannounced Immersa-Dome systems which are presently in the contracting stage. The Immersa-Dome has been well-received, and we have conducted numerous product demonstrations and/or are currently in advanced discussions regarding the Immersa-Dome with, among others, several large advertising agencies, major automobile manufacturers, a major soft drink company, a major brewer, a search and rescue company, and the United States Army.

Our long-planned entry into the training/simulation market was advanced by the aftermath of September 11, 2001. During the past two and one-half years, we have gained valuable market feedback from direct contact, meetings with, and demonstrations to several governmental agencies that resulted in completing the design of our patent-pending virtual reality-based training systems for judgmental use-of-force and tactical judgment objectives. The systems provide the law enforcement, military, and security markets with a first-of-its-kind 360-degree immersive training environment. Our projection-based, patent-pending IVR™ HD series was completed in January of 2004, and was publicly debuted to the domestic law enforcement market in late March of 2004 at the industry's Trexpo West trade show in Long Beach, California. We announced our initial sale in this market in September of 2003, and, as of August 1, 2004, we have announced orders for ten systems, all variations of the IVR HD series, to the United States Air Force, an undisclosed United States military branch, and to state police organizations in the United States, Mexico, and India. We have also received verbal commitments for the purchase of 28 additional as-of-yet unannounced IVR HD systems which are presently in the contracting stage. As of August 1, 2004, we had shipped and/or delivered and installed four systems, a demonstration system in Mexico City, to regional law enforcement training centers in Mexico City and Veracruz, Mexico, and an initial delivery to the United States Air Force.

We have developed significant ongoing relationships with numerous domestic and international security-related municipal, state, and federal agencies, and branches of the military, which have resulted in the submission of numerous confidential proposals currently under review, as well as strategic relationships with large federal defense contractors. We have numerous scheduled demonstrations over the next few months to branches of the United States and foreign militaries, as well as to domestic and international law enforcement agencies.

We face all the risks, expenses, and difficulties frequently encountered in connection with the expansion and development of a business, difficulties in maintaining delivery schedules if and when volume increases, the need to develop support arrangements for systems at widely dispersed physical locations, and the need to control operating and general and administrative expenses. While the Ferris acquisition provided an established stream of revenues and historically favorable gross margins, Ferris had not yet generated a profit, and substantial additional capital, or major highly-profitable custom applications, will be needed if those operations are to become profitable.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue, and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. These estimates and assumptions provide a basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and these differences may be material.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

Revenue from custom application contracts are recognized on a percentage-of-completion basis, measured by the percentage of costs incurred to date to total estimated costs for each contract. Contract costs include all direct material and labor costs, and those indirect costs related to contract performance, such as indirect labor, supplies, tools, repairs, and depreciation costs. General and administrative costs are charged to expense as incurred.

Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, and are recognized in the period in which the revisions are determined. An amount equal to contract costs attributable to claims is included in revenue when realization is probable and the amount can be reliably estimated.

Costs and estimated earnings in excess of billings on uncompleted contracts represent revenue recognized in excess of amounts billed. Billings in excess of costs and estimated earnings on uncompleted contracts represent amounts billed in excess of revenue recognized.

Loss Per Share

Basic and diluted loss per share is computed on the basis of the weighted average number of shares of common stock outstanding during each period. Common equivalent shares from common stock options and warrants are excluded from the computation as their effect would dilute the loss per share for all periods presented.

Stock-Based Compensation

We account for our stock compensation arrangements under the provisions of Accounting Principles Board (APB) No. 25 Accounting for Stock Issued to Employees. We provide disclosure in accordance with the disclosure-only provisions of Statement of Financial Accounting Standard (SFAS) No. 123 Accounting for Stock-Based Compensation.

Results of Operations

Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003

Three major factors affected our results of operations for the three months ended June 30, 2004, compared to the corresponding period of 2003. First, revenue increased. Second, cost of sales increased. Third, general and administrative expense increased.

Revenues from our virtual reality product lines are somewhat unpredictable. Our products are custom made to a particular client s needs and delivery schedules. Thus, our products tend to consist of a few large projects at any time, and the stage of completion of any particular project can significantly affect revenue. We had total revenue of $374,118 for the three months ended June 30, 2004, compared to $80,858 for the corresponding three months of 2003. Our revenue is now broken down in our statement of operations into our two markets, training/simulation and advertising/promotion. Revenue for the period consisted of a) $234,952 for the training/simulation market, primarily of monies received for two IVR-300 HD training simulators recently delivered to Vera Cruz, Mexico and the United States Air Force, and b) $128,041 for the advertising/promotional market, primarily of monies received from Buick for the recently-delivered Immersa-Dome system. Cost of sales and services increased greater than proportionally to our increased revenue, primarily due to development costs associated with our new IVR HD and Immersa-Dome products.

General and administrative expense increased to $413,104 for the three months ended June 30, 2004, compared to $287,973 for the corresponding period of 2003, primarily due to increase in payroll as we increase our staff in order to handle future sales. Interest expense and finance charges decreased to $243,335 for the three months ended June 30, 2004, compared to $249,069 for the corresponding period of 2003.

Six months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

Three major factors affected our results of operations for the six months ended June 30, 2004, compared to the corresponding period of 2003. First, revenues increased. Second, cost of sales increased. Third, general and administrative expense increased.

We had revenue of $670,996 for the sixth months ended June 30, 2004, compared to $442,604 for the corresponding six months of 2003. Revenue consisted of a) $384,254 for the training/simulation market, primarily of monies received for three IVR-300 HD training simulators recently delivered to Mexico City, Vera Cruz, Mexico, and the United States Air Force, and b) $264,492 for the advertising/promotional market, primarily of monies received from Schwans (Red Baron Pizza™) for a promotional experience at its new flight museum, from our project for Bombardier’s Sea Doo division, from the United States Army for the Black Hawk helicopter recruitment project, and from Buick for the recently-delivered Immersa-Dome system. Cost of sales and services increased a bit more than proportionally to our increased revenue, primarily due to development costs associated with our new IVR HD and Immersa-Dome products.

General and administrative costs of $796,817 for the six months ended June 30, 2004, compared to $550,614 for the six months ended June 30, 2003, increased primarily due to an increase in payroll as we staff up to handle future sales. Interest expense and finance charges increased to 519,849 for the six months ended June 30, 2004, compared to $477,491 for the corresponding period of 2003.

Liquidity and Plan of Operations

As of June 30, 2004, our liquidity position was extremely precarious. We had current liabilities of $9,845,528, including $6,425,836 in obligations under the lease financing for the old Ferris Productions virtual reality systems, $992,735 in accounts payable, and short-term notes payable of $1,612,435, some of which were either demand indebtedness or were payable at an earlier date and were in default. As of June 30, 2004, there was only $301,596 in current assets available to meet those liabilities.

To date we have met our capital requirements by acquiring needed equipment under the Ferris non-cancelable leasing arrangements, through capital contributions, loans from principal shareholders and officers, certain private placement offerings, and through our convertible debenture and equity line financing with Dutchess Private Equities Fund, L.P.

For the six months ended June 30, 2004, our net loss was $(1,058,372). After taking into account the non-cash items included in that loss, our cash requirements for operations were approximately $577,033. In addition, we made capital expenditures of $52,380 and repaid notes in the amount of $76,321. To cover these cash requirements, we used existing cash and issued 2,532,105 shares of our common stock under the Dutchess equity line for net cash proceeds of $651,689.

The opinion of our independent auditor for the year ended December 31, 2003 expressed substantial doubt as to our ability to continue as a going concern. We will need substantial additional capital or new lucrative custom application projects to become profitable. In July of 2002, we entered into a financial contract with Dutchess Private Equities Fund, L.P. Under this arrangement, Dutchess is to purchase up to $5 million of our common stock over the next two years under an equity line. The number of shares we may sell to Dutchess is based upon the trading volume of our stock. Dutchess and several other investors also participated in a private placement of $450,000 in convertible debentures, which has been repaid in full. Based on recent increases in the stock's trading volume following our entry into the training/simulation market, management believes that this equity line will allow us to continue our operations for at least the next twelve months. However, operations will require the continued forbearance of the holders of various notes and equipment leases that are currently in default. To that end, we are finalizing a proposal to the holders of our Ferris leasing arrangements and to our shareholder noteholders, are negotiating with a third-party consulting firm to assist us in evaluating and overseeing this endeavor, and expect the plan to be proposed to these holders and concluded during the third quarter.

Item 3.

Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our chief executive officer and the chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures in accordance with Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our chief executive officer and the chief financial officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information that we are required to disclose in the reports we file under the Exchange Act, within the time periods specified in the SEC's rules and forms. Our chief executive officer and the chief financial officer also concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to our company required to be included in our periodic SEC filings.

There have been no significant changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 17, 2004, suit was filed against us in cause no. 04CP402455, in the Fifth Judicial Circuit, State of South Carolina, County of Richland, in case styled *Garland and Leota Slagle v. VirTra Systems, Inc. f/k/a GameCom, Inc. and Ferris Industries, Inc.,* seeking payment of the sum of $90,000 plus pre-judgment interest and costs, relating to equipment leases allegedly entered into between the Slagles and the former Ferris Productions, Inc, We have contested the allegations, and have advised counsel for the Slagles to expect a formal proposal to all the leaseholders to be tendered within the next 60 days.

Item 4. Submission of Matters to a Vote of Security Holders

N/A

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

31

Chief Executive Officer and Chief Financial Officer - Rule 13a-15(e) Certification

32

Chief Executive Officer and Chief Financial Officer - Sarbanes-Oxley Act Section 906 Certification

(b) We have not filed any reports on Form 8-K during the last quarter of the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VIRTRA SYSTEMS, INC.

Date: August 16, 2004

/s/ L. Kelly Jones
L. Kelly Jones
chief executive officer and chief financial 0fficer

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