

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)

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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.

Effective September, 2001, we completed the acquisition of Ferris Industries, Inc., a leading developer and operator of virtual reality devices. Ferris designed, developed, and distributed technically-advanced products for the entertainment, simulation, promotion, and education markets. Its virtual reality (VR) devices are computer-based and allow people to view and manipulate graphical representations of physical reality. 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. Until we acquired Ferris, we had devoted substantially all of our efforts to implementing our `Net GameLink™ product, an interactive entertainment system designed to allow a number of players to compete with one another in a game via an intranet or the Internet. We intend to continue development and deployment of that entertainment system while at the same time expanding Ferris' business. Post-merger, the anticipated deployment of our existing virtual reality technology is anticipated to be highly profitable.

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. As a result, the discussion below relates in major part to the former Ferris operations rather than GameCom's.

Future revenues and profits will depend upon various factors, including market acceptance of our two advanced training systems, and the success of our continued sales to the advertising/promotion market. Our anticipated entry into the training/simulation market was advanced by the aftermath of September 11, 2001. We unveiled our initial product in this market, the IVR-p™ advanced training simulator, in December, and we have recently conducted numerous demonstrations of the IVR-p™ in Washington, D.C. We remain in advanced discussions with representatives of Homeland Security regarding our technology, and our capabilities in the detection and mitigation of risks; in fact, we have recently learned that one federal protective agency has budgeted to buy several of our advanced systems upon the agency's approval of the applicable prototype. There can be no assurances that these advanced discussions will be fruitful or that the prototype will be satisfactory.

We face all of 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.

Results of Operations

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Three major factors affected our results of operations for the three months ended March 31, 2003, compared to the corresponding period of 2002. First, revenues increased. Second, general and administrative expense decreased. Finally, interest expense and finance charges also decreased.

Revenues from both of our historic virtual reality product lines -- theme parks and arcades and custom applications -- are somewhat unpredictable. Theme park and arcade revenues are affected by both the overall traffic at facilities of this type and by the extent to which we are able to provide new and attractive content to attract more users and increase repeat business. Custom applications 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 revenue of \$393,806 for the three months ended March 31, 2003, compared to \$207,101 for the corresponding three months of 2002. Revenue from theme parks and arcades declined primarily because of a significant national decline in theme park attendance, and because we did not substantially update the content of our virtual reality systems at these facilities during 2002 or 2003. Revenue from custom applications and other sources increased. The main components of this item are revenue from the recently announced and completed contract with Shell/Pennzoil for a promotional virtual reality project, as well as the initial revenue from the recently-announced *Red Baron® 3-D Flying Adventure™*. Cost of sales and services increased almost directly in proportion to the increased revenue from custom applications. General and administrative costs of \$325,330 for the three months ended March 31, 2003, compared to \$433,576 for the three months ended March 31, 2002, decreased primarily due to a reduction in professional and consulting fees, and management's efforts

to reduce general overhead expense.

Interest expense and finance charges decreased to \$228,422 for the three months ended March 31, 2003, compared to \$480,746 for the corresponding period of 2002, largely because of a significant reduction in common shares issued as interest or financing fees, and because the debt issuance costs on a majority of the product financing arrangements have now been fully amortized.

Liquidity and Plan of Operations

As of March 31, 2003 our liquidity position remained precarious. However, our recent increase in revenue from custom applications for the advertising/promotional market has given us some breathing room. As of March 31, 2003 we had current liabilities of \$9,375,286, including \$5,426,982 in obligations under the lease financing for the virtual reality systems formerly utilized in our amusement applications, \$1,214,491 in accounts payable, and short-term notes payable of \$859,106, some of which were either demand indebtedness or were payable at an earlier date and were in default. As of March 31, 2003 there were only \$100,846 in current assets available to meet those liabilities. We will be able to continue operations only if holders of our short-term notes and lease obligations continue to forebear enforcement of those obligations.

On July 12, 2002, we entered into an agreement with Dutchess Private Equities, L.P., pursuant to which Dutchess and other investors participated in the private placement of \$450,000.00 in convertible debentures, as well as a private equity line of \$5,000,000.00 over the next two years. Registration of the shares to be issued under the terms of the agreement was accomplished pursuant to the terms of an SB-2 filed with the Securities and Exchange Commission on August 12, 2002, and which became effective on September 2, 2002. Dutchess has fully funded the debentures.

The Dutchess private equity line may not be a viable funding mechanism, as the price and volume of trading in our shares may be too low to make that source of financing attractive. To date we have met our capital requirements by acquiring needed equipment under non-cancelable leasing arrangements, through capital contributions, loans from principal shareholders and officers, certain private placement offerings, and the Dutchess convertible debentures. For the three months ended March 31, 2003, the net loss was (\$320,459). Approximately \$210,225 of the loss was attributable to non-cash charges for depreciation and amortization, amortization of interest and debt issuance costs, payment in common stock of financing fees and interest, and increases in accounts payable and accrued liabilities. After taking into account the non-cash items included in that loss, our cash requirements were approximately \$130,000. To cover these cash requirements, we utilized our cash on hand in the sum of \$98,442, and increased our book overdraft by \$31,585.

The opinion of our independent auditor for each of the last two fiscal years expressed substantial doubt as to our ability to continue as a going concern. We will either need substantial additional capital, or to be successful with lucrative custom application projects in the promotional/advertising markets, or for our entry into the training/simulation market to be successful so as to generate profits to fund the company. We may need additional financing in order to carry out our expansion plans. Based upon our anticipated increase in the stock's trading volume following our entry into the training/simulation market, management believes that the Dutchess financing will allow us to continue our operations for at least the next 12 months, provided holders of our short-term notes and equipment lease obligations continue to give us the breathing room necessary for our new applications to make significant contributions to revenue.

Item 3.

Controls and Procedures

Based upon an evaluation performed within 90 days of this report, our CEO and CFO has concluded that our disclosure controls and procedures are effective to ensure that material information relating to our company is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our internal controls are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

In accord with SEC requirements, the CEO and CFO notes that, since the date of his evaluation to the date of this Quarterly Report, there have been no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On May 8, 2003, we filed a declaratory judgment lawsuit in the 348th state district court of Tarrant County, Texas against Legg Mason Wood Walker Incorporated and the Depository & Clearing Corporation, now pending as cause number 348-198792-03. In this suit, we refer to the district court's prior ruling that our cancellation of shares of the company's common stock formerly in the name of William E. K. Hathaway II c/o Olympic Holdings, L.L.C. was proper, and in this suit we seek a further judicial determination that Hathaway's subsequent endorsement of his certificate to these companies was ineffective, as the certificate was no longer genuine and could not be registered, and further due to other alleged irregularities, resulting in our having no liability to these companies.

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

N/A

Item 5. Other Information

On May 6, 2003, we sold our amusement/theme park operations, formerly known as our *VR Zones*, to Global VR for a negotiated cash price of \$120,000. This sale is designed to allow us to focus our attention on the larger and potentially more lucrative training/simulation market.

VIRTRA SYSTEMS, INC.

UNAUDITED PROFORMA FINANCIAL STATEMENTS

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 following Unaudited Proforma Balance Sheet as of March 31, 2003 gives effect to the transaction as if it had occurred at that date. The Unaudited Proforma Statement of Operations for the three months ended March 31, 2003 and the year ended December 31, 2002 give effect to the transaction as if it had occurred on January 1, 2002.

The Unaudited Proforma Financial Statements are presented for informational purposes only and are not necessarily indicative of the results of operations that would have been achieved had the transaction been completed at January 1, 2002, nor are they indicative of the Company's future results of operations.

The Unaudited Proforma Financial Statements should be read in conjunction with the historical financial statements of the Company and related notes thereto.

VIRTRA SYSTEMS, INC.

UNAUDITED PROFORMA BALANCE SHEET

March 31, 2003

	<u>Historical Balance</u>	<u>Proforma Adjustments</u>	<u>Proforma Balance</u>
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Accounts receivable	100,846	-	100,846
Note receivable	-	(a)120,000	120,000
Costs and estimated earnings in excess of billings on uncompleted contracts	<u>-</u>	<u>-</u>	<u>-</u>
Total current assets	100,846	120,000	220,846
Property and equipment, net	301,570	(b)(155,189)	146,381
Note receivable-related party	67,885	-	67,885
Intangible assets, net	<u>31,729</u>	<u>-</u>	<u>31,729</u>
Total assets	<u>\$ 502,030</u>	<u>\$ (35,189)</u>	<u>\$ 466,841</u>

LIABILITIES AND STOCKHOLDERS DEFICIT

Current liabilities:			
Notes payable	\$ 859,106	\$ -	\$ 859,106
Obligations under product financing arrangements	5,426,982	-	5,426,982
Notes payable-stockholders	910,031	-	910,031
Convertible debentures	245,736	-	245,736
Book overdraft	31,585	-	31,585
Accounts payable	1,214,491	-	1,214,491
Accrued liabilities	635,023	-	635,023
Billings in excess of costs and estimated earnings on uncompleted contracts	<u>52,332</u>	<u>-</u>	<u>52,332</u>
Total current liabilities	9,375,286	-	9,375,286
Redeemable common stock, 778,291 shares at \$.005 par value	3,891	-	3,891

Stockholders deficit:

Common stock, \$.005 par value, 100,000,000 shares authorized, 38,091,448 shares issued and outstanding	190,458	-	190,458
Additional paid-in capital	2,982,639	-	2,982,639
Accumulated deficit	<u>(12,050,244)</u>	<u>(c)(35,189)</u>	<u>(12,085,433)</u>
 Total stockholders deficit	 <u>(8,877,147)</u>	 <u>(35,189)</u>	 <u>(8,912,336)</u>
 Total liabilities and stockholders deficit	 <u>\$ 502,030</u>	 <u>\$ (35,189)</u>	 <u>\$ 466,841</u>

See notes to unaudited proforma financial statements.

VIRTRA SYSTEMS, INC.

UNAUDITED PROFORMA STATEMENT OF OPERATIONS

for the three months ended March 31, 2003

	<u>Historical</u> <u>Balance</u>	<u>Proforma</u> <u>Adjustments</u>	<u>Proforma</u> <u>Balance</u>
Revenue:			
Theme parks and arcades	\$ 45,805	\$ (a)(38,268)	\$ 7,537
Custom applications and other	<u>348,001</u>	<u>-</u>	<u>348,001</u>

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Total revenue	393,806	(38,268)	355,538
Cost of sales and services	<u>160,513</u>	<u>(a)(46,487)</u>	<u>114,026</u>
Gross margin	233,293	8,219	241,512
General and administrative expenses	<u>325,330</u>	<u>(a)(37,840)</u>	<u>287,490</u>
Loss from operations	<u>(92,037)</u>	<u>(46,059)</u>	<u>(45,978)</u>
Other income (expenses):			
Interest expense and finance charges	(228,422)	-	(228,422)
Other income	<u>-</u>	<u>-</u>	<u>-</u>
Total other income (expenses)	<u>(228,422)</u>	<u>-</u>	<u>(228,422)</u>
Net loss	<u>\$ (320,459)</u>	<u>\$ (b)(46,059)</u>	<u>\$ (274,400)</u>
Weighted average shares outstanding	<u>37,551,448</u>	<u>-</u>	<u>37,551,448</u>
Basic and diluted net loss per common share	<u>\$ (0.01)</u>	<u>\$ (b) -</u>	<u>\$ (0.01)</u>

See notes to unaudited proforma financial statements.

VIRTRA SYSTEMS, INC.
UNAUDITED PROFORMA STATEMENT OF OPERATIONS
for the year ended December 31, 2002

	<u>Historical Balance</u>	<u>Proforma Adjustments</u>	<u>Proforma Balance</u>
Revenue:			
Theme parks and arcades	\$1,216,283	\$(a)(1,208,936)	\$ 7,347
Custom applications and other	<u>1,064,201</u>	<u>-</u>	<u>1,064,201</u>
Total revenue	2,280,484	(1,208,936)	1,071,548
Cost of sales and services	<u>1,318,119</u>	<u>(a)(974,878)</u>	<u>343,241</u>
Gross margin	962,365	(234,058)	728,307
General and administrative expenses	<u>2,119,229</u>	<u>(a)(423,845)</u>	<u>1,695,384</u>
Loss from operations	<u>(1,156,864)</u>	<u>(189,787)</u>	<u>(967,077)</u>

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Other income (expenses):			
Interest income	130	-	130
Interest expense and finance charges	(1,549,142)	-	(1,549,142)
Other income	<u>13,121</u>	<u>-</u>	<u>13,121</u>
Total other income (expenses)	<u>(1,535,891)</u>	<u>-</u>	<u>(1,535,891)</u>
Net loss	<u>\$(2,692,755)</u>	<u>\$^(b)(189,787)</u>	<u>\$(2,502,968)</u>
Weighted average shares outstanding	<u>35,358,153</u>	<u>-</u>	<u>35,358,153</u>
Basic and diluted net loss per common share	<u>\$ (0.08)</u>	<u>\$^(b)(0.01)</u>	<u>\$ (0.07)</u>

See notes to unaudited proforma financial statements.

VIRTRA SYSTEMS, INC.

NOTES TO UNAUDITED PROFORMA FINANCIAL STATEMENTS

1.

Basis of Presentation

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 following Unaudited Proforma Balance Sheet as of March 31, 2003 gives effect to the transaction as if it had occurred at that date. The Unaudited Proforma Statement of Operations for the three months ended March 31, 2003 and the year ended December 31, 2002 give effect to the transaction as if it had occurred on January 1, 2002.

The Company believes that the assumptions used in preparing the unaudited proforma financial statements provide a reasonable basis for presenting all of the significant effects of the sale of the assets used in its theme park operations and that the proforma adjustments give effect to those assumptions in the Unaudited Proforma Financial Statements.

2.

Earnings Per Share

Net loss per share of common stock was computed by dividing the net income available to common stockholders by the weighted average number of shares of common stock outstanding during the period. Due to the net loss, all of the common stock equivalents were excluded from this calculation due to their anti-dilutive effect.

3.

Proforma Adjustments

Proforma adjustments to the Unaudited Proforma Balance Sheet are as follows:

a.

Reflects the note receivable established for the purchase of the assets.

b.

Reflects the disposition of the assets sold and related accumulated depreciation.

c.

Reflects the loss incurred on sale of the assets.

Proforma adjustments to the Unaudited Proforma Statements of Operations are as follows:

a.

Reflects the removal of the revenue, cost of sales and general and administrative expenses related to the theme park operations.

b.

Reflects the effect on net loss and loss per share upon removal of the theme park operations.

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

(a) Exhibits

2 Asset Purchase Agreement

99.1 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: May 14, 2003

/s/ L. Kelly Jones

L. Kelly Jones

Chief Executive Officer and Chief Financial Officer

Chief Executive Officer and Chief Financial Officer - Sarbanes-Oxley Act Section 302 Certification

I, L. Kelly Jones, certify that:

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1. I have reviewed this quarterly report on Form 10-QSB of Virtra Systems, Inc.;

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

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ L. Kelly Jones

L. Kelly Jones

Chief Executive Officer and Chief Financial Officer

In stating that the above matters are true "based on his knowledge," the signer does not mean that he knows such matters to be true, but means that after reasonable inquiry he does not know of any facts which indicate to him that such matters are not true. He further notes that there are no "other certifying officers."