

VIRTRA SYSTEMS INC
Form 10QSB
August 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 June 30, 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 August 3, 2003, the Registrant had outstanding 43,672,706 shares of common stock, par value \$.005 per share.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Balance Sheet as of June 30, 2003 and December 31, 2002

Statement of Operations for the three months and six months ended June 30, 2003 and 2002

Statement of Changes in Stockholders' Deficit for the six months ended June 30, 2003

Statement of Cash Flows for the six months ended June 30, 2003 and 2002

Selected Notes to Financial Statements

VIRTRA SYSTEMS, INC.
BALANCE SHEET
June 30, 2003 and December 31, 2002

| | June 30, 2003 (Unaudited) | December 31, 2002 (Note) |
|---|--|---|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ - | \$ 98,442 |
| Accounts receivable | 41,699 | 93,929 |
| Costs and estimated earnings in excess of billings on uncompleted contracts | <u>-</u> | <u>17,342</u> |
| Total current assets | 41,699 | 209,713 |
| Property and equipment, net | 134,526 | 158,237 |
| Assets of discontinued operations | - | 187,877 |
| Note receivable-related party | 67,885 | 67,885 |
| Intangible assets, net | <u>27,197</u> | <u>36,261</u> |
| Total assets | <u>\$ 271,307</u> | <u>\$ 659,973</u> |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| Current liabilities: | | |
| Notes payable | \$ 848,411 | \$ 889,324 |
| Obligations under product financing arrangements | 5,634,130 | 5,240,418 |
| Notes payable-stockholders | 910,031 | 910,031 |
| Convertible debentures | 209,967 | 308,262 |
| Book overdraft | 14,385 | - |
| Accounts payable | 1,185,180 | 1,201,849 |
| Accrued liabilities | 655,409 | 643,879 |

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| | | |
|---|---------------------|---------------------|
| Billings in excess of costs and estimated earnings on uncompleted contracts | _____ - | <u>82,613</u> |
| Total current liabilities | 9,457,513 | 9,276,376 |
| Redeemable common stock, 490,760 shares at \$.005 par value | 2,454 | 3,891 |
| Stockholders' deficit: | | |
| Common stock, \$.005 par value, 100,000,000 shares authorized, 40,976,455 and 37,331,448 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively | 204,883 | 186,658 |
| Additional paid-in capital | 3,184,486 | 2,922,833 |
| Accumulated deficit | <u>(12,578,029)</u> | <u>(11,729,785)</u> |
| Total stockholders' deficit | <u>(9,188,660)</u> | <u>(8,620,294)</u> |
| Total liabilities and stockholders' deficit | <u>\$ 271,307</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 and six months ended June 30, 2003 and 2002

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------------------|-----------------------------|----------------|---------------------------|----------------|
| | 2003 | 2002 | 2003 | 2002 |
| Revenue: | | | | |
| Theme parks and arcades | \$ 3,335 | \$ 19,968 | \$ 17,080 | \$ 57,395 |
| Custom applications and other | <u>77,523</u> | <u>10,315</u> | <u>425,524</u> | <u>137,887</u> |
| Total revenue | 80,858 | 30,283 | 442,604 | 195,282 |
| Cost of sales and services | <u>26,412</u> | <u>31,484</u> | <u>174,101</u> | <u>80,302</u> |
| Gross margin | 54,446 | (1,201) | 268,503 | 114,980 |
| General and administrative expenses | <u>287,973</u> | <u>579,807</u> | <u>550,614</u> | <u>912,012</u> |

| | | | | |
|---|---------------------|---------------------|---------------------|-----------------------|
| Loss from operations | <u>(233,527)</u> | <u>(581,008)</u> | <u>(282,111)</u> | <u>(797,032)</u> |
| Other income (expenses): | | | | |
| Interest expense and finance charges | (249,069) | (205,709) | (477,491) | (686,455) |
| Loss on sale of asset | (35,189) | - | (35,189) | - |
| Other income | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,872</u> |
| Total other income (expenses) | <u>(284,258)</u> | <u>(205,709)</u> | <u>(512,680)</u> | <u>(679,583)</u> |
| Net loss from continuing operations | (517,785) | (786,717) | (794,791) | (1,476,615) |
| Income (loss) from discontinued operations | <u>(10,000)</u> | <u>18,408</u> | <u>(53,453)</u> | <u>(83,400)</u> |
| Net loss | <u>\$ (527,785)</u> | <u>\$ (768,309)</u> | <u>\$ (848,244)</u> | <u>\$ (1,560,015)</u> |
| Weighted average shares outstanding | <u>39,439,281</u> | <u>35,208,536</u> | <u>38,655,365</u> | <u>34,356,598</u> |
| Basic and diluted net loss per common share | <u>\$ (0.01)</u> | <u>\$ (0.02)</u> | <u>\$ (0.02)</u> | <u>\$ (0.05)</u> |

See accompanying notes.

VIRTRA SYSTEMS, INC.
STATEMENT OF STOCKHOLDERS' DEFICIT
for the six months ended June 30, 2003

(Unaudited)

Additional Paid-In
Accumulated

Common Stock

| | Shares | Amount | Capital | Deficit | Total |
|--|-------------------|-------------------|--------------------|-----------------------|----------------------|
| 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 | 1,275,191 | 6,376 | 91,919 | - | 98,295 |
| Common stock issued for payment of interest | 34,809 | 174 | 2,377 | - | 2,551 |
| Common stock issued for cash | 2,335,007 | 11,675 | 167,357 | - | 179,032 |
| Net loss | - | - | - | (848,244) | (848,244) |
| Balance at June 30, 2003 (unaudited) | <u>40,976,455</u> | <u>\$ 204,883</u> | <u>\$3,184,486</u> | <u>\$(12,578,029)</u> | <u>\$(9,188,660)</u> |

See accompanying notes.

VIRTRA SYSTEMS, INC.
STATEMENT OF CASH FLOWS
for the six months ended June 30, 2003 and 2002

(Unaudited)

| | Six Months Ended June 30, | |
|---|----------------------------------|------------------|
| | 2003 | 2002 |
| Cash flows from operating activities: | | |
| Net loss | \$ (848,244) | \$(1,560,015) |
| Less: net loss from discontinued operations | <u>(53,453)</u> | <u>(83,400)</u> |
| Net loss from continuing operations | (794,791) | (1,476,615) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 32,774 | 34,168 |
| Loss on sale of assets | 35,189 | - |
| Amortization of debt issuance costs and increase in obligation under product financing arrangements | 393,712 | 397,390 |
| Stock issued for interest and financing fees | 2,551 | 234,500 |
| Stock issued as compensation for services | - | 250,425 |
| (Increase) decrease in operating assets | 99,572 | (5,305) |
| Increase (decrease) in accounts payable and accrued expenses | <u>(89,189)</u> | <u>279,686</u> |
| Net cash used in operating activities | <u>(320,182)</u> | <u>(285,751)</u> |
| Cash flows from investing activities: | | |
| Proceeds from sale of assets | <u>90,000</u> | <u>-</u> |
| Net cash provided by investing activities | <u>90,000</u> | <u>-</u> |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | 35,000 | 35,000 |
| Payments on notes payable | (75,913) | (89,067) |
| Proceeds from notes payable to stockholders | - | 199,500 |
| Increase (decrease) in book overdraft | 14,385 | (7,534) |
| Payments on obligations under product financing arrangements | - | (7,500) |
| Proceeds from issuance of common stock | <u>179,032</u> | <u>-</u> |
| Net cash provided by financing activities | <u>152,504</u> | <u>130,399</u> |

Total

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| | | |
|--|------------------|------------------|
| Net cash provided by (used in) discontinued operations | <u>(20,764)</u> | <u>155,352</u> |
| Net increase (decrease) in cash and cash equivalents | (98,442) | - |
| 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>\$ -</u> |
| Supplemental disclosure of cash flow information: | | |
| Interest paid | <u>\$ 22,475</u> | <u>\$ 18,589</u> |
| Income taxes paid | <u>\$ -</u> | <u>\$ -</u> |
| Non-cash investing and financing activities: | | |
| Common stock issued upon conversion of debentures | <u>\$ 98,295</u> | <u>\$ -</u> |
| Receivable from the sale of assets | <u>\$ 30,000</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

Total

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. Discontinued Operations

On April 23, 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 \$35,189.

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 three and six months ended June 30, 2003, respectively, and \$264,680 and \$306,782 for the three and six months ended June 30, 2002, 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 three months ended June 30, 2003 the Company sold 2,335,007 shares of its common stock for \$179,032 under this agreement.

In connection with this investment agreement the Company issued \$450,000 in convertible debentures. The debentures bear interest at 5% per year payable in cash or registered common stock at the Company's option. The debentures mature in September 2005 and are convertible, at the option of the holder, to shares of the Company's

Total

common stock at a conversion price per share equal to the lower of (i) 85% of the average of any four or five closing bid prices for the common stock for the five days prior to the conversion date; or (ii) 125% of the volume weighted average price on the closing date. During the six months ended June 30, 2003 the Company issued 1,275,191 shares of its common stock upon conversion of \$98,295 of this debenture and issued 34,809 shares of its common stock as payment of \$2,551 of interest on the debentures.

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.

We recently sold our theme park operations, so that substantially all our revenue on an ongoing basis is expected to be in custom applications and other sources.

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 recently announced the other more advanced training simulator, the IVR-360™. We have conducted numerous demonstrations of the IVR-p™ in Washington, D.C. We remain in advanced discussions with representatives of Homeland Security, various federal agencies, and various law enforcement agencies regarding our technology, and our capabilities in the detection and mitigation of risk. We have recently learned that one federal protective agency, based upon its approval of the IVR-p prototype at a recent demonstration, is moving forward with the procurement of our products. 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 June 30, 2003 Compared to Three Months Ended June 30, 2002

Two major factors affected our results of operations for the three months ended June 30, 2003, compared to the corresponding period of 2002. First, revenue increased. Second, general and administrative expense 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 \$80,858 for the three months ended June 30, 2003, compared to \$30,283 for the corresponding three months of 2002. Revenue from custom applications and other sources increased. The main component of this item is revenue from the recently completed contract with Cameo Marketing for the *Red Baron® 3-D Flying Adventure™*. Despite the increased revenue, cost of sales and services decreased. General and administrative costs of \$287,983 for the three months ended June 30, 2003, compared to \$579,807 for the three months ended June 30, 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 increased to \$249,069 for the three months ended June 30, 2003, compared to \$205,709 for the corresponding period of 2002.

Six months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

Three major factors affected our results of operations for the six months ended June 30, 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.

We had revenue of \$442,604 for the sixth months ended June 30, 2003, compared to \$195,282 for the corresponding six months of 2002. The main components of this item are revenue from the Shell/Pennzoil *Vroom Tour* promotional virtual reality project, as well as the recently-completed *Red Baron® 3-D Flying Adventure™* promotional project. Cost of sales and services increased to \$174,101, but less proportionately than the increased revenue from custom applications. General and administrative costs of \$550,614 for the six months ended June 30, 2003, compared to \$912,012 for the six months ended June 30, 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 \$477,491 for the six months ended June 30, 2003, compared to \$686,455 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 June 30, 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 June 30, 2003 we had current liabilities of \$9,457,513, including \$5,634,130 in obligations under the lease financing for the virtual reality systems formerly utilized in our amusement applications, \$1,185,180 in accounts payable, and short-term notes payable of \$848,411, some of which were either demand indebtedness or were payable at an earlier date and were in default. As of June 30, 2003 there were only \$41,699 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. As of June 30, 2003, the balance owed on the debentures to Dutchess had been reduced to \$209,967.

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 six months ended June 30, 2003, the net loss from continuing operations was (\$794,791). Approximately \$474,609 of the loss was attributable to non-cash charges. After taking into account the non-cash items included in that loss, our cash requirements for continuing operations were approximately \$320,182. In addition, we repaid \$75,913 in principal amount of notes and used \$20,764 in discontinued operations, bringing total cash requirements to \$416,859. To cover our cash requirements, we received \$90,000 from sale of assets used in our theme park operations, issued \$35,000 in notes to non-stockholders, utilized our cash on hand in the sum of \$98,442, increased our book overdraft by \$14,385 and drew down \$179,032 under our equity line of credit.

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. We subsequently dismissed Depository and Clearing Corporation from the lawsuit without prejudice. On July 2, 2003, Legg Mason counterclaimed against us for the sum of \$277,855, representing the costs Legg Mason endured when required to purchase 700,000 shares of our stock on the open market to cover its short position resulting from our transfer agent's confiscation of the certificate originally issued to Mr. Hathaway. We believe the counterclaim has no merit, due to the district court's prior ruling, and our interpretation and that of our legal counsel of the applicable provisions of the Uniform Commercial Code, which provide that Legg Mason's remedy is against Mr. Hathaway and not us.

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-14(a) 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 14, 2003

/s/ L. Kelly Jones

L. Kelly Jones

Chief Executive Officer and Chief Financial Officer