

GAMECOM INC
Form 10QSB
May 15, 2002

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, 2002

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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GAMECOM, INC.

(Former name, former address and former fiscal year, if changed since last report)

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) 265-0440

(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 March 31, 2002, the Registrant had outstanding 34,446,746 shares of common stock, par value \$.005 per share.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Consolidated Balance Sheet as of March 31, 2002 and December 31, 2001

Consolidated Statement of Operations for the three months ended March 31, 2002 and 2001

Consolidated Statement of Changes in Stockholders' Deficit for the three months ended March 31, 2002

Consolidated Statement of Cash Flows for the three months ended March 31, 2002 and 2001

Selected Notes to Financial Statements

VIRTRA SYSTEMS, INC.

CONSOLIDATED BALANCE SHEET

March 31, 2002 and December 31, 2001

| | March 31, 2002 | December 31, 2001 |
|-----------------------------|--------------------|-------------------|
| | <u>(Unaudited)</u> | <u>(Note)</u> |
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 5,026 | \$ - |
| Accounts receivable | <u>20,862</u> | <u>15,669</u> |
| Total current assets | 25,888 | 15,669 |
| Property and equipment, net | 691,032 | 822,964 |

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| | | |
|-------------------------------|-------------------|-------------------|
| Note receivable-related party | 67,885 | 67,885 |
| Intangible assets, net | <u>49,857</u> | <u>54,389</u> |
| Total assets | <u>\$ 834,662</u> | <u>\$ 960,907</u> |

LIABILITIES AND STOCKHOLDERS DEFICIT

| | | |
|--|--------------------|--------------------|
| Current liabilities: | | |
| Notes payable | \$1,067,994 | \$1,079,464 |
| Current portion of obligations under product financing arrangements | 2,109,002 | 1,840,436 |
| Notes payable-stockholders | 885,031 | 710,531 |
| Accounts payable | 1,192,305 | 1,020,574 |
| Book overdraft | - | 33,172 |
| Accrued interest payable | 171,364 | 146,341 |
| Accrued liabilities | <u>244,571</u> | <u>355,365</u> |
| Total current liabilities | <u>5,670,267</u> | <u>5,185,883</u> |
| | | |
| Obligations under product financing arrangements, net of current portion | <u>2,513,914</u> | <u>2,513,914</u> |
| Total liabilities | <u>8,184,181</u> | <u>7,699,797</u> |
| | | |
| Redeemable common stock, 778,291 shares at \$.005 par value | <u>3,891</u> | <u>3,891</u> |
| | | |
| Stockholders deficit: | | |
| Common stock, \$.005 par value, 100,000,000 shares authorized, 34,446,746 and 32,931,842 shares issued and outstanding at March 31, 2002 and December 31, 2001, respectively | 172,235 | 164,660 |
| Additional paid-in capital | 2,298,514 | 2,129,589 |
| Accumulated deficit | <u>(9,824,159)</u> | <u>(9,037,030)</u> |
| Total stockholders deficit | <u>(7,353,410)</u> | <u>(6,742,781)</u> |
| Total liabilities and stockholders deficit | <u>\$ 834,662</u> | <u>\$ 960,907</u> |

Note: The balance sheet at December 31, 2001 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. See accompanying notes.

VIRTRA SYSTEMS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS
for the three months ended March 31, 2002 and 2001
(Unaudited)

| | <u>Three Months Ended March 31,</u> | |
|---|--|---------------------|
| | <u>2002</u> | <u>2001</u> |
| Revenue: | | |
| Theme parks and arcades | \$ 79,529 | \$ 175,506 |
| Custom applications and other | <u>127,572</u> | <u>356,202</u> |
| Total revenue | 207,101 | 531,708 |
| Cost of sales and services | <u>86,780</u> | <u>185,431</u> |
| Gross margin | 120,321 | 346,277 |
| General and administrative expenses | <u>433,576</u> | <u>728,525</u> |
| Loss from operations | <u>(313,255)</u> | <u>(382,248)</u> |
| Other income (expenses): | | |
| Interest income | - | 741 |
| Interest expense and finance charges | (480,746) | (340,698) |
| Other income | <u>6,872</u> | <u>150</u> |
| Total other income (expenses) | <u>(473,874)</u> | <u>(339,807)</u> |
| Net loss | <u>\$ (787,129)</u> | <u>\$ (722,055)</u> |
| Weighted average shares outstanding | <u>33,504,660</u> | <u>31,516,523</u> |
| Basic and diluted net loss per common share | <u>\$ (0.02)</u> | <u>\$ (0.02)</u> |

See accompanying notes.

VIRTRA SYSTEMS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS DEFICIT
for the three months ended March 31, 2002

(Unaudited)

| | <u>Common Stock</u> | | <u>Additional</u> | <u>Accumulated</u> | <u>Total</u> |
|--|---------------------|-------------------|--------------------|----------------------|----------------------|
| | <u>Shares</u> | <u>Amount</u> | <u>Paid-In</u> | <u>Deficit</u> | |
| | | | <u>Capital</u> | | |
| Balance at December 31, 2001 | 32,931,842 | \$ 164,660 | \$2,129,589 | \$(9,037,030) | \$(6,742,781) |
| Common stock issued for financing fees | 1,494,904 | 7,475 | 167,025 | - | 174,500 |
| Common stock issued for services | 20,000 | 100 | 1,900 | - | 2,000 |
| Net loss | _____ - | _____ - | _____ - | (787,129) | (787,129) |
| Balance at March 31, 2002 | <u>34,446,746</u> | <u>\$ 172,235</u> | <u>\$2,298,514</u> | <u>\$(9,824,159)</u> | <u>\$(7,353,410)</u> |

See accompanying notes.

VIRTRA SYSTEMS, INC.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the three months ended March 31, 2002 and 2001

(Unaudited)

| | <u>Three Months Ended March 31,</u> | |
|---|-------------------------------------|------------------|
| | <u>2002</u> | <u>2001</u> |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ (787,129) | \$ (722,055) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 136,464 | 144,643 |
| Amortization of debt issuance costs | 268,566 | - |
| Bad debt expense | - | 33,471 |
| Stock issued as financing fees | 174,500 | 60,000 |
| Stock issued as compensation for services | 2,000 | 50,500 |
| (Increase) decrease in operating assets | (5,193) | 142,556 |
| Increase (decrease) in accounts payable and accrued expenses | <u>85,960</u> | <u>(133,309)</u> |
| Net cash used in operating activities | <u>(124,832)</u> | <u>(424,194)</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: | | |

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| | | |
|---|------------------|-------------------|
| Proceeds from notes payable | - | 60,000 |
| Payments on notes payable | (11,470) | - |
| Proceeds from obligations under product financing arrangements | - | 377,550 |
| Payments on obligations under product financing arrangements | - | - |
| Proceeds from notes payable to stockholders | 174,500 | - |
| Decrease in book overdraft | (33,172) | (5,574) |
| Proceeds from issuance of common stock | <u>-</u> | <u>25,000</u> |
| Net cash provided by financing activities | <u>129,858</u> | <u>456,976</u> |
| Net increase (decrease) in cash and cash equivalents | 5,026 | 32,782 |
| Cash and cash equivalents at beginning of period | <u>-</u> | <u>6,135</u> |
| Cash and cash equivalents at end of period | <u>\$ 5,026</u> | <u>\$ 38,917</u> |
| Non-cash investing and financing activities: | | |
| Interest paid | <u>\$ 12,657</u> | <u>\$ 194,328</u> |
| Income taxes paid | <u>\$ -</u> | <u>\$ -</u> |
| Common stock issued as repayment of notes payable to stockholders | <u>\$ -</u> | <u>\$ 50,000</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 generally accepted accounting principles 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, 2001. They do not include all information and footnotes required by generally accepted accounting principles 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, 2001 included in the Company's Form 10-KSB 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.

Effective September 21, 2001, GameCom, Inc. merged with Ferris Productions, Inc. by issuing 18,072,289 shares of GameCom common stock for all of the outstanding shares of Ferris. The merger, which was initiated prior to June 30, 2001, is accounted for as a pooling of interests in the accompanying unaudited consolidated interim financial statements. The pooling of interests method of accounting assumes that GameCom and Ferris have been merged since their inception and the historical interim consolidated financial statements for periods prior to consummation of the merger are restated as though the companies have been combined since their inception.

Effective April 15, 2002, the Company's board of directors approved a change in the Company's name to VirTra Systems, Inc.

2.

Notes Payable to Stockholders

During the three months ended March 31, 2002, the Company borrowed an additional \$174,500 from certain stockholders of the Company and incurred \$174,500 of finance charges associated with the issuance of these new loans.

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.

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 the Company's expectations, intentions, beliefs or strategies regarding the future. Forward-looking statements include the Company's 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 the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statement. It is important to note that the Company's 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, the Company's 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, GameCom 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 the Company with a wider array of products within the Company's industry, an experienced management team, an existing revenue stream, and established distribution channels. Until it acquired Ferris, GameCom had devoted substantially all of its efforts to implementing its `Net GameLink (TM), 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. It intends to continue development and deployment of that entertainment system while at the same time expanding Ferris' business. Post-merger, the anticipated deployment of the Company's 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 Ferris operations rather than GameCom's.

Future revenues and profits will depend upon various factors, including market acceptance of `Net GameLink (TM) and, more importantly, on the success of Ferris' product lines, as well as on general economic conditions. The Company's anticipated entry into the training/simulation market was advanced by the aftermath of September 11, 2001. The Company remains in advanced discussions with representatives of Homeland Security regarding the Company's technology and its capabilities in the detection and mitigation of risks. There can be no assurances that these advanced discussions will be fruitful.

There can be no assurances that the Company will successfully implement its expansion plans, including the `Net GameLink (TM) entertainment concept, the hoped-for expansion of Ferris' operations, and the anticipated entry into the training/simulation market with the Company's advanced training simulators. The Company faces all of the risks, expenses, and difficulties frequently encountered in connection with the expansion and development of the 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, 2002 Compared to Three Months Ended March 31, 2001

Two major factors affect the Company's results of operations for the three months ended March 31, 2002 compared to the corresponding period of 2001. First, revenues declined. Second, interest expense increased.

Revenues from both of the Company's 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 the Company is 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. The Company had revenue of \$207,101 for the three months ended March 31, 2002 compared to \$531,708 for the corresponding three months of 2001. Revenue from theme parks and arcades declined primarily because the Company did not substantially update the content of its virtual reality systems at these facilities during 2001. Revenue from custom applications and other sources also declined, reflecting the fact that the Company completed several major projects in the first quarter of 2001 and revenues from new projects in this area had not yet begun. Cost of sales and services decreased in proportion to the reduced sales. General and administrative costs of \$433,576 for the three months ended March 31, 2002, compared to \$728,525 for the three months ended March 31, 2001 decreased primarily due to the Company's efforts to reduce its overhead costs.

Interest expense increased to \$480,746 for the three months ended March 31, 2002 compared to \$340,698 for the corresponding period of 2001 largely because the Company received additional loans from its stockholders in 2002 and, as an incentive to loan additional funds, the Company issued common stock to those stockholders and incurred \$174,500 in additional finance charges in 2002.

Liquidity and Capital Resources

As of March 31, 2002 the Company's liquidity position was extremely precarious. The Company had current liabilities of \$5,670,267, including \$2,109,002 in obligations under the lease financing for its virtual reality systems, and short-term notes payable of \$1,067,994, some of which were either demand indebtedness or were payable at an earlier date and were in default, and related accrued interest on the notes. As of March 31, 2002 there were only \$25,888 in current assets available to meet those liabilities.

The Company has not made any draws under its equity line of credit since March 2001, because the price and volume of trading in the Company's shares have been too low to make that source of financing attractive. To date the Company has met its capital requirements by acquiring needed equipment under non-cancelable leasing arrangements, through capital contributions, loans from principal shareholders and officers, and certain private placement offerings. For the three months ended March 31, 2002, the net loss from operations was \$(313,255). After taking into account the non-cash items included in that loss, the Company's cash requirements were approximately \$125,000. To cover these cash requirements, the Company increased its borrowings from shareholders by \$174,500, applying 11,470 of that amount to payments on notes payable and 33,172 to repayment of a book overdraft.

Plan of Operations

The opinion of the Company's independent auditor for each of the last two fiscal years expressed substantial doubt as to the Company's ability to continue as a going concern. The Company will need substantial additional capital or new lucrative custom application projects to become profitable. Assuming that capital becomes available, or the Company is successful in achieving major custom application projects, the Company expects to achieve profitability within the next 12 months. If the Company cannot negotiate up-front payment, the Company may need additional financing to acquire major custom application projects currently under negotiation, in order to carry out its expansion plans. The Company is presently negotiating with several investment bankers and interested financiers with regard to funding necessary for the Company to continue in operation. The Company has not obtained commitments for that financing, and as a result the Company may not be able to bring certain negotiations for major custom applications to contract fruition.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

N/A

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

N/A

Item 5. Other Information

None.

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

(a) Exhibits

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 15, 2002

/s/ L. Kelly Jones

L. Kelly Jones

Chief Executive Officer and Chief Financial Officer