

VIRTRA SYSTEMS INC

Form SB-2/A

October 05, 2005

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 5, 2005.

REGISTRATION NO. 333-128435

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
AMENDMENT NO. 1

to

FORM SB-2

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VIRTRA SYSTEMS, INC.

(NAME OF SMALL BUSINESS ISSUER IN ITS CHARTER)

TEXAS

(State or other jurisdiction of
incorporation or organization)

334310

(Primary standard industrial
classification code number)

93-1207631

(IRS employer identification
number)

440 North Center

Arlington, Texas 76011

(817) 261-4269

(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING

AREA CODE, OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

440 North Center

Arlington, Texas 76011

(817) 261-4269

(ADDRESS OF PRINCIPAL PLACE OF BUSINESS OR INTENDED PRINCIPAL PLACE OF BUSINESS)

L. Kelly Jones, chief executive officer

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440 North Center

Arlington, Texas 76011

(817) 261-4269

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING
AREA CODE, OF AGENT FOR SERVICE)

COPIES TO:

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COUNSEL TO ISSUER

Approximate date of commencement of proposed sale to public: as soon as practicable after the registration statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER SECURITY (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE	AMOUNT OF REGISTRATION FEE
Common Stock, \$.005 Par Value (2)	\$7,500,000	\$0.17	\$1,275,000	\$150.07

Common Stock, \$.005 Par Value (3)	500,000	0.19	95,000	11.18
Common Stock, \$.005 Par Value (4)	125,000	0.25	31,250	3.68
Common Stock, \$.005 Par Value (4)	125,000	0.30	37,500	4.41
Common Stock, \$.005 Par Value (4)	125,000	0.35	43,750	5.15
Common Stock, \$.005 Par Value (4)	125,000	0.40	50,000	5.89
Total	\$8,500,000		\$1,532,500	\$180.38

(1) All shares are to be offered by selling shareholders from time to time at fluctuating market prices. The registration fee for these shares is calculated in accordance with Rule 457(c). Except as otherwise noted, the maximum offering price is based upon \$0.167 per share, which was the average of the bid and ask prices for our common stock as reported on the OTC Bulletin Board on September 2, 2005, rounded to two decimal places.

(2) Consists of up to 7,500,000 shares which may be issued to holders of our convertible subordinated debentures issued on August 1, 2005.

(3) Issuable upon the exercise of common stock purchase warrants issued to Dutchess Private Equities Fund II, L.P., the debenture holder, on August 1, 2005. The exercise price of the warrants is \$0.19, but is subject to adjustment under some circumstances.

(4) Issuable upon the exercise of common stock warrants issued to Market Byte, LLC on August 9, 2005.

In accordance with Rule 416 promulgated under the Securities Act of 1933, this registration statement also covers such indeterminate number of additional shares of common stock as may become issuable upon stock splits, stock dividends, or similar transactions.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

PROSPECTUS

VirTra Systems, Inc.

440 North Center, Arlington, Texas 76011 (817) 261-4269

8,500,000 Shares of Common Stock

The selling price of the shares will be determined by market factors at the time of their sale by the selling shareholders.

This prospectus relates to the sale by the selling shareholders of up to 8,500,000 shares of common stock. The selling shareholders may sell the stock from time to time in the over-the-counter market at the prevailing market price or in negotiated transactions. Of the shares offered,

- up to 7,500,000 shares are issuable to Dutchess Private Equities Fund II, L.P., as holder of our convertible subordinated debenture issued on August 1, 2005, and
- up to 500,000 shares are issuable upon the exercise of warrants issued to the debenture investor, and
- up to 500,000 shares are issuable upon the exercise of warrants issued to Market Byte, LLC.

We will receive no proceeds from the sale of the shares by the selling shareholders. However, we may receive \$0.19 per share from the sale to the Dutchess fund of up to 500,000 shares issuable upon the exercise of warrants.. We may also receive \$0.25 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, \$0.30 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, \$0.35 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, and \$0.40 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants. We would receive \$257,500 if all of the warrants are exercised. We intend to use any proceeds from the exercise of warrants for working capital and general corporate purposes.

Our common stock is quoted on the OTC Electronic Bulletin Board under the symbol VTSL. On September 2, 2005, the last reported sale price of the common stock on the OTC Bulletin Board was \$0.166 per share.

Investing in the common stock involves a high degree of risk. The opinion of our independent auditor for the year ended December 31, 2004 expressed substantial doubt as to our ability to continue as a going concern. You should not invest in the common stock unless you can afford to lose your entire investment. **See "Risk Factors" on page 7.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 15, 2005.

Please read this prospectus carefully. It describes our company, finances, products, and services. Federal and state securities laws require us to include in this prospectus all the important information that you will need to make an investment decision.

You should rely only on the information contained or incorporated by reference in this prospectus to make your investment decision. We have not authorized anyone to provide you with different information. The selling shareholders are not offering these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front page of this prospectus.

Some of the statements contained in this prospectus, including statements under "Prospectus Summary," "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations," and "Business," are forward-looking and may involve a number of risks and uncertainties. Actual results and future events may differ significantly based upon a number of factors, including:

- we have had significant operating losses since starting business and we expect to continue losing money for some time;
- we expect competition from companies that are much larger and better financed than we are;
- we cannot be sure our products will be accepted in the marketplace; and
- we are in default on loans from three of our shareholders, and we are also in default under several of our equipment lease financing agreements.

In this prospectus, we refer to VirTra Systems, Inc. as "we" or "VirTra Systems," and to Dutchess Private Equities Fund II, L.P. as "Dutchess."

Prospectus Summary

This summary highlights information contained elsewhere in this prospectus. This summary is not complete and does not contain all of the information you should consider before investing in the common stock. Our revenues for the fiscal year ended December 31, 2004 were \$1,328,180, and our net income was \$1,566,091 (after a non-recurring item from debt forgiveness of \$4,922,500). Our revenue for the six months ended June 30, 2005 was \$421,084, and our loss for that period was \$1,085,740.

As of June 30, 2005, our liquidity position was extremely precarious. We had current liabilities of \$5,289,128. As of June 30, 2005, there was only \$267,614 in current assets available to meet those liabilities.

You should read the entire prospectus carefully, including the "Risk Factors" section.

Our Business

Our principal business began in 1993 with the organization of Ferris Productions, Inc. Ferris designed, developed, distributed, and operated virtual reality products for the entertainment, simulation, promotion, and education markets.

Virtual reality is a generic term associated with computer systems that create a real-time visual/audio/haptic (touch and feel) experience. Virtual reality immerses participants into a three-dimensional real-time synthetic environment generated or controlled by one (or several) computer(s). In September of 2001, Ferris merged into GameCom, Inc., a publicly held Texas company whose principal business at the time was the development and marketing of an internet-enabled video game system. Our historic areas of application have included the entertainment/amusement,

advertising/promotion, and training/simulation markets.

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. Virtual reality products have traditionally employed head-mounted displays that combine high-resolution miniature image source monitors, wide field-of-view optics, and tracking sensors in a unit small and light enough to be worn on the head. These products usually surround the participant with dynamic three-dimensional imagery, allowing the user to change perspective on the artificial scenes by simply moving his or her head. Virtual reality devices have in the past been used primarily in connection with electronic games, as, by surrounding the player with the sights, sounds, and smells he or she would experience in the real world, play is made far more realistic than it would be if merely presented in a two-dimensional flat screen display.

We maintain our corporate office at 440 North Center, Arlington, Texas 76011, and our telephone number is (817) 261-4269. We also maintain engineering, technical, and production offices, and a demonstration facility, at 5631 South 24th Street, Phoenix, Arizona 85040, with a phone number of (602) 470-1177.

The Offering

The selling shareholders are:

<u>Shareholder</u>	<u>Number of Shares</u>
Dutchess Private Equities Fund II, L.P. (1)	8,000,000
Market Byte, LLC	500,000
Total	8,500,000

(1) The number of shares beneficially owned by holders of our convertible subordinated debentures is indeterminate as the conversion price of those debentures is based upon market price of the shares. This prospectus relates to 7,500,000 shares of our common stock that we have reserved for possible issuance to Dutchess as holder of three-year eight percent convertible debentures in the principal amount of \$500,000. The holder of these convertible debentures have the right to convert the debentures, with accrued interest, into shares of our common stock at the lesser of \$0.19 or 80 percent of the lowest closing bid price for our common stock during the 15 full trading days prior to the dates the holder gives us its notice of conversion. The prospectus also relates to 500,000 shares of our common stock that Dutchess may acquire upon exercise of warrants. These warrants provide for a strike price of \$0.19 per share, and expire on August 1, 2008. The prospectus also relates to 500,000 shares of our common stock that Market Byte, LLC may acquire upon exercise of warrants. These warrants provide that 125,000 shares may be acquired for a strike price of \$0.25 per share, 125,000 shares may be acquired for a strike price of \$0.30 per share, 125,000 shares may be acquired for a strike price of \$0.35 per share, 125,000 shares may be acquired for a strike price of \$0.40 per share, and the warrants expire on August 8, 2010. If holders exercise all of the warrants, we will receive proceeds of \$257,500.

Key Facts

Common Stock Offered	Up to 8,500,000 shares by selling shareholders. (1)
Offering Price	Prevailing market prices.
Common Stock Outstanding Before This Offering	62,801,398
Use of Proceeds	None; however, we may receive up to \$257,500 from the sale of shares to the warrant holders if they exercise any of the

Risk Factors

warrants issued to them. Any such proceeds will be used for general corporate and working capital purposes.

The securities offered involve a high degree of risk. See "Risk Factors."

OTC Bulletin Board Common Stock VTSI
Symbol

(1) Includes

- up to 7,500,000 shares that we may issue to Dutchess as the holder of our convertible subordinated debentures upon conversion of those debentures,
- up to 500,000 shares underlying warrants issued to Dutchess as the debenture investor, and
- up to 500,000 shares underlying warrants issued to Market Byte, LLC as consideration for a consulting agreement dated August 9, 2005.

Summary Financial Data

The information below should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes to financial statement included elsewhere in this prospectus.

	Year Ended December 31,		Six Months Ended June 30,	
	<u>2004</u>	<u>2003</u>	<u>2005</u>	<u>2004</u>
Revenue	\$1,328,180	\$984,490	\$421,084	\$670,996
Loss from operations	(2,352,535)	(588,615)	(637,930)	(539,023)
Net income (loss)	1,566,091	(1,590,122)	(1,085,740)	(1,058,372)
Income (loss) per common share (basic)	0.03	(0.04)	(0.02)	(0.02)
Weighted average number of common shares outstanding	51,675,342	42,415,964	60,848,677	50,211,971

Balance Sheet Data:

	June 30, 2005
Working capital (deficit)	(\$5,021,514)
Total assets	1,419,134
Total liabilities	5,289,128
Shareholders' equity (deficit)	(3,871,853)

Risk Factors

An investment in the common stock the selling shareholders are offering to resell is risky. You should be able to bear a complete loss of your investment. Before purchasing any of the common stock, you should carefully consider the following risk factors, among others.

Risks Related to Our Business

We expect sales of our advertising and promotion virtual reality products to be strongly affected by general business trends. A decline in business activity could reduce our margins and our prospects of becoming profitable

Sales of our applications of virtual reality in the advertising and promotion fields are likely to be closely tied to the general level of business activity in the country, and particularly on the overall willingness of businesses to increase the amount they spend on advertising or promotion. Historically, in times of economic slowdown businesses have reduced their spending on advertising. Since custom applications for advertising generally carry a higher profit

margin for us than our entertainment-related products and services, an overall decline in business activity could seriously reduce our margins and our prospects of becoming profitable.

Other companies with more resources and greater name recognition may make competition so intense that the business will not be profitable. Our patents and patent applications offer only limited protection from competition from these other companies.

Although we have received a patent, have an exclusive license on a patent, and have several patent applications pending, covering our most valuable virtual reality technology in the training/simulation market, that patent, the license, and the other patents if issued, will provide only limited protection. They will not prevent other companies from developing virtual reality products similar to ours using other methods. If we are successful a number of other companies with far more money and greater name recognition may compete with us. That competition could exert downward pressure on the price we could charge for our products, making it more difficult for us to become profitable.

Our operating results may fluctuate significantly and may be difficult to predict. Failure to meet the expectations of investors could cause our stock price to decline.

Our operating results will likely fluctuate in the future due to a number of factors, many of which will be outside our control. These factors include:

- pricing competition;
- military and law enforcement budgets and budgeting cycles, which may fluctuate to to the effects of a wartime economy;
- the announcement or introduction of new and/or competing products in our markets; and
- the amount and timing of costs relating to expansion of our operations.

Due to these factors, factors discussed elsewhere in this document, or unforeseen factors in some future quarter, our operating results may not meet the expectations of investors, and if this happens, the trading price of the common stock of our company may decline.

The success of our new line of virtual reality training simulators will be affected by political considerations, such as the willingness of governmental agencies to spend additional amounts on our product to train military and law-enforcement personnel. Reductions or slowdowns in funding could reduce our ability to meet our obligations as they come due.

The major application of our new line of training simulators is for situational awareness and firearms training for law enforcement and military personnel. We have unveiled these simulators only within the past 17 months, and have begun penetrating the market with sales to foreign and domestic law enforcement agencies (\$276,650 and \$241,950, respectively), the U.S. Air Force (\$341,350), the U.S. Army (\$206,050), and a classified agency within the U.S. Department of Defense (\$224,150). We have received purchase orders for these contracts, but not all of these contracted sales have yet been booked as accounting revenue, as the income may not have been fully earned. Seven simulator units have been fully installed, two have been shipped and are awaiting installation, while others are in various stages of production and contracting. We currently have no other additional legally-binding purchase orders outstanding. In our business, the concept of "firm orders" is not completely meaningful. Frequently we receive an oral commitment to purchase units subject to the availability of the required funding. When the funding is received by the agency it places a purchase order and we deliver against that purchase order. For example, we have received an oral commitment for a large order from one branch of the military, subject to passage of the supplemental appropriation

recently approved by Congress, and funding being available under that appropriation. Based upon our continuing dialogue with, and oral commitments from, representatives from that branch, we expect purchase orders for that large order in the near future, but, as of the date of this prospectus, we have not received it.

We cannot give assurance that interest in these simulators will be long-lived, that funds will be budgeted to acquire more of our products for that purpose, or that we will be selected to supply additional training simulators. In addition, it is not uncommon for expected contracts for which we have incurred significant marketing costs to be delayed until the required funds have been appropriated. Delays in funding can severely reduce our ability to meet our obligations as they come due.

We cannot predict our future capital needs and we may not be able to secure additional financing.

We estimate our current "burn rate" -- the amount necessary to sustain our operations -- at approximately \$120,000 per month, or \$1,440,000 per year. To fully implement our current business plan, we will likely need to raise additional funds within the next 12 months in order to fund the operations of the company. We expect that the majority of these funds will come from institutional financing calling for advances against the proceeds of purchase order contracts we receive. However, if we are unable to obtain contract financing, we will need to seek financing from other sources. If we raise funds through other sources, such as convertible preferred stock or debentures you may experience significant dilution of your ownership interest, and these securities may have rights senior to the rights of common shareholders. If additional financing is not available when required or is not available on acceptable terms, we may be unable to fund continuing operations, develop our products, or take advantage of business opportunities or respond to competitive pressures, any of which could harm our business.

Our past inability to pay our debts as they come due may make it difficult or impossible to obtain a bank loan in the absence of security arrangements and/or personal guarantees from management.

We have outstanding substantial amounts on promissory notes and convertible promissory notes that we are contesting or that we have been unable to pay. Collection on approximately \$20,000 in principal amount of these notes is barred by the Texas four year statute of limitations (a law that prevents a creditor from successfully suing to collect a debt after a certain period of time has passed) that applies to collection of amounts payable under a written contract. However, our history of non-payment may make it difficult for us to get future bank financing for our operations on an unsecured basis or without personal guarantees from our officers. We currently have two bank loans which are secured by real estate or equipment. Our president has guaranteed these loans, but we cannot give any assurance that he will remain willing to guarantee future obligations. While we believe that financing of our expected purchase orders will be available on a secured basis, we cannot give any assurance that this is the case. We may not be able to borrow enough to carry out our business plan if bank financing is not available.

We expect our stock price to be volatile. As a result, investors could suffer greater market losses in a down market than they might experience with a more stable stock. Volatility in our stock may also increase the risk of having to defend a securities class action, which could be expensive and divert management's attention from managing our business.

The market price of our common shares has been subject to wide fluctuations in response to several factors, such as:

- actual or anticipated variations in our results of operations;
- announcements of technological innovations;
- new services or product introductions by us or our competitors;
- changes in financial estimates by securities analysts; and
- conditions and trends in the training/simulation and advertising promotion fields.

The stock markets generally, and the OTC Bulletin Board in particular, have experienced extreme price and volume fluctuations that have particularly affected the market prices of equity securities of many technology companies, and that often have been unrelated or disproportionate to the operating performance of those companies. These market fluctuations, as well as general economic, political, and market conditions such as recessions, interest rates or

international currency fluctuations, may adversely affect the market price of the common stock of the company. In the past, securities class action litigation has often been brought against companies after periods of volatility in the market price of their securities. If securities class action litigation is brought against us it could result in substantial costs and a diversion of management's attention and resources, which would hurt our business.

We have had significant operating losses ever since starting business and we expect to continue losing money for some time.

To date, we have incurred significant losses. At December 31, 2004, our accumulated deficit was \$11,753,816 and our stockholders' deficit was \$3,241,230. At June 30, 2005, our accumulated deficit was \$12,839,556 and our stockholders' deficit was \$3,871,853.

For the year ended December 31, 2004, although we showed net income of \$1,566,091, we actually lost \$2,352,535 from operations. For the six month period ended June 30, 2005, we had a net loss of \$1,085,740. These losses were caused primarily by the fact that our level of sales has been low compared to our general and administrative expenses. In order to become profitable, we will have to increase our revenues substantially. Based on our current projections, we do not expect to become profitable until promotional/advertising and training/simulation sales reach at least \$3,000,000 annually.

We depend heavily on the continued service of our chief executive officer and our president. Loss of the services of either of them could adversely affect our prospects.

We place substantial reliance upon the efforts and abilities of L. Kelly Jones, our chief executive officer, and on the technical capabilities of Bob Ferris, our president. The loss of Mr. Jones's or Mr. Ferris's services could have a serious adverse effect on our business, operations, revenues, or prospects. We do not currently have an employment agreement with either Mr. Jones or Mr. Ferris, or maintain any key man insurance on their lives, and we do not intend to maintain any key man insurance for the immediate future.

We are in default on certain equipment leases and shareholder promissory notes. If these leaseholders and noteholders are successful in suing us we may have to curtail our operations, making it difficult to reach a profitable level of operations.

We previously operated virtual reality entertainment centers in a number of theme parks. We leased some of the equipment needed to operate these entertainment centers from approximately 140 leaseholders. In October of 2001 we told all of the leaseholders that we were suspending payments on their leases. Further, we previously had entered into promissory notes with approximately 14 shareholders. We were successful with a debt-to-equity conversion plan in December of 2004 with the holders of approximately 90% of the combined leaseholders/noteholders converting lease obligation to common stock. However, we remain in default with the remainder -- 19 unconverted leaseholder investments in default as of June 30, 2005, representing \$613,500 in principal, and \$400,620 in accrued interest, and three noteholders, representing \$294,500 in principal amount and interest. Litigation has been commenced against us by four leaseholders, and unless we are able to cure these defaults, settle the lawsuits, or prevail in the litigation, there is some possibility that we will be required to pay these obligations as judgments against us are received. We have recently agreed to settlements that would eliminate \$274,000 in principal amount of one of these promissory notes, and \$240,000 in principal amount and \$140,800 in interest on one of these leases. However, the settlement documents have not yet been fully signed. The resulting impact on our working capital could make it difficult or impossible for us to become profitable.

It is difficult to predict the impact of our proposed marketing efforts. If these efforts are unsuccessful we may not earn enough revenue to become profitable.

Our success will depend on adequate marketing resources. Our marketing plan includes attending trade shows and making private demonstrations, advertising and promotional materials, advertising campaigns in both print and broadcast media, cooperative marketing arrangements with the advertising industry, and other complimentary training/simulation and advertising/promotion-related operations. We cannot give any assurance that these marketing efforts will be successful. If they are not, revenues may be insufficient to cover our fixed costs and we

may not become profitable.

We do not expect to pay dividends for some time, if at all.

No dividends have been paid on the common stock. We expect that any income received from operations will be devoted to our future operations and growth. We do not expect to pay cash dividends in the near future. Payment of dividends would depend upon our profitability at the time, cash available for those dividends, and other factors.

A majority of our shareholders can elect all of our directors. As a result, investors will have only a limited voice in determining our future.

There is no cumulative voting for the election of our directors. As a result, the holders of a majority of our outstanding voting stock may elect all of our directors if they choose to do so, and the holders of the remaining shares will not be able to elect any directors. Currently, our officers and a consultant own a substantial percentage of the shares of common stock outstanding and are in a position to control our affairs, including the election of the board of directors.

Our business is subject to economic downturns to a greater extent than other companies' businesses might be.

Since we offer products and services that are generally considered discretionary, an economic downturn could have adverse consequences for us.

There is only a limited market for our shares. As a result, investors may find it difficult to sell any significant amounts of our stock.

While there is common stock that is "free trading," there is only a limited and relatively "thin" market for that common stock. We cannot give any assurance that an active public market will develop or be sustained. This means you might have difficulty liquidating your investment if that becomes necessary.

We may not have enough funding to complete our business plan.

We expect the major source of our operational funding over the next 36 months will be purchase order financing based on anticipated large military contracts. We also intend to require substantial up-front payments in our contracts for delivery of training simulators and custom advertising/promotional virtual reality applications. However, we may need additional financing to fully implement our business plan. We cannot give any assurance that this additional financing could be obtained on attractive terms, or at all. Lack of funding could force us to curtail substantially or cease our operations.

The market in which we compete is subject to rapid technological change. If we are unable to continue improving our products to meet competitive conditions our revenues may suffer.

Both virtual reality technology, and technology in the training/simulation and advertising/promotion markets, change rapidly, and our products and services, as well as the skills of our employees, could become obsolete quickly. Our success will depend, in part, on our ability to improve our existing products and develop new products that address the increasingly sophisticated and varied needs of our current and prospective customers, and respond to technological advances, emerging industry standards and practices, and competitive service offerings. Failure to continue improving our product lines could lead to lost revenue as customers selected more technologically advanced offerings from our competitors.

Trading in our common stock on the OTC Bulletin Board may be limited.

Our common stock trades on the OTC Bulletin Board. The OTC Bulletin Board is not an exchange and, because trading of securities on the OTC Bulletin Board is often more sporadic than trading of securities listed on an

exchange such as AMEX or Nasdaq Small Cap, we intend to try to list our shares on one of those exchanges in the future. However, we cannot give any assurance that an application for listing on either of such exchanges will be accepted. As a result, you may have difficulty reselling any of the shares that you purchase from the selling shareholders.

Our common stock is subject to penny stock regulations. These regulations could make it more difficult for you to sell shares you acquire in the offering.

Our common stock is subject to regulations of the Securities and Exchange Commission relating to the market for penny stocks. These regulations generally require broker-dealers who sell penny stocks to persons other than established customers and accredited investors to deliver a disclosure schedule explaining the penny stock market and the risks associated with that market. These regulations also impose various sales practice requirements on broker-dealers. The regulations that apply to penny stocks may severely affect the market liquidity for our securities and that could limit your ability to sell your securities in the secondary market.

A significant percentage of our common stock is held by our directors and executive officers, who can significantly influence all actions that require a vote of our shareholders.

Our directors and executive officers currently own approximately 26.56 % of our outstanding common stock (including options to purchase 4,100,000 shares which have vested), and have an unvested option on an additional 1,000,000 shares. As a result, management is in a position to influence significantly the election of our directors and all other matters that are put to a vote of our shareholders.

The exercise of options and warrants could depress our stock price and reduce your percentage of ownership.

In addition to the 1,750,000 warrants held by Dutchess and the 496,703 contested warrants held by Swartz, our directors and officers hold options to buy our shares, as indicated above. In the future, we may grant more warrants or options under stock option plans or otherwise. The exercise or conversion of stock options, warrants, or other convertible securities that are presently outstanding, or that may be granted in the future, will dilute the percentage ownership of our other shareholders. The "Description of Securities" section of this prospectus provides you with more information about options and warrants to purchase our common stock that will be outstanding after this offering.

Risks Related to This Offering

Future sales by our shareholders may reduce our stock price and make it more difficult for us to raise funds in new stock offerings.

Sales of our common stock in the public market following this offering could lower the market price of our common stock. Sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price that our management deems acceptable or even to sell these securities at all. Of the 62,801,398 shares of common stock outstanding as of September, 6, 2005, 22,187,569 shares of common stock held by existing shareholders are restricted securities and may be resold in the public market only if registered or pursuant to an exemption from registration. Some of these shares may be resold under Rule 144. Immediately following the effective date of this prospectus, and not including the shares to be issued upon conversion of the convertible debentures, 40,613,829 shares of common stock would be freely tradable without restriction, unless held by our affiliates.

If all shares registered in this offering are resold in the public market, there will be an additional 8,500,000 shares of common stock outstanding. The holders of our convertible debentures will be able to convert and sell at any time after the accompanying registration statement becomes effective.

The holders of the convertible debentures will be able to convert their debentures to shares of common stock at conversion values less than the then-prevailing market price of our common stock. As a result, the price of our common stock may decline as the debenture holders sell their shares.

The common stock we issue upon conversion of our convertible debentures will be issued at values at least 20 percent lower than the lowest closing bid price for our common stock during the 15 trading days before the date we get notice of a conversion. These discounted conversion prices and sales could cause the price of our common stock to decline.

The selling shareholders intend to sell their shares of common stock in the market, and those sales may cause our stock price to decline.

The selling shareholders intend to sell in the public market the shares of common stock being registered in this offering. That means that up to 8,500,000 shares of our common stock, the number of shares being registered in this offering, may be sold. Those sales may cause our stock price to decline.

The price you pay in this offering will fluctuate.

The price in this offering will fluctuate based on the prevailing market price of the common stock on the OTC Bulletin Board. Accordingly, the price you pay in this offering may be higher or lower than the prices paid by other people participating in this offering.

Selling Shareholders

The following table presents information regarding the selling shareholders. None of the selling shareholders has held a position or office, or had any other material relationship, with us.

<u>Selling Security Holder</u>	<u>Shares Beneficially Owned Before Offering</u>	<u>Percentage of Outstanding Shares Beneficially Owned Before Offering</u>	<u>Shares to be Sold in Offering</u>	<u>Percentage of Outstanding Shares Beneficially Owned After Offering</u>
Dutchess Private Equities Fund, II L.P. (1)(2)	9,250,000	12.8%	8,000,000	2.0%
Market Byte, LLC (3)	792,001	1.2%	500,000	0.5%

(1) Includes 500,000 shares issuable on exercise of warrants and 7,500,000 shares issuable upon conversion of convertible subordinated debentures.

(2) The number of shares beneficially owned by holders of our convertible subordinated debentures is indeterminate as the conversion price of those debentures is based upon market price of the shares. In computing the numbers of shares held prior to the offering by holders of convertible subordinated debentures, we have assumed that the applicable conversion price will be \$0.20, based on the historical price range of our common stock during the year before filing the registration statement of which this prospectus is a part. We are registering additional shares for this offering because the conversion price may be lower than that assumed price. As a result, the numbers of shares shown in this table do not correspond to those shown under the caption "The Offering." Although we have included in the shares beneficially owned by Dutchess before the offering all shares that Dutchess has a right to acquire within 60 days, the terms of the underlying instruments preclude Dutchess from converting debentures or exercising

warrants if the conversion or exercise would cause Dutchess to own more than 4.99% of our outstanding common stock.

Dutchess Capital Management, Inc. serves as general partner to Dutchess Private Equities Fund, II, LP. Michael A. Novielli and Douglas H. Leighton serve as managing members of Dutchess Capital Management, Inc.

(3) Includes 500,000 shares issuable on exercise of warrants. Larry Isen serves as president of Market Byte, LLC.

Use of Proceeds

We will not receive any proceeds from the sale of the shares by the selling securityholders. However, we may receive \$0.19 per share from the sale to Dutchess of up to 500,000 shares issuable upon the exercise of warrants. We may also receive \$0.25 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, \$0.30 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, \$0.35 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants, and \$0.40 per share from the sale to Market Byte of up to 125,000 shares issuable upon the exercise of warrants. We would receive \$257,500 if all of the warrants are exercised. We intend to use any proceeds from the exercise of warrants by Dutchess or Market Byte for working capital and general corporate purposes.

Capitalization

The following table shows our total capitalization as of June 30, 2005.

Common stock, \$0.005 par value; 100,000,000 shares authorized, 60,947,790 issued and outstanding	\$ 304,739
Additional paid-in capital	8,662,964
Accumulated deficit	(12,839,556)
Total capitalization	\$(3,871,853)

Registration Rights

We granted registration rights to Dutchess as the holders of our convertible subordinated debentures for the shares they may receive if they convert the debentures. We also granted piggyback registration rights to Market Byte to register the shares underlying its warrants.

The registration statement that includes this prospectus will register all of those shares when it becomes effective. We will bear the cost of the registration.

Dutchess' Right to Indemnification

We have agreed to indemnify Dutchess (including its shareholders, officers, directors, employees, investors, and agents) from all liability and losses resulting from any misrepresentations or breaches we make in connection with our registration rights agreement, other related agreements, or the registration statement.

Net Proceeds

We cannot predict the total amount of proceeds we will raise in this transaction. However, we expect to incur expenses of approximately \$15180 consisting primarily of professional fees incurred in connection with registering 8,500,000 shares in this offering.

Plan of Distribution

The selling shareholders have each told us they intend to sell the common stock covered by this prospectus from

time to time on the OTC Bulletin Board market, or in any other market where our shares of common stock are quoted. The selling shareholders, and any brokers, dealers, or agents that participate in the distribution of the common stock, may be deemed to be underwriters, and any profit on the sale of common stock by them and any discounts, concessions, or commissions they receive may be deemed to be underwriting discounts and commissions under the Securities Act.

Under the securities laws of some states, the shares of common stock may be sold in such states only through registered or licensed brokers or dealers. We will inform the selling shareholders that any underwriters, brokers, dealers, or agents effecting transactions on behalf of the selling shareholders must be registered to sell securities in all 50 states. In addition, in some states the shares of common stock may not be sold unless the shares have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

We will pay all the expenses of the registration, offering, and sale of the shares of common stock to the public under this prospectus other than commissions, fees, and discounts of underwriters, brokers, dealers, and agents. We have agreed to indemnify the selling shareholders and their controlling persons against certain liabilities, including liabilities under the Securities Act. We estimate that the expenses of the offering to be borne by us will be approximately \$15,937. We will not receive any proceeds from the sale of any of the shares of common stock by the selling shareholders. We may, however, receive proceeds from the sale of common stock under the warrants.

The selling shareholders should be aware that the anti-manipulation provisions of Regulation M under the Exchange Act will apply to purchases and sales of shares of common stock by the selling shareholders and that there are restrictions on market-making activities by persons engaged in the distribution of the shares. Under Regulation M, the selling shareholders or their agents may not bid for, purchase, or attempt to induce any person to bid for or purchase, shares of our common stock while they are distributing shares covered by this prospectus. Accordingly, except as noted below, the selling shareholders are not permitted to cover short sales by purchasing shares while the distribution is taking place. We will advise the selling shareholders that if a particular offer of common stock is to be made on terms materially different from the information set forth in the above Plan of Distribution, then a post-effective amendment to the accompanying registration statement must be filed with the Securities and Exchange Commission.

Price Range of Common Stock

Our common stock is quoted under the symbol "VTSI" on the OTC Electronic Bulletin Board. The following table sets forth the high and low bid prices for shares of our common stock for 2002, 2003, and 2004, and the first, second, and third quarters of 2005 through September 6, 2005, as reported by the OTC Electronic Bulletin Board. Quotations reflect inter dealer prices, without retail markup, mark down, or commission, and may not represent actual transactions.

YEAR	PERIOD	BID PRICES	
		HIGH	LOW
2002	First Quarter	0.32	0..17
	Second Quarter	0.42	0.18
	Third Quarter	0.455	0.12
	Fourth Quarter	0.18	0.09

2003

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	First Quarter	0.14	0.085
	Second Quarter	0.145	0.055
	Third Quarter	0.289	0.071
	Fourth Quarter	0.469	0.21
2004	First Quarter	0.35	0.20
	Second Quarter	0.43	0.24

	Third Quarter	0.42	0.28
	Fourth Quarter	0.46	0.28
2005	First Quarter	0.43	0.22
	Second Quarter	0.30	0.13
	Third Quarter (through September 6, 2005)	0.24	0.15

As of September 6, 2005, we had 62,801,398 shares of common stock outstanding, held by 200 shareholders of record.

Penny Stock Regulations

Our common stock has always traded at a price less than \$5 a share and is subject to the rules governing "penny stocks."

A "penny stock" is any stock that:

- sells for less than \$5 a share,
- is not listed on an exchange or authorized for quotation on the Nasdaq Stock Market, and
- is not a stock of a "substantial issuer." VirTra Systems, Inc. is not now a "substantial issuer" and cannot become one until it has net tangible assets of at least \$5 million, which it does not now have.

There are statutes and regulations of the Securities and Exchange Commission that impose strict requirements on brokers that recommend penny stocks.

The Penny Stock Suitability Rule

Before a broker-dealer can recommend and sell a penny stock to a new customer who is not an institutional accredited investor, the broker-dealer must obtain from the customer information concerning the person's financial situation, investment experience and investment objectives. Then, the broker-dealer must "reasonably determine"

- that transactions in penny stocks are suitable for the person and
- the person, or his/her advisor, is capable of evaluating the risks in penny stocks.

After making this determination, the broker-dealer must furnish the customer with a written statement describing the basis for this suitability determination. The customer must sign and date a copy of the written statement and return it to the broker-dealer.

Finally the broker-dealer must also obtain from the customer a written agreement to purchase the penny stock, identifying the stock and the number of shares to be purchased.

The above exercise often delays a proposed transaction. It causes many broker-dealer firms to adopt a policy of not allowing their representatives to recommend penny stocks to their customers.

The Penny Stock Suitability Rule, described above, and the Penny Stock Disclosure Rule, described below, do not apply to the following:

- transactions not recommended by the broker-dealer,
- sales to institutional accredited investors,
- sales to "established customers" of the broker-dealer - persons who either have had an account with the broker-dealer for at least a year or who have effected 3 purchases of penny stocks with the broker-dealer on 3 different days involving three different issuers, and
- transactions in penny stocks by broker-dealers whose income from penny stock activities does not exceed five percent of their total income during certain defined periods.

The Penny Stock Disclosure Rule

Another Commission rule - the Penny Stock Disclosure Rule - requires a broker-dealer, who recommends the sale of a penny stock to a customer to furnish the customer with a "risk disclosure document." This document includes a description of the penny stock market and how it functions, its inadequacies and shortcomings, and the risks associated with investments in the penny stock market. The broker-dealer must also disclose the stock's bid and ask price information and the dealer's and salesperson's compensation for the proposed transaction. Finally, the broker-dealer must furnish the customer with a monthly statement including specific information relating to market and price information about the penny stocks held in the customer's account.

Effects of the Rule

The above penny stock regulatory scheme is a response by the Congress and the Securities and Exchange Commission to abuses in the telemarketing of low-priced securities by "boiler shop" operators. The scheme imposes market impediments on the sale and trading of penny stocks. It limits a shareholder's ability to resell a penny stock.

Our common stock likely will continue to trade below \$5 a share and be, for some time at least, be a "penny stock" subject to the trading market impediments described above.

Dividend Policy

We have never paid any dividends on our common stock. We expect to continue to retain all earnings generated by our operations for the development and growth of our business, and do not expect to pay any cash dividends to our shareholders in the foreseeable future. The board of directors will determine whether or not to pay dividends in the future in light of our earnings, financial condition, capital requirements, and other factors.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains certain forward-looking statements that are subject to business and economic risks and uncertainties, and our actual results could differ materially from those forward-looking statements. The following discussion regarding our financial statements should be read in conjunction with the financial statements and notes to those financial statements.

Overview

Our principal business began in 1993 with the organization of Ferris Productions, Inc. Ferris designed, developed, distributed, and operated virtual reality products for the entertainment, simulation, promotion, and education markets. In September of 2001, Ferris merged into GameCom, Inc., a publicly held Texas company whose principal business

at the time was the development and marketing of an internet-enabled video game system. We subsequently adopted our present name.

Prior to the merger of Ferris and GameCom, both companies had incurred substantial debt, much of which was eliminated in December of 2004 in a debt for equity conversion. However, there can be no assurances that we will be able to successfully implement our expansion plans. As we enter the training/simulation market, we face all of the risks, expenses, and difficulties frequently encountered in connection with the expansion and development of a new 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.

Critical Accounting Policies

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.

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 operations 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.

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

Fiscal year ended December 31, 2004 compared to fiscal year ended December 31, 2003.

Total revenue for the year ended December 31, 2004 was \$1,328,180, compared to total revenue of \$984,490 for the year ended December 31, 2003. This increase of \$343,690, or 35%, resulted primarily from our initial IVR™ simulator sales to the U.S. military in the training/simulation market.

Cost of sales and services increased \$203,262, or 31%, to \$860,065, for the year ended December 31, 2004, from \$656,803 for the year ended December 31, 2003. This increase is relatively proportionate to the change in revenue.

General and administrative expenses increased by \$1,904,348, or 208%, to \$2,820,650 for the year ended December 31, 2004, from \$916,302 for the year ended December 31, 2003. The increase is primarily due to an increase of \$600,000 in common stock and options issued as incentive compensation to senior management, an increase of \$300,000 in trade show and other advertising costs associated with roll-out of the IVR™ series of advanced training

simulators, an increase in consulting fees primarily related to the leaseholder/noteholder debt-to-equity conversion, salaries and related personnel costs of \$450,000, an increase in bad debt expense of \$150,000, an increase in legal fees of \$100,000, the establishment of a \$280,000 reserve for pending litigation, and an increase in other expenses of \$25,000.

Interest expense and finance charges increased by \$7,230, or 0.7%, to \$957,912 for the year ended December 31, 2004, from \$950,682 for the year ended December 31, 2003.

During 2004, we presented an exchange offer to the holders of certain of our notes payable and obligations under product financing arrangements, whereby the debtholders were allowed to convert their principal and accrued interest to our common stock under one of three options. Under Option A, the debtholder could receive common stock equal to 0.6 shares per dollar of principal amount he or she was owed, and was not required to lock up any of the shares he or she received in the exchange. Under Option B, each debtholder could receive common stock equal to 0.9 shares per dollar of principal amount he or she was owed, but could not sell any of the shares for a period of six months, after which the shares could be sold in six equal monthly installments. Under Option C, each debtholder could receive common stock equal to 1.2 shares per dollar of principal amount he or she was owed, but could not sell any of the shares for a period of one year, after which the shares could be sold in six equal monthly installments. As of December 31, 2004, we had issued 5,303,258 shares of our common stock in exchange for \$183,500 in principal and \$49,069 of accrued interest outstanding on our notes payable, \$615,531 in principal and \$155,475 of accrued interest outstanding on our notes payable to stockholders, and \$5,792,176 of principal and interest outstanding on our obligations under product financing arrangements. Of the total shares issued, 316,080 shares were issued to debtholders electing Option A, 274,500 shares to debtholders electing Option B, and 4,712,678 shares to debtholders electing Option C. As a result of this debt exchange, we recorded \$4,621,415 of forgiveness of debt income in the statement of operations for the year ended December 31, 2004. However, we remain in default on 19 unconverted leaseholder investments March 31, 2005, representing \$547,000 in principal, and \$327,200 in accrued interest, and on three promissory notes, representing \$294,300 in principal amount and interest. We have recently agreed to settlements that would eliminate \$274,000 in principal amount of one of these promissory notes, and \$240,000 in principal amount and \$131,200 in interest on one of these leases. However, the settlement documents have not yet been fully signed.

In addition to the forgiveness of debt income resulting from the debt-to-equity conversion discussed above, we also reversed accruals on certain notes and accounts payable upon which judgment was obtained or the statute of limitations had run. Included in forgiveness of debt income in the statement of operations for the year ended December 31, 2004 is \$301,085 related to these settlements and write-offs.

Three Months Ended June 30, 2005 Compared to Three Months Ended June 30, 2004