

VERITEC INC  
Form 10-Q  
February 06, 2019

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: DECEMBER 31, 2018

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-15113

**VERITEC, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of incorporation or organization)

**95-3954373**

(I.R.S. Employer Identification No.)

**2445 Winnetka Avenue N.**

**Golden Valley, MN 55427**

(Address of principal executive offices) (zip code)

**(763) 253-2670**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the 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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of registrant's common stock outstanding as of January 31, 2019 was 39,538,007.

**VERITEC, INC. AND SUBSIDIARIES**

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## FORWARD LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 2 of Part I of this report include forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance, or achievements expressed or implied by forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, and levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report to conform these statements to actual results.

**PART I****ITEM 1 FINANCIAL STATEMENTS****VERITEC, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | <b>December 31,</b> | <b>June 30,</b> |
|---|---------------------|-----------------|
|   | <b>2018</b>         | <b>2018</b>     |
|   | <b>(Unaudited)</b>  |                 |
| <b>ASSETS</b>   |                     |                 |
| Current Assets:   |                     |                 |
| Cash  | \$100,082           | \$139,086       |
| Accounts receivable   | 8,767               | 7,071           |
| Prepaid expenses  | 5,391               | 5,328           |
| Total Assets  | \$114,240           | \$151,485       |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIENCY</b>   |                     |                 |
| Current Liabilities:  |                     |                 |
| Accounts payable  | \$717,431           | \$671,197       |
| Accounts payable, related party   | 96,110              | 96,110          |
| Accrued expenses  | 80,463              | 63,507          |
| Convertible notes and notes payable (includes \$576,929 and \$563,826 of convertible notes and notes payable in default)                                | 615,730             | 602,261         |
| Convertible notes and notes payable, related party (includes \$272,728 and \$265,729 of notes payable, related party in default)                        | 3,320,266           | 2,994,599       |
| Deferred revenues   | 15,000              | 30,000          |
| Total Current Liabilities   | 4,845,000           | 4,457,674       |
| Contingent earnout liability  | 155,000             | 155,000         |
| Total Liabilities   | 5,000,000           | 4,612,674       |
| <b>Commitments and Contingencies</b>  |                     |                 |
| <b>Stockholders' Deficiency:</b>  |                     |                 |
| Convertible preferred stock, par value \$1.00; authorized 10,000,000 shares, 276,000 shares of Series H authorized, 1,000 shares issued and outstanding | 1,000               | 1,000           |
| Common stock, par value \$.01; authorized 150,000,000 shares and 50,000,000 shares, respectively; 39,538,007 shares issued and outstanding              | 395,380             | 395,380         |
| Common stock to be issued, 145,000 shares to be issued  | 12,500              | 12,500          |
| Additional paid-in capital  | 18,100,148          | 18,099,576      |
| Accumulated deficit   | (23,394,788 )       | (22,969,645 )   |

|  |              |              |
|--|--------------|--------------|
| Total Stockholders' Deficiency                 | (4,885,760 ) | (4,461,189 ) |
| Total Liabilities and Stockholders' Deficiency | \$114,240    | \$151,485    |

See accompanying notes.

**VERITEC, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2018 AND 2017**  
**(UNAUDITED)**

|   | Three months ended<br>December 31, |             | Six months ended<br>December 31, |             |
|---|------------------------------------|-------------|----------------------------------|-------------|
|   | 2018                               | 2017        | 2018                             | 2017        |
|   | (Unaudited)                        | (Unaudited) | (Unaudited)                      | (Unaudited) |
| Revenue:  |                                    |             |                                  |             |
| Mobile banking technology revenue                                 | \$31,490                           | \$30,526    | \$60,590                         | \$61,117    |
| Other revenue, management fee related party                       | 50,885                             | 93,241      | 92,516                           | 173,493     |
| Total revenue   | 82,375                             | 123,767     | 153,106                          | 234,610     |
| Cost of sales   | 55,188                             | 52,880      | 118,172                          | 107,116     |
| Gross profit  | 27,187                             | 70,887      | 34,934                           | 127,494     |
| Operating expenses  |                                    |             |                                  |             |
| General and administrative expenses                               | 135,500                            | 149,874     | 313,550                          | 313,927     |
| Research and development  | —                                  | 10,780      | 50                               | 19,938      |
| Total operating expenses  | 135,500                            | 160,654     | 313,600                          | 333,865     |
| Loss from operations  | (108,313 )                         | (89,767 )   | (278,666 )                       | (206,371 )  |
| Other income (expenses)   |                                    |             |                                  |             |
| Change in fair value of derivative liability                      | —                                  | 243,411     | —                                | 706,411     |
| Interest expense (1)  | (74,284 )                          | (60,674 )   | (146,477 )                       | (117,735 )  |
| Total other income (expenses)                                     | (74,284 )                          | 182,737     | (146,477 )                       | 588,676     |
| Net income (loss)   | \$(182,597 )                       | \$92,970    | \$(425,143 )                     | \$382,305   |
| BASIC AND DILUTED INCOME (LOSS) PER SHARE                         | \$(0.00 )                          | \$0.00      | \$(0.01 )                        | \$0.01      |
| WEIGHTED - AVERAGE COMMON SHARES<br>OUTSTANDING BASIC AND DILUTED | 39,538,007                         | 39,538,007  | 39,538,007                       | 39,538,007  |
| (1) Includes interest expense to related parties                  | \$67,549                           | \$53,940    | \$133,007                        | \$104,267   |

See accompanying notes.



**VERITEC, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY**

|   | Three months ended December 31, 2018 (Unaudited) |         |              |           |                                    |                                  |                        |                             |
|---|--|---------|--------------|-----------|------------------------------------|----------------------------------|------------------------|-----------------------------|
|   | Preferred Stock                                  |         | Common Stock |           | Common<br>Stock to<br>be<br>Issued | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Deficiency |
|   | Shares   | Amount  | Shares       | Amount    |                                    |                                  |                        |                             |
| BALANCE,<br>September 30,<br>2018               | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$18,099,576                     | \$(23,212,191 )        | \$(4,703,735 )              |
| Stock-Based<br>Compensation                     | —  | —       | —            | —         | —                                  | 572                              | —                      | 572                         |
| Net loss  | —  | —       | —            | —         | —                                  | —                                | (182,597 )             | (182,597 )                  |
| BALANCE,<br>December 31,<br>2018<br>(Unaudited) | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$18,100,148                     | \$(23,394,788 )        | \$(4,885,760 )              |

|   | Six months ended December 31, 2018 (Unaudited) |         |              |           |                                    |                                  |                        |                             |
|---|--|---------|--------------|-----------|------------------------------------|----------------------------------|------------------------|-----------------------------|
|   | Preferred Stock                                |         | Common Stock |           | Common<br>Stock to<br>be<br>Issued | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Deficiency |
|   | Shares   | Amount  | Shares       | Amount    |                                    |                                  |                        |                             |
| BALANCE,<br>June 30, 2018                       | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$18,099,576                     | \$(22,969,645 )        | \$(4,461,189 )              |
| Stock-Based<br>Compensation                     | —  | —       | —            | —         | —                                  | 572                              | —                      | 572                         |
| Net loss  | —  | —       | —            | —         | —                                  | —                                | (425,143 )             | (425,143 )                  |
| BALANCE,<br>December 31,<br>2018<br>(Unaudited) | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$18,100,148                     | \$(23,394,788 )        | \$(4,885,760 )              |

*See accompanying notes.*

**VERITEC, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY (continued)**

|   | Three months ended December 31, 2017 (Unaudited) |         |              |           |                                    |                                  |                        |                             |
|---|--|---------|--------------|-----------|------------------------------------|----------------------------------|------------------------|-----------------------------|
|   | Preferred Stock                                  |         | Common Stock |           | Common<br>Stock to<br>be<br>Issued | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Deficiency |
|   | Shares   | Amount  | Shares       | Amount    |                                    |                                  |                        |                             |
| BALANCE,<br>September<br>30, 2017               | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$17,974,576                     | \$(22,662,100 )        | \$(4,278,644 )              |
| Net income                                      | —  | —       | —            | —         | —                                  | —                                | 92,970                 | 92,970                      |
| BALANCE,<br>December<br>31, 2017<br>(Unaudited) | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$17,974,576                     | \$(22,569,130 )        | \$(4,185,674 )              |

|   | Six months ended December 31, 2017 (Unaudited) |         |              |           |                                    |                                  |                        |                             |
|---|--|---------|--------------|-----------|------------------------------------|----------------------------------|------------------------|-----------------------------|
|   | Preferred Stock                                |         | Common Stock |           | Common<br>Stock to<br>be<br>Issued | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Stockholders'<br>Deficiency |
|   | Shares   | Amount  | Shares       | Amount    |                                    |                                  |                        |                             |
| BALANCE,<br>June 30,<br>2017                    | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$17,974,576                     | \$(22,951,435 )        | \$(4,567,979 )              |
| Net income                                      | —  | —       | —            | —         | —                                  | —                                | 382,305                | 382,305                     |
| BALANCE,<br>December<br>31, 2017<br>(Unaudited) | 1,000  | \$1,000 | 39,538,007   | \$395,380 | \$12,500                           | \$17,974,576                     | \$(22,569,130 )        | \$(4,185,674 )              |

*See accompanying notes.*

**VERITEC, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)**

|   | Six months ended<br>December 31, |             |
|---|----------------------------------|-------------|
|   | 2018                             | 2017        |
|   | (Unaudited)                      | (Unaudited) |
| Cash Flows from Operating Activities  |                                  |             |
| Net income (loss)   | \$(425,143)                      | \$382,305   |
| Adjustments to Reconcile Net income (loss) to Net Cash Used in Operating Activities |                                  |             |
| Amortization  | —                                | 16,042      |
| Change in the fair value of derivative liability                                    | —                                | (706,411 )  |
| Stock-based compensation expense  | 572                              | —           |
| Interest accrued on notes payable   | 146,546                          | 117,734     |
| Changes in Assets and Liabilities   |                                  |             |
| (Increase) Decrease in:   |                                  |             |
| Accounts receivable   | (1,696 )                         | (1,570 )    |
| Prepaid expenses  | (63 )                            | (3,338 )    |
| (Decrease) Increase in:   |                                  |             |
| Accounts payable  | 46,234                           | 4,678       |
| Accrued expense   | 16,956                           | (8,185 )    |
| Deferred revenues   | (15,000 )                        | (25,002 )   |
| Net Cash Used in Operating Activities   | (231,594)                        | (223,747 )  |
| Cash Flows from Financing Activities  |                                  |             |
| Proceeds from notes payable - related party   | 192,590                          | 241,590     |
| Net Cash Provided by Financing Activities   | 192,590                          | 241,590     |
| Net increase (decrease) in cash   | (39,004 )                        | 17,843      |
| Cash beginning of period  | 139,086                          | 46,693      |
| Cash end of period  | \$100,082                        | \$64,536    |
| Interest paid   | \$—                              | \$—         |
| Taxes paid  | \$—                              | \$—         |

See accompanying notes.

**VERITEC, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

**NOTE 1 – NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

Veritec, Inc. (Veritec) was formed in the State of Nevada on September 8, 1982. Veritec's wholly owned subsidiaries include Veritec Financial Systems, Inc., Tangible Payment Systems, Inc., and Public Bell, Inc. (collectively the "Company").

**Nature of Business**

The Company is currently engaged in the development, marketing, sales and licensing of products and professional services related to mobile banking prepaid debit cards. As a Cardholder Independent Sales Organization, Veritec is able to promote and sell Visa branded card programs. As a Third-Party Servicer, Veritec provides back-end cardholder transaction processing services for Visa branded card programs on behalf of a sponsoring bank. The Company is currently seeking a bank to sponsor its Prepaid Card programs. The Company has a portfolio of five United States and eight foreign patents. In addition, the Company has seven U.S. and twenty-eight foreign pending patent applications.

**BASIS OF PRESENTATION**

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with United States of America generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q. Accordingly, the Condensed Consolidated Financial Statements do not include all of the information and footnotes required for complete financial statements.

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended December 31, 2018, are not necessarily indicative of the results that may be expected for the year ending June 30, 2019. The Condensed Consolidated Balance Sheet information as of June 30, 2018 was derived from the Company's audited Consolidated Financial Statements as of and for the year ended June 30, 2018 included in the Company's Annual Report on Form 10-K filed with the

Securities and Exchange Commission (the “SEC”) on October 5, 2018. These financial statements should be read in conjunction with that report.

The accompanying Condensed Consolidated Financial Statements include the accounts of Veritec and its wholly owned subsidiaries, Veritec Financial Systems, Inc., Tangible Payment Systems, Inc., and Public Bell, Inc. Inter-company transactions and balances were eliminated in consolidation.

## **GOING CONCERN**

The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the six months ended December 31, 2018, the Company incurred a loss from operations of \$278,666 and used cash in operating activities of \$231,594, and at December 31, 2018, the Company had a working capital deficit of \$4,730,760 and a stockholders’ deficiency of \$4,885,760. In addition, as of December 31, 2018, the Company is delinquent in payment of \$778,554 of its notes payable. These factors, among others, raise substantial doubt about our ability to continue as a going concern within one year of the date that the financial statements are issued. In addition, the Company’s independent registered public accounting firm, in its report on our June 30, 2018 financial statements, has raised substantial doubt about the Company’s ability to continue as a going concern. The Company’s financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company believes it will require additional funds to continue its operations through fiscal 2019 and to continue to develop its existing projects and plans to raise such funds by finding additional investors to purchase the Company's securities, generating sufficient sales revenue, implementing dramatic cost reductions or any combination thereof. There is no assurance that the Company can be successful in raising such funds, generating the necessary sales or reducing major costs. Further, if the Company is successful in raising such funds from sales of equity securities, the terms of these sales may cause significant dilution to existing holders of common stock. The Condensed Consolidated Financial Statements do not include any adjustments that may result from this uncertainty.

### Use of Estimates

The preparation of Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Those estimates and assumptions include estimates for reserves of uncollectible accounts, analysis of impairments of long lived assets, accruals for potential liabilities, and assumptions used in valuing derivatives and stock-based compensation, and the valuation of deferred taxes.

### Revenue Recognition

Effective July 1, 2018 the Company adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606") which superseded previous revenue recognition guidance. The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contracts, which includes (1) identifying the contracts or agreements with a customer, (2) identifying the Company's performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the services it transfers to its clients. The Company has concluded that the new guidance did not require any significant change to its revenue recognition processes and the implementation of ASC 606 did not have a material impact on the Company's financial statements.

### Fair Value of Financial Instruments

Fair value measurements adopted by the Company are based on the authoritative guidance provided by the Financial Accounting Standards Board ("FASB") which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. FASB authoritative guidance establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs, other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 - Unobservable inputs based on the Company's assumptions.

The carrying amounts reported in the Condensed Consolidated Balance Sheet for cash and cash equivalents, accounts receivable, and current liabilities, including notes payable and convertible notes, approximate their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest.

Net Income (Loss) per Common Share

Basic earnings (loss) per share are computed by dividing the net income (loss) applicable to Common Stockholders by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings (loss) per share is computed by dividing the net income (loss) applicable to Common Stockholders by the weighted average number of common shares outstanding plus the number of additional common shares that would have been outstanding if all dilutive potential common shares had been issued, using the treasury stock method. Potential common shares are excluded from the computation as their effect is antidilutive.

For the period ended December 31, 2018 and 2017, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect. At December 31, 2017, the Company's Series H Preferred Stock, Convertible Notes Payable and Options were antidilutive because their exercise prices and conversion prices were out of the money.

As of December 31, 2018 and 2017, we excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock, from our calculation of earnings per share, as their effect would have been anti-dilutive.

|                           | As of December 31, |            |
|---------------------------|--------------------|------------|
|                           | 2018               | 2017       |
| Series H Preferred Stock  | 10,000             | 10,000     |
| Convertible Notes Payable | 20,131,347         | 18,645,933 |
| Options                   | 3,650,000          | 2,500,000  |
| Total                     | 23,791,347         | 21,155,933 |

Concentrations

During the six months ended December 31, 2018, the Company had one customer, a related party, which represented 60% of our revenues, one customer that represented 20% of our revenues, and one customer that represented 10% of our revenues. During the six months ended December 31, 2017, the Company had one customer, a related party, that represented 74% of our revenues, and one customer that represented 10% of our revenues. No other customer represented more than 10% of our revenues during the six months ended December 31, 2018 and 2017.

Segments



The Company operates in one segment, the mobile financial banking industry. In accordance with the “Segment Reporting” Topic of the ASC, the Company’s chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under “Segment Reporting” due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by “Segment Reporting” can be found in the accompanying consolidated financial statements

#### Recent Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (“ASU 2016-02”). ASU 2016-02 requires a lessee to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 including interim periods within those fiscal years. Early adoption is permitted. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-11, which allows for a cumulative-effect adjustment in the period of adoption and will not require restatement of prior periods. The Company is in the process of evaluating the impact of ASU 2016-02 and ASU 2018-11 on the Company’s financial statements and disclosures.

Other recent accounting pronouncements issued by the FASB, including its Emerging Issues Task Force, the American Institute of Certified Public Accountants, and the Securities and Exchange Commission did not or are not believed by management to have a material impact on the Company’s present or future consolidated financial statements.

**NOTE 2 – CONVERTIBLE NOTES AND NOTES PAYABLE*****Convertible notes and notes payable-in default***

Convertible notes and notes payable includes principal and accrued interest and consists of the following at December 31, 2018 and June 30, 2018:

|  | December<br>31,<br>2018 | June 30,<br>2018 |
|--|-------------------------|------------------|
| (a) Convertible notes (includes \$180,506 of convertible notes in default) | \$219,307               | \$214,576        |
| (b) Notes payable-in default   | 396,423                 | 387,684          |
| Total notes-third parties  | \$615,730               | \$602,260        |

(a) The notes are unsecured, convertible into common stock at amounts ranging from \$0.08 to \$0.30 per share, bear interest at rates ranging from 5% to 8% per annum, were due through 2011 and are in default or due on demand.

At June 30, 2018, convertible notes totaled \$214,576. During the six months ended December 31, 2018, interest of \$4,731 was added to principal leaving a balance owed of \$219,307 at December 31, 2018. At December 31, 2018, \$180,506 of the convertible notes were in default, and convertible at a conversion price of \$0.30 per share into 601,688 shares of the Company's common stock. Certain of the amounts due are subject to a legal proceeding (see Note 6). The balance of \$38,801 is due on demand and convertible at a conversion price of \$0.08 per share into 485,007 shares of the Company's common stock.

(b) The notes are either secured by the Company's intellectual property or unsecured and bear interest ranging from 6.5% to 10% per annum, were due in 2012, and are in default.

At June 30, 2018, the notes totaled \$387,684. During the six months ended December 31, 2018, interest of \$8,739 was added to principal leaving a balance owed of \$396,423 at December 31, 2018. At December 31, 2018, \$357,640 of notes are secured by the Company's intellectual property and \$38,783 of notes are unsecured.

***Convertible notes and notes payable-related party***

Notes payable-related party includes principal and accrued interest and consists of the following at December 31, 2018 and June 30, 2018:

|  | December<br>31,<br>2018 | June 30,<br>2018 |
|--|-------------------------|------------------|
| (a) Convertible notes-The Matthews Group       | \$1,398,702             | \$1,344,782      |
| (b) Notes payable-The Matthews Group           | 1,648,766               | 1,384,088        |
| (c) Convertible notes-other related-in default | 272,798                 | 265,729          |
| Total notes-related party                      | \$3,320,266             | \$2,994,599      |

(a) The notes are unsecured, convertible into common stock at \$0.08 per share, bear interest at rates ranging from 8% to 10% per annum, and are due on demand.

The Matthews Group is a related party (see Note 5) and is owned 50% by Ms. Van Tran, the Company's CEO, and 50% by Larry Johanns, a significant shareholder of the Company. At June 30, 2018, convertible notes due to The Matthews Group totaled \$1,344,782. During the six months ended December 31, 2018, interest of \$53,920 was added to principal leaving a balance owed of \$1,398,702 at December 31, 2018. At December 31, 2018, the notes are convertible at a conversion price of \$0.08 per share into 17,483,772 shares of the Company's common stock.

(b) The notes are unsecured, accrue interest at 10% per annum, and are due on demand. The notes were issued relating to a management services agreement with The Matthews Group (see Note 5) dated December 31, 2015. At June 30, 2018, notes due to The Matthews Group totaled \$1,384,088. During the six months ended December 31, 2018, \$192,590 of notes payable were issued, interest of \$72,088 was added to principal, leaving a balance owed of \$1,648,766 at December 31, 2018.

(c) The notes are due to a current and a former director, are unsecured, convertible into common stock at per share amounts ranging from \$0.10 to \$0.30, and bear interest at rates ranging from 8% to 10% per annum.

At June 30, 2018, convertible notes due other related parties totaled \$265,729. During the six months ended December 31, 2018, interest of \$7,069 was added to principal leaving a balance owed of \$272,798 at December 31, 2018. At December 31, 2018, \$201,624 of the notes were due in 2010 and are in default, and the balance of \$71,174 is due on demand. At December 31, 2018, \$201,624 of the notes are convertible at a conversion price of \$0.30 per share into 672,081 shares of the Company's common stock, \$21,331 of the notes are convertible at a conversion price of \$0.10 per share into 213,312 shares of the Company's common stock, and \$49,843 of the notes are convertible at a conversion price of \$0.08 per share into 622,160 shares of the Company's common stock.

### NOTE 3 - STOCKHOLDERS' DEFICIENCY

At December 31, 2018 and June 30, 2018, 145,000 shares of common stock to be issued with an aggregate value of \$12,500 have not been issued and are reflected as common stock to be issued in the accompanying Condensed Consolidated Financial Statements.

### NOTE 4 – STOCK OPTIONS

A summary of stock options as of December 31, 2018 and for the two years then ended is as follows:

|                              | Number of<br>Shares | Weighted<br>-<br>Average<br>Exercise<br>Price |
|------------------------------|---------------------|---|
| Outstanding at June 30, 2018 | 2,500,000           | \$ 0.08                                       |
| Granted                      | 1,150,000           | 0.03  |
| Forfeited                    | —                   | \$ —  |

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|                                  |           |         |
|----------------------------------|-----------|---------|
| Outstanding at December 31, 2018 | 3,650,000 | \$ 0.06 |
| Exercisable at December 31, 2018 | 2,500,000 | \$ 0.08 |

In December 2018, the Company granted to its directors and employees, stock options to purchase an aggregate of 1,150,000 shares of Common Stock. The fair value of the stock options granted was determined to be \$21,285, and is being amortized over the vesting period of 12 months. The fair value of the stock options was calculated using the Black-Scholes option pricing model using the following assumptions – stock price of \$0.03; exercise price of \$0.03; expected life of 2 years; volatility of 121%; dividend rate of 0.0% and discount rate of 2.63%.

The Company recorded compensation expense pursuant to authoritative guidance provided by the ASC Topic 718 – *Stock Compensation* for the six months ended December 31, 2018 of \$572. No similar expense was recorded during the same prior year period. As of December 31, 2018, the Company has outstanding unvested options with future compensation costs of \$20,713, which will be recorded as compensation cost as the options vest over their remaining average vesting period of 12 months.

Both the outstanding and exercisable stock options had no intrinsic value at December 31, 2018.

Additional information regarding options outstanding as of December 31, 2018 is as follows:

| Options Outstanding at<br>December 31, 2018 |                                    |   |  | Options Exercisable<br>at<br>December 31, 2018 |  |
|---|------------------------------------|---|--|--|--|
| Range<br>of<br>Exercise                     | Number of<br>Shares<br>Outstanding | Weighted<br>Average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Shares<br>Exercisable             | Weighted<br>Average<br>Exercise<br>Price |
| \$0.03                                      | 1,150,000                          | 5.98  | \$ 0.03                                  | —  | \$ 0.03                                  |
| \$0.08                                      | 2,500,000                          | 1.11  | \$ 0.08                                  | 2,500,000                                      | \$ 0.08                                  |
|   | 3,650,000                          |   |  | 2,500,000                                      |  |

The weighted-average remaining contractual life of stock options outstanding and exercisable at December 31, 2018 is 2.64 years.

## **NOTE 5 – RELATED PARTY TRANSACTIONS**

The Matthews Group is owned 50% by Ms. Van Tran, the Company's CEO/Executive Chair and a director, and 50% by Larry Johanns, a significant stockholder of the Company. The Company has relied on The Matthews Group for funding (see Note 4).

### ***Management Services Agreement and Related Notes Payable with Related Party***

The Company's Barcode Technology was invented by the founders of Veritec as a product identification system for identification and tracking of parts, components and products mostly in the liquid crystal display (LCD) markets and for secure identification documents, financial cards, medical records and other high security applications. On September 30, 2015, the Company sold all of its assets of its Barcode Technology comprised solely of its intellectual property to The Matthews Group. The Company then entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations, on behalf of The Matthews Group, through June 30, 2019. The Matthews Group bears the risk of loss from the barcode operations and has the right to the residual benefits of the barcode operations.

In consideration of the services provided by the Company to The Matthews Group, the Company earns a fee of 20% of all revenues up to May 31, 2017, and 35% of all revenues from June 1, 2017 to June 30, 2019, from the barcode technology operations. During the three and six months ended December 31, 2018 and 2017, the Company recorded management fee revenue related to this agreement of \$50,885 and \$93,241, respectively and \$92,516 and \$173,493, respectively.

Additionally, pursuant to the management services agreement, all cash flow (all revenues collected less direct costs paid) of the barcode technology operations is retained by the Company as proceeds from unsecured notes payable due The Matthews Group. During the six months ended December 31, 2018 and 2017, cash flow loans of \$192,590 and \$241,590, respectively, were made to the Company at 10% interest per annum and due on demand. At December 31, 2018, cash flow loans of \$1,648,766 are due to The Matthews Group (see Note 2).

### ***Advances from Related Parties***

From time to time, Ms. Van Tran provides advances to finance the Company's working capital requirements. As of December 31, 2018 and June 30, 2018, total advances to Ms. Van Tran amounted to \$96,110, and have been presented as accounts payable, related party on the accompanying Condensed Consolidated Balance Sheets. The advances are unsecured, non-interest bearing, and due on demand.

***Other Transactions with Related Parties***

The Company leases its office facilities from Ms. Tran. For the six months ended December 31, 2018 and 2017, rental payments to Ms. Van Tran totaled \$25,500 and \$25,200, respectively.

## NOTE 6 – LEGAL PROCEEDINGS

On or about November 13, 2017, David A. Badhwa and Denise a Badhwa (collectively “Plaintiffs”) filed a lawsuit in district court in Hennepin County, Minnesota asserting that the Company breached the terms of a promissory note. Plaintiffs seek repayment on the principal of the promissory note, in the amount of \$100,000, \$10,000 of which Plaintiffs contend Veritec previously paid, plus interest, collection costs and attorney’s fees. As of May 15, 2018, the date of the last communication on the amount of recovery that Plaintiffs seek, Plaintiffs sought an award or settlement in the amount of \$162,990. If Plaintiffs prevail on their claims, the Court could award Plaintiffs the unpaid principal in the amount of \$90,000, plus interest at the rate of eight percent (8%) per annum on the unpaid balance, as well as attorney’s fees incurred by Plaintiffs in seeking payment on the promissory note in an amount determined by the Court. An award of attorney’s fees could be significant. Veritec has vigorously defended Plaintiffs claims and has asserted a variety of counterclaims against Plaintiffs. Veritec has also attempted to engage Plaintiffs in settlement discussions, but Plaintiffs have not engaged in meaningful negotiations to resolve the claims in dispute. Management has recorded a liability related to this proceeding that it feels is adequate.

On September 21, 2016, the Company entered into a settlement agreement with an individual who was a former officer of the Company. The individual in prior years was also issued 500,000 shares of common stock for services. The Company alleged that the individual used the Company's intellectual property without approval. Under the terms of the settlement agreement, the individual agreed to relinquish a convertible note payable and unpaid interest aggregating \$364,686, and return 500,000 shares of common stock previously issued to him. In turn, the Company agreed to release and discharge the individual against all claims arising on or prior to the date of the settlement agreement. As of December 31, 2018, the 500,000 shares have not been relinquished. When the Company receives the shares, it will record a cancellation of shares.



## ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Results of Operations – Three months Ended December 31, 2018 compared to December 31, 2017

We had a net loss of \$182,597 during the three months ended December 31, 2018, as compared to net income of \$92,970 during the three months ended December 31, 2017.

#### Revenues

Details of revenues are as follows:

|   | Three months ended<br>December 31, |           | Increase<br>(Decrease) |        |
|---|------------------------------------|-----------|------------------------|--------|
|   | 2018                               | 2017      | \$                     | %      |
| Mobile Banking Technology                   | \$31,490                           | \$30,526  | \$964                  | 3.1    |
| Other revenue, management fee related party | 50,885                             | 93,241    | (42,356)               | (45.4) |
| Total Revenues                              | \$82,375                           | \$123,767 | \$(41,392)             | (33.4) |

#### Mobile Banking Technology

The Company is currently seeking a bank to sponsor its Prepaid Card programs (see Note 1 to Condensed Consolidated Financial Statements). Mobile Banking Technology revenues include products such as the Company’s Blinx On-Off™ prepaid toggle Card and its Open Loop/Close Loop System and Bio ID Card Platform. Mobile Banking Technology uses web-based mobile technology to offer financial cardholders the very best technology in conducting secure financial transactions in real time, protecting personal identity, and financial account security. Mobile Banking Technology revenues for the three months ended December 31, 2018 and 2017 was \$31,490 and \$30,526, respectively.

#### Other Revenue, management fee related party

Effective October 1, 2015, the Company entered into a management services agreement with the Matthews Group for which the Company agreed to manage its previous barcode technology business, on behalf of the Matthews Group, from October 1, 2015 to July 31, 2018. Per the terms of the management services agreement, the Company earned 20% of all revenues through May 31, 2017 and 35% of all revenues through June 30, 2019. For the three months ended December 31, 2018 and 2017, revenue earned from the management services agreement was \$50,885 and \$93,241, respectively.

#### Cost of Sales

Cost of sales for the three months ended December 31, 2018 and 2017 were comparable totaling \$55,188 and \$52,880, respectively.

#### Operating Expenses

General and administrative expenses for the three months ended December 31, 2018 and 2017 totaled \$135,500 and \$149,874, respectively. The decrease in general and administrative expenses was primarily from expense reductions implemented during the period while the Company seeks a bank to sponsor its Prepaid Card programs as discussed above.

Research and development expenses for the three months ended December 31, 2018 and 2017 totaled \$0 and \$10,780, respectively. The decrease in research and development expenses was primarily from expense reductions implemented during the period while the Company seeks a bank to sponsor its Prepaid Card programs as discussed above.

Other Income (Expenses)

During the three months ended December 31, 2017, the Company recognized income related to the change in fair value of derivative liabilities that totaled \$243,411. No similar activity occurred during the same current year period.

During the three months ended December 31, 2018 and 2017, interest expense, totaled \$74,284 and \$60,674, respectively. The increase was the result of increased notes payable balances as compared to the same period of the prior year.

Results of Operations – Six months Ended December 31, 2018 compared to December 31, 2017

We had a net loss of \$425,143 during the six months ended December 31, 2018, as compared to net income of \$382,305 during the six months ended December 31, 2017.

Revenues

Details of revenues are as follows:

|   | Six months ended<br>December 31, |           | Increase<br>(Decrease) |        |
|---|----------------------------------|-----------|------------------------|--------|
|   | 2018                             | 2017      | \$                     | %      |
| Mobile Banking Technology                   | \$60,590                         | \$61,117  | \$(527)                | (0.9)  |
| Other revenue, management fee related party | 92,516                           | 173,493   | (80,977)               | (46.7) |
| Total Revenues                              | \$153,106                        | \$234,610 | \$(81,504)             | (34.7) |

Mobile Banking Technology

The Company is currently seeking a bank to sponsor its Prepaid Card programs (see Note 1 to Condensed Consolidated Financial Statements). Mobile Banking Technology revenues include products such as the Company's Blinx On-Off™ prepaid toggle Card and its Open Loop/Close Loop System and Bio ID Card Platform. Mobile Banking

Technology uses web-based mobile technology to offer financial cardholders the very best technology in conducting secure financial transactions in real time, protecting personal identity, and financial account security. Mobile Banking Technology revenues for the six months ended December 31, 2018 and 2017 was \$60,590 and \$61,117, respectively.

Other Revenue, management fee related party

Effective October 1, 2015, the Company entered into a management services agreement with the Matthews Group for which the Company agreed to manage its previous barcode technology business, on behalf of the Matthews Group, from October 1, 2015 to July 31, 2018. Per the terms of the management services agreement, the Company earned 20% of all revenues through May 31, 2017 and 35% of all revenues through June 30, 2019. For the six months ended December 31, 2018 and 2017, revenue earned from the management services agreement was \$92,516 and \$173,493, respectively.

Cost of Sales

Cost of sales for the six months ended December 31, 2018 and 2017 totaled \$118,172 and \$107,116, respectively. The increase in cost of sales was primarily from an increase in platform hosting related fees, as compared to the same period of the prior year.

Operating Expenses

General and administrative expenses for the six months ended December 31, 2018 and 2017 were comparable totaling \$313,550 and \$313,927, respectively.

Research and development expenses for the six months ended December 31, 2018 and 2017 totaled \$50 and \$19,938, respectively. The decrease in research and development expenses was primarily from expense reductions implemented during the period while the Company seeks a bank to sponsor its Prepaid Card programs as discussed above.

Other Income (Expenses)

During the six months ended December 31, 2017, the Company recognized income related to the change in fair value of derivative liabilities that totaled \$706,411. No similar activity occurred during the same current year period.

During the six months ended December 31, 2018 and 2017, interest expense, totaled \$146,477 and \$117,735, respectively. The increase was the result of increased notes payable balances as compared to the same period of the prior year.

Capital Expenditures and Commitments

No capital purchases were made during the six months ended December 31, 2018.

Liquidity

Our cash balance at December 31, 2018 increased to \$100,082 as compared to \$139,086 at June 30, 2018. The decrease was the result of \$231,594 in cash used in operating activities offset by \$192,590 in cash provided by financing activities. Net cash used in operations during the six months ended December 31, 2018 was \$231,594 compared with \$223,747 of net cash used in operations during the same period of the prior year. Cash used in operations during the six months ended December 31, 2018 was primarily due to our net loss in the period of \$425,143. Net cash provided by financing activities of \$192,590 during the three months ended December 31, 2018 was due to proceeds received from notes payable. During the same period of the prior year, net cash provided by financing activities of \$241,590 was from proceeds received from notes payable.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the six months ended December 31, 2018, the Company incurred a loss from operations of \$278,666 and used cash in operating activities of \$231,594, and at December 31, 2018, the Company had a working capital deficit of \$4,730,760 and a stockholders' deficiency of \$4,885,760. In addition, as of December 31, 2018, the Company is delinquent in payment of \$778,554 of its notes payable. These factors, among others, raise substantial doubt about our ability to continue as a going concern within one year of the date that the financial statements are issued. In addition, the Company's independent registered public accounting firm, in its report on our June 30, 2018 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. The

Company's financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

The Company believes its cash and forecasted cash flow from operations will not be sufficient to continue operations through fiscal 2019 without continued external investment. The Company believes it will require additional funds to continue its operations through fiscal 2019 and to continue to develop its existing projects and plans to raise such funds by finding additional investors to purchase the Company's securities, generating sufficient sales revenue, implementing dramatic cost reductions or any combination thereof. There is no assurance that the Company can be successful in raising such funds, generating the necessary sales or reducing major costs. Further, if the Company is successful in raising such funds from sales of equity securities, the terms of these sales may cause significant dilution to existing holders of common stock.

The Company has traditionally been dependent on The Matthews Group, LLC, a related party, for its financial support. The Matthews Group is owned 50% by Van Tran, the Company's CEO/Executive Chair and a director, and 50% by Lawrence J. Johanns, a significant Company stockholder.

***Convertible notes and notes payable-in default***

Notes payable includes principal and accrued interest and consists of the following at December 31, 2018 and June 30, 2018:

|  | December<br>31,<br>2018 | June 30,<br>2018 |
|--|-------------------------|------------------|
| (a) Convertible notes (includes \$180,506 of convertible notes in default) | \$219,307               | \$214,576        |
| (b) Notes payable-in default   | 396,423                 | 387,684          |
| Total notes-third parties  | \$615,730               | \$602,260        |

(a) The notes are unsecured, convertible into common stock at amounts ranging from \$0.08 to \$0.30 per share, bear interest at rates ranging from 5% to 8% per annum, were due through 2011 and are in default or due on demand.

At June 30, 2018, convertible notes totaled \$214,576. During the six months ended December 31, 2018, interest of \$4,731 was added to principal leaving a balance owed of \$219,307 at December 31, 2018. At December 31, 2018, \$180,506 of the convertible notes were in default, and convertible at a conversion price of \$0.30 per share into 601,688 shares of the Company's common stock. Certain of the amounts due are subject to a legal proceeding. The balance of \$38,801 is due on demand and convertible at a conversion price of \$0.08 per share into 485,007 shares of the Company's common stock.

(b) The notes are either secured by the Company's intellectual property or unsecured and bear interest ranging from 6.5% to 10% per annum, were due in 2012, and are in default.

At June 30, 2018, the notes totaled \$387,684. During the six months ended December 31, 2018, interest of \$8,739 was added to principal leaving a balance owed of \$396,423 at December 31, 2018. At December 31, 2018, \$357,640 of notes are secured by the Company's intellectual property and \$38,783 of notes are unsecured.

***Convertible notes and notes payable-related party***

Notes payable-related party includes principal and accrued interest and consists of the following at December 31, 2018 and June 30, 2018:

|  | December<br>31,<br>2018 | June 30,<br>2018 |
|--|-------------------------|------------------|
| (a) Convertible notes-The Matthews Group       | \$1,398,702             | \$1,344,782      |
| (b) Notes payable-The Matthews Group           | 1,648,766               | 1,384,088        |
| (c) Convertible notes-other related-in default | 272,798                 | 265,729          |
| Total notes-related party                      | \$3,320,266             | \$2,994,599      |

(a) The notes are unsecured, convertible into common stock at \$0.08 per share, bear interest at rates ranging from 8% to 10% per annum, and are due on demand.

The Matthews Group is a related party and is owned 50% by Ms. Van Tran, the Company's CEO, and 50% by Larry Johanns, a significant shareholder of the Company. At June 30, 2018, convertible notes due to The Matthews Group totaled \$1,344,782. During the six months ended December 31, 2018, interest of \$53,920 was added to principal leaving a balance owed of \$1,398,702 at December 31, 2018. At December 31, 2018, the notes are convertible at a conversion price of \$0.08 per share into 17,483,772 shares of the Company's common stock.

(b) The notes are unsecured, accrue interest at 10% per annum, and are due on demand. The notes were issued relating to a management services agreement with The Matthews Group dated December 31, 2015. At June 30, 2018, notes due to The Matthews Group totaled \$1,384,088. During the six months ended December 31, 2018, \$192,590 of notes payable were issued, interest of \$72,088 was added to principal, leaving a balance owed of \$1,648,766 at December 31, 2018.

(c) The notes are due to a current and a former director, are unsecured, convertible into common stock at per share amounts ranging from \$0.10 to \$0.30, and bear interest at rates ranging from 8% to 10% per annum.

At June 30, 2018, convertible notes due other related parties totaled \$265,729. During the six months ended December 31, 2018, interest of \$7,069 was added to principal leaving a balance owed of \$272,798 at December 31, 2018. At December 31, 2018, \$201,624 of the notes were due in 2010 and are in default, and the balance of \$71,174 is due on demand. At December 31, 2018, \$201,624 of the notes are convertible at a conversion price of \$0.30 per share into 672,081 shares of the Company's common stock, \$21,331 of the notes are convertible at a conversion price of \$0.10 per share into 213,312 shares of the Company's common stock, and \$49,843 of the notes are convertible at a conversion price of \$0.08 per share into 622,160 shares of the Company's common stock.



### Commitments and Contractual Obligations

The Company has one annual lease commitment of \$51,000 for the corporate office building, which is leased from Ms. Tran, our chief executive officer, with an expiration date of March 30, 2019. The commitment is for the corporate offices at 2445 Winnetka Avenue North, Golden Valley, Minnesota. The total amount of the remaining lease commitment is \$12,750 at December 31, 2018.

### Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

### Critical Accounting Policies

#### *Stock-Based Compensation*

The Company periodically issues stock options and warrants to employees and non-employees in capital raising transactions, for services and for financing costs. The Company accounts for stock option and stock warrant grants to employees based on the authoritative guidance provided by the Financial Accounting Standards Board where the value of the award is measured on the date of grant and recognized over the vesting period. The Company accounts for stock option and stock warrant grants to non-employees in accordance with the authoritative guidance of the Financial Accounting Standards Board where the value of the stock compensation is determined based upon the measurement date at either a) the date at which a performance commitment is reached, or b) at the date at which the necessary performance to earn the equity instruments is complete. Non-employee stock-based compensation charges generally are amortized over the vesting period on a straight-line basis. In certain circumstances where there are no future performance requirements by the non-employee, option or warrant grants are immediately vested and the total stock-based compensation charge is recorded in the period of the measurement date.

The fair value of the Company's common stock option and warrant grants are estimated using a Black-Scholes option pricing model, which uses certain assumptions related to risk-free interest rates, expected volatility, expected life of the common stock options, and future dividends. Compensation expense is recorded based upon the value derived from the Black-Scholes option pricing model, and based on actual experience. The assumptions used in the Black-Scholes option pricing model could materially affect compensation expense recorded in future periods.

### *Revenue Recognition*

Revenues for the Company are classified into mobile banking technology and management fee revenue.

#### a. Mobile Banking Revenue

The Company, as a merchant payment processor and a distributor, recognizes revenue from transaction fees charged to cardholders for the use of its issued mobile debit cards. The fees are recognized on a monthly basis after all cardholder transactions have been summarized and reconciled with third party processors.

Prior to the year ended June 30, 2016, the Company entered into certain long term agreements to provide application development and support. Some customers paid the agreement in full at signing and the Company recorded the receipt of payment as deferred revenue. The Company records revenue relating to these agreements on a pro-rata basis over the term of the agreement and reduces its deferred revenue balance accordingly.

#### b. Management Fee Revenue

On September 30, 2015, the Company sold all of its assets of its Barcode Technology comprised solely of its intellectual property to The Matthews Group and entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations, on behalf of The Matthews Group, through June 30, 2019. The Company earns a fee of 20% of all revenues billed from the barcode technology operations up to May 31, 2017 and 35% of all revenues billed up to June 30, 2019.

Recently Issued Accounting Standards

See Note 1 of the Condensed Consolidated Financial Statements for a discussion of recently issued accounting standards.

**ITEM 3 -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

A smaller reporting company is not required to provide the information required by this Item 3.

**ITEM 4 -- CONTROLS AND PROCEDURES**

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and our chief financial officer, carried out an evaluation of the effectiveness of our “disclosure controls and procedures” (as defined in the Securities Exchange Act of 1934 (the “Exchange Act”) Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the “Evaluation Date”). Based upon that evaluation, our chief executive officer and our chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. As of December 31, 2018, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal control over financial reporting described in our Form 10-K at June 30, 2018.

Changes in Internal Control over Financial Reporting.

In our Form 10-K at June 30, 2018, we identified certain matters that constitute material weaknesses (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal control over financial reporting as discussed on Management’s Report on Internal Control Over Financial Reporting. We are undergoing ongoing evaluation and improvements in our internal control over financial reporting. Regarding our identified weaknesses, we have performed the following remediation efforts:

• We have assigned our audit committee with oversight responsibilities.

Our financial statements, periodic reports filed pursuant to the Securities Exchange Act of 1934, as amended, our monthly bank statements and imaged checks are now continuously reviewed by our chief financial officer and chief executive officer.

• All significant contracts are now being reviewed and approved by our board of directors in conjunction with the chief executive officer.

There was no other change in our internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **ITEM 1 - LEGAL PROCEEDINGS**

On or about November 13, 2017, David A. Badhwa and Denise a Badhwa (collectively “Plaintiffs”) filed a lawsuit in district court in Hennepin County, Minnesota asserting that the Company breached the terms of a promissory note. Plaintiffs seek repayment on the principal of the promissory note, in the amount of \$100,000, \$10,000 of which Plaintiffs contend Veritec previously paid, plus interest, collection costs and attorney’s fees. As of May 15, 2018, the date of the last communication on the amount of recovery that Plaintiffs seek, Plaintiffs sought an award or settlement in the amount of \$162,990. If Plaintiffs prevail on their claims, the Court could award Plaintiffs the unpaid principal in the amount of \$90,000, plus interest at the rate of eight percent (8%) per annum on the unpaid balance, as well as attorney’s fees incurred by Plaintiffs in seeking payment on the promissory note in an amount determined by the Court. An award of attorney’s fees could be significant. Veritec has vigorously defended Plaintiffs claims and has asserted a variety of counterclaims against Plaintiffs. Veritec has also attempted to engage Plaintiffs in settlement discussions, but Plaintiffs have not engaged in meaningful negotiations to resolve the claims in dispute. Management has recorded a liability related to this proceeding that it feels is adequate.

On September 21, 2016, the Company entered into a settlement agreement with an individual who was a former officer of the Company. The individual in prior years was also issued 500,000 shares of common stock for services. The Company alleged that the individual used the Company's intellectual property without approval. Under the terms of the settlement agreement, the individual agreed to relinquish a convertible note payable and unpaid interest aggregating \$364,686, and return 500,000 shares of common stock previously issued to him. In turn, the Company agreed to release and discharge the individual against all claims arising on or prior to the date of the settlement agreement. As of December 31, 2018, the 500,000 shares have not been relinquished. When the Company receives the shares, it will record a cancellation of shares.

### **ITEM 1A - RISK FACTORS**

A smaller reporting company is not required to provide the information required by this Item.

### **ITEM 2 - UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3 - DEFAULTS UPON SENIOR SECURITIES**

The Company is in default on its various notes payable totaling \$778,554 representing principal and accrued interest as of December 31, 2018.

**ITEM 4 - MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5 - OTHER INFORMATION**

Not applicable.

**ITEM 6 - EXHIBITS**

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1\*\* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1 The following financial information from Veritec, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2018 formatted in XBRL: (i) Condensed Consolidated Balance Sheets at December 31, 2018 and December 31, 2017; (ii) Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2018 and 2017; (iii) Condensed Consolidated Statement of Stockholders' Deficit as at December 31, 2018; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2018 and 2017; (v) Notes to the Condensed Consolidated Financial Statements.

\*\* The certifications attached as Exhibits 32.1 and 32.2 accompany the Quarterly on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by Veritec, Inc. for purposes of Section 18 of the Securities Exchange Act.

SIGNATURES

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

VERITEC, INC.

February 6, 2019 By: /s/ Van Tran

Van Tran  
Chief Executive Officer  
(Principal Executive Officer)

