VERITEC INC
Form 10KSB
October 14, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

(Mark one)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (fee required)

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________

Commission File No. 0-15113

VERITEC, INC.
(Exact name of small business issuer in its charter)

Nevada	95-3954373
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)
2445 Winnetka Avenue No. Golden Valley, MN	55427
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: 763-253-2670

Securities registered under Section 12(b) of the Act: None

Securities registered under Section 12(g) of the Act: Common stock, $.01 par value
(Title of Class)

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 |X| No |_| .

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to the Form 10-KSB. |X|

Revenues for the year ended June 30, 2004 were $2,963,953.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Company, computed by reference to the average bid price of the common stock on September 13, 2004 was approximately $2,206,948.

Number of shares outstanding as of September 13, 2004: 7,071,849.

Check whether the issuer has filed all documents and reports required to be filed by Section 12, 13, or 15(d) of the Exchange Act after the distribution of securities under a plan confirmed by a court. |X| Yes |_| No.

DOCUMENTS INCORPORATED BY REFERENCE

Form 10-KSB for the period ended June 30, 1999 is hereby incorporated by reference.

THIS DOCUMENT CONSISTS OF 52 PAGES, INCLUDING EXHIBIT PAGES.
THE EXHIBIT INDEX IS ON PAGE 51.

VERITEC, INC.
FORM 10-KSB

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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PART I

ITEM 1 DESCRIPTION OF BUSINESS

(A) Business Development

Veritec, Inc. (Veritec) was incorporated in the State of Nevada on September 8, 1982 for the purpose of developing, marketing and selling a line of microprocessor-based encoding and decoding system products. We were a development stage enterprise until June 30, 1995 at which time we had product available for sale.

In 1995 an involuntary proceeding under Chapter 7 of the United States Bankruptcy Code was commenced against us. The proceeding was subsequently converted to a Chapter 11 proceeding and a plan of reorganization was confirmed on April 23, 1997. The plan was completed, the trustee was discharged, and the case closed on October 13, 1999. Further information with respect to the bankruptcy proceeding is set forth in Item 3, of the Annual Report on Form 10-KSB filed by us for the year ended June 30, 1999, which report is incorporated herein by reference.

We develop, market, and sell a line of microprocessor-based encoding and decoding system products that utilize our patented VERICODE(R)/ VSCODE(TM) symbol technology. Our technology enables a manufacturer or distributor to attach unique identifiers or coded symbols containing binary encoded data, referred to as a "Vericode(R) Symbol" or "VSCode(TM) Symbol," to a product, enabling automatic identification and collection of data with respect to the marked product.

In 1999 we moved from our previous location in California to the suburbs of Minneapolis, Minnesota. After moving to Minnesota, engineering efforts were focused on converting the DOS based operating system to both Windows and UNIX operating platforms, further augmenting the number of computers with which our technology works, and the development of the Secure ID business. At the same time personnel and facilities costs were restructured to reduce overhead and the sales effort was focused on increasing our revenue primarily in the Asian market. In February 2002, as part of our objective to increase sales in Asia, we acquired 50% ownership of Veritec Iconix Ventures, Inc. (VIVI-USA). The other 50% of VIVI-USA was acquired by The Matthews Group, a related party. In April 2002, VIVI-USA acquired Iconix, Inc., a Japanese company. At this time Iconix, Inc., was renamed Veritec Iconix Ventures, Inc. (VIVI-Japan). In June 2003, we acquired The Matthews Groups 50% interest in VIVI-USA bringing our ownership of VIVI-USA to 100%.

In June 2003, we also agreed to sell VIVI-Japan's textile customer to Com Techno Alpha Inc., a Japanese corporation, for:

- 8,100,000 yen to be paid at a rate of 225,000 yen per month for thirty-six months ($67,782 and $1,883 respectively in U.S. dollars).

- 120,000 shares of Veritec's common stock (subsequently returned and cancelled).

Yoshihiro Tasaka, the principal of Com Techno, is a former employee and officer of VIVI-Japan. The agreement does provide for acceleration of payments to be received for each sale of a Tuft Controller by COM to this customer.

In May 2004, VIVI-USA was dissolved and VIVI-USA's investment in VIVI-Japan was transferred to the Veritec. Through VIVI-Japan, we provide services to our expanding LCD markets in Japan and Korea, and to the emerging markets in Taiwan, China and Southeast Asia. Veritec and VIVI-Japan are now expanding the market into the Secure ID business worldwide.

In November 2003, Veritec formed a wholly owned subsidiary, Vcode Holdings, Inc. (Vcode), a Minnesota corporation, to which it assigned three patents: U.S. Patent Nos. 4,924,078; 5,612,524 and 5,331,176. Vcode, in turn, entered into an exclusive license agreement with Vdata, LLC, an Illinois limited liability company, for the purpose of enforcement and licensing of said patents. The license agreement provides that all cost and expense related to the enforcement and licensing of the patents will be the responsibility of Vdata, LLC. The parties to the licensing agreement will share in net proceeds arising from the enforcement or sublicensing of the patents. As of this date Vcode and Vdata, LLC, have commenced patent enforcement litigation against Nokia Corporation in the United States District Court for the Northern District of Illinois. The litigation is in the discover phase and no opinion can be rendered with respect to its outcome.

Veritec, VIVI-USA, VIVI-Japan and Vcode (Company) represent the consolidated group.

(B) Company's Products

The Vericode(R) /VSCode(TM) Symbol

The VeriCode(R) /VSCode(TM) symbol is a two-dimensional, high data density, machine-readable symbol that can contain 5 to 100 times more information than a bar code in a smaller space. The VeriCode(R)/VSCode(TM) symbol is based on a matrix pattern. The matrix is made up of data cells, which are light and dark contrasting squares. This part of the symbol looks like a scrambled chessboard. The matrix is enclosed within a solid border. The code's solid border in turn is surrounded by a quiet zone of empty cells. This simple structure is the basis for its space efficiency.

The size of the VeriCode(R) / VSCode(TM) symbol is variable and can be increased or decreased depending on the application requirements. It can be configured to fit virtually any space. The data capacity of the symbol is also variable. By using a greater number or a smaller number of data cells, more or less information can be stored in the symbol. For example, a Vericode(R) symbol could contain 10, 28, 56, 72, or more than 100 characters, and the VSCode(TM) symbol could contain 4,451 characters. The main limitation to the size and density of the VeriCode(R) / VSCode(TM) symbol is the resolution of the marking and reading devices.

Special orientation for reading of the code is not necessary. The VeriCode(R) / VSCode(TM) symbol can be read at any angle of up to forty-five degrees from vertical, in any direction relative to the reader. The VeriCode(R) / VSCode(TM) symbol employs "error detection and correction" (EDAC) technology, similar to that found on music CD's. That means that if a VeriCode(R) / VSCode(TM) symbol is partially damaged or obscured, the complete set of data stored in the symbol might still be recovered. Employing error detection and correction lowers the symbol's data capacity, but it can permit data recovery if up to 25% of the symbol is damaged. With EDAC, the code will return either accurate information or no information, but it will not return false or wrong information.

The VeriCode(R) / VSCode(TM) symbol can offer a high degree of security, and the level of this security can be specified depending on the requirements. For any specific application or organization, a unique encryption algorithm can be created so that only authorized persons can create or read a VeriCode(R) / VSCode(TM) symbol within that system.

The VeriCode(R) / VSCode(TM) symbol can hold any form of binary information that can be digitized, including numbers, letters and biometric information.

The VSCode(TM) Symbol

The VSCode(TM) is a derivative of the two-dimensional Vericode(R) symbol. It is built around the core competencies of the robust Vericode(R) symbol which includes the solid border, omni-directional capability, error detection and correction. The distinguishing factor for the VSCode(TM) is its ability to encrypt a greater amount of data by increasing the data density. This matrix can hold up to 4,451 bytes of data making it ideal for holding identification and biometric information. The VSCode(TM) offers a high degree of security, which can also be defined by the application requirements.

The limitations to the VSCode(TM) are based on the resolution of the marking / printing devices and the reading devices.

The VSCode(TM) symbol can hold any form of binary information that can be digitized, including numbers, letters, photos, fingerprints, graphics and biometric information

The FCR-100 Finger Print Reader

The FCR-100 is a compact finger print card reader used to read and decode the VSCode(TM) symbology containing biometric information and other secured data. It consists of a combination of several modular components, including a quality camera, lighting mechanism, digital fingerprint reader, software lock, USB cable and housing, all tied into a PC operating system running the proprietary Veritec software. Due to its modular design, the FCR-100 can be modified to meet specific application needs.

The FCR-100 can be designed to work on most PC based operating system, including Windows 2000. This allows the system to function with the many different types of VSCode(TM) applications such as bankcards, access control, personnel identification, border control, and hospital identification cards. The FCR-100 is connected to the PC or server via a USB cable, and it can be set up for a wireless application or to allow multiple reading stations to be connected to a single computer.

VITS 310 Hand Held Reader

The VITS 310 is a two-dimensional barcode reader built with a monochrome CMOS type sensor. This scanner contains a built-in processor allowing it to read and decode Vericode(R).

The light-weight (75g) hand-held scanner can run on multiple operating systems such as Windows 98 SE, Win ME, Win 2000 and Windows XP. It can also utilize the capabilities of a PDA running Pocket PC 2002.

The VITS is connected to an output screen via a USB cable allowing mobility and flexibility. Users of this scanner can embed their decoding functions inside the reader or develop their own firmware based on the CPU.

HHP 4410 Hand Held Scanner

The HHP 4410 scanner is a hand held input device for reading and decoding two dimensional (2D) symbology. The HHP 4410 scanner is configured to read a wide range of Vericode(R) symbology. Meeting the high reliability requirements of real life applications, it can read symbols ranging up 100 characters encoded. It is also omni-directional, permitting the user to scan the codes from any direction.

Due to its capability to be self-illuminating, the HHP 4410 can tolerate a wide variety of ambient lighting conditions. This scanner is constructed for industrial and other heavy-use environments.

Its integrated processing power is built into the firmware housed in the body of the scanner allowing it to be used with multiple types of output methods including PDA's.

Delphis

The Delphis reader is a lightweight (42grams) stylish and compact reader. It is a contact type scanner that contains an internal LED light source enabling it to be an easy one touch scan. This scanner can read Vericode(R) symbols up to 200 bytes with a minimum cell size of 0.15mm.

The Delphis contains a software keyboard wedge, that enables users to use the scanner without having to develop interface software. It contains a USB interface allowing it to easily connect to a standard PC or PDA running a standard Windows operating system (Windows 98/ Me/2000/XP/CE).

The Delphis can be used remotely via a PDA or other wireless system or be tied into a PC system through a USB connection.

VIS-5RC Stationary Reader

The VRS-5RC, an industrial barcode smart reader, is the result of a partnership between Veritec and DVT Sensors. The VIS-5RC includes OCR/OCV capabilities with the ability to read 200 codes per second. It achieves absolute accuracy even in less than ideal industrial environments. Character voids and blemishes present no problems for the intelligent scanner and built in EDAC software.

The ability to read Vericode(R) is built directly into the firmware of the camera allowing it to process information quickly and accurately, making it a key requirement in the LCD manufacturing application. Multiple readers can be connected to a central server making it ideal for large manufacturing facilities.

The F-250 Fixed Station

The Veritec F-250 reading system is a complete system capable of reading and decoding Vericode(R) symbols. The Veritec F-250 consists of several modular elements. Depending upon the environment and operating conditions, an appropriate video camera is selected and is cabled directly to a high

performance computer. The computer is housed in a rugged chassis to permit successful operation in industrial environments. A variety of modular software programs, customized for the specific application, are installed in the computer. Advanced gray-scale of color image processing and image analysis software result in extremely high reading reliability.

The F-250 reader constitutes a significant advance from our earlier reader, the F-225. The F-250 uses a Microsoft Windows(R) operating system, while the older model uses DOS. The F-250 also uses a relatively inexpensive camera specifically designed for computerized vision work, whereas the F-225 used an expensive scientific grade camera and a frame grabber.

Because the F-250's camera is designed to work on Windows-based computers, it should be able to be incorporated into a wide range of existing computer-controlled manufacturing systems.

Secure ID Business

The new creation of a specialized version of the Vericode(R) which is used to encode biometric data into a 2-D matrix, called VSCode(TM), will be marketed in the arenas of corporate and national identification cards. Each unique version of the encoding contains several hundred bytes of data for fingerprint and other biometric encoding. This code can be printed or etched on a large range of materials, most notably onto identification cards.

VSCode(TM) is ideal for bankcards or high security applications. Because the code is encrypted on the card and not within a database, VSCode(TM) provides high privacy for the individual while maintaining high security for the institution. VIVI has filed for a patent in Japan for the VSCode(TM).

Manufacturing Operations and Supplies

In 2004 and 2003 the Company used one source for its hand-held scanner purchases. If necessary, the Company believes it could locate an alternate source for these hand-held scanners.

Patents

We have received U.S. patents on the Vericode(R): number 4,924,078 issued in 1990 and number 5,612,524 issued in March 1997. We have a European Patent, EP0438841, in France, Germany, and Great Britain. U.S. patent 5,331,176, issued in 1994, covers a method for illuminating two-dimensional barcodes with handheld readers. We believe that our core patents, 4,924,078 and 5,612,524 cover technology similar to that used by a wide range of companies. We have sent copies of our patents to many of these companies, suggesting that they review their products in light of these patents. To date we have received little interest in licensing our patents, but we intend to continue to explore this opportunity. We filed for an additional U.S. patent related to the Vericode(R) technology in 2002.

In November 2003, Veritec formed a wholly owned subsidiary, Vcode, a Minnesota corporation, to which it assigned three patents: U.S. Patent Nos. 4,924,078; 5,612,524 and 5,331,176. Vcode, in turn, entered into an exclusive license agreement with Vdata, LLC, an Illinois limited liability company, for the purpose of enforcement and licensing of said patents. The license agreement

provides that all cost and expense related to the enforcement and licensing of the patents will be the responsibility of Vdata, LLC. The parties to the licensing agreement will share in net proceeds arising from the enforcement or sublicensing of the patents. As of this date Vcode and Vdata, LLC, have commenced patent enforcement litigation against Nokia Corporation in the United States District Court for the Northern District of Illinois. The litigation is in the discover phase and no opinion can be rendered with respect to its outcome.

Trademarks

We have filed applications to register the trademark "VeriSecure" in the United

States. We have also filed applications to trademark "VSCode(TM)" in the following countries: Australia, Taiwan, South Korea, Singapore, Japan, China, and Vietnam. In addition we have filed applications to register the VeriCode(TM) in the following countries: China, Singapore, Vietnam, and Australia. We have a registered trademark for VeriCode(R) in the United States, Taiwan and South Korea.

Seasonality

We have not historically experienced seasonality.

Major Customers/Marketing

During the fiscal year ended June 30, 2004, four customers accounted for 80% of our revenues. Our largest customer was Sungjin Neotech Co., Ltd. ("SNC"), our Korean distributor. During the fiscal year ended June 30, 2003, two customers accounted for 70% of our sales. Foreign revenues accounted for 85% of the Company's revenues in fiscal year 2004 and 93% in fiscal year 2003. To date our revenues are concentrated in Asia.

We previously received royalties from Mitsubishi Corporation under non-exclusive license agreements for sales in Korea, Taiwan, and other countries. These royalties were paid on a quarterly basis. We have terminated these agreements. Additional information is supplied under "Item 3 - Legal Proceedings." We do not expect to receive additional royalties from Mitsubishi Corporation. We believe that Mitsubishi violated the contracts in several respects and are currently in arbitration with Mitsubishi over these issues.

There can be no assurance that our sales and licensing activities will be successful or that they will generate significant revenues in the future.

Engineering, Research and Development

We currently have three full-time engineers and two consultants in Veritec-USA and 3 full-time engineers in VIVI-Japan. Despite the fact that we are trying to improve our products and to develop new ones, there is no certainty that we will be able to develop, manufacture and market products that will receive broad acceptance and permit us to become profitable. See "Item 6 - Management's Discussion and Analysis - Operating Expenses" for a discussion of research and development expenses.

Competition

The "symbology" business in which we operate is intensely competitive. There can be no assurance that we will be able to successfully compete in the "symbology" business.

Our VeriCode(R) / VSCode(TM) symbol competes with alternative machine-readable symbologies such as conventional bar code systems, including UPC, EAN Code 39 and Code 49, and alphanumeric systems such as OCR-A and OCR-B. Competitors offering these alternative symbologies include numerous label and bar code printer equipment companies who offer various parts of bar code related systems.

The "Data Matrix" two-dimensional bar code is an established competitor to the Vericode(R). The Data Matrix code was popularized by Robotic Vision Systems, Inc., which declared the Data Matrix symbol to be "in the public domain." In contrast, our Vericode(R) Symbol and technology are protected by various U.S. and European patents. We believe that while many potential customers will prefer to use a system that is believed to be in the public domain, other companies, especially those in the ID card business, will prefer to purchase "closed" or proprietary systems, and that our technology may be well-suited for these potential customers.

Environmental Compliance

We believe that we are in compliance with all current federal and state environmental laws.

Employees

As of June 30, 2004, we had thirteen full-time and one part-time employee compared to six full-time employees and two part-time employees in 2003. In addition, several consultants have worked on various projects and specific needs throughout the year. As we grow we continually evaluate the employment needs of the Company.

ITEM 2 DESCRIPTION OF PROPERTY

We are leasing approximately 4,200 square feet of office and laboratory space at 2445 Winnetka Avenue North, Golden Valley, MN 55427, which serves as our primary place of business. This lease is with Van Thuy Tran, a director, chief executive officer and chief financial officer of the Company. Our lease requires monthly payments of $4,200 and runs through June 30, 2005.

We also lease approximately 1,400 square feet of office space in Osaka, Japan which serves as VIVI-Japan's primary place of business. Our lease requires monthly payments of 243,000 Yen per month ($2,244 per month at June 30, 2004) and runs through February 28, 2006.

ITEM 3 LEGAL PROCEEDINGS

On June 30, 2000 we were served as a defendant in the matter of Wolodymyr M. Starosolsky vs. Veritec, Inc., et al., in the United States District Court for the Central District of California (Case Number CV-00-7516DT (Wx)). This suit

was brought by a shareholder and former director of the corporation. The action was brought against us, and various individuals claiming that certain corporate actions were taken without proper authority of the corporation's board of directors and/or contrary to the plan of reorganization the corporation filed and completed under Chapter 11 of the U.S. Bankruptcy Act. In December 2000, this case was transferred to the United States District Court for the District of Minnesota. Limited discovery has been undertaken. We intend to defend this action vigorously.

On January 10, 2002, we initiated arbitration against Mitsubishi Corporation in Los Angeles, California, alleging breach of contract, trade secret misappropriation and interference with business opportunities; seeking several million dollars in compensatory damages, punitive damages, legal fees and accrued interest. Mitsubishi counterclaimed on similar grounds, also seeking similar damages and amounts. The arbitration was split into two phases. The first phase, completed in July 2003, resulted in an interim award dismissing most of our claims. No decision on the second phase, completed in September 2004, has been issued by the arbitration panel. Veritec is seeking $1.5 million in attorneys' fees and costs if it prevails on the second phase. Mitsubishi has made a claim for compensatory damages of $11.25 million, punitive damages of $2 million and legal fees and costs of $3.9 million in the second phase. No opinion can be given at this time as to the final outcome of the arbitration.

In 2003, a former employee of the Company asserted he was entitled to a fully vested option to purchase 100,000 shares of Veritec common stock at an exercise price of $.088 per share. The Company denies this claim. This former employee has not proceeded further with this claim. Should such a claim be pursued the Company would defend this action vigorously.

SEC Reporting Obligations

We are subject to the continuing reporting obligations of the Securities Exchange Act of 1934 (the "1934 Act"), which, among other things, requires the filing of annual and quarterly reports and proxy materials with the Securities and Exchange Commission (the "SEC"). Prior to September 1999, we did not comply with several filing requirements. To our knowledge, there is no current inquiry or investigation pending or threatened by the SEC in connection with our prior reporting violations. However, there can be no assurance that we will not be subject to such inquiry or investigation in the future. As a result of any potential or pending inquiry by the SEC or other regulatory agency, we may be subject to penalties, including among other things, suspension of trading in our securities, court actions, administrative proceedings, preclusion from using certain registration forms under the 1933 Act, injunctive relief to prevent future violations and/or criminal prosecution.

We do not plan to issue an annual report to our shareholders.

The public may read and copy any materials we have filed with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We electronically file. Filings may be found on the Internet site maintained by the SEC at www.SEC.gov. Other information about us can be found at our website, www.veritecinc.com and by contacting the Company at 2445 Winnetka Avenue North, Golden Valley, MN 55427.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters where submitted to a vote of security holders through solicitation of proxies or otherwise during the fourth quarter.

PART II

ITEM 5 MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded in the over-the-counter market. Quotations are available on the OTC bulletin board. The common shares are not traded or quoted on any automated quotation system. The OTC Bulletin Board Symbol for our common stock is "VRTC". The following table sets forth the range of high and low bid quotes of our common stock per quarter as provided by the National Quotation Bureau (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions).

Common Stock	Fiscal 2004		Fiscal 2003	
Quarter Ended	High	Low	High	Low
September 30	.90	.25	.45	.26
December 31	.50	.17	.36	.19
March 31	.51	.25	.37	.20
June 30	.75	.25	.60	.16

Shareholders

As of September 13, 2004 there were approximately 845 shareholders of record, inclusive of those brokerage firms and/or clearinghouses holding our common shares for their clientele (with each such brokerage house and clearing house being considered as one holder).

Dividend Information

We have not paid or declared any dividends upon our common stock since our inception and, by reason of our present financial status and our contemplated financial requirements, we do not anticipate paying any dividends in the foreseeable future.

Current Sales of Unregistered Securities

Effective June 25, 2003, we issued 150,000 shares of Veritec common stock to The Matthews Group as part of our purchase of their 50% ownership in VIVI-USA. The shares were issued at a price of $0.23 per share, the reported market price at the date of the original VIVI-USA acquisition. As these stock issuances did not involve any public offering, they were exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

On September 2, 2003, we issued 25,000 shares of Veritec common stock to settle an obligation to a former employee. The shares were issued at a price of $0.20 per share, the reported market price at the date the obligation was incurred. As

this stock issuance did not involve any public offering, it was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

On September 2, 2003, we issued 25,000 shares of Veritec common stock to a new director, Charles Boyer. The shares were issued at a price of $0.30 per share, the reported market price at the date the grant. As this stock issuance did not involve any public offering, it was exempt from registration pursuant to section 4(2) of the Securities Act of 1933.

ITEM 6 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Veritec was incorporated in the state of Nevada on September 8, 1982. Since we emerged from bankruptcy in 1999 we have relied on payments from our principal shareholder, The Matthews Group, ("TMG"), to fund operations, as our revenue has not been sufficient to cover expenses. As of June 30, 2004 TMG had paid $1,148,440. This amount is $19,811 more than the amount specified in the bankruptcy plan. The remaining obligation of TMG is $850,559, which is to be paid over the next 4 years. We expect that TMG will continue to perform on this obligation.

We had working capital deficits in the amount of $1,515,284 and $1,433,440 as of June 30, 2004 and June 30, 2003, respectively. Working capital is an important measure of our ability to meet our short-term obligations.

Results of Operations - June 30, 2004 compared to June 30, 2003

We had net loss of $(34,817) in the fiscal year ended June 30, 2004 compared to a net loss of $(1,176,941) in the fiscal year ended June 30, 2003.

Revenue

Revenues rose from $2,352,391 in 2003 to $2,963,953 in 2004, an increase of 26%. United States based sales rose from $1,181,870 in 2003 to $2,568,640 in 2004, an increase of 117%. In 2004 we continued the policy begun in 2003 of providing both hardware and software to customers. The acceptance of our security software by the Asian market continued in 2004. Revenues from our major Korean distributor remained strong in 2004. In addition, we added a major new Japanese distributor in 2004. This new Japanese distributor accounted for 22% of our sales in 2004. Also, sales to other customers remained strong or increased in 2004. Sales for VIVI-Japan, our wholly owned subsidiary, declined to $395,313 in 2004 compared to $1,190,650 in 2003, a decrease of 67%. $762,016 or 96% of this decrease related to the sale of VIVI-Japan's textile customer. Adjusting for the sale of this textile customer, sales for VIVI-Japan declined from $428,634 to $395,313, a decrease of 8%.

We continue to concentrate our efforts in the Asian market where we seem to have the best opportunities to grow revenue rapidly.

Operating Expenses

Operating expenses in fiscal 2004 versus 2003 were as follows:

	June 30, 2004	June 30, 2003
Selling, general and administrative expenses	$1,416,996	$1,430,785
Legal	1,287,297	1,133,169
Research and development	74,589	148,163
	$2,778,882	$2,712,217

Selling, general and administrative expenses of $1,416,996 for the year ended June 30, 2004 were $(13,789) or 1% lower than selling, general and administrative expense of $1,430,785 for the year ended June 30, 2003. Legal and court fees relating to the Mitsubishi lawsuit and the other legal matters were $1,287,297 compared to $1,133,169, an increase of $154,128 for the year ended June 30, 2004 compared to 2003. We anticipate legal and court fees will decrease in 2005 as the Mitsubishi arbitration moves towards completion.

Research and development expenses of $74,589 for the year ended June 30, 2004 were $73,574 or 50% lower than research and development expense of $148,163 for the year ended June 30, 2003. Research and development expense in 2003 included expenses relating to a development agreement with Lite On Semiconductor, additional staffing, and contract labor costs due to our research and development focus on the development of the VSCode(TM) software. Research and development costs in 2004 returned to historical levels.

Interest expense for the year ended June 30, 2004 was $108,986 or 47% higher than interest expense of $74,056 for the year ended June 30, 2003. This higher interest was the result of increased debt levels in fiscal 2004.

Strategic Restructuring and Operations Plan

We will continue to focus on expanding our LCD markets in Asia by licensing our software and our patents. We believe that we can become a profitable company by expanding out target to other lucrative markets such as the " Secure ID business," such as driver's licenses, license plates, identification cards, and credit cards.

Due to our VSCode(TM) capability of storing 4,451 bytes of data, our customers will be able to include "biometric" (fingerprint, facial dimensions, etc.) information in the symbol. This large data storage capability will allow the user to retrieve the information without being connected to a database. Additionally, our technology is proprietary, and we provide security features within our hardware and software that protect against counterfeiting.

Capital Expenditures and Commitments

During the fiscal year ended June 30, 2004, we made $10,534 in capital purchases compared to $11,520 in 2003. Although we continue to minimize spending for capital expenditures, we believe our need for additional capital equipment will continue because of the need to develop and expand our business. The amount of such additional capital is uncertain and may be beyond that generated from operations.

"Item 12. Certain Relationships and Related Transactions" describes principal and accrued interest due on various outstanding indebtedness that we owe to

related parties. This related party indebtedness totals $1,369,121 at June 30, 2004 (Notes Payable: Related Parties - $390,000; Convertible Notes: Related Parties - $747,374; Accrued Interest - $231,747). This indebtedness is either due on demand, past due, or due November 14, 2004. At this time the Company does not have the monies needed to repay these obligations and to continue to meet operating needs.

The Company also has notes payable to banks totaling $283,979 at June 30, 2004. This indebtedness is due in monthly installments of $9,557, including interest at 1.3% to 2.5%. These notes mature between March 2005 and December 2009.

Liquidity and Factors That May Affect Future Results

A number of uncertainties exist that may affect our future operating results. These uncertainties include general economic conditions, market acceptance of our products, legal and court costs associated with our various legal matters, and our ability to manage expense growth. In particular, if we receive an adverse outcome in Phase II of the arbitration proceeding that we initiated against Mitsubishi, we will likely not have sufficient cash to fulfill any awards against us or to pay our legal fees. Such an adverse outcome in the arbitration proceeding could lead to our insolvency and have a serious adverse effect on our operations.

We have sustained significant losses since inception. These losses could continue into 2005 and future years. Our cash on hand is not sufficient to fund current operating needs. Therefore, the continued operation of our company will continue to be dependent on cash flows from The Matthews Group. There is no assurance that The Matthews Group will complete the obligations under the Plan of Reorganization or that the payment required to be made by The Matthews Group will be adequate. We are seeking additional debt or equity financing, but there is no assurance that additional financing will be obtained, or that any such financing will be sufficient for our needs.

Although no certainties exist, we feel that cash flows from operations will at least partially fund cash needs in 2005. Sales leads continue to be strong. Based on past success rates, we believe a percentage of these leads will agree to purchase product. For 2005 we will continue to use our existing and possibly new distributors to help market our products. The distributors who signed distributorship agreements in 2004 and 2003 supported our stronger sales for 2004. Several more potential distributors have shown serious interest in marketing our products in 2005. Cash will be generated by requiring distributors to pay a one time up front license fee which will give the distributors the opportunity of discounted software prices and allow the distributors to be more competitive in their marketing region.

Continued competition may drive down the price at which we can sell our products, and reduced capital expenditures by our customers may also have a negative impact.

Net cash from operating activities was $27,328 in 2004. Cash flows from the net loss of $(34,817) were further reduced by a $768,517 increase in accounts receivable. This was offset by a $825,028 increase in accounts payable and accrued expenses. Net cash from operating activities was $(118,316) in 2003. The 2003 cash flows from the net loss of $(1,176,941) were offset by significant

cash flows from reductions in accounts receivable, inventory, prepaid expenses. This was further supplemented by a $656,528 increase in accounts payable and accrued expenses primarily relating to legal and professional fees related to the Mitsubishi lawsuit and to our reporting obligations as a public company.

Cash flows from financing activities decreased to $191,427 in 2004 compared to $295,963 in 2003. In 2004 The Matthews Group used the prepayment on subscription receivable to pay all of the $222,222 in scheduled payments on the subscription receivable resulting in no cash inflow to the Company. In 2003 The Matthews Group used the prepayment on subscription receivable to pay all but $82,300 of the $222,222 in scheduled payments due on the subscription receivable. At June 30, 2004 the remaining prepayment on subscription receivable was $19,811. In 2005 The Matthews Group will need to resume payments on the subscription receivable or apply other obligations owed to them by the Company to the subscription receivable and/or the prepayment on subscription receivable. In August 2004, Van Tran applied $84,333 in compensation owed her by the Company against the prepayment on subscription receivable. This transaction means The Matthews Group can use the prepayment to satisfy all of its scheduled payments under the subscription agreement through November 2004. At this time this appears to be The Matthews Group's intent. Cash flows from financing activities were supplemented through borrowings from Van Tran and Larry Johanns, principals in The Matthews Group, and The Matthews Group of $250,000 in 2004 and $290,200 in 2003.

At June 30, 2004 the Company had cash balances of $394,067 and bank certificates of deposit of $120,257. Management has taken steps to manage expenses Management is hopeful existing cash, together with cash flows generated by product sales and raising capital will be sufficient to fund operations through 2005, but there is there is no assurance we will be successful in these efforts. As discussed above, if we receive an adverse ruling in the Mitsubishi arbitration, we will likely not have sufficient cash available to meet our obligations.

Commitments and Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2004:

	Payment due by Period				
Obligations	Total	1 Year	2-3 Years	4-5 Years	Thereafter
Notes Payable - Related Parties	$ 390,000	$ 390,000	None	None	None
Convertible Notes - Related Parties	$ 747,374	$ 747,374	None	None	None
Long-Term Debt	$ 283,979	$ 114,681	$ 103,296	$ 52,742	$ 13,260
Operating Leases	$ 56,127	$ 51,709	$ 4,418	None	None
	$1,477,480	$1,303,764	$ 107,714	$ 52,742	$ 13,260

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Accounts and Notes Receivable

The Company sells to domestic and foreign companies and grants uncollateralized credit to customers, but requires deposits on unique orders. Management periodically reviews its accounts receivable and provides an allowance for doubtful accounts after analyzing the age of the receivable, payment history and prior experience with the customer. The estimated loss that management believes is probable is included in the allowance for doubtful accounts. While the ultimate loss may differ, management believes that any additional loss will not have a material impact on the Company's financial position. Due to uncertainties in the settlement process, however, it is at least reasonably possible that management's estimate will change during the near term.

Inventories

Inventories, consisting of purchased components for resale, are stated at the lower of cost or market, applying the first-in, first-out (FIFO) method.

Revenue Recognition

The Company accounts for revenue recognition in accordance with Staff Accounting Bulletin (SAB) 101 "Revenue Recognition in Financial Statements" and related amendments. Revenues from software sales, product sales and engineering are recognized when products are shipped or services performed. License fees are recognized upon completion of all required terms under the agreement. The process typically begins with a customer purchase order detailing its hardware specifications so the Company can customize its software to the customer's hardware. Once customization is completed the Company typically transmits the software to the customer via the Internet. Revenue is recognized at that point. Once the software is transmitted the customers do not have a right of refusal or return. Under some agreements the customers remit payment prior to the Company having completed customization or completion of any other required services. In these instances the Company delays revenue recognition and reflects the prepayments as deferred revenue.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are classified as revenue and shipping and handling costs are classified as cost of sales.

Intangible Assets

Software Costs: On October 12, 1999, the Company purchased certain software, source code, documentation, manuals and other written material for $50,000 and 187,500 shares of Veritec common stock valued at $.80 per share. The Company has recorded this purchased software at cost, $200,000, and is amortizing it over 5 years using the straight-line method.

Technology Rights: In 2003, the Company, through VIVI-Japan, acquired technology rights for the Delphi scanner for $85,243 ($80,000 in debt; 25,000 shares of the Veritec common stock at $.20 per share; and $243 in incidental costs). These technology rights are being amortized on a straight-line basis over their estimated useful life of three years.

Computer Software Costs

The Company capitalizes certain software development and production costs once technological feasibility has been achieved. Software development costs incurred prior to achieving technological feasibility were expensed as incurred. Management determined that technological feasibility occurred at the time the Company's software was available for general release to customers. Accordingly, no computer software development costs have been capitalized in the accompanying consolidated financial statements.

Stock-Based Consideration

The Company has elected to continue following the accounting guidance of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", for measurement and recognition of stock-based transactions with employees. No compensation cost has been recognized for options issued under the plans when the exercise price of the options is at least equal to the fair market value of the common stock at the date of grant. Had compensation cost for the stock options issued been determined based on the fair value at the grant date, consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation", the effect on the Company's 2004 and 2003 net loss and loss per common share would have been insignificant.

ITEM 7 FINANCIAL STATEMENTS

VERITEC, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2004 AND 2003

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Veritec, Inc.
Golden Valley, Minnesota

We have audited the accompanying consolidated balance sheet of Veritec, Inc. and subsidiaries (Company) as of June 30, 2004, and the related consolidated statements of operations, comprehensive loss, stockholders' deficit and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the consolidated financial statements provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Veritec, Inc. and subsidiaries as of June 30, 2004, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2, the

Company has accumulated losses of $13,323,448 from inception to June 30, 2004 and at June 30, 2004 the Company has a working capital deficiency of $1,515,284 and an excess of liabilities over assets of $1,602,789. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also discussed in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 11, the Company is involved in various litigation, which could have a significant effect on the Company.

/s/ Lurie Besikof Lapidus & Company, LLP

Lurie Besikof Lapidus & Company, LLP
Minneapolis, Minnesota
October 12, 2004

CALLAHAN, JOHNSTON & ASSOCIATES, LLC
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Veritec, Inc.
Golden Valley, Minnesota

We have audited the accompanying consolidated balance sheet of Veritec, Inc., as of June 30, 2003, and the related consolidated statements of operations, comprehensive loss, stockholders' equity (deficit) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit of the consolidated financial statements provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Veritec, Inc., as of June 30, 2003, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As described in Note 2, the Company incurred a net loss of $1,176,941 during the year ended June 30, 2003, and, as of that date, had an excess of liabilities over assets of $1,789,823. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this matter.

/s/ Callahan, Johnston & Associates, LLC

CALLAHAN, JOHNSTON & ASSOCIATES, LLC
Minneapolis, Minnesota
September 24, 2003

7400 Lyndale Avenue South, Suite 140, Richfield, MN 55423
Telephone: (612) 861-0970 Fax: (612) 861-5827
Email: cjacallahan@qwest.net

VERITEC, INC.

CONSOLIDATED BALANCE SHEETS

JUNE 30, 2004 AND 2003

	2004	2003
ASSETS		
Current Assets:		
Cash	$ 394,067	$ 325,193
Certificates of deposit	120,257	--
Accounts and notes receivable:		
Trade, net of allowance for doubtful accounts of $35,000 and $25,000	949,802	185,174
Inventories	20,730	11,585
Prepaid expense - legal retainer	100,000	--
Prepaid expenses - other	10,291	32,791
Total Current Assets	1,595,147	554,743
Property and Equipment:		
Furniture and equipment	66,032	62,511
Vehicle	41,481	41,481
	107,513	103,992
Less accumulated depreciation	94,662	89,323
	12,851	14,669
Other Assets:		
Software costs, net of accumulated amortization of $198,473 and $158,473	13,334	53,334
Technology rights, net of accumulated amortization of $43,716 and $18,703	41,527	66,540
Note receivable	19,622	--
Security deposits and other assets	14,270	7,827
	88,753	127,701
Total Assets	$1,696,751	$ 697,113

See notes to consolidated financial statements

VERITEC, INC.

BALANCE SHEETS

JUNE 30, 2004 AND 2003

	2004	2003
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Notes payable - related parties	$ 390,000	$ 340,000
Convertible notes - related party	747,374	497,374
Current maturities of long-term debt	114,681	109,878
Accounts payable	1,485,851	777,414
Accrued expenses:		
Payroll and related	129,915	107,015
Interest	231,747	130,763
		25,739
Other	10,863	
Total Current Liabilities	3,110,431	1,988,183
Long-Term Debt, less current maturities	169,298	256,720
Prepayment on Stock and Subscription Receivable	19,811	242,033
Total Liabilities	3,299,540	2,486,936
Commitments and Contingencies		
Stockholders' Deficit:		
Preferred stock, par value $1.00; authorized 10,000,000 shares, 275,000 shares of Series H authorized, 76,000 shares issued	366,007	366,007
Common stock, par value $.01; authorized 20,000,000 shares, 7,071,849 and 7,126,849 shares issued	70,718	71,268
Subscription receivable	(717,717)	(860,326)
Additional paid-in capital	11,990,954	11,922,440
Accumulated deficit	(13,323,448)	(13,288,631)
Cumulative translation adjustment	10,697	(581)
Total Stockholders' Deficit	(1,602,789)	(1,789,823)
Total Liabilities and Stockholders' Deficit	$ 1,696,751	$ 697,113

See notes to consolidated financial statements

VERITEC, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Revenues	$ 2,963,953	$ 2,352,391
Cost of sales	261,474	741,769
Gross profit	2,702,479	1,610,622
Operating Expenses:		
Selling, general and administrative	1,416,996	1,430,785
Legal	1,287,297	1,133,169
Research and development	74,589	148,163
Total Expenses	2,778,882	2,712,117
Loss from Operations	(76,403)	(1,101,495)
Other Income (Expense):		
Interest expense	(108,986)	(74,056)
Lease buyout	45,098	--
Sale of textile customer	102,806	--
Other income	4,568	--
Total Other Income (Expense)	43,486	(74,056)
Net Loss before Income Taxes	(32,917)	(1,175,551)
Foreign Income Tax Expense	1,900	1,390
Net Loss	$ (34,817)	$(1,176,941)
Basic Loss Per Common Share	$ (0.00)	$ (0.17)
Diluted Loss Per Common Share	$ (0.00)	$ (0.17)
Weighted Average Common Shares Outstanding - Basic and Diluted	7,074,767	7,031,846

See notes to consolidated financial statements

VERITEC, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Net Loss	$ (34,817)	$(1,176,941)
Foreign Currency Translation Adjustment	11,278	(581)
Comprehensive Loss	$ (23,539)	$(1,177,522)

See notes to consolidated financial statements

VERITEC, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT

YEARS ENDED JUNE 30, 2004 AND 2003

	Preferred Stock		Common Stock				Accum Oth Com hen Inc
	Shares	Amount	Shares	Amount	Subscription Receivable	Additional Paid in Capital	(Lo
BALANCE, July 1, 2002	76,000	$366,007	6,946,849	$ 69,469	$(989,417)	$11,795,109	$
Issuance of common stock for Technology rights and services at $.20 per share	--	--	30,000	300	--	5,700	
Issuance of restricted common stock to related party as part of acquisition at $.20 per share	--	--	150,000	1,500	--	28,500	
Imputed interest on subscription receivable	--	--	--	--	(93,131)	93,131	
Received on subscription receivable	--	--	--	--	222,222	--	
Foreign currency translation adjustments	--	--	--	--	--	--	
Net loss	--	--	--	--	--	--	

BALANCE, June 30, 2003	76,000	366,007	7,126,849	71,268	(860,326)	11,922,440	
Acquisition and retirement of shares at $.23 per share	--	--	(120,000)	(1,200)	--	(26,400)	
Exercise of option to purchase shares at $.23 per share	--	--	15,000	150	--	3,300	
Issuance of common stock to settle liability at $.20 per share	--	--	25,000	250	--	4,750	
Issuance of common stock for Board of Director fees at $.30 per share	--	--	25,000	250	--	7,250	
Imputed interest on subscription receivable	--	--	--	--	(79,614)	79,614	
Received on subscription receivable	--	--	--	--	222,223	--	
Foreign currency translation adjustments	--	--	--	--	--	--	11
Net loss	--	--	--	--	--	--	
BALANCE, June 30, 2004	76,000	$366,007	7,071,849	$ 70,718	$(717,717)	$11,990,954	$10

See notes to consolidated financial statements

VERITEC, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Cash flow from operating activities:		
Net loss	$ (34,817)	$(1,176,941)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	10,714	11,207
Amortization of intangibles	65,013	58,703
Issuance of stock for services	7,500	1,000
Loss on disposal property and equipment	449	--
Common stock retired from sale of textile customer	(27,600)	--
(Increase) decrease in operating assets:		
Accounts receivable	(768,517)	115,765
Inventories	(8,956)	106,953
Prepaid expenses	(85,067)	108,469
Security deposits and other assets	43,581	--
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	825,028	656,528
Net cash provided (used) by operating activities	27,328	(118,316)
Cash flow from investing activities:		

Purchase of certificates of deposit	(117,469)	--
Purchases of equipment	(10,534)	(11,520)
Net cash used by investing activities	(128,003)	(11,520)
Cash flow from financing activities:		
Checks issued in excess of deposits	--	(35,523)
Proceeds from stock issuance, subscription receivable, and prepayment on stock	--	82,300
Proceeds from exercise of stock option	3,450	--
Proceeds from notes payable - related parties	305,000	290,200
Payments on notes payable - related parties	(5,000)	(10,000)
Proceeds from long-term debt	--	72,500
Payments on long-term debt	(112,023)	(103,514)
Net cash provided by financing activities	191,427	295,963
Effect of exchange rate changes on cash	(21,878)	306
Increase in cash	68,874	166,433
Cash at beginning of year	325,193	158,760
Cash at end of year	$ 394,067	$ 325,193

See notes to consolidated financial statements

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Veritec, Inc. (Veritec) was incorporated in Nevada on September 8, 1982. Veritec is primarily engaged in development, marketing and sales of a line of microprocessor-based encoding and decoding system products that utilize our patented Vericode(R) Symbol technology. Veritec's readers and scanners enable a manufacturer or distributor to attach unique identifiers or coded symbols containing binary encoded data to a product that enables automatic identification and collection of data. Veritec has also developed its Secured Identification System with its VSCode(TM) that enables the storage of biometric information of the two-dimensional VSCode(TM) for subsequent verification of its authenticity. Veritec is a world leader in creating two-dimensional barcode technology and holds key patents in Europe and the United States.

On February 25, 2002, Veritec Iconix Ventures, Inc. (VIVI-USA) was incorporated under the laws of the State of Delaware. In April 2002, the Veritec and The Matthews Group, a related party, each contributed $50,000 and 150,000 shares of the Veritec's common stock for 50% ownership interests each in VIVI-USA.

In April 2002, VIVI-USA completed the acquisition of Iconix, Inc. for consideration of $100,000 and 300,000 shares of Veritec common stock. Iconix, Inc. was formed in 1995 and is located in Osaka, Japan. Iconix, Inc. is a system integrator and developer of two dimensional identification software, hardware and solutions. At the time of its purchase by VIVI-USA, Iconix, Inc. was renamed Veritec Iconix Ventures, Inc. (VIVI-Japan). VIVI-Japan is currently the sole licensee of the CP code patents in Asia. Veritec feels synergies with VIVI-Japan made the acquisition of a 50% ownership interest in VIVI-USA desirable.

On June 25, 2003, Veritec entered into an agreement to purchase The Matthews Group's 50% interest in VIVI-USA at the acquisition price of $50,000 and 150,000 shares of Veritec common stock, the original price paid by The Matthews Group. Veritec issued 150,000 shares of Veritec common stock to The Matthews Group and issued a promissory note of $50,000 (Note 4). At the same time, we agreed to sell VIVI-Japan's textile business to Com Techno Alpha Inc. (Com Techno), a Japanese corporation. As a part of the sale, Yoshihiro Tasaka, the principal of Com Techno and a former employee and officer of VIVI-Japan, agreed to return to us 120,000 shares of Veritec common stock. This stock was returned and cancelled in fiscal 2004. Com Techno also agreed to pay us 8,100,000 yen to be paid at a rate of monthly rate of 225,000 yen for 36 months ($67,782 and $1,883 respectively in U.S. dollars). The agreement provides for acceleration of payments for each sale of a Tuft Controller by Com Techno to this customer.

In May 2004 VIVI-USA was dissolved and VIVI-USA's investment in VIVI-Japan was transferred to the Veritec.

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business (Continued)

In November 2003, Veritec formed a wholly owned subsidiary, Vcode Holdings, Inc. (Vcode), a Minnesota corporation, to which it assigned three patents: U.S. Patent Nos. 4,924,078; 5,612,524 and 5,331,176. Vcode, in turn, entered into an exclusive license agreement with Vdata, LLC, an Illinois limited liability company, for the purpose of enforcement and licensing the patents. The license agreement provides that all expenses related to the enforcement and licensing of the patents will be the responsibility of Vdata, LLC. The parties to the licensing agreement will share in net proceeds arising from the enforcement or sublicensing of the patents. As of June 30, 2004, there has been no such proceeds.

Principles of Consolidation

Veritec, VIVI-USA, VIVI-Japan and Vcode (collectively referred to as the Company) represent the consolidated group. The accompanying consolidated financial statements include the accounts of the Veritec and its wholly owned subsidiaries, VIVI-USA, VIVI-Japan, and in 2004, Vcode. All intercompany transactions and balances were eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Concentrations

The Company maintains its United States based bank balance at one financial institution. At times, this balance may exceed federally insured limits of $100,000. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances. Bank balances in Japan are at four banks. These balances are governmentally insured up to 10,000,000 Yen per bank ($92,336 at June 30, 2004). At times, these balances may exceed the governmentally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts and Notes Receivable

The Company sells to domestic and foreign companies and grants uncollateralized credit to customers, but require deposits on unique orders. Management periodically reviews its accounts receivable and provides an allowance for doubtful accounts after analyzing the age of the receivable, payment history and prior experience with the customer. The estimated loss that management believes is probable is included in the allowance for doubtful accounts. While the ultimate loss may differ, management believes that any additional loss will not have a material impact on the Company's financial position. Due to uncertainties in the settlement process, however, it is at least reasonably possible that management's estimate will change during the near term.

Inventories

Inventories, consisting of purchased components for resale, are stated at the lower of cost or market, applying the first-in, first-out (FIFO) method.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 3 to 7 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized in income. The cost of maintenance and repairs is expensed as incurred; significant renewals and betterments are capitalized.

Financial Instruments

The fair value of cash, certificates of deposit, accounts and notes receivable, accounts payable, accrued expenses, and short-term debt approximate their carrying values due to the short-term nature of these financial instruments.

The carrying value of the subscription receivable is estimated to approximate its fair value as a result of the 10% interest rate used for imputing interest.

No quoted market value is available for this instrument.

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible Assets

Software Costs:

On October 12, 1999, the Company purchased certain software, source code, documentation, manuals and other written material for $50,000 and 187,500 shares of restricted common stock valued at $.80 per share. The Company recorded this purchased software at cost, $200,000, and is amortizing it over 5 years using the straight-line method.

Technology Rights:

In 2003, the Company, through VIVI-Japan, acquired technology rights for the Delphi scanner for $85,243 ($80,000 in debt; 25,000 shares of Veritec's common stock at $.20 per share; and $243 in incidental costs). These technology rights are being amortized on a straight-line basis over their estimated useful life of three years.

Future amortization of software and technology rights is as follows:

Year Ending June 30,	Amount
2005	$42,647
2006	12,214
	$54,861

Computer Software Costs

The Company capitalizes certain software development and production costs once technological feasibility has been achieved. Software development costs incurred prior to achieving technological feasibility are expensed as incurred. Management determined that technological feasibility occurred at the time the Company's software was available for general release to customers. Accordingly, no computer software development costs have been capitalized in the accompanying consolidated financial statements.

Long-Lived Assets

The Company reviews its long-lived and intangibles assets to determine potential impairment by comparing the carrying value of the long-lived assets outstanding with estimated future cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future cash flows be less than the carrying value, the Company would recognize an impairment loss. Management determined that no impairment of long-lived or intangible assets existed at June 30, 2004 or 2003.

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

The Company accounts for revenue recognition in accordance with Staff Accounting Bulletin (SAB) 101 "Revenue Recognition in Financial Statements" and related amendments. Revenues from software sales, product sales and engineering are recognized when products are shipped or services performed. License fees are recognized upon completion of all required terms under the agreement. The process typically begins with a customer purchase order detailing its hardware specifications so the Company can customize its software to the customer's hardware. Once customization is completed the Company typically transmits the software to the customer via the Internet. Revenue is recognized at that point. Once the software is transmitted the customers do not have a right of refusal or return. Under some agreements the customers remit payment prior to the Company having completed customization or completion of any other required services. In these instances the Company delays revenue recognition and reflects the prepayments as deferred revenue.

Shipping and Handling Fees and Cost

Shipping and handling fees billed to customers are included in revenues and shipping and handling costs are included as cost of sales.

Advertising

Advertising costs are expensed as incurred and totaled $4,951 in fiscal 2004 and $19,797 in fiscal 2003.

Research and Development

Research and development costs are expensed as incurred.

Earnings (Loss) Per Common Share

Basic earnings (loss) per common share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted earnings (loss) per common share, in addition to the weighted-average determined for basic earnings per share, includes potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Common stock equivalents issuable upon exercise of stock options and warrants, using the treasury stock method, conversion of the Series H Preferred stock and the conversion of the notes payable and related accrued interest using the "if-converted" method are included in the diluted earning (loss) per common share when dilutive. All such potentially dilutive instruments were antidulitive for 2004 and 2003.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Consideration

The Company has elected to continue following the accounting guidance of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," for measurement and recognition of stock-based transactions with employees. No compensation cost has been recognized for options issued under the plans when the exercise price of the options is at least equal to the fair market value of the common stock at the date of grant. Had compensation cost for the stock options issued been determined based on the fair value at the grant date, consistent with the provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," the effect on the Company's 2004 and 2003 net loss and loss per common share would have been insignificant.

Reclassifications

Certain reclassifications have been made to the fiscal 2003 consolidated financial statements to conform the to fiscal 2004 presentation. These reclassifications had no effect on net loss or net cash flows.

NOTE 2 - GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying consolidated financial statements, Veritec has lost $13,323,448 from inception to June 30, 2004. At June 30, 2004, the Company had a $1,515,284 working capital deficiency and a stockholders' deficit of $1,602,789. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In September 1999, The Matthews Group committed to:

- Invest the $2,000,000 in assets required under the Plan of Reorganization (Note 8)
- Pay the delinquent amounts due under the secured note (Note 5), and
- Finance the operations of the Company.

The Company is dependent on The Matthews Group to meet its operating needs. Through June 30, 2004, The Matthews Group has funded $1,129,629 under the subscription receivable and made prepayments on the subscription receivable of $19,811 to assist the Company in meeting its cash flow needs. The Matthews Group further made payments toward and subsequently paid off a secured note to prevent the secured noteholders from foreclosing (Note 5). The Matthews Group has indicated it will continue to meet its obligation under the subscription receivable (Note 8). There is no assurance The Matthews Group will be available to continue to meet its obligation under the subscription receivable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - GOING CONCERN (Continued)

The Company's management is aggressively pursuing new sales opportunities for the Company. Management is hopeful that it will be successful in these efforts, which will improve its ability to realize assets and settle liabilities in the normal course of operations. However, there is no assurance that the Company will succeed in these efforts or that the Company will continue as a going concern.

NOTE 3 - CERTIFICATES OF DEPOSIT

The certificates of deposit are marketable debt securities and are classified as held-to-maturity securities. Cost plus accrued interest approximates fair value. These securities mature from May 2005 to June 2005.

NOTE 4 - NOTES PAYABLE - RELATED PARTIES

In October 2002, the Company's President, Van Tran, loaned $90,000 to the Company for working capital. This note is unsecured, bears 10% interest and is due on demand. As of June 30, 2004 and June 30, 2003 this note has not been repaid. Interest expense on this indebtedness totaled $9,000 in 2004 and $6,633 in 2003. Accrued interest on this indebtedness totaled $15,633 at June 30, 2004 and $6,633 at June 30, 2003.

In fiscal years 2003 and 2002 The Matthews Group loaned the Company an aggregate of $250,000 for working capital. These notes are unsecured, bear 10% interest and were due May 25, 2003 to June 23, 2003. As of June 30, 2004, these notes have not been repaid. Interest expense on this indebtedness totaled $25,000 in 2004 and $11,585 in 2003. Accrued interest on this indebtedness totaled $35,069 at June 30, 2004 and $10,069 at June 30, 2003.

In June 2003, Veritec entered into an agreement to purchase The Matthews Group's 50% ownership of VIVI-USA. As part of this agreement, the Company issued The Matthews Group a promissory note of $50,000. The promissory note to The Mathews Group bears interest at an annual rate of 10% and was due June 25, 2004. At June 30, 2004, this indebtedness has not been repaid. Interest expense on this indebtedness totaled $5,000 in 2004 and $68 in 2003. Accrued interest on this indebtedness totaled $5,068 at June 30, 2004 and $68 at June 30, 2003.

In November 2003, a consultant and shareholder of the Company loaned $50,000 to the Company for working capital. This note is unsecured, bears 10% interest payable monthly and is due November 12, 2004. Interest expense on this indebtedness totaled $4,428 in 2004. Accrued interest on this indebtedness totaled $174 at June 30, 2004. This note and all accrued interest were repaid in September 2004.

NOTE 5 - CONVERTIBLE NOTES - RELATED PARTIES

In April 2002, The Matthews Group loaned $100,000 to the Company for working capital and to fund its investment in VIVI-USA (Note 1). This note is unsecured, bears annual 10% interest and was due March 28, 2003. Interest expense to The Matthews Group on this indebtedness totaled $10,000 in 2004 and $9,664 in 2003. Accrued interest on this indebtedness totaled $21,506 at June 30, 2004 and $11,506 at June 30, 2003. At the option of The Matthews Group, all or a portion of this indebtedness can be converted into Veritec, Inc. common stock at $.25

per share.

The Matthews Group paid an obligation on behalf of the Company to holders of secured notes payable collectively called "The Gant Group." Payments by The Matthews Group to the Gant Group totaled $366,522 (principal - $286,453; interest - $75,069; and legal fees - $5,000). These amounts paid to the Gant Group plus accrued interest of $30,853 owed to The Matthews Group on these advances were incorporated into a $397,375 note on December 1, 2000. This note is unsecured, bears 10% annual interest and is due on demand. Interest expense on this indebtedness totaled $39,737 in 2004 and 2003. Accrued interest related to this indebtedness totaled $142,293 at June 30, 2004 and $102,556 at June 30, 2003. At the option of The Matthews Group, all or a portion of this indebtedness can be converted into Veritec, Inc. common stock at $.10 per share.

In November 2003, Van Tran (the Company's President) and Larry Johanns (a principal of The Matthews Group) loaned $250,000 to the Company for working capital. These notes are unsecured, bear 10% annual interest and are due November 14, 2004. Interest expense on this indebtedness totaled $15,822 in 2004. Accrued interest on this indebtedness totaled $15,822 at June 30, 2004. At the option of these related parties, all or a portion of this indebtedness can be converted into Veritec, Inc. common stock at $.25 per share.

NOTE 6 - LONG-TERM DEBT

	2004	200
Notes payable to banks are due in monthly installments of $9,557, including interest at 1.3% to 2.5%, collateralized by all corporate assets of VIVI-Japan and the personal guarantee of VIVI-Japan's President, due March 2005 to December 2009.	$ 283,979	$ 351,
Less current maturities	114,681	109,
	$ 169,298	$ 242,

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

Year Ending June 30,	
2005	$ 114,681
2006	76,925
2007	26,371
2008	26,371
2009	26,371
Thereafter	13,260

	$ 283,979
	=========

NOTE 7 - PREPAYMENT ON SUBSCRIPTION RECEIVABLE

The Matthews Group has made prepayments against its subscription payable to the Company (Note 8). These prepayments are unsecured and non-interest bearing. It is assumed the prepayment at June 30, 2004, will also ultimately be applied against the subscription receivable.

NOTE 8 - STOCKHOLDERS' DEFICIT

Preferred Stock

The Articles of Incorporation of Veritec authorize 10,000,000 shares of preferred stock with a par value of $.01 per share. The Board of Directors is authorized to determine any number of series into which shares of preferred stock may be divided and to determine the rights, preferences, privileges and restrictions granted to any series of the preferred stock.

As part of the Plan of Reorganization approved in 1999, a new Series H Convertible Preferred Stock was authorized. The Plan called for Veritec to issue 275,000 shares of restricted Series H convertible preferred stock in exchange for assets of $2,000,000 being invested into Veritec. Each share of Series H Convertible Preferred Stock is convertible into 10 shares of the Veritec's common stock at the option of the holder.

In September 1999, The Matthews Group received 275,000 shares of Series H convertible preferred stock in exchange for a promissory note in the amount of $2,000,000 (Note 8 - Subscription Receivable). The Matthews Group exercised the conversion privilege and converted 200,000 preferred shares to 2,000,000 restricted shares of the Veritec's common stock.

NOTE 8 - STOCKHOLDERS' DEFICIT (Continued)

Preferred Stock (Continued)

Stock Options

Veritec issued options to various directors, employees and consultants on a discretionary basis. These options are for the purchase of a fixed number of shares of stock of Veritec at a stated price for a specified period. Compensation cost is measured by the difference between the quoted market price of the stock at the date of grant and the price, if any, to be paid for the stock at exercise date. In 2004 and 2003, the Company did not issue any options. The current options expire in June 2006.

A summary of stock options is as follows:

	Number of Shares	Option Price Range Per Share

Balance at June 30, 2002	180,000	$.09 to $.80
Expired	(25,000)	$0.31
Balance at June 30, 2003	155,000	$.09 to $.80
Expired	(125,000)	$.09 to $.50
Exercised	(15,000)	$0.23
Balance at June 30, 2004	15,000*	$.80

*Options are fully vested and exercisable.

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - STOCKHOLDERS' DEFICIT (Continued)

Subscription Receivable

In September 1999, the Company accepted a commitment from The Matthews Group to fund the $2,000,000 required under the Plan of Reorganization (Note 8). This funding is in the form of a promissory note that requires monthly payments to the Company of $18,518.52 through fiscal 2009. These payments are non-interest bearing and are collateralized by a pledge of properties controlled by principals of The Matthews Group. A California Deed of Trust and Minnesota mortgages were filed against various pledged properties to partially collateralize the subscription.

The Company imputes a 10% interest rate on this subscription receivable. Imputed interest on the subscription is excluded from operating results and is instead credited directly to additional paid-in capital.

The Matthews Group has made prepayments toward this subscription receivable (Note 7).

NOTE 9 - CONCENTRATIONS

Major Customers:

Customers with revenues in excess of 10% of total revenues are as follows:

	2004	2003
Customer A	19%	-0-%
Customer B	22%	-0-%
Customer C	16%	-0-%
Customer D	23%	37%
Customer E (Textile Customer)	-0-%	33%
	80%	70%

The rights to Customer E were sold in fiscal year 2004 by VIVI-Japan (Note 1).

At June 30, 2004, Customer A accounted for 36% of the accounts and notes receivable and Customer B accounted for 47% of the accounts and notes receivable. At June 30, 2003, Customer D accounted for 47% of the accounts and notes receivable and Customer E accounted for 34% of the accounts and notes receivable.

Major Supplier:

In 2004 and 2003, the Company used one source for its hand-held scanner purchases. If necessary, the Company believes it could locate an alternate source for these hand-held scanners.

Foreign Revenues:

Foreign revenues accounted for 85% of the Company's revenues in fiscal 2004 and 93% in fiscal 2003. These revenues are concentrated in Asia.

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carry forwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Veritec, VIVI-USA, and VIVI-Japan, file separate income tax returns. Veritec and VIVI-USA file separate income tax returns in the United States and VIVI-Japan files a separate income tax return in Japan. Vcode is a single member limited liability company and is included in the income tax returns of Veritec. The Company is also in compliance with information return filing requirements in the United States of America with respect to VIVI-Japan.

A reconciliation between the expected federal income tax rate and the actual tax rates is as follows:

	2004		2003	
	Amount	Percent	Amount	P
Expected federal tax (benefit)	$ (11,100)	(34.0)%	$(399,600)	(
Surtax exemption	6,200	19.0	--	
State income tax, net of federal tax benefit	(2,100)	(6.4)	(76,000)	
Valuation and utilization of deferred tax assets	7,000	21.4	475,600	
Foreign taxes	1,900	5.8	1,390	
Income tax expense (benefit)	$ 1,900	5.8	$ 1,390	

The tax effect of net operating loss carryforwards gives rise to a significant deferred tax asset. Deferred tax assets have been reduced by a valuation allowance as it is unlikely they will be realized. The following is a summary of the deferred tax assets:

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - INCOME TAXES (Continued)

	2004	2003
Deferred tax asset relate to:		
Allowance for doubtful accounts	$ 8,800	$ --
Inventory valuation allowance	11,600	--
Accrued expenses	3,800	1,800
Related party accruals	100,900	48,100
Intangible assets	42,800	26,100
Net operating loss carryforwards	4,142,100	3,600,000
Deferred tax asset	4,310,000	3,676,000
Valuation allowance	(4,310,000)	(3,676,000)
Net deferred tax asset	$ --	$ --

Veritec has net operating loss carryforwards available to offset future taxable income as follows:

Year Ending June 30,	Federal	Minnesota
2005	$ 658,000	$ --
2006	452,000	--
2007	657,000	--
2008	979,000	--
2009	1,410,000	--
2010	1,227,000	--
2011	457,000	--
2012	301,000	--
2013	480,000	--
2014	451,000	--
2015	330,000	--
2016	654,000	--
2017	105,000	113,000
2018	1,068,000	392,000
	$9,229,000	$505,000

VERITEC, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases its U.S. office facilities from its President, Van Tran, under a lease that expires June 30, 2005 and requires monthly payments of $4,200 plus common area costs. The Company leases its Japanese office facilities under a lease that expires February 28, 2006 and requires monthly payments of 243,000 Yen ($2,244 per month at June 30, 2004) plus common area costs. Rent expense was $58,952 in 2004 ($35,542 to related party) and $75,225 in 2003 ($8,000 to related party). In December 2003 the office building in which VIVI-Japan was located was sold. VIVI-Japan received a $45,098 buyout of its old lease which is reflected in other income (expense). These leases require future minimum payments as follows:

Year Ending June 30,	
2005	$ 51,709
2006	4,418
	$ 56,127

Contingencies

During bankruptcy, the Company sought an investment group to assist in funding the $2,000,000 under the Plan of Reorganization approved by the Bankruptcy Court on May 2, 1997. In the intervening years, various investment groups attempted to help the Company fund this required investment. Partial funding received from these investment groups were settled through stock issuances by the Company. One of these former investment groups has made claims totaling $166,697 against the Company, $90,980 in cash and $75,717 in stock (94,646 shares at $.80 per share), but has not pursued legal action relating to these claims. It is possible that other investment groups will assert claims against the Company regarding the levels of their funding, the Company's termination of their funding commitments; or for expenses incurred while they were assisting the Company. Management believes it has appropriately reflected the activity with these investment groups in the accompanying consolidated financial statements. Management further feels these claims were settled in the bankruptcy. Due to uncertainties, however, it is at least reasonably possible that claims will be asserted and/or pursued. The ultimate outcome of these claims, if asserted and/or pursued, cannot presently be determined.

Two individuals have made claims totaling $76,674 against the Company, but have not pursued legal action relating to these claims. Management feels these claims are without merit and/or that these claims were settled by or are barred by the Company's bankruptcy. Due to uncertainties, however, it is at least reasonably possible that claims will be asserted. The ultimate outcome of these claims, if pursued, cannot presently be determined.

NOTE 11 - COMMITMENTS AND CONTINGENCIES (Continued)

On June 30, 2000, we were served as a defendant in the matter of Wolodymyr M. Starosolsky vs. Veritec, Inc., et al., in the United States District Court for the Central District of California (Case Number CV-00-7516DT (Wx)). This suit was brought by a shareholder and former director of the Company. The action was brought against us and various individuals claiming that certain corporate actions were taken without proper authority of the Company's board of directors and/or contrary to the plan of reorganization the Company filed and completed under Chapter 11 of the U.S. Bankruptcy Act. In December 2000, this case was transferred to the United States District Court for the District of Minnesota. Limited discovery has been undertaken. We intend to defend this action vigorously.

On January 10, 2002, we initiated arbitration against Mitsubishi Corporation in Los Angeles, California, alleging breach of contract, trade secret misappropriation and interference with business opportunities; seeking several million dollars in compensatory damages, punitive damages, legal fees and accrued interest. Mitsubishi counterclaimed on similar grounds, also seeking similar damages and amounts. The arbitration was split into two phases. The first phase, completed in July 2003, resulted in an interim award dismissing most of our claims. No decision on the second phase, completed in September 2004, has been issued by the arbitration panel. Veritec is seeking $1.5 million in attorneys' fees and costs if it prevails on the second phase. Mitsubishi has made a claim for compensatory damages of $11.25 million, punitive damages of $2 million and legal fees and costs of $3.9 million in the second phase. No opinion can be given at this time as to the final outcome of the arbitration.

In 2003 a former employee of the Company asserted he was entitled to a fully vested option to purchase 100,000 shares of Veritec common stock at an exercise price of $.088 per share. The Company denies this claim. This former employee has not proceeded further with this claim. Should such a claim be pursued, the Company would defend this action vigorously.

Vcode and Vdata, LLC have commenced patent enforcement litigation against Nokia Corporation in the United States District Court for the Northern District of Illinois. The litigation is in the discovery phase and no opinion can be rendered with respect to its outcome (Note 1).

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

	2004	2003
Cash paid for:		
Interest	$ 9,042	$13,416
Income taxes	$ 1,900	$ 1,390

Summary of Noncash Activity:

In fiscal year 2003, the Company incurred $80,000 in debt and issued 25,000 shares of Veritec common stock at $.20 per share as part of its purchase of technology rights relating to the Delphi scanner.

In fiscal year 2003, the Company incurred $50,000 in debt and issued 150,000 restricted shares of Veritec common stock as part of its investment in VIVI-USA at $.20 per share.

In fiscal year 2004, the Company issued 25,000 shares of Veritec common stock to settle a $5,000 obligation.

In fiscal year 2004, the Company issued 25,000 shares of Veritec restricted common stock to a new Board member for services. These shares were valued at $.30 per share.

In fiscal year 2004 the Company received 120,000 shares of Veritec common stock, which were retired, valued at $27,600 as part of the selling price of VIVI-Japan's textile customer.

In fiscal 2004, the Company reduced subscriptions receivable by $222,223 through a reduction of the prepayment on stock and subscription receivable.

NOTE 14 - SUBSEQUENT EVENT

In August 2004 the Company's President, Van Tran, contributed deferred compensation of $84,333 owed her to the Prepayment on Subscription Receivable (Note 7).

ITEM 8 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

On October 27, 2003, Callahan, Johnston & Associates, LLC resigned as our independent accountants as the firm was ceasing performing auditing services for public companies.

The reports on our consolidated financial statements for the fiscal years ended June 30, 2003 and 2002 were opined on by Callahan, Johnston & Associates, LLC. These reports contained no adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principle, except that such reports were modified to express substantial doubt as to our ability to continue as a going concern.

In connection with its audits for the fiscal years ended June 30, 2003 and 2002, and during the interim period from July 1, 2003 to October 27, 2003, there were no disagreements between the Company and Callahan, Johnston & Associates, LLC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Callahan, Johnston & Associates, LLC would have caused them to make reference to the subject matter of such disagreements in their reports.

During the fiscal years ended June 30, 2003 and 2002, and during the interim period from July 1, 2003 to October 27, 2003, Callahan, Johnston & Associates, LLC did not advise us of any reportable events as described in Item 304(a)(1)(iv)(B) of Regulation S-B.

We provided the former accountants with a copy of our Current Report on Form 8-K before its filing with the SEC. We requested the former accountants to furnish us with a letter addressed to the SEC stating whether they agreed with the statements made by us in our Current Report on Form 8-K and, if not, stating the respects in which they did not agree. We filed the former accountants' letter as an exhibit to our Current Report on Form 8-K, filed with the SEC on October 27, 2003.

In response to Callahan, Johnston & Associates, LLC's resignation, the Company on November 6, 2003 retained Lurie Besikof Lapidus & Company, LLP as its independent auditor to report on our consolidated balance sheet as of June 30, 2004, and the related consolidated statements of operations, comprehensive loss, stockholders deficit and cash flows for the year then ended. The change in independent accountants was approved by our Board of Directors.

During the two most recent fiscal years and the interim period prior to the engagement of Lurie Besikof Lapidus & Company, LLP, neither the Company nor anyone on our behalf consulted with Lurie Besikof Lapidus & Company, LLP regarding either (i) the application of accounting principles to a specified transaction, either contemplated or proposed, or the type of audit opinion that might be rendered on our consolidated financial statements or (ii) any mater that was either the subject of a "disagreement" or a "reportable event".

ITEM 8A CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer has concluded that, as of the end of such period, our disclosure controls and procedures are effective.

Internal Control over Financial Reporting

There have not been any changes in our internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART III

ITEM 9 DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16 (a) OF THE EXCHANGE ACT

The members of the present Board of Directors and Officers are:

Name	Office	Age	Director Since
Mr. Larry Matthews	Director	77	1999
Mr. Dean Westberg	Director	72	2003
Ms. Van Thuy Tran	Director, CEO, Treasurer, Secretary	60	1999
Charles Boyer	Director	45	2003

Each director will serve until the next annual meeting of shareholders, or until their respective successors have been elected and duly qualified. Directors serve one-year terms. The Board of Directors appoints officers. There are no family relationships between any director and officer.

Mr. Larry Matthews was appointed as Acting President and Chief Executive Officer and Director on January 28, 1999, in conjunction with a plan from "The Matthews Group" to evaluate and possibly fund us out of bankruptcy. Mr. Matthews was Chairman and Co-Owner of Vendtronics (sold to Food Engineering Corporation) from 1994 to 1998. From 1963 to 1983 he had various positions at Control Data Corporation, including Vice President of Operations. Currently, Mr. Matthews is on the Board of Directors of Artesyn Technologies (merger of ZYTEC, of which he was a cofounder, and Computer Products), Crosswork, Inc., Third Wave Systems, Solar Attic and ECO Fuels.

Mr. Dean W. Westberg was with 3M for 37 years, most of that time as a photographic chemist. At 3M he did factory scale-up of introductory photographic and printing products, quality control and technical service work; and he spent much time in trouble shooting for 3M. After retiring from 3M he expanded his education in international law and foreign trade. He became involved with various start-up companies in establishing trading relations between the United States and Asia. He has established a company to link small businesses in Mexico and the United States with larger North American companies. Mr. Westberg has a B.S. from Hamline University in chemistry and mathematics. He has studied at University of St. Thomas with specialties in international finance, international marketing, and law.

Ms. Van Thuy Tran is the current CEO of the company. Ms. Tran was President of Asia Consulting and Trading Company, a company dealing with trade in the Pacific Rim countries. She is the co-founder of Circle of Love, providing mission works in Vietnam. She was the founder of Equal Partners, Inc., a construction and building company in Minnesota. Ms. Van Tran has a medical degree and worked in the medical field for over 17 years. For the last twenty years, she has been an entrepreneur involved in building businesses, providing opportunity for minorities and creating solutions for people in distress.

Dr. Charles (Charlie) Boyer is currently the Chief Operating Officer of Tech Logic Corporation. Dr. Boyer received his B.S. in Materials Engineering from Wilkes University, and both a M.S., and Ph.D. in Materials Science from the University of Virginia. Dr. Boyer has over 17 years of experience in various technical and managerial positions with 3M, and has served in these functions while living in St. Paul, MN, Austin, TX, and Singapore. Previous assignments include managing government contracts, heading 3M's Electronic and Telecommunications Sector Laboratory, leading one of 3M's business units focused on the health and beauty aids industry, serving as the Technical Director of 3M's Safety and Security Systems Division, which housed the businesses of Library Systems, Personal Safety, Intelligent Transportation, and the Security Markets Center. Dr. Boyer was also 3M's Technical Director of Asia Pacific Operations. In that position, his responsibilities spanned across Asia, Australia, and New Zealand, where he functioned as the company's Chief Technology Officer for the region. Dr. Boyer has been awarded 11 US Patents, with additional applications pending. He has been a member of the Singapore Economic Development Board's Enterprise Challenge Committee, an invited speaker on innovation, an adjunct Materials Science professor, and served as the Chairman of his Church Board.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to us under Rule 16a-3(e) during fiscal 2004 and Form 5 and amendments thereto furnished to us with respect to fiscal 2004, no person who was a director, officer, or beneficial owner of more than ten percent of any class of our common stock failed to file on a timely basis reports required by Section 16(a) of the Securities Exchange Act during our most recent fiscal year or prior fiscal years.

Committee and Board Meetings

Two meetings of our Board of Directors were held in fiscal 2004, and all board members attended all meetings. We have no standing audit, nominating or compensation committees of our Board or committees performing similar functions during fiscal 2004. The directors have regularly communicated to discuss our affairs in addition to formal board meetings to transact and approve appropriate business. Our Board has determined that we do not have an audit committee financial expert. We do not have an audit committee financial expert given the small size of our company and business and or inability attract a board member who would qualify as a financial expert given our current financial position.

Code of Ethics

We have not adopted a code of ethics at this time because of our small number of employees and that our only executive officer at this time is Van Thuy Tran.

Directors Compensation

Non-employee directors receive director's fees of $150 for each meeting attended. These directors' fees totaled $900 in fiscal 2004 and $150 in fiscal 2003. Director compensation in fiscal 2004 also included $7,500 representing the fair value of common stock issued to a new director issued to him as an inducement to join the board (25,000 shares of common stock with a fair value of $.30 per share).

ITEM 10 EXECUTIVE COMPENSATION

Van Thuy Tran, CEO, received compensation in the amount of $100,000 for the fiscal years ended June 30, 2004, 2003 and 2002. Ms. Tran received no other compensation from the Company.

Compensation pursuant to plans including pension, stock option, and stock appreciation rights plan

As of June 30, 2004, we did not have any stock option, stock appreciation, rights plans, phantom stock plans, or any other incentive or compensation plan or arrangement pursuant to which benefits, remuneration, value or compensation was or is to be granted, awarded, entered, set aside, or accrued for the benefit of any of our executive officers.

ITEM 11 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 30, 2004 certain information with respect to all shareholders known by us to be beneficial owners of more than 5% of our outstanding common stock, all directors, and all of our officers and directors as a group.

Name & Address	Number of Shares Beneficially Owned	Percent
	Common (see 1 and 2 below)	Com
Larry Matthews 7601 5th Avenue, Richfield, MN 55423	None	N
Dean Westberg 4124 Jay Lane, White Bear Lake, MN 55110	None	N
Charles Boyer 895 Mark Avenue Court North, Lake Elmo, MN 55042	None	N
Van Thuy Tran (see note 1) 1430 Orkla Drive, Golden Valley, MN 55427	4,170,512	28
The Matthews Group, LLC (see note 2) 1430 Orkla Drive, Golden Valley, MN 55427	7,581,282	51
Larry Johanns (see note 1) 518 North 12 Street, Osage, IA 50461	4,150,540	28
All Officers and Directors as a group (4 persons) Van Thuy Tran and Larry Matthews	8,197,174	51

(1) The above shares include 50% of the shares owned or issuable to The Matthews Group. Van Thuy Tran and Larry Johanns each own 50% of The Matthews Group.

(2) Includes shares issuable upon the conversion of the Series H preferred stock of 760,000 shares and the conversion of the convertible notes payable and related accrued interest of 6,945,161 shares.

ITEM 12 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Subscription Receivable

In September 1999, we accepted a commitment from The Matthews Group, LLC to fund the $2,000,000 required under our plan of reorganization. This funding is in the form of a promissory note that calls for 108 monthly payments to us of $18,518.52. These payments are non-interest bearing and are secured by a pledge of properties controlled by a principal of The Matthews Group, LLC. The note is partially collateralized by mortgages on income-producing real estate having an assessment value in excess of $800,000, three properties owned by Van Thuy Tran and one property by Larry Johanns. The current remaining balance on the note is $870,370.

The Matthews Group has made prepayments against its Subscription Payable to us. These prepayments are unsecured and non-interest bearing. It is assumed the prepayment of $19,811 at June 30, 2004 will also ultimately be applied against the subscription receivable.

Notes Payable - The Matthews Group, LLC

The Matthews Group paid an obligation on behalf of the Company to holders of secured notes payable collectively called "The Gant Group." Payments by The Matthews Group to the Gant Group totaled $366,522 (Principal - $286,453; interest - $75,069; and legal fees - $5,000). These amounts paid to the Gant Group plus accrued interest of $30,853 owed to The Matthews Group on these advances were incorporated into a $397,375 note on December 1, 2000. This note is unsecured, bears 10% interest and is due on demand. Interest expense on this indebtedness totaled $39,737 in 2004 and 2003. Accrued interest related to this indebtedness totaled $142,293 at June 30, 2004 and $102,556 at June 30, 2003. At the option of The Matthews Group, all or a portion of this indebtedness can be converted into Veritec, Inc. common stock at $.10 per share.

In fiscal years 2003 and 2002 The Matthews Group loaned us an aggregate of $250,000 for working capital needs. These notes are unsecured, bear interest at 10% and were due May 25, 2003 to June 23, 2003. As of June 30, 2004, these notes have not been repaid. Interest expense on this indebtedness totaled $25,000 in 2004 and $11,585 in 2003. Accrued interest on this indebtedness totaled $35,069 at June 30, 2004 and $10,069 at June 30, 2003.

In June 2003, we entered into an agreement with The Matthews Group to purchase 50% ownership of VIVI-USA. As part of this agreement, we issued The Matthews Group a promissory note of $50,000. The promissory note to The Mathews Group bears interest at a rate of 10% per annum and is now due on demand. Interest expense on this indebtedness totaled $5,000 in 2004 and $68 in 2003. Accrued interest on this indebtedness totaled $5,068 at June 30, 2004 and $68 at June 30, 2003.

Other Related Party Transactions

In October 2002, our President, Van Tran, loaned $90,000 to us for working capital needs. This note is unsecured, bears interest at 10% and is due on demand. As of June 30, 2004 and June 30, 2003 this note has not been repaid. Interest expense on this indebtedness totaled $9,000 in 2004 and $6,633 in 2003. Accrued interest on this indebtedness totaled $15,633 at June 30, 2004 and $6,633 at June 30, 2003.

In November 2003, Van Tran and Larry Johanns, the principals of The Matthews Group loaned $250,000 to us for working capital needs. These notes are unsecured, bear interest at 10% and are due November 14, 2004. Interest expense to these related parties on this indebtedness totaled $15,822 in 2004 and $-0- in 2003. Accrued expenses in the accompanying consolidated financial statements include $15,822 in 2004 and $-0- in 2003 relating to these notes. At the option of these related parties, all or a portion of this indebtedness can be converted into our common stock at $.25 per share.

In November 2003, a consultant and shareholder of the Company, Bill Newfield, loaned $50,000 to the Company for working capital. This note is unsecured, bears 10% interest payable monthly and is due November 12, 2004. Interest expense on this indebtedness totaled $4,428 in 2004 (including 1,250 shares of common stock to be issued). Accrued interest on this indebtedness totaled $174 at June 30, 2004. This note and all accrued interest were repaid in September 2004.

We lease our U.S. office facilities from our President, Van Tran, under a lease running through June 30, 2005 and calling for monthly payments of $4,200 plus common area costs. In July and August 2002 we had leased our office space from Larry Johanns, a principal in The Matthews Group, under operating lease agreement. Related party rent expense was $35,542 in fiscal 2004 and $8,000 in fiscal 2003.

ITEM 13 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31 Section 302 CEO and CFO Certification
32 Section 906 CEO and CFO Certification

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

The aggregate fees billed by Lurie Besikof Lapidus & Company, LLP for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2004 were $20,369 to date. The aggregate fees billed by Callahan, Johnston & Associates, LLC for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2004 were none.

The aggregate fees billed by Callahan, Johnston & Associates, LLC for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2003 were $20,490. The aggregate fees billed by Lurie Besikof Lapidus & Company, LLP for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2003 were none.

AUDIT-RELATED FEES

The aggregate audit-related fees billed Lurie Besikof Lapidus & Company, LLP for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2004 were $30,970. The aggregate audit-related fees billed by Callahan, Johnston & Associates, LLC for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2004 were $2,000.

The aggregate audit-related fees billed by Callahan, Johnston & Associates, LLC for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2003 were $1,073. The aggregate audit-related fees billed Lurie Besikof Lapidus & Company, LLP for professional services rendered for the audit of our annual consolidated financial statements for fiscal year ended June 30, 2003 were none.

ALL OTHER FEES

There were no other fees billed by Lurie Besikof Lapidus & Company, LLP or Callahan, Johnston & Associates, LLC for professional services rendered, other than as stated under the captions Audit Fees, Audit-Related Fees, and Tax Fees.

PART IV

We do not have an audit committee and have not established a pre-approval policy. All services provided by the auditors for fiscal 2004 were approved by the Board.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

By /s/ Van Thuy Tran October 13, 2004

Van Thuy Tran
Director, Chief Executive and Financial Officer

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Dean Westberg Dean Westberg	Director	October 13, 2004
/s/ Larry Matthews Larry Matthews	Director	October 13, 2004
/s/ Charles Boyer Charles Boyer	Director	October 13, 2004