VERITEC INC
Form 10-Q
February 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM l0-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF1934

for the quarterly period ended December 31, 2017

OR

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

for the transition period from ________________ **to** ___________________**.**

Commission File Number. 0-15113

VERITEC, INC.

(Exact name of Registrant as Specified in its Charter)

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

Registrant's telephone number, including area code: (763) 253-2670

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule l2b-2 of the Exchange Act. (Check one):

Large Accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company
Emerging growth company	

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

Yes No

As of December 31, 2017, there were 39,538,007 shares of the issuer’s common stock outstanding.

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VERITEC, INC.

FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31, 2017

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Special Note Regarding Forward-Looking Statements

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

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

PART I

ITEM 1 FINANCIAL STATEMENTS

VERITEC, INC. AND SUBSIDIARIES
CONSENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2017	**June 30, 2017**
	(Unaudited)	
ASSETS		
Current Assets:		
Cash	$64,536	$46,693
Accounts receivable	9,709	8,139
Prepaid expenses	5,323	1,985
Total Current Assets	79,568	56,817
Intangibles, net	—	16,042
Total Assets	$79,568	$72,859
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	$652,624	$647,946
Accounts payable, related party	96,110	96,110
Accrued expenses	63,915	72,101
Notes payable – in default	588,792	575,323
Notes payable, related party	2,639,722	2,293,866
Deferred revenues	47,490	72,492
Derivative liabilities	21,589	728,000
Total Current Liabilities	4,110,242	4,485,838
Contingent earnout liability	155,000	155,000
Total Liabilities	4,265,242	4,640,838
Commitments and Contingencies		
Stockholders' Deficiency:		
Convertible preferred stock, par value $1.00; authorized 10,000,000 shares, 276,000 shares of Series H authorized, 1,000 shares issued and outstanding as of December 31, 2017 and June 30, 2017	1,000	1,000
Common stock, par value $0.01; authorized 50,000,000 shares, 39,538,007 shares issued and outstanding as of December 31, 2017 and June 30, 2017	395,380	395,380
Common stock to be issued, 145,000 shares to be issued as of December 31, 2017 and June 30, 2017, respectively	12,500	12,500

Additional paid-in capital	17,974,576	17,974,576
Accumulated deficit	(22,569,130)	(22,951,435)
Total Stockholders' Deficiency	(4,185,674)	(4,567,979)
Total Liabilities and Stockholders’ Deficiency	$79,568	$72,859

See accompanying notes.

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VERITEC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31, 2017 (Unaudited)			2016 (Unaudited)		
Revenue:						
Mobile banking technology revenue	$	30,526		$	37,130	
Other revenue, management fee related party		93,241			52,430	
Total revenue		123,767			89,560	
Cost of sales		52,880			90,300	
Gross profit (loss)		70,887			(740	)
Operating Expenses:						
General and administrative		149,874			186,558	
Sales and marketing		—			390	
Research and development		10,780			11,390	
Total operating expenses		160,654			198,338	
Loss from operations		(89,767	)		(199,078	)
Other Income (Expense):						
Change in fair value of derivative liabilities		243,411			—	
Expense related to fair value of derivative liabilities		—			(182,000	)
Interest expense, including $53,940 and $39,866, respectively, to related parties		(60,674	)		(46,600	)
Total other income (expense)		182,737			(228,600	)

Net Income (Loss)	$	92,970	$	(427,678	)
Net Income (Loss) Per Common Share - Basic and Diluted	$	0.00	$	(0.01	)
Weighted Average Number of Shares Outstanding - Basic and Diluted		39,538,007		39,538,007	

See accompanying notes.

VERITEC, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Six Months Ended					
	December 31,					
	2017 (Unaudited)			2016 (Unaudited)		
Revenue:						
Mobile banking technology revenue	$	61,117		$	84,210	
Other revenue, management fee related party		173,493			75,330	
Total revenue		234,610			159,540	
Cost of sales		107,116			148,860	
Gross profit		127,494			10,680	
Operating Expenses:						
General and administrative		313,927			357,000	
Sales and marketing		—			5,560	
Research and development		19,938			22,130	
Total operating expenses		333,865			384,690	
Loss from operations		(206,371	)		(374,010	)
Other Income (Expense):						
Change in fair value of derivative liabilities		706,411			—	
Expense related to fair value of derivative liabilities		—			(182,000	)
Gain on settlement of note payable to former officer		—			364,690	
Interest expense, including $104,267 and $80,131,		(117,735	)		(93,600	)

respectively, to related parties					
Total other income		588,676		89,090	
Net Income (Loss)	$	382,305	$	(284,920	)
Net Income (Loss) Per Common Share - Basic and Diluted	$	0.01	$	(0.01	)
Weighted Average Number of Shares Outstanding - Basic and Diluted		39,538,007		39,538,007	

See accompanying notes.

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

(UNAUDITED)

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

See accompanying notes.

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VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended December 31,	
	2017 (Unaudited)	2016 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	$382,305	$(284,920)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	—	171
Amortization	16,042	32,088
Gain on settlement of note payable to former officer	—	(364,690)
Change in fair value of derivative liabilities	(706,411)	—
Expense related to fair value of derivative liabilities		182,000
Beneficial conversion feature on issuance of convertible notes payable-related party	—	16,250
Interest accrued on notes payable	117,734	83,346
Changes in operating assets and liabilities:		
Accounts receivable	(1,570)	735
Prepaid expenses	(3,338)	(5,093)
Accounts payable	4,678	28,049
Accrued expenses	(8,185)	6,806
Payroll tax liabilities	—	(238,718)
Deferred revenues	(25,002)	(41,270)
Net cash used in operating activities	(223,747)	(585,246)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes payable-related party	—	427,500
Proceeds from notes payable-related party	241,590	219,883
Net cash provided by financing activities	241,590	647,383
NET INCREASE IN CASH	17,843	62,137
CASH AT BEGINNING OF PERIOD	46,693	60,953
CASH AT END OF PERIOD	$64,536	$123,090
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$—	$—
NON CASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of customer deposit to accounts payable	$—	$—

See accompanying notes.

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

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

The Company

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

Nature of Business

The Company is primarily engaged in the development, sales, and licensing of products and providing services related to its mobile banking solutions.

Mobile Banking Solutions

On January 12, 2009, Veritec formed Veritec Financial Systems, Inc., a Delaware corporation, to bring its Mobile Banking Technology, products and related professional services to market. In 2009 through 2016, the Company has had agreements with various banks, including Security First Bank (terminated in October 2010), Palm Desert National Bank (which was later assigned to First California Bank and subsequently Pacific Western Bank that terminated in June 2013), and Central Bank of Kansas City ("CBKC"). Late in the fiscal year ended June 30, 2016, the relationship between CBKC and the Company ended and the Company is currently seeking a bank to sponsor its Prepaid Card programs. As a Cardholder Independent Sales Organization, Veritec is able to promote and sell Visa branded card programs. As a Third-Party Servicer, Veritec provides back-end cardholder transaction processing services for Visa branded card programs on behalf of its sponsoring bank. The Company has a portfolio of five United States and eight foreign patents. In addition, the Company has seven U.S. and twenty-eight foreign pending patent applications.

BASIS OF PRESENTATION

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the period ended December 31, 2017 are not necessarily indicative of the results that may be expected for the year ending June 30, 2018. The Condensed Consolidated Balance Sheet information as of June 30, 2017 was derived from the Company's audited Consolidated Financial Statements as of and for the year ended June 30, 2017 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on October 10, 2017. These financial statements should be read in conjunction with that report.

The accompanying Condensed Consolidated Financial Statements include the accounts of Veritec and its wholly owned subsidiaries. Inter-company transactions and balances were eliminated in consolidation.

GOING CONCERN

The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the period ended December 31, 2017, the Company incurred a loss from operations of $206,371 and used cash in operating activities of $223,747, and at December 31, 2017, the Company had a working capital deficit of $4,030,674 and a stockholders' deficiency of $4,185,674. In addition, as of December 31, 2017, the Company is delinquent in payment of $744,076 of its notes payable. These factors, among others, raise substantial doubt about our ability to continue as a going concern within one year of the date that the financial statements are issued. In addition, the Company's independent registered public accounting firm, in its report on our June 30, 2017 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from the outcome of this uncertainty be necessary should we be unable to continue as a going concern.

The Company believes it will require additional funds to continue its operations through fiscal 2018 and to continue to develop its existing projects and plans to raise such funds by finding additional investors to purchase the Company's securities, generating sufficient sales revenue, implementing dramatic cost reductions or any combination thereof. There is no assurance that the Company can be successful in raising such funds, generating the necessary sales or reducing major costs. Further, if the Company is successful in raising such funds from sales of equity securities, the terms of these sales may cause significant dilution to existing holders of common stock. The Condensed Consolidated Financial Statements do not include any adjustments that may result from this uncertainty.

Use of Estimates

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

Fair Value of Financial Instruments

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

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

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

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

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

At December 31, 2017 and June 30, 2017, the Company's Condensed Consolidated Balance Sheet included the fair value of derivative liabilities of $21,589 and $728,000, respectively, which was based on Level 2 measurements.

Derivative Financial Instruments

The Company evaluates its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the Condensed Consolidated Statements of Operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

In the case of insufficient authorized share capital available to fully settle outstanding contracts, the Company utilizes the earliest inception date sequencing method to prioritize its convertible securities. At each reporting date, the Company reviews its convertible securities to determine their classification is appropriate.

Net Income (Loss) per Common Share

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

For the six months ended December 31, 2017 and 2016, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect. At December 31, 2017, the Company’s Series H Preferred Stock, Convertible Notes Payable and Options were antidilutive because their exercise prices and conversion prices were out of the money.

As of December 31, 2017 and 2016, we excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock, from our calculation of earnings per share, as their effect would have been anti-dilutive.

	As of December 31,	
	2017	2016
Series H Preferred Stock	10,000	10,000
Convertible Notes Payable	18,645,933	16,523,395
Options	2,500,000	2,500,000
Total	21,155,933	19,033,395

Concentrations

During the three months ended December 31, 2017, the Company had one customer, a related party that represented 75% of our revenue, and one customer that represented 10% of our revenue. During the three months ended December 31, 2016, the Company had one customer, a related party that represented 59% of our revenue, and one customer that

represented 12% of our revenue.

During the six months ended December 31, 2017, the Company had one customer, a related party that represented 74% of our revenue, and one customer that represented 10% of our revenue. During the six months ended December 31, 2016, the Company had one customer, a related party that represented 47% of our revenue, one customer that represented 13% of our revenue, and one customer that represented 10% of our revenue.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), and the FASB has since issued several amendments to this standard, which clarifies the principles for recognizing revenue. This guidance requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard supersedes all existing U.S. GAAP guidance on revenue recognition and is expected to require the use of more judgment and result in additional disclosures. The new standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company plans to adopt the standard on October 1, 2018. The Company has elected to adopt the new revenue recognition standard following the modified retrospective approach, as permitted by the standard. This approach will result in an adjustment to retained earnings for the cumulative effect of initially applying the new standard on its adoption date.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to reflect most leases on their balance sheet as lease liabilities with a corresponding right-of-use asset, while leaving presentation of lease expense in the statement of income largely unchanged. The standard also eliminates the real-estate specific provisions that exist under current U.S. GAAP and modifies the classification criteria and accounting lessors must apply to sales-type and direct financing leases. The Company will be required to adopt ASU 2016-02 as of October 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-02 on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740), Intra-Entity Transfers of Assets Other Than Inventory. The standard requires that an entity recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs as opposed to when the asset is transferred to an outside party as required under current U.S. GAAP. The standard does not apply to intra-entity transfers of inventory, which will continue to follow current U.S. GAAP. The Company will be required to adopt ASU 2016-16 as of October 1, 2018. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-16 on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. The standard simplifies the measurement of goodwill impairment by eliminating the requirement that an entity compute the implied fair value of goodwill based on the fair values of its assets and liabilities to measure impairment. Instead, goodwill impairment will be measured as the difference between the fair value of the reporting unit and the carrying value of the reporting unit. The standard also clarifies the treatment of the income tax effect of tax deductible goodwill when measuring goodwill impairment loss. The Company will be required to adopt ASU 2017-04 as of October 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2017-04 on the Company's consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interests with a Scope Exception. ASU 2017-11 allows companies to exclude a down round feature when determining whether a financial instrument (or embedded conversion feature) is considered indexed to the entity’s own stock. As a result, financial instruments (or embedded conversion features) with down round features may no longer be required to be accounted for as derivative liabilities. A company will recognize the value of a down round feature only when it is triggered and the strike price has been adjusted downward. For equity-classified freestanding financial instruments, an entity will treat the value of the effect of the down round as a dividend and a reduction of income available to common shareholders in computing basic earnings per share. For convertible instruments with embedded conversion features containing down round provisions, entities will recognize the value of the down round as a beneficial conversion discount to be amortized to earnings. The guidance in ASU 2017-11 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, and the guidance is to be applied using a full or modified retrospective approach. The adoption of ASU 2017-11 is not expected to have a material impact on the Company’s financial statements because the embedded conversion feature of the Company’s convertible notes have

features other than down round provisions that require the current accounting and classification as derivative liabilities.

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

NOTE 2 – INTANGIBLE ASSETS AND CONTINGENT EARNOUT LIABILITY

In 2014, the Company acquired Tangible Payments LLC, which developed online payment technology that encrypts sensitive information securely between customers and merchants during online transactions.

The purchase price for the acquisition was comprised of 250,000 shares of restricted common stock of Veritec valued at $37,500, and an earnout payment of $155,000 for an aggregate purchase price of $192,500. The earnout payment is payable on a monthly basis from the net profits derived from the acquired assets commencing three months after the closing. The earnout payment is accelerated and the balance of the earnout payment shall be due in full at such time as Veritec receives equity investments aggregating $1,300,000. From the date of the acquisition and up to December 31, 2017, there was no net profit derived from the acquired assets and accordingly, no payments were made on the earnout.

The Company assigned $192,500 of the purchase price to contract commitments which were amortized over a three year period. For the three and six months ended December 31, 2017 and 2016, the Company recorded $0, $16,042, and $16,042, $32,088, respectively, of amortization expense related to this intangible which is included in general and administrative expense in the Condensed Consolidated Statements of Operations.

NOTE 3 – NOTES PAYABLE

Notes payable-in default

Notes payable includes principal and accrued interest and consists of the following at December 31, 2017 and June 30, 2017:

		December 31, 2017	June 30, 2017
(a)	Convertible notes-in default	$209,846	$205,116
(b)	Notes payable-in default	378,946	370,207
	Total notes-third parties	$588,792	$575,323

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

At June 30, 2017, convertible notes totaled $205,116. During the period ended December 31, 2017, interest of $4,730 was added to principal leaving a balance owed of $209,846 at December 31, 2017. At December 31, 2017, $172,506 of the convertible notes were in default, and convertible at a conversion price of $0.30 per share into 575,021 shares of the Company’s common stock. The balance of $37,340 is due on demand and convertible at a conversion price of $0.08 per share into 466,746 shares of the Company’s common stock.

(b) The notes are either secured by the Company’s intellectual property or unsecured and bear interest ranging from 6.5% to 10% per annum, due in 2012, and in default. At June 30, 2017, the notes totaled $370,207. During the period ended December 31, 2017, interest of $8,739 was added to principal, leaving a balance owed of $378,946 at December 31, 2017. At December 31, 2017, $342,663 of notes are secured by the Company’s intellectual property and $36,283 of notes are unsecured.

Notes payable-related party

Notes payable-related party includes principal and accrued interest and consists of the following at December 31, 2017 and June 30, 2017:

		December 31, 2017	June 30, 2017
(c)	Convertible notes-The Matthews Group	$1,290,863	$1,236,943
(d)	Notes payable-The Matthews Group	1,090,132	805,195
(e)	Convertible notes-other related-in default	258,727	251,728
	Total notes-related party	$2,639,722	$2,293,866

(c) The notes are unsecured, convertible into common stock at $0.08 per share, bear interest at rates ranging from 8% to 10% per annum, and are due on demand. The Matthews Group (see Note 7) is owned 50% by Ms. Van Tran, the Company's CEO, and 50% by Larry Johanns, a significant shareholder of the Company. At June 30, 2017, convertible notes due to The Matthews Group was $1,236,943. During the period ended December 31, 2017, interest of $53,919 was added to principal leaving a balance owed of $1,290,863 at December 31, 2017. At December 31, 2017, $1,290,863 of the notes are convertible at a conversion price of $0.08 per share into 16,135,785 shares of the Company's common stock.

(d) The notes are unsecured, accrue interest at 10% per annum, and are due on demand. The notes were issued relating to a management services agreement with The Matthews Group (see Note 7) dated September 30, 2015. At June 30, 2017, notes payable totaled $805,195. During the period ended December 31, 2017, $241,590 of notes payable were issued and interest of $43,347 was added to principal leaving a balance due of $1,090,132 at December 31, 2017.

(e) The notes are due to a current and a former director, are unsecured, convertible into common stock at per share amounts ranging from $0.08 to $0.30, and bear interest at rates ranging from 8% to 10% per annum. At June 30, 2017, convertible notes due other related parties totaled $251,728. During the period ended December 31, 2017, interest of $7,000 was added to principal leaving a balance owed of $258,728 at December 31, 2017. At December 31, 2017, the notes are convertible at conversion prices ranging from $0.08 per share to $0.30 per share into 1,409,619 shares of the Company’s common stock.

NOTE 4 - DERIVATIVE LIABILITIES

From time to time, the Company issues convertible notes payable with embedded conversion features and options to purchase common stock. Pursuant to the FASB authoritative guidance on determining whether an instrument (or embedded feature) is indexed to an entity’s own stock, when there are insufficient authorized shares, the obligation for the exercise of the convertible instrument should be classified as a liability and measured at fair value. During 2017, the Company determined that there were not sufficient authorized shares of common stock available for issuance upon conversion of certain of its convertible notes and recorded a charge for the fair value of the derivative liabilities, and at June 30, 2017, the total derivative liabilities were $728,000. During the three and six months ended December 31, 2017, the Company recorded a decrease in the fair value of the derivative liabilities of $243,411 and $706,411, respectively. At December 31, 2017, total derivative liabilities were $21,589. The conversion feature of the notes is re-measured at the end of every reporting period with the change in value reported in the Condensed Consolidated Statements of Operations.

The derivative liability was valued at the following dates using a Black-Scholes-Merton model with the following assumptions:

	December 31, 2017		**June 30, 2017**	
Conversion feature:				
Risk-free interest rate	1.76	%	1.5	%

Expected volatility	93 %	179 %
Expected life (in years)	1 year	1 year
Expected dividend yield	—	—
Fair Value:		
Conversion feature	$21,589	$728,000

The risk-free interest rate was based on rates established by the Federal Reserve Bank. The Company used its own historical stock's volatility as the estimated volatility. The expected life of the conversion feature of the notes or options was based on the estimated remaining terms of the notes or options, or expected settlement date for notes due on demand or that have matured. The expected dividend yield was based on the fact that the Company has not customarily paid dividends to its holders of common stock in the past and does not expect to pay dividends to holders of its common stock in the future.

NOTE 5 - STOCKHOLDERS' DEFICIENCY

As of both December 31, 2017 and June 30, 2017, 145,000 shares of common stock to be issued with an aggregate value of $12,500 have not been issued and are reflected as common stock to be issued in the accompanying Condensed Consolidated Balance Sheets.

NOTE 6 – STOCK OPTIONS

Stock Options

A summary of stock options for the six months ended December 31, 2017 is as follows:

	Number of Shares	Weighted - Average Exercise Price
Outstanding at June 30, 2017	2,500,000	$ 0.08
Granted	—	—
Forfeited	—	—
Outstanding at December 31, 2017	2,500,000	$ 0.08
Exercisable at December 31, 2017	2,500,000	$ 0.08

At December 31, 2017, the Company had 2,500,000 of options outstanding and exercisable. The options expire in February, 2020, and are exercisable at $0.08 per share. There were no options granted during the six months ended December 31, 2017 and the Company recognized no stock-based compensation expense related to stock options during the three and six months ended December 31, 2017 and 2016, respectively. As of December 31, 2017, there was no remaining unrecognized compensation costs related to stock options and no intrinsic value.

Additional information regarding options outstanding as of December 31, 2017 is as follows:

Options Outstanding at December 31, 2017				Options Exercisable at December 31, 2017	
Range of Exercise	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
$0.08	2,500,000	2.14	$ 0.08	2,500,000	$ 0.08
	2,500,000			2,500,000	

The weighted-average remaining contractual life of stock options outstanding and exercisable at December 31, 2017 is 2.14 years.

NOTE 7 – RELATED PARTY TRANSACTIONS

The Matthews Group is owned 50% by Ms. Van Tran, the Company's CEO/Executive Chair and a director, and 50% by Larry Johanns, a significant stockholder of the Company. The Company has relied on The Matthews Group for funding (see Note 3).

Management Services Agreement and Related Notes Payable with Related Party

On September 30, 2015, the Company sold all of its assets of its Barcode Technology comprised solely of its intellectual property to The Matthews Group. The Company's Barcode Technology was originally invented by the founders of Veritec as a product identification system for identification and tracking of parts, components and products mostly in the liquid crystal display (LCD) markets and for secure identification documents, financial cards, medical records and other high security applications. The Company has a management services agreement with The Matthews Group to manage all facets of the barcode technology operations, on behalf of The Matthews Group, through July 31, 2018. The Matthews Group bears the risk of loss from the barcode operations and has the right to the residual benefits of the barcode operations. In consideration, the Company earns a fee of 20% of all revenues through May 31, 2017, and 35% of all revenues from June 1, 2017 to July 31, 2018 from the barcode technology operations. During the three and six months ended December 31, 2017 and 2016, the Company recorded management fee revenue related to this agreement of $93,241, $173,493 and $52,430, $75,330, respectively. Pursuant to the management services agreement, all cash flow (all revenues collected less direct costs paid) of the barcode technology operations is retained by the Company as proceeds from unsecured notes payable due The Matthews Group. During the six months ended December 31, 2017 and 2016, cash flow loans of $241,590 and $219,883, respectively, were made to the Company at 10% interest per annum and due on demand. At December 31, 2017, cash flow loans of $1,090,132 are due to The Matthews Group (see Note 3).

Advances from Related Parties

As of December 31, 2017 and June 30, 2017, $96,100 and $96,100 of advances due to Ms. Van Tran have been presented as accounts payable, related party on the accompanying Condensed Consolidated Balance Sheets, respectively. The advances are unsecured, non-interest bearing, and due on demand.

Other Transactions with Related Parties

The Company leases its office facilities from Ms. Tran. For the three and six months ended December 31, 2017 and 2016, rental payments to Ms. Van Tran totaled $12,600, $25,200, $12,600 and $25,200, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

On January 17, 2016, Veritec Inc. (the "Company") entered into an agreement with Vietnam Alliance Capital ("VAC"), which is domiciled in Vietnam, to form a joint venture ("JV') to operate a debit card business in Vietnam. The JV will be named Veritec Asia. The Company will be a 30% member of the JV and VAC will be a 70% member of the JV. Pursuant to the agreement, the Company will grant a license for certain products to the JV, and provide certain technologies and technological support to the JV. VAC will manage, control, and conduct its day-to-day business and development activities. In addition, VAC has agreed to raise all funds to capitalize the JV. As of December 31, 2017, the JV has not received funding and the Company is currently evaluating its options related to the JV including its termination.

Incentive Compensation Bonus Plan

On December 5, 2008, the Company adopted an incentive compensation bonus plan to provide payments to key employees in the aggregated amount of 10% of pre-tax earnings in excess of $3,000,000 after the end of each fiscal year to be distributed annually to employees. As of December 31, 2017, the Company had not achieved an annual pre-tax earnings in excess of $3,000,000.

NOTE 9 – SUBSEQUENT EVENT

On February 2, 2018, the Company's Board of Directors voted to increase the Company's authorized common shares to 150,000,000 common shares. The Company is in the process of filing the requisite documentation with the State of Nevada.

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

Results of Operations – Three months Ended December 31, 2017 compared to December 31, 2016

We had a net income of $92,970 during the three months ended December 31, 2017 compared to net loss of $427,678 during the three months ended December 31, 2016.

Revenues

Details of revenues are as follows:

	Three Months Ended December 31,		Increase (Decrease)	
	2017	2016	$	%
Mobile Banking Technology	$30,526	$37,130	$(6,604)	(17.8)
Other revenue, management fee related party	93,241	52,430	40,811	77.8
Total Revenues	$123,767	$89,560	$34,207	38.2

Mobile Banking Technology

Mobile Banking Technology revenues include products such as the Company's Blinx On-Off™ prepaid toggle Card and its Open Loop/Close Loop System and Bio ID Card Platform. Mobile Banking Technology uses web-based mobile technology to offer financial cardholders the very best technology in conducting secure financial transactions in real time, protecting personal identity, and financial account security. Mobile Banking Technology revenues for the three months ended December 31, 2017 and 2016 were $30,526 and $37,130, respectively. The decrease in Mobile Banking Technology revenues was due to both the conclusion of certain long term contracts during the prior year and the Company not having a bank to sponsor its mobile banking solutions (see Note 1 to Condensed Consolidated Financial Statements).

Other Revenue, related party

Effective October 1, 2015, the Company entered into a management services agreement with the Matthews Group for which the Company agreed to manage its previous barcode technology business, on behalf of the Matthews Group, from October 1, 2015 to July 31, 2018. Per the terms of the management services agreement, the Company earned 20% of all revenues through May 31, 2017 and 35% of all revenues through July 31, 2018. For the three months ended December 31, 2017 and 2016, revenue earned from the management services agreement was $93,241 and $52,430, respectively.

Cost of Sales

Cost of sales for the three months ended December 31, 2017 and 2016 totaled $52,880 and $90,300, respectively. The decrease in cost of sales was primarily from expense reductions, including bank sponsor fees, associated with our decline in Mobile Banking Technology revenues discussed above, as compared to the same period of the prior year.

Operating Expenses

General and administrative expenses for the three months ended December 31, 2017 and 2016 totaled $149,874 and $186,558, respectively. The decrease in general and administrative expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Sales and marketing expenses for the three months ended December 31, 2017 and 2016 totaled $0 and $390, respectively. The decrease in sales and marketing expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Research and development expenses for the three months ended December 31, 2017 and 2016 totaled $10,780 and $11,390, respectively. The decrease in research and development expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Other Income (Expenses)

During the three months ended December 31, 2017, the Company recognized income related to the change in fair value of derivative liabilities that totaled $243,411 (see Note 4 to Condensed Consolidated Financial Statements). During the three months ended December 31, 2016, the Company recognized an expense related to the fair value of derivatives liabilities of $182,000 (see Note 4 to Condensed Consolidated Financial Statements). The change in fair value of derivative liabilities in 2017 compared to 2016 is primarily due to the change in the Company's stock price input used in its derivative valuation model.

During the three months ended December 31, 2017 and 2016, interest expense, which includes financing costs, totaled $60,674 and $46,600, respectively. The increase was the result of increased notes payable balances as compared to the same period of the prior year.

Results of Operations – Six Months Ended December 31, 2017 compared to December 31, 2016

We had a net income of $382,305 during the six months ended December 31, 2017 compared to net loss of $284,920 during the six months ended December 31, 2016.

Revenues

Details of revenues are as follows:

	Six Months Ended December 31,		Increase (Decrease)	
	2017	2016	$	%
Mobile Banking Technology	$61,117	$84,210	$(23,093)	(27.4)
Other revenue, management fee related party	173,493	75,330	98,163	130.3

Total Revenues	$243,610	$159,540	$75,070	47.1

Mobile Banking Technology

Mobile Banking Technology revenues include products such as the Company's Blinx On-Off™ prepaid toggle Card and its Open Loop/Close Loop System and Bio ID Card Platform. Mobile Banking Technology uses web-based mobile technology to offer financial cardholders the very best technology in conducting secure financial transactions in real time, protecting personal identity, and financial account security. Mobile Banking Technology revenues for the six months ended December 31, 2017 and 2016 was $61,117 and $84,210, respectively. The decrease in Mobile Banking Technology revenues was due to both the conclusion of certain long term contracts during the prior year and the Company not having a bank to sponsor its mobile banking solutions (see Note 1 to Condensed Consolidated Financial Statements).

Other Revenue, related party

Effective October 1, 2015, the Company entered into a management services agreement with the Matthews Group for which the Company agreed to manage its previous barcode technology business, on behalf of the Matthews Group, from October 1, 2015 to July 31, 2018. Per the terms of the management services agreement, the Company earned 20% of all revenues through May 31, 2017 and 35% of all revenues through July 31, 2018. For the six months ended December 31, 2017 and 2016, revenue earned from the management services agreement was $173,493 and $75,330, respectively.

Cost of Sales

Cost of sales for the six months ended December 31, 2017 and 2016 totaled $107,116 and $148,860, respectively. The decrease in cost of sales was primarily from expense reductions, including bank sponsor fees, associated with our decline in Mobile Banking Technology revenues discussed above, as compared to the same period of the prior year.

Operating Expenses

General and administrative expenses for the six months ended December 31, 2017 and 2016 totaled $313,927 and $357,000, respectively. The decrease in general and administrative expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Sales and marketing expenses for the six months ended December 31, 2017 and 2016 totaled $0 and $5,560, respectively. The decrease in sales and marketing expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Research and development expenses for the six months ended December 31, 2017 and 2016 totaled $19,938 and $22,130, respectively. The decrease in research and development expenses was primarily from expense reductions implemented during the period due to our reduction in Mobile Banking Technology revenues discussed above.

Other Income (Expenses)

During the six months ended December 31, 2017, the Company recognized income related to the change in fair value of derivative liabilities that totaled $706,411 (see Note 4 to Condensed Consolidated Financial Statements). During the six months ended December 31, 2016, the Company recognized an expense related to the fair value of derivatives liabilities of $182,000 (see Note 4 to Condensed Consolidated Financial Statements). The change in fair value of derivative liabilities in 2017 compared to 2016 is primarily due to the change in the Company's stock price input used in its derivative valuation model.

During the six months ended December 31, 2016, the Company recorded a gain on settlement of a note payable to a former officer of $364,690. No similar activity occurred during the same period of the current year.

During the six months ended December 31, 2017 and 2016, interest expense, which includes financing costs, totaled $117,735 and $93,600, respectively. The increase was the result of increased notes payable balances as compared to the same period of the prior year.

Capital Expenditures and Commitments

No capital purchases were made during the six months ended December 31, 2017.

Liquidity

Our cash balance at December 31, 2017 increased to $64,536 as compared to $46,693 at June 30, 2017. The increase was the result of $223,747 in cash used in operating activities offset by $241,590 in cash provided by financing activities. Net cash used in operations during the six months ended December 31, 2017 was $223,747 compared with $582,246 of net cash used in operations during the same period of the prior year. Cash used in operations during the period ended December 31, 2017 was primarily due to our net income in the period of $382,305 offset by non-cash expenses of $572,635. Net cash provided by financing activities of $241,590 during the period ended December 31, 2017 as due to proceeds received from notes payable. During the same period of the prior year, net cash provided by financing activities of $647,343 was from proceeds received from notes payable.

The accompanying Condensed Consolidated Financial Statements have been prepared assuming the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. During the period ended December 31, 2017, the Company used cash in operating activities of $223,747, and at December 31, 2017, the Company had a working capital deficit of $4,030,674 and a stockholders' deficiency of $4,185,674. In addition, as of December 31, 2017, the Company is delinquent in payment of $744,076 of its notes payable. These factors, among others, raise substantial doubt about our ability to continue as a going concern. In addition, the Company's independent registered public accounting firm, in its report on our June 30, 2017 financial statements, has raised substantial doubt about the Company's ability to continue as a going concern. The Company's financial statements do not include any adjustments that might result from the outcome of this uncertainty be necessary should we be unable to continue as a going concern.

The Company believes its cash and forecasted cash flow from operations will not be sufficient to continue operations through fiscal 2018 without continued external investment. The Company believes it will require additional funds to continue its operations through fiscal 2018 and to continue to develop its existing projects and plans to raise such funds by finding additional investors to purchase the Company's securities, generating sufficient sales revenue, implementing dramatic cost reductions or any combination thereof. There is no assurance that the Company can be successful in raising such funds, generating the necessary sales or reducing major costs. Further, if the Company is successful in raising such funds from sales of equity securities, the terms of these sales may cause significant dilution to existing holders of common stock.

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

Commitments and Contractual Obligations

The Company has one annual lease commitment of $50,400 for the corporate office building, which is leased from Ms. Tran, our chief executive officer, with an expiration date of July 31, 2018. The commitment is for the corporate offices at 2445 Winnetka Avenue North, Golden Valley, Minnesota. As of December 31, 2017 and June 30, 2017, the total amount of the remaining lease commitment is $27,215 and $54,600, respectively.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies

Stock-Based Compensation

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

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

Revenue Recognition

The Company accounts for revenue recognition in accordance with guidance of the Financial Accounting Standards Board. Revenues for the Company are classified into mobile banking technology, management fee revenue, and barcode technology.

a. Mobile Banking Revenue

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

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

b. Management Fee Revenue

On September 30, 2015, the Company sold all of its assets of its Barcode Technology comprised solely of its intellectual property to The Matthews Group, a related party, and entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations, on behalf of The Matthews Group, through July 31, 2018. The Company earns a fee of 20% of all revenues billed from the barcode technology operations through May 31, 2017 and then 35% of all revenues through July 31, 2018.

Recently Issued Accounting Standards

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

ITEM 3 -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 -- CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and our chief financial officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, our chief executive officer and our chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. As of December 31, 2017, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal control over financial reporting described in our Form 10-K at June 30, 2017.

Changes in Internal Control over Financial Reporting.

In our Form 10-K at June 30, 2017, we identified certain matters that constitute material weaknesses (as defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal control over financial reporting as discussed on Management's Report on Internal Control Over Financial Reporting. We are undergoing ongoing evaluation and improvements in our internal control over financial reporting. Regarding our identified weaknesses, we have performed the following remediation efforts:

- We have assigned our audit committee with oversight responsibilities.
- Our financial statements, periodic reports filed pursuant to the Securities Exchange Act of 1934, as amended, our monthly bank statements and imaged checks are now continuously reviewed by our chief financial officer and chief executive officer.
- All significant contracts are now being reviewed and approved by our board of directors in conjunction with the chief executive officer.

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

PART II

ITEM 1 - LEGAL PROCEEDINGS

The Company is subject to various legal proceedings from time to time in the ordinary course of business, none of which is required to be disclosed under this Item 1.

ITEM 1A - RISK FACTORS

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

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

None.

ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

The Company is in default on its various notes payable totaling $744,076 representing principal and accrued interest as of December 31, 2017.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.1	The following financial information from Veritec, Inc.'s Quarterly Report on Form 10-Q for the period ended December 31, 2017 formatted in XBRL: (i) Condensed Consolidated Balance Sheets at December 31, 2017 and December 31, 2016; (ii) Condensed Consolidated Statements of Operations for the three and six months ended December 31, 2017 and 2016; (iii) Condensed Consolidated Statement of Stockholders' Deficit as at December 31, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the six months ended December 31, 2017 and 2016; (v) Notes to the Condensed Consolidated Financial Statements.
**	The certifications attached as Exhibits 32.1 and 32.2 accompany the Quarterly on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed "filed" by Veritec, Inc. for purposes of Section 18 of the Securities Exchange Act.

SIGNATURES

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

	VERITEC, INC.
February 14, 2018	By: /s/ Van Tran
	Van Tran
	Chief Executive Officer
	(Principal Executive Officer)