

VERITEC INC
Form 10-Q
May 11, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

for the quarterly period ended March 31, 2018

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)

VERITEC, INC.

FORM 10-Q

FOR THE THREE AND NINE MONTHS ENDED MARCH 31, 2018

	Page No.
PART I	4
ITEM 1 FINANCIAL STATEMENTS	4
ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	18
ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	22
ITEM 4 CONTROLS AND PROCEDURES	22
PART II	25
ITEM 1 LEGAL PROCEEDINGS	25
ITEM 1A RISK FACTORS	25
ITEM 2 UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS	25
ITEM 3 DEFAULTS UPON SENIOR SECURITIES	25
ITEM 4 MINE SAFETY DISCLOSURES	25
ITEM 5 OTHER INFORMATION	25
ITEM 6 EXHIBITS.	25
SIGNATURES	25

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
CONSENSUED CONSOLIDATED BALANCE SHEETS**

	March 31,	June 30,
	2018	2017
	(Unaudited)	
ASSETS		
Current Assets:		
Cash	\$33,763	\$46,693
Accounts receivable	8,632	8,139
Prepaid expenses	4,095	1,985
Total Current Assets	46,490	56,817
Intangibles, net	—	16,042
Total Assets	\$46,490	\$72,859
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	\$645,166	\$647,946
Accounts payable, related party	96,110	96,110
Accrued expenses	58,044	72,101
Notes payable (including \$538,714 and \$557,822 in default at March 31, 2018 and June 30, 2017, respectively)	595,526	575,323
Notes payable, related party (including \$194,874 and \$188,124 in default at March 31, 2018 and June 30, 2017, respectively)	2,813,715	2,293,866
Deferred revenues	37,500	72,492
Derivative liabilities	208,418	728,000
Total Current Liabilities	4,454,479	4,485,838
Contingent earnout liability	155,000	155,000
Total Liabilities	4,609,479	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 March 31, 2018 and June 30, 2017	1,000	1,000

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Common stock, par value \$0.01; authorized 50,000,000 shares, 39,538,007 shares issued and outstanding as of March 31, 2018 and June 30, 2017	395,380	395,380
Common stock to be issued, 145,000 shares to be issued as of March 31, 2018 and June 30, 2017, respectively	12,500	12,500
Additional paid-in capital	17,974,576	17,974,576
Accumulated deficit	(22,946,445)	(22,951,435)
Total Stockholders' Deficiency	(4,562,989)	(4,567,979)
Total Liabilities and Stockholders' Deficiency	\$46,490	\$72,859

See accompanying notes

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

	Three Months Ended	
	March 31,	2017
	2018	(Unaudited)
	(Unaudited)	(Unaudited)
Revenue:		
Mobile banking technology revenue	\$ 31,324	\$ 35,790
Other revenue, management fee related party	35,034	68,461
Total revenue	66,358	104,251
Cost of sales	61,189	54,222
Gross profit	5,169	50,029
Operating Expenses:		
General and administrative	132,381	193,922
Sales and marketing	—	57,026
Research and development	—	65,361
Total operating expenses	132,381	316,309
Loss from operations	(127,212)	(266,280)
Other Expense:		
Change in fair value of derivative liabilities	(186,829)	(482,000)
Interest expense, including \$56,538 and \$67,787, respectively, to related parties	(63,274)	(74,525)
Total other expense	(250,103)	(556,525)
Net Loss	\$ (377,315)	\$ (822,805)
Net Loss Per Common Share -	\$ (0.01)	\$ (0.02)

Basic and Diluted

Weighted Average
Number of Shares
Outstanding - Basic
and Diluted

39,538,007

39,538,007

See accompanying notes

5

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

	Nine Months Ended	
	March 31,	2017
	2018	(Unaudited)
	(Unaudited)	(Unaudited)
Revenue:		
Mobile banking technology revenue	\$ 92,441	\$ 120,000
Other revenue, management fee related party	208,527	143,791
Total revenue	300,968	263,791
Cost of sales	168,305	203,082
Gross profit	132,663	60,709
Operating Expenses:		
General and administrative	446,308	550,922
Sales and marketing	—	62,586
Research and development	19,938	87,491
Total operating expenses	466,246	700,999
Loss from operations	(333,583)	(640,290)
Other Income (Expense):		
Change in fair value of derivative liabilities	519,582	(482,000)
Expense related to fair value of derivative liabilities	—	(182,000)
Gain on settlement of note payable to former officer	—	364,690
Interest expense, including \$160,805 and \$147,918, respectively, to related	(181,009)	(168,125)

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parties				
Total other income (expense)		338,573	(467,435)
Net Income (Loss)	\$	4,990	\$	(1,107,725)
Net Income (Loss) Per Common Share - Basic and Diluted	\$	0.00	\$	(0.03)
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		Common Stock to be Issued	Additional Paid-in Capital	Accumulated Deficit	<u>Stockholders</u> <u>Deficiency</u>
	Shares	Amount	Shares	Amount				
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	—	—	—	—	—	—	4,990	4,990
BALANCE, March 31, 2018 (Unaudited)	1,000	\$ 1,000	39,538,007	\$ 395,380	\$ 12,500	\$ 17,974,576	\$(22,946,445)	\$(4,562,989)

See accompanying notes

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

	Nine Months Ended	
	March 31,	
	2018	2017
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income (Loss)	\$4,990	\$(1,107,725)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation	—	171
Amortization	16,042	59,236
Gain on settlement of note payable to former officer	—	(364,690)
Change in fair value of derivative liabilities	(519,582)	482,000
Expense related to fair value of derivative liabilities		182,000
Beneficial conversion feature on issuance of convertible notes payable-related party	—	35,000
Interest accrued on notes payable	181,009	130,625
Changes in operating assets and liabilities:		
Accounts receivable	(493)	(5,119)
Prepaid expenses	(2,110)	(6,397)
Accounts payable	(2,780)	(5,265)
Accrued expenses	(14,057)	(2,010)
Payroll tax liabilities	—	(238,718)
Deferred revenues	(34,993)	(53,767)
Net cash used in operating activities	(371,974)	(894,659)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible notes payable-related party	—	477,500
Proceeds from notes payable-related party	359,044	409,606
Net cash provided by financing activities	359,044	887,106
NET DECREASE IN CASH	(12,930)	(7,553)
CASH AT BEGINNING OF PERIOD	46,693	60,953
CASH AT END OF PERIOD	\$33,763	\$53,400

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid for interest \$— \$—

NON CASH INVESTING AND FINANCING ACTIVITIES

Reclassification of customer deposit to accounts payable \$— \$25,000
Shares to be issued for asset acquisition \$— \$200,000

See accompanying notes

8

**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 March 31, 2018 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 nine months ended March 31, 2018, the Company incurred a loss from operations of \$333,583 and used cash in operating activities of \$371,974, and at March 31, 2018, the Company had a working capital deficit of \$4,407,989 and a stockholders’ deficiency of \$4,562,989. In addition, as of March 31, 2018, the Company is delinquent in payment of \$733,588 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 be necessary if the Company is unable to continue as a going concern.

The Company believes it will require additional funds to continue its operations through fiscal 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 March 31, 2018 and June 30, 2017, the Company's Condensed Consolidated Balance Sheet included the fair value of derivative liabilities of \$208,418 and \$728,000, respectively, which was based on Level 2 inputs.

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 nine months ended March 31, 2018 and 2017, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect. At March 31, 2018, 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 March 31, 2018 and 2017, we excluded the outstanding securities summarized below, which entitle the holders thereof to acquire shares of common stock, from our calculation of earnings per share, as their effect would have been anti-dilutive.

	As of March 31,	
	2018	2017
Series H Preferred Stock	10,000	10,000
Convertible Notes Payable	19,017,287	17,533,531
Options	2,500,000	2,500,000
Total	21,527,287	20,043,531

Concentrations

During the three months ended March 31, 2018, the Company had one customer, a related party, that represented 53% of its revenue, one customer that represented 23% of its revenue, and one customer that represented 11% of its revenue. During the three months ended March 31, 2017, the Company had one customer, a related party that represented 66% of its revenue, and one customer that represented 12% of its revenue.

During the nine months ended March 31, 2018, the Company had one customer, a related party that represented 69% of its revenue, and one customer that represented 13% of its revenue. During the nine months ended March 31, 2017,

the Company had one customer, a related party that represented 53% of its revenue, and two additional customers that represented 12% and 10% of its revenue.

Segment Reporting

FASB ASC Topic 280, “Segment Reporting,” requires use of the “management approach” model for segment reporting. The management approach model is based on the way a company’s management organizes segments within the company for making operating decisions and assessing performance. Reportable segments are based on products and services, geography, legal structure, management structure, or any other manner in which management disaggregates a company. The Company had one operating segment at March 31, 2018, which is the payment services segment, which processes debit card transactions.

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 will adopt the guidance of ASU 2014-09 on July 1, 2018. The Company does not expect that the adoption of the new guidance will have a material impact on the Company’s consolidated financial statements.

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 July 1, 2019. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2016-02 on the Company's consolidated financial statements.

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 – 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 \$192,500 and included an earnout payment of \$155,000. The earnout payment is payable on a monthly basis from the net profits derived from the acquired assets commencing three months after the closing. From the date of the acquisition and up to March 31, 2018, 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 nine months ended March 31, 2018 and 2017, the Company recorded \$0 and \$16,042, and \$27,153 and \$59,236, respectively, of amortization expense related to this intangible asset which is included in general and administrative expense in the Condensed Consolidated Statements of Operations.

NOTE 3 – NOTES PAYABLE

Notes payable-in default

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Notes payable includes principal and accrued interest and consists of the following at March 31, 2018 and June 30, 2017:

	March 31, 2018	June 30, 2017
(a) Convertible notes (\$174,506 and \$168,507 in default at March 31, 2018 and June 30, 2017, respectively)	\$212,211	\$205,116
(b) Notes payable-in default	383,315	370,207
Total notes-third parties	\$595,526	\$575,323

(a) The notes are unsecured, convertible into common stock at amounts ranging from \$0.08 to \$0.30 per share, and bear interest at rates ranging from 5% to 8% per annum. At June 30, 2017, convertible notes totaled \$205,116. During the period ended March 31, 2018, interest of \$7,096 was added to principal leaving a balance owed of \$212,211 at March 31, 2018. At March 31, 2018, \$174,506 of the convertible notes were in default, and convertible at a conversion price of \$0.30 per share into 581,688 shares of the Company's common stock. The balance of \$37,705 is due on demand and convertible at a conversion price of \$0.08 per share into 471,311 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 March 31, 2018, interest of \$13,108 was added to principal, leaving a balance owed of \$383,315 at March 31, 2018. At March 31, 2018, \$347,032 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 March 31, 2018, and June 30, 2017:

	March 31, 2018	June 30, 2017
(c) Convertible notes-The Matthews Group	\$ 1,317,822	\$ 1,236,943
(d) Notes payable-The Matthews Group	1,233,665	805,195
(e) Convertible notes-other related-in default	262,228	251,728
Total notes-related party	\$ 2,813,715	\$ 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 March 31, 2018, interest of \$80,879 was added to principal leaving a balance owed of \$1,317,823 at March 31, 2018. At March 31, 2018, \$1,317,823 of the notes are convertible at a conversion price of \$0.08 per share into 16,472,782 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 March 31, 2018, \$359,044 of notes payable were issued and interest of \$69,426 was added to principal leaving a balance due of \$1,233,665 at March 31, 2018.

(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 March 31, 2018, interest of \$10,500 was added to principal leaving a balance owed of \$262,228 at March 31, 2018. At March 31, 2018, the notes are convertible at conversion prices ranging from \$0.08 per share to \$0.30 per share into 1,491,506 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 nine months ended March 31, 2018,

the Company recorded change in the fair value of the derivative liabilities of \$(186,829) and \$519,582, respectively. At March 31, 2018, total derivative liabilities were \$208,418. 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 conversion feature derivative liability was valued at the following dates using a Black-Scholes-Merton model with the following assumptions:

	March 31,		June 30,	
	2018		2017	
Conversion feature:				
Risk-free interest rate	2.09	%	1.50	%
Expected volatility	132	%	179	%
Expected life (in years)	1 year		1 year	
Expected dividend yield	—		—	
Fair Value:				
Conversion feature	\$208,418		\$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 March 31, 2018 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 OPTIONSStock Options

A summary of stock options for the nine months ended March 31, 2018 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 March 31, 2018, 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 nine months ended March 31, 2018 and the Company recognized no stock-based compensation expense related to stock options during the three and nine months ended March 31, 2018 and 2017, respectively. As of March 31, 2018, there was no remaining unrecognized compensation costs related to stock options and no intrinsic value.

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

Options Outstanding at March 31, 2018			Options Exercisable at March 31, 2018		
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	1.92	\$0.08	2,500,000	\$0.08
	2,500,000			2,500,000	

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 nine months ended March 31, 2018 and 2017, the Company recorded management fee revenue related to this agreement of \$35,034 and \$208,527, and \$68,461 and \$143,791, 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 nine months ended March 31, 2018 and 2017, cash flow loans of \$359,044 and \$409,606, respectively, were made to the Company at 10% interest per annum and due on demand. At March 31, 2018, cash flow loans of \$1,233,665 are due to The Matthews Group (see Note 3).

Advances from Related Parties

As of March 31, 2018, and June 30, 2017, \$96,110 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 nine months ended March 31, 2018 and 2017, rental payments to Ms. Van Tran totaled \$12,750 and \$38,250, and \$12,750 and \$38,250, 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 March 31, 2018, 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 March 31, 2018, 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 filed the requisite documentation with the State of Nevada in April 2018, with an effective date of April 18, 2018. The Company is currently waiting for approval from the State of Nevada.

ITEM 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONSResults of Operations – Three months Ended March 31, 2018 compared to March 31, 2017

We had a net loss of \$377,315 during the three months ended March 31, 2018 compared to net loss of \$822,805 during the three months ended March 31, 2017.

Revenues

Details of revenues are as follows:

	Three Months Ended March 31,		Increase (Decrease)	
	2018	2017	\$	%
Mobile Banking Technology	\$31,324	\$35,790	\$(4,466)	(12.5)
Other revenue, management fee related party	35,034	68,461	(33,437)	(48.8)
Total Revenues	\$66,358	\$104,251	\$(37,893)	(36.3)

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 March 31, 2018 and 2017 were \$31,324 and \$35,790, 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 March 31, 2018 and 2017, revenue earned from the management services agreement was \$35,034 and \$68,461, respectively.

Cost of Sales

Cost of sales for the three months ended March 31, 2018 and 2017, totaled \$61,189 and \$54,222, 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 March 31, 2018 and 2017, totaled \$132,381 and \$193,922, 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 March 31, 2018 and 2017, totaled \$0 and \$57,026, respectively. The decrease in sales and marketing expenses was primarily from the recording of a \$50,000 expense relating to the signing of an Exclusive Products Provider Agreement during the period. No similar activity occurred during the current year period.

Research and development expenses for the three months ended March 31, 2018 and 2017, totaled \$0 and \$65,361, 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 Expenses

During the three months ended March 31, 2018, the Company recognized an expense related to the change in fair value of derivative liabilities that totaled \$186,829 (see Note 4 to Condensed Consolidated Financial Statements). During the three months ended March 31, 2017, the Company recognized an expense related to the fair value of derivatives liabilities of \$482,000 (see Note 4 to Condensed Consolidated Financial Statements). The change in fair value of derivative liabilities in 2018 compared to 2017 is primarily due to the change in the Company's stock price input used in its derivative valuation model.

During the three months ended March 31, 2018 and 2017, interest expense, which includes financing costs, totaled \$63,274 and \$74,525, respectively. The increase was the result of increased notes payable balances as compared to the same period of the prior year.

Results of Operations – Nine Months Ended March 31, 2018 compared to March 31, 2017

We had a net income of \$4,990 during the nine months ended March 31, 2018 compared to net loss of \$1,107,725 during the nine months ended March 31, 2017.

Revenues

Details of revenues are as follows:

	Nine Months Ended		Increase	
	2018	2017	\$(Decrease)	%
Mobile Banking Technology	\$92,441	\$120,000	\$(27,559)	(23.0)
Other revenue, management fee related party	208,527	143,791	64,736	45.0

Total Revenues	\$300,968	\$263,791	\$37,177	14.1
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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 nine months ended March 31, 2018 and 2017, was \$92,441 and \$120,000, 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 nine months ended March 31, 2018 and 2017, revenue earned from the management services agreement was \$208,527 and \$143,791, respectively.

Cost of Sales

Cost of sales for the nine months ended March 31, 2018 and 2017 totaled \$168,305 and \$203,082, 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 nine months ended March 31, 2018 and 2017 totaled \$446,308 and \$550,922, 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 nine months ended March 31, 2018 and 2017 totaled \$0 and \$62,586, respectively. The decrease in sales and marketing expenses was primarily from the recording of a \$50,000 expense relating to the signing of an Exclusive Products Provider Agreement during the period. No similar activity occurred during the current year period.

Research and development expenses for the nine months ended March 31, 2018 and 2017 totaled \$19,938 and \$87,491, 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 nine months ended March 31, 2018, the Company recognized income related to the change in fair value of derivative liabilities that totaled \$519,582 (see Note 4 to Condensed Consolidated Financial Statements). During the nine months ended March 31, 2017, the Company recognized an expense related to the fair value of derivatives liabilities of \$664,000 (see Note 4 to Condensed Consolidated Financial Statements). The change in fair value of derivative liabilities in 2018 compared to 2017 is primarily due to the change in the Company's stock price input used in its derivative valuation model.

During the nine months ended March 31, 2017, 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 nine months ended March 31, 2018 and 2017, interest expense, which includes financing costs, totaled \$181,009 and \$168,121, 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 nine months ended March 31, 2018.

Liquidity

Our cash balance at March 31, 2018 decreased to \$33,763 as compared to \$46,693 at June 30, 2017. The decrease was the result of \$371,974 in cash used in operating activities offset by \$359,044 in cash provided by financing activities. Net cash used in operations during the nine months ended March 31, 2018, was \$371,974 compared with \$894,659 of net cash used in operations during the same period of the prior year. Cash used in operations during the period ended March 31, 2018 was primarily due to our net income in the period of \$4,990 offset by non-cash accrued interest, non-cash change in fair value of derivative liabilities, and non-cash amortization of \$322,531. Net cash provided by financing activities of \$359,044 during the period ended March 31, 2018 as due to proceeds received from notes payable. During the same period of the prior year, net cash provided by financing activities of \$887,106 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 March 31, 2018, the Company used cash in operating activities of \$371,974, and at March 31, 2018, the Company had a working capital deficit of \$4,407,989 and a stockholders' deficiency of \$4,562,989. In addition, as of March 31, 2018, the Company is delinquent in payment of \$752,696 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 March 31, 2018 and June 30, 2017, the total amount of the remaining lease commitment is \$12,150 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 and management fee revenue.

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. Management fees are recognized at the time the management services are performed, which is usually monthly.

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 March 31, 2018, our disclosure controls and procedures were not effective at the reasonable assurance level due to the material weaknesses in our internal control over financial reporting described in our Form 10-K at June 30, 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 \$752,696 representing principal and accrued interest as of March 31, 2018.

ITEM 4 - MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 - OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

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

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

The following financial information from Veritec, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2018, formatted in XBRL: (i) Condensed Consolidated Balance Sheets at March 31, 2018, and June 30, 2017; (ii) Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 2018, and 2016; (iii) Condensed Consolidated Statement of Stockholders' Deficit as at March 31, 2018; (iv) 101.1 Condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 2018 and 2017; (v) Notes to the Condensed Consolidated Financial Statements.

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

SIGNATURES

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

VERITEC, INC.

By: /s/ Van Tran

May 11, 2018

Van Tran

Chief Executive Officer

(Principal Executive Officer)

