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VERITEC INC
Form 10QSB
February 19, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934 (No fee required)

For the quarterly period ended December 31, 2003

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

(State or other jurisdiction of incorporation or organization)

95-3954373

(IRS Employer Identification Number)

2445 Winnetka Avenue North, Golden Valley, MN 55427

(Address of principal executive offices, zip code)

763-253-2670

(Registrant's telephone number, including area code)

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days.
Yes No

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

[Please check appropriate response]

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APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date. As of February 17, 2004 the Company had:

Number of Shares of Common Stock
7,141,849

Transition Small Business Disclosure Format (check one): Yes No

[Please check appropriate response]

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VERITEC INC.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

VERITEC INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2003	Ju
	-----	-----
ASSETS		
Current Assets:		
Cash	\$ 422,783	\$
Accounts receivable, net	25,932	
Inventories	49,637	
Prepaid expenses	86,330	
	-----	-----
Total current assets	584,682	
Fixed assets, net	10,031	
Technology and software costs, net	98,160	
Other	27,573	
	-----	-----
Total assets	\$ 720,446	\$
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Notes payable - related parties	\$ 640,000	\$
Convertible note - related party	497,374	
Current maturities of long-term debt	115,967	
Accounts payable and accrued expenses	1,148,680	1
Customer deposits	20,768	
	-----	-----
Total current liabilities	2,422,789	1
Long-term debt	229,276	
Prepayment on stock subscription receivable	130,922	
Stockholders' equity (deficit):		
Preferred stock, par value \$1.00, authorized 10,000,000 shares, 275,000 shares of Series H authorized, 76,000 shares outstanding	366,007	
Common stock, par value \$.01, authorized 20,000,000 shares, 7,141,849 and 7,126,849 shares outstanding	71,418	
Subscription receivable	(790,796)	
Additional paid in capital	11,967,322	11
Accumulated deficit	(13,703,071)	(13)
Accumulated other comprehensive income (loss)	26,579	
	-----	-----
Stockholders' equity (deficit)	(2,062,541)	(1
	-----	-----
Total liabilities and stockholders' equity (deficit)	\$ 720,446	\$
	=====	=====

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See Notes to Consolidated Financial Statements.

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VERITEC INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three months ended December 31,	
	2003	2002
	-----	-----
Revenues	\$ 355,057	\$ 696,921
Cost of sales	52,924	179,749
	-----	-----
Gross profit	302,133	517,172
	-----	-----
Operating Expenses		
Selling, general and administrative	590,574	494,466
Research and development	53,022	110,356
Depreciation and amortization	11,856	11,663
	-----	-----
Total operating expenses	655,452	616,485
	-----	-----
Loss from operations	(353,319)	(99,313)
	-----	-----
Other income (expense):		
Interest expense, net	(29,967)	(21,566)
Other income, net	46,509	26,062
	-----	-----
Minority interest in Veritec Iconix Ventures, Inc.	--	(42,924)
	-----	-----
Total other income (expense)	16,542	(38,428)
	-----	-----
Loss before income taxes	(336,777)	(137,741)
	-----	-----
Income tax expense	(470)	(376)
	-----	-----
Net loss	\$ (337,247)	\$ (138,117)
	=====	=====
Basic and diluted net loss per common share	\$ (0.05)	\$ (0.02)
	=====	=====

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See Notes to Consolidated Financial Statements.

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VERITEC INC. CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

	Six months ended December 31,	
	2003	2002
Revenues	\$ 952,367	\$ 1,319,230
Cost of sales	171,479	442,929
Gross profit	780,888	876,301
Operating Expenses		
Selling, general and administrative	1,051,430	917,854
Research and development	110,938	197,996
Depreciation and amortization	23,712	23,517
Total operating expenses	1,186,080	1,139,367
Loss from operations	(405,192)	(263,066)
Other income (expense):		
Interest expense, net	(62,990)	(40,604)
Other income, net	54,648	47,222
Minority interest in Veritec Iconix Ventures, Inc.	--	(23,524)
Total other expense	(8,342)	(16,906)
Loss before income taxes	(413,534)	(279,972)
Income tax expense	(906)	(742)
Net loss	\$ (414,440)	\$ (280,714)
Basic and diluted net loss per common share	\$ (0.06)	\$ (0.04)

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See Notes to Consolidated Financial Statements.

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VERITEC, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended December 31,	
	2003	2002
	-----	-----
Cash flows from operating activities:		
Net loss	\$ (414,440)	\$ (280,714)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization	23,712	23,708
Changes in operating assets and liabilities:		
Accounts receivable	159,242	(208,035)
Inventories	(38,052)	64,851
Prepaid expenses	(51,571)	(135,082)
Accounts payable and accrued expenses	110,660	157,037
Customer deposits	17,856	6,517
	-----	-----
Net cash used by operating activities	(192,593)	(371,718)
	-----	-----
Cash flows from investing activities:		
Minority interest in Veritec Iconix Venture, Inc.	--	22,701
	-----	-----
Cash flows from financing activities:		
Proceeds from stock issuance, subscription receivable, and prepayment on stock	3,451	74,999
Proceeds from notes payable - related parties	300,000	--
Proceeds from notes payable - related parties	--	188,073
Proceeds from (payments on) long-term debt payable	(21,355)	146,833
	-----	-----
Net cash provided by financing activities	282,096	409,905
	-----	-----
Effect of exchange rate changes	8,087	(22,302)
	-----	-----
Increase in cash	97,590	38,586
Cash at beginning of period	325,193	158,760
	-----	-----
Cash at end of period	\$ 422,783	\$ 197,346
	=====	=====

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See Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with United States of America generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB and Article 10 of Regulation S-X. Accordingly, the financial statements do not include all of the information and footnotes required by United States of America generally accepted accounting principles 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 six-month period ended December 31, 2003 are not necessarily indicative of the results that may be expected for the year ended June 30, 2004. For further information, refer to the financial statements and footnotes thereto included in our Form 10-KSB for the year ended June 30, 2003.

Certain amounts presented in the 2002 financial statements, as previously reported, have been reclassified to conform to the 2003 presentation.

Cash

Cash balances are maintained in a single financial institution. The balances from time to time exceed the federally insured limits of \$100,000. We have experienced no losses in these accounts and believe that we are not exposed to any significant risk of loss on our cash balances. The cost and fair market value of any financial instruments held are approximately equal.

Accounts Receivable

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

Revenues

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

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revenue recognition and instead reflects the prepayments as customer deposits in the accompanying financial statements.

Research and Development

Research and development costs are charged to expense as incurred.

Intangible Assets

On October 12, 1999, the Company purchased certain software, source code, documentation, manuals and other written material for \$50,000 and 187,500 shares of restricted common stock valued at \$.80 per share.

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The Company has recorded this purchased software at cost, \$200,000, and is amortizing it over five years using the straight-line method.

In fiscal 2003, the Company, through VIVI (as defined below) acquired technology rights for the Delphi scanner for \$85,243 (\$80,000 cash; 25,000 shares of the Company's common stock at \$.20 per share; and \$243 in incidental costs). These technology rights are recorded at cost in the accompanying financial statements and are being amortized on a straight-line basis over their estimated useful life of three years.

Stock-Based Consideration

We have applied the fair value-based method of accounting for employee and nonemployee stock-based consideration and/or compensation in accordance with FASB Statement 123.

Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As shown in the accompanying financial statements, the Company incurred a net loss of \$337,247 during the quarter ended December 31, 2003, \$414,440 during the six month period ended December 31, 2003, and has lost \$13,703,073 from inception to December 31, 2003. At December 31, 2003, the Company had a \$1,838,107 working capital deficiency and a stockholders' deficit of \$2,062,541. Those conditions raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company has relied on its financing from The Matthews Group LLC (see subscription receivable below).

The Company's management is pursuing new sales opportunities for the Company. On June 25, 2003, the Company's management acquired the remaining 50% interest in VIVI (as defined below) from The Matthews Group LLC, a related party, to improve the Company's viability. Management believes that it will be successful in these efforts, which will improve its ability to realize assets and settle liabilities in the normal course of operations. However, there is no assurance that the Company will succeed in these efforts or that the Company will continue as a going concern.

Investment: Veritec Iconix Ventures, Inc. (VIVI)

On January 30, 2002, Veritec Inc. and The Matthews Group LLC formed Veritec Iconix Ventures, Inc. (VIVI), a Delaware corporation. Each owned 50% of the outstanding shares of common stock of VIVI. In April 2002, The Matthews Group

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LLC loaned the Company \$100,000, of which \$50,000 was subsequently used to make the Company's initial capital contribution to VIVI. The promissory note to The Matthews Group LLC bears interest at 10% per annum and is due December 31, 2004. Additionally, the promissory note is convertible into common stock of the Company at \$0.25 per share.

On February 13, 2002, VIVI entered into an agreement to purchase 100% of the outstanding equity securities of Iconix, Inc., a Japanese corporation, pursuant to a Stock Purchase Agreement dated February 13, 2002, by and among VIVI, Iconix, Inc., Masayuki Kuriyama and Yoshihiro Tasaka. The total consideration for the purchase consisted of 300,000 shares of the Company's common stock and \$100,000 in U.S. dollars. The 150,000 shares contributed by the Company represented newly issued shares of the Company's common stock. The 150,000 shares contributed by The Matthews Group LLC represented a portion of the shares already owned by The Matthews Group LLC.

On June 25, 2003, Veritec entered into an agreement with The Matthews Group LLC to purchase The Matthews Group's 50% ownership of VIVI at the acquisition price of \$50,000 and 150,000 shares of stock, the original price paid by The Matthews Group LLC on February 13, 2002. The Company issued 150,000 shares to The Matthews Group LLC and a promissory note of \$50,000. At the same time, the Company agreed to sell VIVI's software developed for the textile industry and certain intangible assets of its textile industry business to Com Techno Alpha Inc., a Japanese corporation. As a part of the textile sale, Yoshihiro Tasaka, the principal of Com Techno and a former employee and officer of VIVI, agreed to return to the Company 120,000 shares of the Company's common stock. This stock has been returned and was subsequently cancelled. In November 2003, the Company

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finalized the agreement with Com Techno under which Com Techno will pay the Company 8,100,000 yen at a rate of 225,000 yen per month for thirty-six months (\$67,782 and \$1,883 respectively in U.S. dollars). The agreement provides for acceleration of payments to be received for each sale of a Tuft Controller by COM Techno. The textile software business accounted for 33% of the Company's sales in 2003 and 25% in 2002 (64% of VIVI's sales in 2003 and 69% in 2002).

Prepayment On Subscription Receivable

The Matthews Group made prepayments against its subscription payable to the Company. These prepayments are unsecured and non-interest bearing. It is assumed the prepayment at December 31, 2003 will ultimately be applied against the subscription receivable.

Subscription Receivable

In September 1999, the Company accepted a commitment from The Matthews Group LLC to fund the \$2,000,000 required under the Company's bankruptcy plan of reorganization. This funding is in the form of a promissory note that requires 108 monthly payments of \$18,519. These payments are non-interest bearing and were to be collateralized by a pledge of properties controlled by principals of The Matthews Group LLC. In July 2001, the principals of The Matthews Group LLC granted to the Company a security interest in certain California and Minnesota properties to partially collateralize the subscription. Imputed interest on the subscription is excluded from operating results and is instead credited directly to additional paid-in capital.

The Matthews Group LLC is scheduled to fund the subscription receivable with monthly payments of \$18,519. As the Company has experienced cash shortfalls, The

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Matthews Group LLC made payments on the subscription receivable in advance of the due dates. Such advance payments are reflected as a liability in the financial statements in the Prepayment on Stock Subscription Receivable account. At December 31, 2003, The Matthews Group LLC had made prepayments of \$130,922 towards scheduled payments on the subscription receivable. At The Matthews Group LLC's discretion, the balance in this account may be used to satisfy any scheduled payment due on the subscription receivable. When The Matthews Group LLC does so, the Company reduces the Prepayment on Stock Subscription Receivable account and credits the subscription receivable and additional paid-in-capital. Historically, when the Company has experienced a cash shortfall, The Matthews Group LLC has continued to make its monthly payments due on the subscription receivable. However, there is no contractual obligation for it to do so as long as prepayments exist to satisfy its scheduled payments. The Company has no advance knowledge of whether, in any given month, The Matthews Group LLC may make a scheduled payment on the subscription receivable or utilize the balance in the Prepayment on Stock Subscription Receivable account. The Company also has no assurance of The Matthews Group LLC's ability to continue to provide this funding. Failure of The Matthews Group LLC to continue to make scheduled payments on the subscription receivable could negatively impact the Company's ability to meet its cash flow requirements.

Item 2. Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

General

Veritec Inc. (the "Company") was incorporated in Nevada on September 8, 1982. The Company is primarily engaged in developing, marketing and selling a line of microprocessor-based encoding and decoding system products that utilize its patented Vericode Symbol technology. The Company's readers and scanners enable a manufacturer or distributor to attach unique identifiers or coded symbols containing binary encoded data to a product that enables automatic identification and collection of data. The Company has also developed its Secured Identification System with its VSCode that enables the storage of biometric information of the two-dimensional VSCode for subsequent verification of its authenticity.

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The Company has incurred losses from operations since inception and has an accumulated deficit of \$13,703,071 as of December 31, 2003.

In the Company's Form 10-KSB filed with the Securities and Exchange Commission for the year ended June 30, 2003, the Company identified critical accounting policies and estimates for its business.

Results of Operations - December 31, 2003 compared to December 31, 2002

Revenues

Revenues of \$355,057 for the quarter ended December 31, 2003 were \$341,864, or 49%, lower than the quarter ended December 31, 2002. Revenues of \$952,367 for the six months ended December 31, 2003 were \$366,863, or 28%, lower than the six months ended December 31, 2002. The decrease in sales for the quarter and the six-months ended December 31, 2003 compared to the quarter and the six-months ended December 31, 2002 is related to the June 2003 sale of VIVI's textile software business to Com Techno Alpha, as after the sale, the textile revenues

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ceased. For the quarter ended December 31, 2003, the Company's revenues consisted of \$83,050 from VIVI-Japan and \$272,007 from Veritec Inc. Revenues for Veritec Inc. for the quarter remained flat from 2002 and 2003 of \$272,983 and \$272,007, respectively. Revenues for the six-months ended for Veritec Inc. increased \$208,074 or 41% from July 1 through December 31, 2002 and 2003. The fiscal 2004 over fiscal 2003 increase primarily relates to sales by the Company's major distributor Sun Jin Neotech, the acceptance of the Company's software in the Asian market and increased sales to other customers.

The Company continues to concentrate its efforts in the Asian market where the Company believes it has the best opportunities to grow revenue.

Gross Profit

Gross profit of \$302,133 for the quarter ended December 31, 2003 was \$215,039, or 42%, lower than the quarter ended December 31, 2002. Gross profit of \$780,888 for the six months ended December 31, 2003 was \$95,413, or 11%, lower than the six months ended December 31, 2002. Gross profit percentage was 85% and 74% for the quarter ended December 31, 2003 and 2002, respectively. Gross profit percentage was 82% and 66% for the six months ended December 31, 2003 and 2002, respectively. The increase in gross profit percentage is due to the higher margin of our software products revenues in 2003. The prior period included VIVI's sales of software to customers in the textile business that provided the Company with lower margin. This portion of the business was sold to Com Techno Alpha on June 25, 2003.

Operating Expense

Operating expenses for the quarter ended December 31, 2003 versus December 31, 2002 were as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2003	2002	2003	2002
Selling, general and administrative	\$ 590,574	\$ 494,466	\$1,051,430	\$ 917,854
Research and development	53,022	110,356	110,938	197,996

Selling, general and administrative expenses for the quarter ended December 31, 2003 were \$96,108, or 19%, higher than the quarter ended December 31, 2002. Selling, general and administrative expenses for six months ended December 31, 2003 were \$133,576, or 15%, higher than the six months ended December 31, 2002. The increase is largely due to additional staffing and marketing campaigns to promote public awareness about the Company and to market the new VSCode technology.

Research and development expenses for the quarter ended December 31, 2003 were \$57,334, or 52%, lower than research and development expense for the quarter ended December 31, 2002. Research and development expenses for the six months ended December 31, 2003 were \$87,058, or 44%, lower than the six months ended December 31, 2002. The reduction in research and development expenses relates to

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reduced staffing and contract labor expenses for engineering projects in 2002 that have been completed or are near completion. These research and development expense savings have shifted to the sales and marketing department to market the new VSCode technology. The Company currently markets software that authenticates individuals through the use of fingerprints

Capital Expenditures and Future Commitments

No capital expenditures for equipment were made during either period.

On January 30, 2002, Veritec Inc. and The Matthews Group LLC formed Veritec Iconix Ventures, Inc. ("VIVI"), a Delaware corporation. Each company owned 50% of the outstanding shares of common stock of VIVI. In April 2002, The Matthews Group LLC loaned Veritec \$100,000, and Veritec subsequently used \$50,000 of this amount to make its initial capital contribution to VIVI. The promissory note to The Matthews Group LLC bears interest at 10% per annum and is due December 31, 2004. Additionally, the promissory note is convertible into our common stock at \$0.25 per share.

Subsequent to the formation of VIVI, on February 13, 2002, VIVI entered into an agreement to purchase 100% of the outstanding equity securities of Iconix, Inc., a Japanese corporation, pursuant to a Stock Purchase Agreement, dated February 13, 2002, by and among VIVI, Iconix, Inc., Masayuki Kuriyama and Yoshihiro Tasaka. The total consideration for the purchase consisted of 300,000 shares of Veritec common stock and \$100,000 in U.S. dollars. The 150,000 shares contributed by Veritec represented newly issued shares of its common stock. The 150,000 shares contributed by The Matthews Group LLC represented a portion of the shares of the Company's common stock already owned by it.

Although the Company continues to minimize spending for capital expenditures, it believes its need for additional capital equipment will continue because of the need to develop and expand its business. The amount of such additional capital is uncertain and may be beyond that generated from operations.

Liquidity and Capital Resources

A number of uncertainties exist that may affect the Company's future operating results. These uncertainties include general economic conditions, market acceptance of the Company's products and the Company's ability to manage expense growth. The Company has sustained significant losses and expects the losses to continue through fiscal year 2004 at a decreasing rate. The Company's cash on hand is not sufficient to fund current operating needs. Therefore, the continued operation of the Company will continue to be dependent on cash flows from The Matthews Group LLC. There is no assurance that The Matthews Group LLC will complete the obligations or that the payments required to be made by The Matthews Group LLC will be adequate. The Company is seeking additional debt or equity financing, but there is no assurance that additional financing will be obtained, or that any such financing will be sufficient for the Company's needs.

Although uncertainties exist, the Company feels that cash flows from operations will at least partially fund cash needs in 2004. Sales leads continue to be strong. Based on past success rates, the Company believes a percentage of these leads will agree to purchase product. It is expected that cash from these new sales will be more towards the second half of 2004 through fiscal 2005 because of the long cycle in the selling process. For 2004, the Company will continue to utilize distributors to help market its products. Several distributors signed distributorship agreements in 2003 and several more have indicated serious interest in 2004. Cash will be generated by requiring distributors to pay a license fee which will give the distributors the opportunity of discounted software prices and allow each distributor to be more competitive in its marketing region.

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

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Net cash used in operating activities totaled \$192,593 for the six months ended December 31, 2003 as compared to \$371,718 of cash used for operating activities in the six months ending December 31, 2002. Cash used by operating activities for the six months ended December 31, 2003 consisted primarily of net losses of \$414,440, prepaid expenses of \$51,571 and inventory purchases of \$38,052, offset by increases in accounts receivable of \$159,242 and accounts payable and accrued expenses of \$110,660. The Company made no capital expenditures for the quarter and paid down long-term debt of \$21,355. The operating and investing cash flow deficits in six months ended December 31, 2003 were funded through proceeds from scheduled payments on the subscription receivable of \$111,114, all of which was received from prior prepayment, and borrowing of \$300,000 from the Company's Chief Executive Officer, The Matthews Group and an investor. No additional monies were received from The Matthews Group LLC on the subscription agreement for the six months ended December 31, 2003. As of December 31, 2003 the prepayment balance from The Matthews Group LLC was \$130,922. This prepayment could be used by The Matthews Group LLC to cover 7 payments under the subscription receivable agreement or the remaining scheduled payments for fiscal year 2004. From July 1, 2003 through the date of our second quarter report, The Matthews Group LLC had used this prepayment to satisfy all of its scheduled payments under the agreement, and no monies have been received under the subscription receivable.

Management has taken steps to manage expense and believes that existing cash, together with cash flows generated by product sales and raising capital will be sufficient to fund operations through 2004 and until the Company achieves positive cash flow.

Item 3. Controls and Procedures

Disclosure Controls and Procedures

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

Internal Control over Financial Reporting

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

The Company's management, including its Chief Executive Officer/Chief Financial Officer, does not expect that its disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance

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that all control issues and instances of fraud, if any, within the Company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

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

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and named the Company and various individuals as defendants, claiming that certain corporate actions were taken without proper authority of the Company's board of directors and/or contrary to the plan of reorganization the Company filed and completed under Chapter 11 of the U.S. Bankruptcy Act. The Company denied all allegations and in December 2000, forced the case to be transferred to the United States District Court for the District of Minnesota. This case has been dormant since the transfer.

On January 10, 2002, the Company initiated arbitration against Mitsubishi, Inc. in Los Angeles, California alleging five causes of action arising out of various contracts and business dealings. Mitsubishi asserted several counterclaims. Pursuant to various motions in "Phase I" of the arbitration, the arbitration panel dismissed three of the Company's five claims. On January 5, 2004, Phase II of the arbitration, on the Company's remaining two claims (tortious interference with prospective business opportunities and termination of a licensing agreement) and on Mitsubishi's counterclaims, commenced. After three days, the hearing was suspended due to procedural irregularities that may have contaminated the entire arbitration. The parties are currently in discovery with respect to this matter. No opinion can be given at this time as to the outcome of this issue or of the arbitration proceeding as a whole.

The Company filed a lawsuit against Robotic Vision Systems, Inc. (RVSI) on March 20, 2003, in the United States District Court for the District of Massachusetts for breach of a confidentiality agreement, seeking damages in excess of \$75,000. This case is currently in the discovery phase, and the Company intends to vigorously pursue its claims.

Item 5. Other Information.

FORWARD LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the securities laws. These forward-looking statements are subject to a number of risks and uncertainties, many of which are beyond our control. All statements other than statements of historical facts included in this report regarding our strategy, future operations, financial position, estimated revenues, projected

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costs, prospects, plans and objectives of management are forward-looking statements. When used in this report, the words "will," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. All forward-looking statements speak only as of the date of this report. We do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements that we make in this report are reasonable, we can give no assurance that such plans, intentions or expectations will be achieved. The cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

Item 6. Exhibits and Reports on Form 8-K.

a. Exhibits

31. CEO/CFO Certification required by Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.

32. Veritec Inc. Certification of CEO/CFO pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).

b. Reports on Form 8-K.

The Company filed a current report on Form 8-K on October 30, 2003 relating to the resignation of the Company's auditors.

The Company filed a current report on Form 8-K on November 12, 2003 relating to the appointment of new auditors.

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SIGNATURES

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Veritec Inc.

Date: February 19, 2004

/s/ Van Thuy Tran

Van Thuy Tran
Chief Executive Officer and Chief
Financial Officer

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