VERITEC INC
Form 10-Q
August 18, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM l0-Q

(Mark One)

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

for the quarterly period ended December 31, 2012

OR

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

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

Commission File Number. 0-15113

VERITEC, INC.

(Exact name of Registrant as Specified in its Charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large Accelerated Filer	Non-accelerated filer
Acceleratd filer	Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of December 31, 2012, there were 15,920,088 shares of the issuer’s common stock outstanding.

VERITEC, INC.

FORM 10-Q

FOR THE FISCAL QUARTER ENDED DECEMBER 31, 2012

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Special Note Regarding Forward-Looking Statements

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

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," "proposed," "intended," or "continue" or the negative of these terms or other comparable terminology. You should read statements that contain these words carefully, because they discuss our expectations about our future operating results or our future financial condition or state other "forward-looking" information. There may be events in the future that we are not able to accurately predict or control. Before you invest in our securities, you should be aware that the occurrence of any of the events described in this Quarterly Report could substantially harm our business, results of operations and financial condition, and that upon the occurrence of any of these events, the trading price of our securities could decline and you could lose all or part of your investment. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, growth rates, 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.

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PART I

ITEM 1. FINANCIAL STATEMENTS

VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (Unaudited)	June 30, 2012
ASSETS		
Current Assets:		
Cash	$35,921	$62,115
Accounts receivables, net of allowance of $12,604 and $12,604, respectively	1,767	11,133
Inventories	3,024	3,603
Prepaid expenses	4,350	4,350
Employee advances	37	637
Total Current Assets	45,099	81,838
Restricted cash	500,000	500,000
Property and Equipment, net	322	644
Total Assets	$545,421	$582,482
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Notes payable – in default	$916,521	$835,602
Notes payable, related party – in default	2,529,011	2,283,985
Accounts payable	636,691	584,109
Accounts payable, related party	56,365	43,306
Customer deposits	71,870	—
Deferred revenues	308,225	469,114
Payroll tax liabilities	602,223	521,568
Accrued expenses	137,594	128,135

Total Current Liabilities	5,258,500	4,865,819
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 June 30, 2012 and December 31, 2012	1,000	1,000
Common stock, par value $.01; authorized 50,000,000 shares, 15,920,088 shares issued and outstanding as of December 31, 2012 and June 30, 2012	159,201	159,201
Common stock to be issued, 75,000 shares and no shares, respectively	3,000	—
Additional paid-in capital	14,413,010	14,413,010
Accumulated deficit	(19,289,290)	(18,856,548)
Total Stockholders' Deficiency	(4,713,079)	(4,283,337)
Total Liabilities and Stockholders' Deficiency	$545,421	$584,482

See notes to condensed consolidated financial statements

VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended December 31, 2012 (Unaudited)			2011 (Unaudited)		
License and other revenue	$	129,301		$	63,342	
Cost of Sales		51,344			58,860	
Gross Profit		77,957			4,482	
Operating Expenses:						
General and administrative		134,865			96,322	
Sales and marketing		17,126			34,879	
Research and development		35,200			69,680	
Total Operating Expenses		187,191			200,881	
Loss from Operations		(109,234	)		(196,399	)
Other Expense:						

Interest income		3			3	
Interest expense, including $45,382 and $37,656, respectively, to related parties		(86,250	)		(40,551	)
Total Other Expense		(86,247	)		(40,548	)
Net Loss	$	(195,481	)	$	(236,947	)
Loss Per Common Share, Basic and Diluted	$	(0.01	)	$	(0.01	)
Weighted Average Number of Shares Outstanding, Basic and Diluted		15,920,088			15,920,088	

See notes to condensed consolidated financial statements

VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Six months ended December 31, 2012 (Unaudited)			2011 (Unaudited)		
License and other revenue	$	288,092		$	268,058	
Cost of Sales		115,101			114,117	
Gross Profit		172,991			153,941	
Operating Expenses:						
General and administrative		317,256			256,785	
Sales and marketing		43,938			75,104	
Research and development		77,193			106,790	
Total Operating Expenses		438,387			438,679	
Loss from Operations		(265,396	)		(284,738	)
Other Expense:						
Interest income		5			3	

Interest expense, including $84,059 and $75,155, respectively, to related parties		(167,352	)		(80,945	)
Total Other Expense		(167,347	)		(80,942	)
Net Loss	$	(432,743	)	$	(365,680	)
Loss Per Common Share, Basic and Diluted	$	(0.03	)	$	(0.02	)
Weighted Average Number of Shares Outstanding, Basic and Diluted		15,920,088			15,920,088	

See notes to condensed consolidated financial statements

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VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT

FOR THE SIX MONTHS ENDED DECEMBER 31, 2012

(UNAUDITED)

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	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Common Stock to be Issued	Accumulated Deficit	Total
Balance, July 1, 2012	1,000	$1,000	15,920,088	$159,201	$14,413,010	$—	$(18,856,548)	$(4,283,337)
Share to be issued for services						3,000		3,000
Net Loss for the Period	—	—	—	—	—	—	(432,742)	(432,742)
Balance, December 31, 2012 (Unaudited)	1,000	$1,000	15,920,088	$159,201	$14,413,010	$3,000	$(19,289,290)	$(4,713,079)

See notes to condensed consolidated financial statements

VERITEC, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended December 31,	
	2012	2011
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Loss	$(432,742)	$(365,680)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	322	7,912
Allowance on accounts receivable	—	—
Shares issued for services	—	—
Fair value of stock options issued to employees	—	2
Amortization of discount on notes payable	64,966	—
Interest accrued on notes payable	102,386	80,600
Changes in operating assets and liabilities:		
Accounts receivable	9,366	5,697
Restricted cash	—	4,570
Inventories	579	—
Prepaid expenses	—	13,250
Deferred revenues	(160,889)	285,458
Employee advances	600	900
Payroll tax liabilities	80,655	92,917
Customer deposit	71,870	—
Accounts payables and accrued expenses	78,100	(81,042)
Net cash provided (used) by operating activities	(184,786)	44,584
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	165,000	19,500
Rapayment on notes payable	(6,408)	-
Net cash provided by financing activities	158,592	19,500
NET INCREASE (DECREASE) IN CASH	(26,194)	64,084
CASH AT BEGINNING OF PERIOD	62,115	14,996
CASH AT END OF PERIOD	$35,921	$79,080
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$6,408	$346

See notes to condensed consolidated financial statements

VERITEC, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

THREE AND SIX MONTHS ENDED DECEMBER 31, 2012 AND 2011 (UNAUDITED)

A. NATURE OF BUSINESS

References to the “Company” in this Form 10-Q refer to Veritec, Inc. (“Veritec”) and its wholly owned subsidiaries Vcode Holdings, Inc. (Vcode®), and Veritec Financial Systems, Inc. (VTFS).

The Company is primarily engaged in the development, marketing, sales and licensing of products and rendering of professional services related thereto in the following two fields of technology: (1) proprietary two-dimensional matrix symbology (also commonly referred to as “two-dimensional barcodes” or “2D barcodes”), and (2) mobile banking solutions.

The Company’s two-dimensional matrix symbology technology will hereafter be referred to as the Company’s “Barcode Technology”, and the Company’s mobile banking technology will hereafter be referred to as its “Mobile Banking Technology”.

The Company’s Barcode Technology was originally invented by the founders of Veritec under United States patents 4,924,078, 5,331,176, 5,612,524 and 7,159,780. Our principal licensed product to date that contains our VeriCode ® Barcode Technology has been a product identification system for identification and tracking of manufactured parts, components and products mostly in the liquid crystal display (LCD) markets. The VeriCode® symbol is a two-dimensional high data density machine-readable symbol that can contain up to approximately 500 bytes of data.

The Company’s VSCode® Barcode Technology is a derivative of the VeriCode® symbol with the ability to encrypt a greater amount of data by increasing data density. The VSCode ® is a data storage “container” that offers a high degree of security and which can also be tailored to the application requirements of the user. The VSCode ® symbol can hold any form of binary information that can be digitized, including numbers, letters, images, photos, graphics, and the minutia for biometric information, including fingerprints and facial image data, to the extent of its data storage capacity, that are likewise limited by the resolution of the marking and reading devices employed by the user. VSCode ® is ideal for secure identification documents (such as national identification cards, driver’s licenses, and voter registration cards), financial cards, medical records and other high security applications.

In its PhoneCodes™ product platform, Veritec developed software to send, store, display, and read a VeriCode® Barcode Technology symbol on the LCD screen of a mobile phone. With the electronic media that provide the ease of transferring information over the web, Veritec's PhoneCodes™ technology enables individuals and companies to receive or distribute gift certificates, tickets, coupons, receipts, or engage in banking transactions using the VeriCode ® technology via wireless phone or PDA.

On January 12, 2009, Veritec formed VTFS, a Delaware corporation, to bring its Mobile Banking Technology, products and related professional services to market. In May 2009 Veritec was registered by Security First Bank in Visa's Third Party Registration Program as a Cardholder Independent Sales Organization and Third-Party Servicer. As a Cardholder Independent Sales Organization, Veritec was able to promote and sell Visa branded card programs. As a Third-Party Servicer, Veritec provided back-end cardholder transaction processing services for Visa branded card programs on behalf of Security First Bank. As of October 2010 the Company's registration with Security First Bank terminated. As of April 2011 the Company signed an ISO and processor agreement with Palm Desert National Bank (which was later assigned to First California Bank) to market and processes the Company's Visa branded card program on behalf of the bank. First California Bank was sold to Pacific Western Bank and June 2013 Pacific Western Bank closed its entire debit card division and transferred its contract with VTFS to Central Bank of Kansas City Bank. On February 5th, 2014 the entire relationship between Veritec and Pacific Western Bank ended and the new relationship with Central Bank of Kansas City began.

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Our VeriSuite™ card enrollment system was released in July 2009. The VeriSuite™ system is a user friendly and cost effective solution that gives governments and businesses the ability to provide cardholders with an identity card containing Veritec's VSCode® Barcode Technology. The VeriSuite™ system provides secure Bio-ID Cards such as citizen identification, employee cards, health benefit cards, border control cards, financial cards, and more.

The Company has a portfolio of five United States and eight foreign patents. In addition, we have seven U.S. and twenty-eight foreign pending patent applications.

B. 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 three and six month periods ended December 31, 2012 are not necessarily indicative of the results that may be expected for the year ending June 30, 2013. The Condensed Consolidated Balance Sheet as of December 31, 2012 was derived from the audited consolidated financial statements as of such date, but does not include all of the information and footnotes required by GAAP. For further information, refer to the Consolidated Financial Statements and footnotes thereto included in our Form 10-K as of and for the year ended June 30, 2012.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the 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, accruals for potential liabilities and assumptions made in valuing stock instruments issued for services.

The accompanying condensed consolidated financial statements include the accounts of Veritec, VCode, and VTFS. All inter-company transactions and balances were eliminated in consolidation.

C. GOING CONCERN

The accompanying condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern. During the six months ended December 31, 2012, the Company had a net loss of $432,742. At December 31, 2012, the Company had a working capital deficit of $5,213,401 and a stockholders' deficiency of $4,713,079. The Company is delinquent or in default of $3,445,532 of its notes payable and is delinquent in payment of certain amounts due of $602,223 for payroll taxes and accrued interest and penalties as of December 31, 2012. The Company believes its cash and forecasted cash flow from operations will not be sufficient to continue operations through fiscal 2013 without continued external investment. The Company will require additional funds to continue its operations through fiscal 2013 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.

D. SIGNIFICANT ACCOUNTING POLICIES

Net Loss per Common Share:

Basic earnings (loss) per share is 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 three and six months ended December 31, 2012 and 2011, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect.

There were 9,751,079 and 6,890,714 potentially dilutive securities as of December 31, 2012 and 2011, respectively.

The potentially dilutive securities consisted of the following as of:

	December 31, 2012	December 31, 2011
Warrants	275,000	275,000
Series H Preferred Stock	10,000	10,000
Convertible Notes Payable	8,755,496	5,821,465
Options	710,583	784,249
Total	9,751,079	6,890,714

Concentrations

During the three months ended December 31, 2012 and 2011, the Company had 3 customers that accounted for approximately 30%, 27%, and 23% of sales in 2012, and three customers that accounted for approximately 64%, 15% and 10% of sales in 2011, respectively. During the six months ended December 31, 2012 and 2011, the Company had five customers that accounted for approximately 31%, 18%, 14%, 12% and 10% of sales in 2012, and two customers that accounted for approximately 22% and 41% of sales in 2011, respectively. No other customers accounted for more than 10% of sales in either period. As of December 31, 2012 the Company had no customers that accounted for more than 10% of accounts receivable. At June 30, 2012, the Company had one customer that accounted for approximately 90% of accounts receivable.

For the three months ended December 31, 2012 and 2011, foreign revenues accounted for 59% (23% Korea, 27% Taiwan and 9% Japan) and 77% (65% Korea, 2% Taiwan and 10% Germany) of the Company's total revenues respectively. For the six months ended December 31, 2012 and 2011, foreign revenues accounted for 79% (50% Korea, 21% Taiwan, 5% Japan and 3% others) and 67% (56% Korea, 7% Taiwan, 3% Germany and 1% others) of the Company's revenues respectively.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the adoption of ASU 2014-09 and has not determined the effect of the standard on our ongoing financial reporting.

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08 (ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360).* ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about

discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or financial condition.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future financial statements.

E. RESTRICTED CASH

The Company entered into Store Value Prepaid Card Sponsorship Agreements (the “Agreement”) with certain banks whereas the Company markets and sells store value prepaid card programs (the “Programs”). The Programs are marketed and managed daily at the direction of the Bank, for which the company receives a transaction fee. In connection with the agreements the Company is required to establish a Reserve Account controlled by the bank. At December 31, 2012 and June 30, 2012, the restricted cash totaled $500,000 and $500,000, respectively. Since this amount is restricted for the purposes related to the Programs, it is classified as restricted cash on the consolidated balance sheet.

F. RELATED PARTY TRANSACTIONS

During the period ended December 31, 2012 and June 30, 2012 the Company received various unsecured, non-interest bearing, due on demand advances from its CEO Ms. Van Tran, a related party. These advances have been classified as accounts payable, related party on the balance sheet. The Company also leases its office facilities from Ms. Van Tran.

G. NOTES PAYABLE

Notes payable consists of the following as of:

	December 31, 2012	June 30, 2012
Convertible notes payable (includes $128,953 and $124,921, respectively, to non-related parties), unsecured, interest at 8%, due September 2010 through November 2010. The principal and accrued interest is convertible at a conversion price of $0.30. The principal and interest is due immediately on the event of default or change of control. The notes are currently in default.	$717,996	$695,815

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Convertible notes payable to related parties, unsecured, principal and interest are convertible into common stock at $0.30 to $0.33 per share, interest at 8% to 10%, due on demand to November 2010. The notes are currently in default.	1,071,235	871,951
Convertible note payable to related party, secured by the Company’s intellectual property, principal and interest are convertible into common stock at $0.25 per share subject to board of directors’ approval, interest at 8%. The note was due November 2010 and is now in default.	250,937	242,871
Note payable to related party, secured by the Company’s intellectual property, interest at 8% due August 2010 and is now in default.	487,334	471,838
Notes payable to related parties, unsecured, interest at 0% to 8%, due on demand.	130,463	126,430
	26,175	25,167

Note payable, unsecured, interest at 10%. The note was due in January 2010 and is now in default.		
Notes payable, secured by the Company's certificate of deposit with a financial institution and classified on the balance sheet as restricted cash, interest at 5%, convertible into common stock at $0.08 per share, due on demand	30,029	29,293
Convertible note payable, unsecured, principal and interest are convertible into common stock at $0.30 to $0.40 per share subject to board of directors' approval, interest at 5% to 8%, due January 2011 to March 2013 and is now in default.	22,766	22,110
Notes payable, unsecured, interest at 5%, due January 2013. (1)	449,051	444,374
Note payable, secured by the Company's intellectual property, interest at variable rates starting September 1, 2012, due December 2012 and is now in default.	262,799	257,957
Convertible note payable, unsecured, principal and interest are convertible into common stock at $1.00 per share subject to board of directors' approval, interest at 8%. The note was due November 2009 and is now in default.	1,523	1,523
Total	3,450,308	3,189,329
Less valuation discount on notes payable	(4,776)	(69,742)
Grand total	$3,445,532	$3,119,587

(1) In connection with the issuance of the notes payable, two stockholders of the Company granted the lender the option to acquire 1,600,000 unrestricted shares of the Company's common stock from the stockholder's at a price of $0.40 per share. The agreement to provide the lender with the option to purchase shares of the two shareholders was presumed to be a separate arrangement between the Company and the lender. As such, the Company valued the shares as if they had provided the lender an option to acquire these shares. The aggregate value of the 1,600,000 shares was valued at $129,931 using Black-Scholes option valuation model with the following assumptions: expected life, 1 year, risk free interest rate, 0.10%, volatility, 250%, and dividend rate, 0%. The value of the option is being considered as a valuation discount and was amortized over the one year life of the Note. For the six months ended December 31, 2012, the Company recognized $64,966 of expense related to the amortization of this discount and is included in the interest expense in the consolidated statement of operations.

For the purposes of Balance Sheet presentation notes payable have been presented as follows:

	December 31, 2012	June 30, 2012
Notes payable	$916,521	$835,602
Notes payable, related party	2,529,011	2,283,985
	$3,445,532	$3,119,587

H. STOCK-BASED COMPENSATION

Stock options

The Company has agreements with certain of its employees and independent contractor consultants that provide grants of options to purchase the Company's common stock.

A summary of stock options as of December 31, 2012 and for the six months then ended is as follows:

	Number of Shares	Weighted - Average Exercise Price
Outstanding at June 30, 2012	754,249	$ 0.42
Forfeited	(43,666)	$ 1.26
Outstanding at December 31, 2012	710,583	$ 0.37
Exercisable at December 31, 2012	710,583	$ 0.37

The weighted-average remaining contractual life of stock options outstanding and exercisable at December 31, 2012 is 1.7 years. The options have no intrinsic value at December 31, 2012.

Stock-based compensation expense was $0 and $0 during the three and six months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was no unrecognized compensation costs related to stock options.

Warrants

In connection with the issuance of certain convertible notes payable, the Company has outstanding 275,000 fully invested warrants to acquire its common stock at an exercise price of $2 per share. The warrants expire in 2014. The warrants have no intrinsic value at December 31, 2012.

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I. LEGAL PROCEEDINGS

From time to time, we are a party to claims and legal proceedings arising in the ordinary course of business. Our management evaluates our exposure to these claims and proceedings individually and in aggregate and provides for potential losses on such litigation if the amount of the loss is estimable and the loss is probable.

J. SUBSEQUENT EVENTS

These unaudited consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended June 30, 2013 filed on June 26, 2015 with the Securities and Exchange Commission, which contains additional information of events subsequent to December 31, 2012.

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

Results of Operations – Three Months Ended December 31, 2012 compared to December 31, 2011

We had a net loss of $195,481 for the three months ended December 31, 2012 compared to a net loss of $236,947 for the three months ended December 31, 2011.

License and other revenue

Details of revenues are as follows:

Three Months Ended December 31,		Increase (Decrease)	
2012	2011	$	%

BarCode Technology	$77,309	$52,618	$24,691	46.9
Mobile Banking Technology	51,992	10,724	41,268	384.8
Total Revenues	$129,301	$63,342	$65,959	104.1

License and hardware revenues are derived from our Product Identification systems sold principally to customers in the LCD manufacturing industry. Identification Card revenues in these periods were a result of sales of identification card and mobile banking systems.

The license revenue increase or decrease was mainly attributable to the demand for LCD screens. Revenues from the LCD market remain unpredictable as they are generated when customers open new production facilities or update production equipment; however, for now the Company continues to experience relatively low demand for product identification product licenses in the LCD industry. A large portion of our license sales are concentrated in the Asia-Pacific market, which decreased in Taiwan, Japan, Germany, and increase in Korea and China. The largest increase of our license sales for the three months ended December 31, 2011, was in China.

Cost of Sales

Cost of sales for the three months ended December 31, 2012 and 2011, totaled $51,344 and $58,860, respectively. As a percentage of revenue, for the three months ended December 31, 2012, cost of sales was 39.7% compared to 92.9% for the three months ended December 31, 2011.

Operating Expenses

General and administrative expenses for the three months ended December 31, 2012 were $134,865, compared to $96,322 for the three months ended December 31, 2011, an increase of $38,543. The increase was the result of higher professional services fees and travel expenses.

Sales and marketing expense for the three months ended December 31, 2012 were $17,126 compared to $34,879 for the three months ended December 31, 2011, a decrease of $17,753. The decrease was a result of fewer sales personnel involved in sales thus cutting back on marketing costs.

Research and development expense for the three months ended December 31, 2012 were $35,200 compared to $69,680 for the three months ended December 31, 2011, a decrease of $34,480. This decrease was a result of reduction of engineer payroll related costs.

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Other Expenses, net

Other expense, net for the three months ended December 31, 2012 were $86,247 compared to $40,548 for the three months ended December 31, 2011, an increase of $45,699. This increase was a result of $32,483 debt discount amortization expense not incurred during the same period of the prior year and increased interest expense related to our increased debt levels.

Results of Operations – Six Months Ended December 31, 2012 compared to December 31, 2011

We had a net loss of $432,743 for the six months ended December 31, 2012 compared to a net loss of $365,680 for the six months ended December 31, 2011.

License and other revenue

Details of revenues are as follows:

	Six Months Ended December 31,		Increase (Decrease)	
	2012	2011	$	%
BarCode Technology	$219,538	$256,792	$(37,254)	(14.5)
Mobile Banking Technology	68,554	11,266	57,288	508.5
Total Revenues	$288,092	$268,058	$20,034	7.5

License and hardware revenues are derived from our Product Identification systems sold principally to customers in the LCD manufacturing industry. Identification Card revenues in these periods were a result of sales of identification card and mobile banking systems.

The license revenue increase or decrease was mainly attributable to the demand for LCD screens. Revenues from the LCD market remain unpredictable as they are generated when customers open new production facilities or update production equipment; however, for now the Company continues to experience relatively low demand for product identification product licenses in the LCD industry. A large portion of our license sales are concentrated in the Asia-Pacific market, which decreased in Taiwan, Japan, Germany, and increase in Korea and China. The largest increase of our license sales for the six months ended December 31, 2012, was in China.

Cost of Sales

Cost of sales for the six months ended December 31, 2012 and 2011, totaled $115,101 and $114,117, respectively. As a percentage of revenue, for the six months ended December 31, 2012, cost of sales was 40.0% compared to 42.6% for the six months ended December 31, 2011.

Operating Expenses

General and administrative expenses for the six months ended December 31, 2012 were $317,256, compared to $256,785 for the six months ended December 31, 2011, an increase of $60,471. The increase was the result of increased professional services fees and travel expenses.

Sales and marketing expense for the six months ended December 31, 2012 were $43,938 compared to $75,104 for the six months ended December 31, 2011, a decrease of $31,166. The decrease was a result of fewer sales personnel involved in sales thus cutting back on marketing costs.

Research and development expense for the six months ended December 31, 2012 were $77,193 compared to $106,790 for the six months ended December 31, 2011, a decrease of $29,597. This decrease was a result of reduction of engineer payroll related costs, contracts and temporary help.

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Other Expenses, net

Other expense, net for the six months ended December 31, 2012 were $167,346 compared to $80,942 for the six months ended December 31, 2011, an increase of $86,404. This increase was a result of $64,966 debt discount amortization expense not incurred during the same period of the prior year and increased interest expense related to our increased debt levels.

Liquidity

Our decrease in cash and cash equivalent to $35,921 at December 31, 2012 compared to $62,115 at June 30, 2012 was the result of $184,786 in cash used in operating activities offset by $158,592 in cash provided by financing activities. Net cash used in operating activities during the six months ended December 31, 2012 was $184,786 compared with $44,584 provided by operating activities during the same period in 2011. Cash used in operations during the six months ended December 31, 2012 was primarily due to our change in deferred revenues. Net cash provided by financing activities during the six months ended December 31, 2012 of $158,592 was primarily due to proceeds received from notes payable of $165,000 offset by payments of $6,408 on notes payable. During the same period in 2011, the net cash provided by financing activities of $19,500 was from proceeds received from notes payable.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. At December 31, 2012, the Company had a working capital deficit of $5,213,401 and a stockholders' deficiency of $4,713,079. The Company is currently in default of $3,445,532 of notes payable and is also delinquent in payment of certain amounts due of $602,223 for payroll taxes and accrued interest and penalties as of December 31, 2012. The Company believes its cash and forecasted cash flow from operations will not be sufficient to continue operations through fiscal 2013 without continued external investment. The Company believes it will require additional funds to continue its operations through fiscal 2013 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 consolidated financial statements do not include any adjustments that may result from this uncertainty. Our auditor has issued a "going concern" qualification as part of their opinion in the Audit Report for the year ended June 30, 2012.

The Company has relied on The Matthews Group, LLC (TMG), a related party owned 50% by Van Tran, the Company's CEO/Executive Chair and a director, and 50% by Larry Johanns, a significant stockholder of the Company, for funding. Through December 31, 2012, TMG, executives, and some individuals have funded approximately $2,658,000, mostly in the form of convertible notes payable. During fiscal year 2012, TMG and some individuals funded $165,000, mostly in the form of convertible notes payable.

If the Company is not successful in raising additional funds, generating sufficient revenues or implementing sufficient cost reductions, the Company may be forced to suspend or discontinue its operations or seek relief from its debt obligations under the United States Bankruptcy Code. Any of these actions is likely to result in a common stockholder's loss of his or her complete investment in the Company's common stock.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers*. ASU 2014-09 will eliminate transaction- and industry-specific revenue recognition guidance under current U.S. GAAP and replace it with a principle based approach for determining revenue recognition. ASU 2014-09 will require that companies recognize revenue based on the value of transferred goods or services as they occur in the contract. The ASU also will require additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for reporting periods beginning after December 15, 2016, and early adoption is not permitted. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. Management is currently assessing the impact the adoption of ASU 2014-09 and has not determined the effect of the standard on our ongoing financial reporting.

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In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-08 (ASU 2014-08), *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360).* ASU 2014-08 amends the requirements for reporting discontinued operations and requires additional disclosures about discontinued operations. Under the new guidance, only disposals representing a strategic shift in operations or that have a major effect on the Company's operations and financial results should be presented as discontinued operations. This new accounting guidance is effective for annual periods beginning after December 15, 2014. The Company is currently evaluating the impact of adopting ASU 2014-08 on the Company's results of operations or financial condition.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 (ASU 2014-15), Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern, which provides guidance on determining when and how to disclose going-concern uncertainties in the financial statements. The new standard requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after December 15, 2016, and interim periods thereafter, with early adoption permitted.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the Securities Exchange Commission (the "SEC") did not or are not believed by management to have a material impact on the Company's present or future financial statements.

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. Stock-based compensation for employees is measured at the grant date, based on the fair value of the award, and is recognized as expense over the requisite service period. Options vest and expire according to terms established at the grant date. The value of the stock compensation to non-employees is based upon the measurement date as determined 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.

We estimate volatility and forfeitures based upon historical data. As permitted by the authoritative guidance issued by the FASB, we use the “simplified” method to determine the expected life of an option due to the Company’s lack of sufficient historical exercise data to provide a reasonable basis, which is a result of the relative high turnover rates experienced in the past for positions granted options. All of these variables have an effect on the estimated fair value of our share-based awards.

Revenue Recognition:

The Company accounts for revenue recognition in accordance with SEC Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements" and related amendments. Revenues for the Company are classified into four separate products; license revenue (Veritec’s Multi-Dimensional matrix symbology), hardware revenue, identification card revenue, and debit card revenue. Revenues from licenses, hardware, and identification cards are recognized when the product is shipped and collection is reasonably assured. The process typically begins for license and hardware revenue with a customer purchase order detailing its hardware specifications so the Company can import its software into the customer's hardware. Once importation is completed, if the customer only wishes to purchase a license, the Company typically transmits the software to the customer via the Internet. Revenue is recognized at that point. If the customer requests both license and hardware products, once the software is imported into the hardware and the process is complete, the product is shipped and revenue is recognized at time of shipment. Once the software and/or hardware are either shipped or transmitted, the customers do not have a right of refusal or return. Under some conditions, the customers remit payment prior to the Company having completed importation of the software. In these instances, the Company delays revenue recognition and reflects the prepayments as customer deposits.

The process for identification cards begins when a customer requests, via the Internet, an identification card. The card is reviewed for design and placement of the data, printed and packaged for shipment. At the time the identification cards are shipped and collection is reasonably assured, revenue is recognized.

The Company, as a 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.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and our chief financial officer, carried out an evaluation of the effectiveness of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(e) and 15-d-15(e)) as of the end of the period covered by this report (the "Evaluation Date"). Based upon that evaluation, our chief executive officer and our chief financial officer concluded that, as of the Evaluation Date, our disclosure controls and procedures were not effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate to allow timely decisions regarding required disclosure. As of December 31, 2012, 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, 2012.

Changes in Internal Control over Financial Reporting.

In our Form 10-K at June 30, 2012, 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 $ 3,445,532 representing principal and accrued interest as of December 31, 2012.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

The Company is delinquent in payment of $602,223 for payroll taxes and accrued interest and penalties as of December 31, 2012.

ITEM 6. EXHIBITS

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.1	The following financial information from Veritec, Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2012 formatted in XBRL: (i) Consolidated Balance Sheets at December 31, 2012 and June 30, 2012; (ii) Consolidated Statement of Operations for the three and six months ended December 31, 2012 and 2011; (iii) Consolidated Statement of Stockholders' Deficit as at December 31, 2012; (iv) Consolidated Statements of Cash Flows for the six months ended December 31, 2012 and 2011; (v) Notes to the Consolidated Financial Statements.

** The certifications attached as Exhibits 32.1 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: *<u>/s/ Van Tran</u>* August 18, 2015
Van Tran
Chief Executive Officer
(Principal Executive Officer)

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