

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

FORM 10-K

(Mark one)

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

For the Year Ended June 30, 2022

or

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

For the transition period from

Commission File Number: 000-15113

VERITEC, INC.

(Exact name of registrant as specified in its charter)

Nevada

*(State or Other Jurisdiction of
Incorporation or Organization)*

95-3954373

*(I.R.S. Employer
Identification No.)*

12445 Winnetka Avenue N. Golden Valley, MN

(Address of principal executive offices)

55427

(Zip Code)

(763) 253-2670

(Registrant's telephone number, including area code)

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	VRTC	OTC Pink

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined by Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes ☐ No ☒

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 (§ 229.405 of this chapter) 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, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐
Non-accelerated filer ☐

Accelerated filer ☐
Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13 (a) of the Exchange Act. ☐

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

Yes ☐ No ☒

The aggregate market value of the voting common equity held by non-affiliates as of December 31, 2021, based on the closing sales price of the common stock as quoted on the OTC Markets was \$305,000. For purposes of this computation, all officers, directors, and 5 percent beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed an admission that such directors, officers, or 5 percent beneficial owners are, in fact, affiliates of the registrant.

As of October 7, 2022, there were 39,988,007 shares of registrant' s common stock outstanding.

TABLE OF CONTENTS

	PAGE
FORWARD-LOOKING STATEMENTS	3
PART I	
ITEM 1. DESCRIPTION OF BUSINESS	4
ITEM 1A. RISK FACTORS	6
ITEM 2. DESCRIPTION OF PROPERTY	6
ITEM 3. LEGAL PROCEEDINGS	6
ITEM 4. MINE SAFETY DISCLOSURE	6
PART II	
ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES	7
ITEM 6. SELECTED FINANCIAL DATA	8
ITEM 7. MANAGEMENT' S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION	8
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	13
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA	14
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	32
ITEM 9A. CONTROLS AND PROCEDURES	32
ITEM 9B. OTHER INFORMATION	32
PART III	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT	33
ITEM 11. EXECUTIVE COMPENSATION	34
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	35
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	36
ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES	36
ITEM 15. EXHIBITS	37
ITEM 16. FORM 10-K SUMMARY	37
SIGNATURES	38

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K ("Annual Report"), the other reports, statements, and information that we have previously filed or that we may subsequently file with the Securities and Exchange Commission ("SEC") and public announcements that we have previously made or may subsequently make include, may include, incorporate by reference or may incorporate by reference certain statements that may be deemed to be forward-looking statements. The forward-looking statements included or incorporated by reference in this Annual Report and those reports, statements, information and announcements address activities, events or developments that Veritec, Inc. (together with its subsidiaries hereinafter referred to as "we," "us," "our" , the "Company" or "Veritec") expects or anticipates will or may occur in the future. Any statements in this document about expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "may," "should," "could," "predict," "potential," "believe," "will likely result," "expect," "will continue," "anticipate," "seek," "estimate," "intend," "plan," "projection," "would" and "outlook," and similar expressions. Accordingly, these statements involve estimates, assumptions, and uncertainties, which could cause actual results to differ materially from those expressed in them. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this document. All forward-looking statements concerning economic conditions, rates of growth, rates of income or values as may be included in this document are based on information available to us on the dates noted, and we assume no obligation to update any such forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Summary

Veritec, Inc. (the “Company”) is primarily engaged in the development, sales, and licensing of products and providing services related to its mobile banking solutions.

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. Veritec 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. Veritec has had agreements with various banks in the past and is currently seeking a bank to sponsor its Prepaid Card programs.

The Company was also previously engaged in its proprietary two-dimensional matrix symbology technology (also commonly referred to as “two-dimensional barcodes”, “2D barcodes”, or “Barcode Technology”) which it sold on September 30, 2015 to The Matthews Group, a related party. The Company subsequently entered into a management services agreement with The Matthews Group to manage all facets of The Matthews Group’s Barcode Technology operations through June 30, 2023.

In this Form 10-K, the Company’s mobile software banking technology will hereafter be referred to as its “Mobile Banking Technology”. The Mobile Banking Technology is used to offer Prepaid Card Programs to sponsor banks and approved applicants/cardholders. These programs may also be referred to as the MTC™ card or the Blinx ON-OFF™ Prepaid Card programs.

Company History

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. Veritec 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. Veritec has had agreements with various banks in the past and is currently seeking a bank to sponsor its Prepaid Card programs.

Our Products and Solutions

The Company believes that its Mobile Banking Technology platform and its blinx On-Off™ debit card and blinxPay™ mobile wallet programs are a significant advance in mobile banking and close loop/open loop debit technology and is capable of bringing significant value to card issuing and sponsoring organizations, whether they be commercial or government.

(a) MTC™ Debit Card – Visa® Prepaid Card Programs

In fiscal year 2009, the Company announced the release of its Mobile Toggle Card (MTC™) Program on the Company’s mobile banking software platform under a sponsoring bank. Veritec’s mobile banking software platform is a debit based, pre-paid and gift card solution that is licensed by Veritec’s wholly owned subsidiary, Veritec Financial Systems, Inc., to debit card issuers and sponsoring organizations. Under the MTC™ Program, card issuers and sponsors may provide the MTC™ branded debit or gift cards to individuals with and without demand deposit accounts (e.g., the latter the “under-banked”). The MTC™ card may be part of a Visa® branded program and, as such, the cards are accepted anywhere in the world that Visa cards are accepted.

With an MTC™ card, the cardholders are empowered to combat unpermitted and fraudulent use of their debit cards by “togglng” their cards “on” and “off” with their mobile phones. Cardholders no longer have to completely rely on their card issuers to monitor possible fraudulent activity on their accounts. Cardholders can now de-activate their cards themselves, in real-time, any time they choose to do so. In addition to this togglng feature, cardholders may apply for their cards online, arrange for direct deposits to be made to their cards, and transfer money to their card from another account. Cardholders may also elect to receive various alerts on their mobile phones about activity on their card. In the fiscal year 2010, the Company began accepting applications for the MTC™ card from individual applicants and issuing live Visa® branded debit cards under the MTC Mobile Toggle Card Program.

(b) blinx ON-OFF Debit Card – Visa® Prepaid Card Programs

In fiscal year 2011, Veritec began marketing the blinx ON-OFF™ branded card under a bank sponsorship. The blinx ON-OFF™ card is based on the Mobile Banking Technology platform and offers the same features and functions as the MTC™ branded card but with different pricing for bank-sponsored cards.

(c) Custom Branded Debit Card Programs

In addition to the MTC™ and blinx ON-OFF™ branded program, the Company enables card issuers and sponsors to issue debit, pre-paid and gift cards under their own branded programs through licensed use of the mobile banking platform and the Company's provision of related professional services.

(d) blinxPay™ Mobile Wallet App

The Company released its blinxPay™ mobile wallet application during fiscal year 2016. blinxPay™ is a secure payment processing system and mobile app that enables customers to make purchases at participating merchants using funds loaded into their blinxPay™ virtual account. The blinxPay™ mobile app is available for download for free at both Google Play and Apple iTunes stores.

Veritec's mobile banking solution also enables member card programs to be processed and settled member rewards to its members in either an open or closed loop processing environment. In addition to its front-end licensing and professional services, the Company also provides back-end card processing services to the card issuing institutions for all cardholder transactions on the licensed platform. The Company's Mobile Banking Technology resides within a Payment Card Industry (PCI) compliant data processing center.

Intellectual Property Rights

The Company was founded upon its intellectual property on its belief that its intellectual property will give the Company a commercial advantage in the global marketplace. The Company relies on patent, trade secret, copyright and trademark law, as well as the company's contractual terms with its customers, to define, maintain and enforce the Company's intellectual property rights in its Mobile Banking Technology and other technologies and relationships.

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

A significant amount of the Company's intellectual property takes the form of trade secrets and copyrighted works of authorship. The Company treats the source code to its Mobile Banking Technology as trade secrets, and its licensed software applications are copyrightable subject matter.

We have a portfolio of registered and pending trademarks in the U.S. and foreign jurisdictions, including registrations for the marks "VSCode®" and "VeriCode®." The Company uses "Veritec" as a trademark and service mark, as well as serving as the Company's trade name.

Major Customers

During the year ended June 30, 2022, we had two customers, that represented 75% (a related party) and 15% of our revenues, respectively. During the year ended 2021, we had one customer, a related party, that represented 76% of our revenues, respectively. No other customer represented more than 10% of our revenues.

Competition

Our Mobile Banking Technology competes with other independent sales organizations and third party services of Visa-branded card programs, including TransCash Corporation, Ready Debit Card by MetaBank, Millenium Advantage Card by New Millenium Bank, and Wired Plastic by Bancorp Bank. The Company believes, however, that there are very few companies that have the Company's collective attributes of (1) being an independent sales organization of Visa-branded and non-branded prepaid card programs, (2) being a third party servicer (e.g., back end processor) for banks issuing Visa-branded and non-branded prepaid card programs, (3) being the developer, marketer and licensor of the mobile banking platform on which Visa-branded and non-branded card program cardholder transactions take place, and (4) having a mobile banking platform that enables real-time transaction processing and enabling cardholders to manage their accounts by enabling cardholders to toggle their cards and their website accounts on and off via their mobile phones.

Employees

As of June 30, 2022, the Company employed seven employees and six independent contractor consultants.

Financial Information about Geographic Areas

For the years ended June 30, 2022, and 2021, United States customers accounted for 100% of the Company's total revenue.

ITEM 1A. RISK FACTORS

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. DESCRIPTION OF PROPERTY

We lease approximately 4,200 square feet of office and laboratory space at 2445 Winnetka Avenue North, Golden Valley, Minnesota, which serves as our primary place of business. This lease is with Van Thuy Tran, the Chairman of the Board and the Chief Executive Officer of the Company. Our lease is currently on a month-to-month term and requires monthly payments of \$4,000.

ITEM 3. LEGAL PROCEEDINGS

On September 21, 2016, the Company entered into a settlement agreement with an individual who was a former officer of the Company. The individual in prior years was also issued 500,000 shares of common stock for services. The Company alleged that the individual used the Company's intellectual property without approval. Under the terms of the settlement agreement, the individual agreed to relinquish a convertible note payable and unpaid interest aggregating \$364,686 and return 500,000 shares of common stock previously issued to him. In turn, the Company agreed to release and discharge the individual against all claims arising on or prior to the date of the settlement agreement. As of June 30, 2022, the 500,000 shares have not been relinquished. When the Company receives the shares, it will record a cancellation of shares.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS AND SMALL BUSINESS ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is quoted on the OTCPink marketplace under the symbol VRTC. Prior to that, our common stock was quoted on the OTC Bulletin Board. Prior to September 4, 2009, our common stock was traded in the over the counter markets and quoted on the OTC Pink Sheets. The following table sets forth the range of high and low bid quotes of our common stock per quarter as provided by the National Quotation Bureau (which reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions).

Market Price Range of Common Stock	Fiscal 2022		Fiscal 2021	
	High	Low	High	Low
Quarter Ended				
September 30	\$ 0.10	\$ 0.03	\$.06	\$.04
December 31	\$ 0.05	\$ 0.04	\$.04	\$.03
March 31	\$ 0.05	\$ 0.03	\$.10	\$.02
June 30	\$ 0.04	\$ 0.03	\$.08	\$.05

Shareholders

As of June 30, 2022, there were approximately 797 shareholders of record, inclusive of those brokerage firms and/or clearinghouses holding our common shares for their clientele.

Dividend Information

We have not declared any cash dividends since inception and do not anticipate paying any dividends in the foreseeable future. The payment of dividends is within the discretion of the Board of Directors and will depend on the Company's earnings, capital requirements, financial condition, and other relevant factors. There are no restrictions that currently limit the Registrant's ability to pay dividends on its Common Stock other than those generally imposed by applicable state law.

Unregistered Sales of Equity Securities

No unregistered sales of equity securities occurred during the years ended June 30, 2022, and 2021.

Securities Authorized for Issuance under Equity Compensation Plans

The following table sets forth information with respect to shares of common stock issuable under outstanding awards granted pursuant to our equity compensation plan.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders ⁽¹⁾	900,000	\$ 0.03	—
Total	900,000	\$ 0.03	—

(1) The Board of Directors authorized the Chief Executive Officer to issue up to 1,000,000 shares of the Company's common stock in the form of options or stock bonuses to employees and consultants. The Company has agreements with certain employees that provide for five years of annual grants of options, on each employment anniversary date, to purchase shares of the Company's common stock. The option price is determined based on the market price on the date of grant, the options vest one year from the date of grant, and the options expire five years after vesting. The Board of Directors granted 1,150,000 stock options to directors and employees under this arrangement in 2019. The Company granted no stock options or stock bonuses to employees and consultants under this arrangement in 2022 and 2021.

ITEM 6. SELECTED FINANCIAL DATA

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion and analysis of financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. This discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. See "Note Regarding Forward-Looking Statements." Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors discussed elsewhere in this report.

The following discussion and analysis of the Company's financial condition and results of operations is based on the preparation of our financial statements in accordance with U.S. generally accepted accounting principles. You should read this discussion and analysis together with such financial statements and the related notes thereto.

COVID-19 Considerations

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the responses that the Company, other businesses and governments are taking continue to evolve. Furthermore, capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is possible that the COVID-19 pandemic could cause a local, national and/or global economic recession. Policymakers around the globe have responded with fiscal policy actions to support the economy as a whole, but it is presently unknown whether and to what extent further fiscal actions will continue. The magnitude and overall effectiveness of these actions remain uncertain.

The Company believes that its Mobile Banking revenues have been negatively affected due to the reduction in customer spending, which negatively impacts the amount of fees earned by the Company from its customers. The Company is also currently experiencing a decline in revenues earned under the management services agreement with The Matthews Group, as The Matthews Group's customer orders have been negatively impacted by the effects of COVID-19. The severity of the impact of the COVID-19 pandemic on the Company's business will continue to depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, service providers and suppliers, all of which are uncertain and cannot be predicted. As of the date of issuance of the Company's financial statements, the extent to which the COVID-19 pandemic may in the future materially impact the Company's financial condition, liquidity or results of operations is uncertain.

Inflation

Global inflation increased during 2021 and in 2022. The Russia Ukraine conflict and other geopolitical conflicts, as well as related international response, have exacerbated inflationary pressures, including causing increases in the price for goods and services and global supply chain disruptions, which have resulted and may continue to result in shortages in food products, materials and services. Such shortages have resulted and may continue to result in inflationary cost increases for labor, fuel, food products, materials and services, and could continue to cause costs to increase as well as result in the scarcity of certain materials. We cannot predict any future trends in the rate of inflation or other negative economic factors or associated increases in our operating costs and how that may impact our business. To the extent we are unable to recover higher operating costs resulting from inflation or otherwise mitigate the impact of such costs on our and their business, our revenues and operating results could decrease, and our financial condition and results of operations could be adversely affected.

Results of Operations - June 30, 2022 compared to June 30, 2021

Revenues

Details of revenues are as follows:

	Year Ended June 30,		Increase (Decrease)	
	2022	2021	\$	%
Mobile banking technology	\$ 90,000	\$ 93,000	\$ (3,000)	(3.2)
Other revenue, management fee - related party	263,000	296,000	(33,000)	(11.1)
Total Revenues	<u>\$ 353,000</u>	<u>\$ 389,000</u>	<u>\$ (36,000)</u>	<u>(9.3)</u>

- 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 years ended June 30, 2022, and 2021 were \$90,000 and \$93,000, 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 since fiscal year 2016.

- Other revenue, management fee - related party

On December 31, 2015, the Company sold all of its assets of its Barcode Technology, which was comprised solely of its intellectual property, to The Matthews Group, a related party. The Company subsequently entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations through June 30, 2022. The Company earns a fee of 35% of all revenues billed up to June 30, 2022, and recognizes management fee revenue as services are performed. For the years ended June 30, 2022 and 2021, revenue earned from the management services agreement was \$263,000 and \$296,000, respectively.

Cost of Revenue

Cost of revenue for the years ended June 30, 2022 and 2021 totaled \$199,000 and \$222,000, respectively.

Operating Expenses

General and administrative expenses for the years ended June 30, 2022 and 2021 totaled \$728,000 and \$861,000, respectively. The decrease in general and administrative expenses was primarily due to increased legal and professional fees as compared to the same period of the prior year.

Other Income (Expenses)

During the year ended June 30, 2022, the Company identified certain long outstanding vendor related accounts payable of \$397,000 that were determined to be no longer payable. No similar activity occurred in the prior year period.

On October 22, 2021, the Company was notified that its Paycheck Protection program ("PPP") loan forgiveness applications totaling \$118,000 were approved. No similar activity occurred in the prior year period.

Interest expense for the twelve months ended June 30, 2022 and 2021, was \$447,000 and \$397,000, respectively. The increase was due to the increase in our notes payable balance.

Net Loss

We had a net loss of \$506,000 for the year ended June 30, 2022, compared to a net loss of \$1,091,000 for the year ended June 30, 2021.

Liquidity and Capital Resources

Our cash balance on June 30, 2022 decreased to \$66,000 as compared to \$238,000 on June 30, 2021. The decrease was the result of the \$503,000 cash provided by financing activities offset by \$675,000 cash used in operating activities. Net cash used in operations during the period ended June 30, 2022, was \$675,000, compared with \$672,000 of net cash used in operations during the same period of the prior year. Cash used in operations during the period ended June 30, 2022, was primarily from our net loss of \$506,000, gain on extinguishment of accounts payable of \$397,000, a gain on forgiveness of our SBA PPP loans of \$118,000, and general net decreases to our working capital accounts of \$101,000, and offset by interest accrued on notes payable of \$447,000. Net cash provided by financing activities of \$503,000 was from proceeds received from notes payable during the period ended June 30, 2022. During the same period of the prior year, net cash provided by financing activities of \$682,000 was from proceeds received of \$118,000 from SBA PPP loans payable, and proceeds received of \$564,000 from notes payable.

The accompanying 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 year ended June 30, 2022, the Company incurred a loss of \$506,000 and used cash in operating activities of \$675,000, and at June 30, 2022, the Company had a stockholders' deficiency of \$7,436,000. In addition, as of June 30, 2022, the Company is in default on \$739,000 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, 2022 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 2022 without continued external investment. The Company believes it will require additional funds to continue its operations through fiscal 2022 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.

Convertible notes and notes payable

Convertible and notes payable includes principal and accrued interest and consist of the following at June 30, 2022 and June 30, 2021:

	June 30, 2022	June 30, 2021
(a) Unsecured convertible notes (\$20,000 and \$19,000 in default)	\$ 64,000	\$ 62,000
(b) Notes payable (in default)	458,000	440,000
(c) Notes payable (in default)	28,000	27,000
Total notes-third parties	<u>\$ 550,000</u>	<u>\$ 529,000</u>

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

At June 30, 2020, convertible notes totaled \$59,000. During the year ended June 30, 2021, interest of \$3,000 was added to the principal resulting in a balance owed of \$62,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$2,000 was added to the principal resulting in a balance owed of \$64,000 at June 30, 2022. On June 30, 2022, \$20,000 of the convertible notes were in default and convertible at a conversion price of \$0.30 per share into 66,619 shares of the Company's common stock. The balance of \$44,000 is due on demand and convertible at a conversion price of \$0.08 per share into 548,919 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, were due in 2012, and are in default.

At June 30, 2020, the notes totaled \$423,000. During the year ended June 30, 2021, interest of \$17,000 was added to principal resulting in a balance owed of \$440,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$18,000 was added to principal resulting in a balance owed of \$458,000 at June 30, 2022. At June 30, 2022, \$412,000 of notes are secured by the Company's intellectual property and \$46,000 of notes are unsecured.

(c) The notes are unsecured and bear interest of 4% per annum and were due on March 17, 2020, and are in default.

At June 30, 2020, the notes totaled \$26,000. During the year ended June 30, 2021, interest of \$1,000 was added to principal, resulting in a balance owed of \$27,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$1,000 was added to principal, resulting in a balance owed of \$28,000 at June 30, 2022.

Convertible notes and notes payable-related parties

Convertible and notes payable-related parties include principal and accrued interest and consist of the following at June 30, 2022 and June 30, 2021:

	June 30, 2022	June 30, 2021
(a) Convertible notes-The Matthews Group	\$ 1,855,000	\$ 1,741,000
(b) Notes payable-The Matthews Group	4,177,000	3,375,000
(c) Convertible notes-other related parties (\$233,000 and \$224,000 in default)	321,000	308,000
Total notes-related parties	<u>\$ 6,353,000</u>	<u>\$ 5,424,000</u>

(a) 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 is a related party and 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, 2020, convertible notes due to The Matthews Group totaled \$1,560,000. During the year ended June 30, 2021, \$67,000 of notes payable were issued and interest of \$114,000 was added to principal, resulting in a balance payable of \$1,741,000 at June 30, 2021. During the year ended June 30, 2022, \$114,000 of interest was added to principal, resulting in a balance payable of \$1,855,000 at June 30, 2022. At June 30, 2022, the notes are convertible at a conversion price of \$0.08 per share into 23,189,899 shares of the Company's common stock.

(b) 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 dated September 30, 2015. At June 30, 2020, notes due to The Matthews Group totaled \$2,630,000. During the year ended June 30, 2021, \$497,000 of notes payable were issued and interest of \$248,000 was added to principal, resulting in a balance owed of \$3,375,000 at June 30, 2021. During the year ended June 30, 2022, \$503,000 of notes

payable were issued and interest of \$299,000 was added to principal, resulting in a balance owed of \$4,177,000 at June 30, 2022.

(c) 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, 2020, convertible notes due to other related parties totaled \$294,000. During the year ended June 30, 2021, interest of \$14,000 was added to principal resulting in a balance owed of \$308,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$13,000 was added to principal resulting in a balance owed of \$321,000 at June 30, 2022. At June 30, 2022, \$233,000 of the notes were due in 2010 and are in default, and the balance of \$88,000 is due on demand. At June 30, 2022, \$233,000 of the notes are convertible at a conversion price of \$0.30 per share into 777,081 shares of the Company's common stock, and \$88,000 of the notes are convertible at a conversion price of \$0.08 per share into 1,095,050 shares of the Company's common stock.

PPP Loans Payable

On March 23, 2021, the Company was granted its first loan for \$59,000 (the "PPP loan") from Community Federal Savings Bank, pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act. On June 1, 2021, the Company was granted a second PPP loan for \$59,000 from Community Federal Savings Bank with similar loan terms. On October 22, 2021, the Company was notified that its PPP loan forgiveness applications totaling \$118,000 were approved, and the Company recorded a gain on PPP loan forgiveness on the accompanying consolidated statements of operations for the twelve months ended June 30, 2022.

Commitments and Contractual Obligations

The Company leases its corporate office building from Ms. Tran, our chief executive officer, on a month-to-month basis, for \$4,000 per month. The corporate office is located at 2445 Winnetka Avenue North, Golden Valley, Minnesota.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management evaluates its estimates, including those related to impairment of long-lived assets, including finite lived intangible assets, accrued liabilities, fair value of warrant derivatives and certain expenses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions.

Our significant accounting policies are more fully described in Note 1 to our financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the related disclosures of contingent assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions.

Stock-Based Compensation

The Company periodically issues stock-based compensation to officers, directors, contractors and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date.

Stock-based payments to officers, directors, employees, and for acquiring goods and services from nonemployees, which include grants of employee stock options, are recognized in the financial statements based on their fair values in accordance with Topic 718. Stock option grants, which are generally time vested, will be measured at the grant date fair value and charged to operations on a straight-line basis over the vesting period. The fair value of stock options is determined utilizing the Black-Scholes option-pricing model, which is affected by several variables, including the risk-free interest rate, the expected dividend yield, the expected life of the equity award, the exercise price of the stock option as compared to the fair market value of the common stock on the grant date and the estimated volatility of the common stock over the term of the equity award.

Revenue Recognition

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 to 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.

b. Other revenue, management fee – 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 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 June 30, 2023. The Company earned a fee of 35% of all revenues billed up to June 30, 2022.

Recently Issued Accounting Standards

See Footnote 1 of consolidated financial statements for a discussion of recently issued accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company as defined by Rule 12b-2 of the Exchange Act and are not required to provide the information under this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

PART I - FINANCIAL INFORMATION

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of June 30, 2022 and 2021	F-2
Consolidated Statements of Operations for the Years Ended June 30, 2022 and 2021	F-3
Consolidated Statements of Stockholders' Deficiency for the Years Ended June 30, 2022 and 2021	F-4
Consolidated Statements of Cash Flows for the Years Ended June 30, 2022 and 2021	F-5
Notes to Consolidated Financial Statements	F-6 to F-16

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders

Veritec, Inc.

Golden Valley, Minnesota

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Veritec, Inc. (the "Company") and subsidiaries as of June 30, 2022 and 2021, the related consolidated statements of operations, stockholders' deficiency, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiary as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has had recurring losses from operations and had a stockholders' deficiency as of June 30, 2022. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2 to the consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue recognition – Revenue from Related Party

As described in Note 9 to the consolidated financial statements, the Company has entered into a management services agreement (the “Agreement”) with The Matthews Group (TMG), to manage all facets of their barcode technology operations through June 30, 2023. The Matthews Group (TMG) is owned 50% by Ms. Tran, the Company’s CEO/Executive Chair and a director, and 50% by Larry Johanns, a significant stockholder of the Company. Pursuant to the Agreement, the Company earns a fee of 35% of all revenues billed up by TMG to its customers. The Company recognizes management fee revenue as services are performed by TMG. Management fee revenue from the Agreement represented approximately 75% of the Company’s total revenue for the fiscal year ended June 30, 2022.

We identified the Company’s recording of revenue as a critical audit matter because of the complexity involved in the recognition of such revenue, in particular given its related party nature. In turn, the auditing of revenue from related party required a high degree of auditor judgment, subjectivity and effort in performing audit procedures and evaluating the results of those procedures to ensure revenue has been properly recorded.

The primary procedures we performed to address this critical audit matter included:

- We obtained and evaluated documentation prepared by management which outlines the Company’s revenue recognition policies and their processes to determine the revenue to be recognized from TMG sales pursuant to the underlying agreements and current accounting guidelines.
- We evaluated whether the Company’s conclusion in such documentation was consistent with relevant accounting standards.
- We obtained a schedule of all revenue recognized by TMG and reconciled the recorded revenue to the underlying accounting records.
- We selected a sample of revenue transactions recorded by TMG and performed detail testing including the following for each selection:
 - Obtained evidence of a contract with the customer;
 - Compared the amounts recognized and timing of revenue recognition to underlying source documents such as invoices, form of payments, and executed contracts and related modifications, if any;
 - Evaluated the Company’s application of their accounting policies to determine the timing and amount recognized; and
 - For each sample tested, we recalculated the Company’s share of revenue based upon the terms of the agreement and reconciled to the Company’s accounting records.
- We read and evaluated management’s disclosure of the nature of the transaction and identification as related party transaction

/s/ Weinberg & Company, P.A.

Los Angeles, California
October 7, 2022

We have served as the Company’s auditor since 2008

VERITEC, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	June 30, 2022	June 30, 2021
ASSETS		
Current Assets:		
Cash	\$ 66,000	\$ 238,000
Accounts receivable	7,000	8,000
Prepaid expenses	6,000	5,000
Total Assets	<u>\$ 79,000</u>	<u>\$ 251,000</u>
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable	\$ 271,000	\$ 691,000
Accounts payable, related party	102,000	96,000
Accrued expenses	59,000	71,000
Customer deposits	25,000	97,000
Convertible notes and notes payable (\$506,000 and \$486,000 in default)	550,000	529,000
Convertible notes and notes payable, related parties (\$233,000 and \$224,000 in default)	6,353,000	5,424,000
Total Current Liabilities	<u>7,360,000</u>	<u>6,908,000</u>
PPP loans payable	—	118,000
Contingent earnout liability	155,000	155,000
Total Liabilities	<u>7,515,000</u>	<u>7,181,000</u>
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	1,000	1,000
Common stock, par value \$.01; authorized 150,000,000 shares; 39,988,007 and 39,988,007 shares issued and outstanding at June 30, 2022, and 2021, respectively	400,000	400,000
Common stock to be issued, 145,000 shares to be issued	12,000	12,000
Additional paid-in capital	18,143,000	18,143,000
Accumulated deficit	(25,992,000)	(25,486,000)
Total Stockholders' Deficiency	<u>(7,436,000)</u>	<u>(6,930,000)</u>
Total Liabilities and Stockholders' Deficiency	<u>\$ 79,000</u>	<u>\$ 251,000</u>

See accompanying notes.

VERITEC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Fiscal Years Ended June 30,	
	2022	2021
Revenue:		
Mobile banking technology revenue	\$ 90,000	\$ 93,000
Other revenue, management fee - related party	263,000	296,000
Total revenue	<u>353,000</u>	<u>389,000</u>
Operating Expenses:		
Cost of revenue	199,000	222,000
Selling, general and administrative expenses (including \$51,000 and \$51,000, respectively, to a related party)	728,000	861,000
Total operating expenses	<u>927,000</u>	<u>1,083,000</u>
Loss from operations	<u>(574,000)</u>	<u>(694,000)</u>
Other Income (Expense):		
Gain on extinguishment of accounts payable	397,000	—
Gain on forgiveness of SBA PPP loans	118,000	—
Interest expense (including \$426,000 and \$320,000, respectively, to related parties)	(447,000)	(397,000)
Total Other Income (Expense):	<u>68,000</u>	<u>(397,000)</u>
Net Loss	<u>\$ (506,000)</u>	<u>\$ (1,091,000)</u>
Net Loss Per Common Share - Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.03)</u>
Weighted Average Number of Shares Outstanding - Basic and Diluted	<u>39,988,007</u>	<u>39,803,760</u>

See accompanying notes.

VERITEC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

	<u>Preferred Stock</u>		<u>Common Stock</u>		Common Stock to be Issued	Additional Paid-in Capital	Accumulated Deficit	Stockholders' Deficiency
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance, June 30, 2020	1,000	\$ 1,000	39,738,007	\$397,000	\$12,000	\$18,136,000	\$(24,395,000)	\$ (5,849,000)
Common stock issued for services	—	—	250,000	3,000	—	7,000	—	10,000
Net Loss	—	—	—	—	—	—	(1,091,000)	(1,091,000)
Balance, June 30, 2021	1,000	1,000	39,988,007	400,000	12,000	18,143,000	(25,486,000)	(6,930,000)
Net Loss	—	—	—	—	—	—	(506,000)	(506,000)
Balance, June 30, 2022	<u>1,000</u>	<u>\$ 1,000</u>	<u>39,988,007</u>	<u>\$400,000</u>	<u>\$12,000</u>	<u>\$18,143,000</u>	<u>\$(25,992,000)</u>	<u>\$ (7,436,000)</u>

See accompanying notes.

VERITEC, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Fiscal Years Ended June 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (506,000)	\$ (1,091,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Interest accrued on notes payable	447,000	397,000
Common stock issued for services	—	10,000
Gain on extinguishment of accounts payable	(397,000)	—
Gain on forgiveness of SBA PPP loan	(118,000)	—
Changes in operating assets and liabilities:		
Accounts receivable	1,000	2,000
Prepaid expenses	(1,000)	1,000
Customer deposits	(72,000)	6,000
Accounts payable	(23,000)	2,000
Accounts payable, related party	6,000	—
Accrued expenses	(12,000)	1,000
Net cash used in operating activities	<u>(675,000)</u>	<u>(672,000)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from PPP loans payable	—	118,000
Proceeds from convertible notes payable-related party	—	67,000
Proceeds from notes payable-related party	503,000	497,000
Net cash provided by financing activities	<u>503,000</u>	<u>682,000</u>
NET INCREASE (DECREASE) IN CASH	<u>(172,000)</u>	<u>10,000</u>
CASH AT BEGINNING OF PERIOD	<u>238,000</u>	<u>228,000</u>
CASH AT END OF PERIOD	<u><u>\$ 66,000</u></u>	<u><u>\$ 238,000</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ —	\$ —

See accompanying notes.

VERITEC, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED JUNE 30, 2022 AND 2021

NOTE 1 - OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Veritec, Inc. (Veritec) was formed in the State of Nevada on September 8, 1982.

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

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. Veritec 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. Veritec has had agreements with various banks in the past and is currently seeking a bank to sponsor its Prepaid Card programs.

On December 31, 2015, the Company sold all of its assets of its barcode technology, which was comprised solely of its intellectual property, to The Matthews Group, a related party (see Note 9). The Company subsequently entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations through June 30, 2023. The Company earns a fee of 35% of all revenues billed up to June 30, 2022, and recognizes management fee revenue as services are performed.

COVID-19 Considerations

The Company is subject to risks and uncertainties as a result of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic on the Company's business is highly uncertain and difficult to predict, as the responses that the Company, other businesses and governments are taking continue to evolve. Furthermore, capital markets and economies worldwide have also been negatively impacted by the COVID-19 pandemic, and it is possible that the COVID-19 pandemic could cause a local, national and/or global economic recession. Policymakers around the globe have responded with fiscal policy actions to support the economy as a whole, but it is presently unknown whether and to what extent further fiscal actions will continue. The magnitude and overall effectiveness of these actions remain uncertain.

The Company believes that its Mobile Banking revenues have been negatively affected due to the reduction in customer spending, which negatively impacts the amount of fees earned by the Company from its customers. The Company previously experienced a decline in revenues earned under the management services agreement with The Matthews Group, as The Matthews Group's customer orders had been negatively impacted by the effects of COVID-19. The severity of the impact of the COVID-19 pandemic on the Company's business will continue to depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, service providers and suppliers, all of which are uncertain and cannot be predicted. As of the date of issuance of the Company's financial statements, the extent to which the COVID-19 pandemic may in the future materially impact the Company's financial condition, liquidity or results of operations is uncertain.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries Veritec Financial Systems, Inc., Tangible Payment Systems, Inc., and Public Bell, Inc. (collectively the "Company"). Intercompany transactions and balances were eliminated in consolidation.

Use of Estimates

The preparation of 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Those estimates and assumptions include estimates for reserves of uncollectible accounts, analysis of impairments of long-lived assets, accruals for potential liabilities, assumptions made in valuing stock instruments issued for services, and valuation of deferred tax assets. Actual results could differ from those estimates.

Cash and cash equivalents

Investments with original maturities of three months or less are considered to be cash equivalents. The Company held no cash equivalents as of June 30, 2022 and 2021.

Accounts Receivable

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. Due to uncertainties in the settlement process, however, it is at least reasonably possible that management's estimate will change during the near term. Based on management's assessment, no allowance for doubtful accounts was considered necessary at June 30, 2022, or 2021.

Revenue Recognition

Revenues for the Company are classified into management fee revenue and mobile banking technology.

The Company recognizes revenue in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASC 606"). The underlying principle of ASC 606 is to recognize revenue to depict the transfer of goods or services to customers at the amount expected to be collected. ASC 606 creates a five-step model that requires entities to exercise judgment when considering the terms of contracts, which includes (1) identifying the contracts or agreements with a customer, (2) identifying the Company's performance obligations in the contract or agreement, (3) determining the transaction price, (4) allocating the transaction price to the separate performance obligations, and (5) recognizing revenue as each performance obligation is satisfied. The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration it is entitled to in exchange for the services it transfers to its clients.

Mobile Banking Technology Revenue

The Company, as a merchant payment processor and a distributor, recognizes revenue from transaction fees charged to 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.

Other Revenue, Management Fee – Related Party

On September 30, 2015, the Company sold all of its assets of its Barcode Technology, which was comprised solely of its intellectual property, to The Matthews Group (a related party, see Note 9). The Company subsequently entered into a management services agreement with The Matthews Group to manage all facets of the barcode technology operations through June 30, 2023 . The Company earned a fee of 35% of all revenues billed up to June 30, 2022. The Company recognizes management fee revenue as services are performed.

Disaggregation of Net Sales

The following table shows the Company' s disaggregated net sales by product type:

	Fiscal years ended June 30,	
	2022	2021
Mobile banking technology revenue	\$ 90,000	\$ 93,000
Other revenue, management fee - related party	263,000	296,000
Total revenue	<u>\$ 353,000</u>	<u>\$ 389,000</u>

The following table shows the Company' s disaggregated net sales by customer type:

	Fiscal years ended June 30,	
	2022	2021
Medical	\$ 53,000	\$ 60,000
Associations	12,000	12,000
Education	12,000	12,000
Other	13,000	9,000
Other revenue, management fee related party	263,000	296,000
Total revenue	<u>\$ 353,000</u>	<u>\$ 389,000</u>

During the years ended June 30, 2022 and 2021, all of the Company' s Mobile banking technology revenues were earned in the United States of America.

Other revenue, management fee - related party revenue was \$263,000 and \$296,000 for the years ended June 30, 2022 and 2021, respectively, and realized from our management services agreement with The Matthews Group, a related party, which requires us to manage The Matthews Group' s barcode technology operations. The Matthews Group' s barcode technology customers are primarily manufacturing companies located in China.

Income Taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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 stock outstanding plus the number of additional common stock that would have been outstanding if all dilutive potential common stock had been issued, using the treasury stock method.

For the years ended June 30, 2022 and 2021, the calculations of basic and diluted loss per share are the same because potential dilutive securities would have an anti-dilutive effect.

As of June 30, 2022 and 2021, 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.

	June 30,	
	2022	2021
Series H Convertible Preferred Stock	10,000	10,000
Convertible Notes Payable	25,677,568	24,144,716
Options	900,000	3,400,000
Total	<u>26,577,568</u>	<u>27,554,716</u>

Stock-Based Compensation

The Company periodically issues stock-based compensation to officers, directors, contractors and consultants for services rendered. Such issuances vest and expire according to terms established at the issuance date.

Stock-based payments to officers, directors, employees, and for acquiring goods and services from nonemployees, which include grants of employee stock options, are recognized in the financial statements based on their fair values in accordance with ASC 718, *Compensation-Stock Compensation*. Stock option grants, which are generally time vested, will be measured at the grant date fair value and charged to operations on a straight-line basis over the vesting period. The fair value of stock options is determined utilizing the Black-Scholes option-pricing model, which is affected by several variables, including the risk-free interest rate, the expected dividend yield, the expected life of the equity award, the exercise price of the stock option as compared to the fair market value of the common stock on the grant date and the estimated volatility of the common stock over the term of the equity award.

Fair Value of Financial Instruments

The Company determines the fair value of its assets and liabilities based on the exchange price in U.S. dollars that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company uses a fair value hierarchy with three levels of inputs, of which the first two are considered observable and the last unobservable, to measure fair value:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs, other than Level 1, that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The carrying amounts of financial instruments such as cash, accounts receivable, and accounts payable and accrued liabilities, approximate the related fair values due to the short-term maturities of these instruments. The carrying values of loans and notes payable approximate their fair values due to the fact that the interest rates on these obligations are based on prevailing market interest rates.

Concentrations

During the year ended June 30, 2022, the Company had two customers, that represented 75% (a related party) and 15% of our revenues, respectively. During the year ended 2021, the Company had one customer, a related party, that represented 76% of our revenues, respectively. No other customer represented more than 10% of our revenues.

Segments

The Company operates in one segment, the mobile financial banking industry. In accordance with the “Segment Reporting” Topic of the ASC, the Company’s chief operating decision maker has been identified as the Chief Executive Officer and President, who reviews operating results to make decisions about allocating resources and assessing performance for the entire Company. Existing guidance, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers, and the countries in which the entity holds material assets and reports revenue. All material operating units qualify for aggregation under “Segment Reporting” due to their similar customer base and similarities in: economic characteristics; nature of products and services; and procurement, manufacturing and distribution processes. Since the Company operates in one segment, all financial information required by “Segment Reporting” can be found in the accompanying consolidated financial statements.

Reclassifications

Certain prior year amounts, consisting primarily of cost of goods sold, have been reclassified as cost of revenue, a component of operating expenses. These reclassifications had no effect on the reported results of operations, total stockholders' deficiency or cash flows from operations.

Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13, Credit Losses – Measurement of Credit Losses on Financial Instruments (“ASC 326”). The standard significantly changes how entities will measure credit losses for most financial assets, including accounts and notes receivables. The standard will replace today's “incurred loss” approach with an “expected loss” model, under which companies will recognize allowances based on expected rather than incurred losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. As small business filer, the standard will be effective for us for interim and annual reporting periods beginning after December 15, 2022. The Company is currently assessing the impact of adopting this standard on the Company's financial statements and related disclosures.

In August 2020, the FASB issued ASU No. 2020-06 (“ASU 2020-06”) “Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40).” ASU 2020-06 reduces the number of accounting models for convertible debt instruments by eliminating the cash conversion and beneficial conversion models. The diluted net income per share calculation for convertible instruments will require the Company to use the if-converted method. For contracts in an entity's own equity, the type of contracts primarily affected by this update are freestanding and embedded features that are accounted for as derivatives under the current guidance due to a failure to meet the settlement conditions of the derivative scope exception. This update simplifies the related settlement assessment by removing the requirements to (i) consider whether the contract would be settled in registered shares, (ii) consider whether collateral is required to be posted, and (iii) assess shareholder rights. ASU 2020-06 is effective January 1, 2024, for the Company and the provisions of this update can be adopted using either the modified retrospective method or a fully retrospective method. Early adoption is permitted, but no earlier than January 1, 2021, including interim periods within that year. The Company is currently assessing the impact of adopting this standard on the Company's financial statements and related disclosures.

In May 2021, the FASB issued ASU 2021-04, *Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options*. ASU 2021-04 provides clarification and reduces diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. An issuer measures the effect of a modification or exchange as the difference between the fair value of the modified or exchanged warrant and the fair value of that warrant immediately before modification or exchange. ASU 2021-04 introduces a recognition model that comprises four categories of transactions and the corresponding accounting treatment for each category (equity issuance, debt origination, debt modification, and modifications unrelated to equity issuance and debt origination or modification). ASU 2021-04 is effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the guidance provided in ASU 2021-04 prospectively to modifications or exchanges occurring on or after the effective date. Early adoption is permitted for all entities, including adoption in an interim period. If an entity elects to early adopt ASU 2021-04 in an interim period, the guidance should be applied as of the beginning of the fiscal year that includes that interim period. The adoption of ASU 2021-04 is not expected to have a material impact on the Company's financial statements or disclosures.

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 - GOING CONCERN

The accompanying 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 year ended June 30, 2022, the Company recorded a loss of \$506,000, used cash in operating activities of \$675,000, and at June 30, 2022, the Company had a stockholders' deficiency of \$7,436,000. In addition, as of June 30, 2022, the Company is delinquent in payment of \$739,000 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. The Company's financial statements do not include any adjustments that might result from the outcome of this uncertainty be necessary should we be unable to continue as a going concern.

The Company believes it will require additional funds to continue its operations through October 31, 2022 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.

NOTE 3 -CONTINGENT EARNOUT LIABILITY

On September 30, 2014, the Company acquired certain assets and liabilities of the Tangible Payments LLC. A portion of the purchase price for Tangible Payments LLC was 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. The earnout payment is accelerated and the balance of the earnout payment shall be due in full at such time as Veritec receives equity investments aggregating \$1,300,000. For the years ended June 30, 2022 and 2021, there was no net profit derived from the acquired assets, and the Company had not yet received the required equity investments. Accordingly, no payments were made on the earnout.

NOTE 4 - CONVERTIBLE NOTES AND NOTES PAYABLE

Convertible notes and notes payable

Convertible and notes payable includes principal and accrued interest and consist of the following at June 30, 2022 and June 30, 2021:

	June 30, 2022	June 30, 2021
(a) Unsecured convertible notes (\$20,000 and \$19,000 in default)	\$ 64,000	\$ 62,000
(b) Notes payable (in default)	458,000	440,000
(c) Notes payable (in default)	28,000	27,000
Total notes-third parties	<u>\$ 550,000</u>	<u>\$ 529,000</u>

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

At June 30, 2020, convertible notes totaled \$59,000. During the year ended June 30, 2021, interest of \$3,000 was added to the principal resulting in a balance owed of \$62,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$2,000 was added to the principal resulting in a balance owed of \$64,000 at June 30, 2022. On June 30, 2022, \$20,000 of the convertible notes were in default and convertible at a conversion price of \$0.30 per share into 66,619 shares of the Company's common stock. The balance of \$44,000 is due on demand and convertible at a conversion price of \$0.08 per share into 548,919 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, were due in 2012, and are in default.

At June 30, 2020, the notes totaled \$423,000. During the year ended June 30, 2021, interest of \$17,000 was added to principal resulting in a balance owed of \$440,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$18,000 was added to principal resulting in a balance owed of \$458,000 at June 30, 2022. At June 30, 2022, \$412,000 of notes are secured by the Company's intellectual property and \$46,000 of notes are unsecured.

(c) The notes are unsecured and bear interest of 4% per annum and were due on March 17, 2020, and are in default.

At June 30, 2020, the notes totaled \$26,000. During the year ended June 30, 2021, interest of \$1,000 was added to principal, resulting in a balance owed of \$27,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$1,000 was added to principal, resulting in a balance owed of \$28,000 at June 30, 2022.

Convertible notes and notes payable-related parties

Convertible and notes payable-related parties include principal and accrued interest and consist of the following at June 30, 2022 and June 30, 2021:

	June 30, 2022	June 30, 2021
(a) Convertible notes-The Matthews Group	\$ 1,855,000	\$ 1,741,000
(b) Notes payable-The Matthews Group	4,177,000	3,375,000
(c) Convertible notes-other related parties (\$233,000 and \$224,000 in default)	321,000	308,000
Total notes-related parties	<u>\$ 6,353,000</u>	<u>\$ 5,424,000</u>

(a) 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 is a related party (see Note 9) and 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, 2020, convertible notes due to The Matthews Group totaled \$1,560,000. During the year ended June 30, 2021, \$67,000 of notes payable were issued and interest of \$114,000 was added to principal, resulting in a balance payable of \$1,741,000 at June 30, 2021. During the year ended June 30, 2022, \$114,000 of interest was added to principal, resulting in a balance payable of \$1,855,000 at June 30, 2022. At June 30, 2022, the notes are convertible at a conversion price of \$0.08 per share into 23,189,899 shares of the Company's common stock.

(b) 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 9) dated September 30, 2015. At June 30, 2020, notes due to The Matthews Group totaled \$2,630,000. During the year ended June 30, 2021, \$497,000 of notes payable were issued and interest of \$248,000 was added to principal, resulting in a balance owed of \$3,375,000 at June 30, 2021. During the year ended June 30, 2022, \$503,000 of notes payable were issued and interest of \$299,000 was added to principal, resulting in a balance owed of \$4,177,000 at June 30, 2022.

(c) 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, 2020, convertible notes due to other related parties totaled \$294,000. During the year ended June 30, 2021, interest of \$14,000 was added to principal resulting in a balance owed of \$308,000 at June 30, 2021. During the year ended June 30, 2022, interest of \$13,000 was added to principal resulting in a balance owed of \$321,000 at June 30, 2022. At June 30, 2022, \$233,000 of the notes were due in 2010 and are in default, and the balance of \$88,000 is due on demand. At June 30, 2022, \$233,000 of the notes are convertible at a conversion price of \$0.30 per share into 777,081 shares of the Company's common stock, and \$88,000 of the notes are convertible at a conversion price of \$0.08 per share into 1,095,050 shares of the Company's common stock.

NOTE 5 - PPP LOANS PAYABLE

On March 23, 2021, the Company was granted its first loan for \$59,000 (the "PPP loan") from Community Federal Savings Bank, pursuant to the Paycheck Protection Program (the "PPP") under the CARES Act. On June 1, 2021, the Company was granted a second PPP loan for \$59,000 from Community Federal Savings Bank with similar loan terms. On October 22, 2021, the Company was notified that its PPP loan forgiveness applications totaling \$118,000 were approved, and the Company recorded a gain on PPP loan forgiveness on the consolidated statements of operations for the twelve months ended June 30, 2022.

NOTE 6 - STOCKHOLDERS' DEFICIENCY

Preferred Stock

The articles of incorporation of Veritec authorize 10,000,000 shares of preferred stock with a par value of \$1.00 per share. The Board of Directors is authorized to determine any number of series into which shares of preferred stock may be divided and to determine the rights, preferences, privileges, and restrictions granted to any series of the preferred stock.

In 1999, a new Series H convertible preferred stock was authorized. Each share of Series H convertible preferred stock is convertible into 10 shares of the Veritec's common stock at the option of the holder. As of June 30, 2022 and 2021, there were 1,000 shares of Series H convertible preferred stock issued and outstanding.

Common Stock Issued for Services

There were no shares of common stock issued for services during the twelve months ended June 30, 2022. During the twelve months ended June 30, 2021, the Company issued 250,000 shares of common stock to a consultant, with a fair value of \$10,000 at date of grant, which was recognized as compensation cost.

Common Stock to be Issued

At June 30, 2022 and 2021, 145,000 shares of common stock to be issued with an aggregate value of \$12,000 have not been issued and are reflected as common stock to be issued in the accompanying consolidated financial statements.

NOTE 7 - STOCK OPTIONS

A summary of stock options as of June 30, 2022 and for the two years then ended is as follows:

	Number of Shares	Weighted - Average Exercise Price
Outstanding at June 30, 2020	3,650,000	\$ 0.08
Granted	—	—
Forfeited	(250,000)	\$ (0.03)
Outstanding at June 30, 2021	3,400,000	\$ 0.07
Granted	—	—
Forfeited	(2,500,000)	\$ (0.08)
Outstanding at June 30, 2022	900,000	\$ 0.03
Exercisable at June 30, 2022	900,000	\$ 0.03

As of June 30, 2022, the Company had no outstanding unvested options with future compensation costs. The outstanding and exercisable stock options had an intrinsic value of \$0 and \$18,000, on June 30, 2022, and June 30, 2021, respectively.

Additional information regarding options outstanding as of June 30, 2022, is as follows:

Options Outstanding and Exercisable at June 30, 2022				
Range of Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	
\$ 0.03	900,000	2.48	\$ 0.03	

NOTE 8 - INCOME TAXES

For the year ended June 30, 2022, net loss was \$506,000, as compared to a net loss of \$1,091,000 for the year ended June 30, 2021. For the years ended June 30, 2022 and 2021, no provision for income taxes was recorded.

Reconciliation between the expected federal income tax rate and the actual tax rate is as follows:

	Years Ended June 30,	
	2022	2021
Federal statutory tax rate	21%	21%
State tax, net of federal benefit	6%	6%
Total tax rate	27%	27%
Allowance	(27)%	(27)%
Effective tax rate	— %	— %

The following is a summary of the deferred tax assets:

	Years Ended June 30,	
	2022	2021
Net operating loss carryforwards	\$ 3,982,000	\$ 3,846,000
Deferred tax assets before valuation allowance	3,982,000	3,846,000
Valuation allowance	(3,982,000)	(3,846,000)
Net deferred tax asset	\$ —	\$ —

The Company has provided a valuation allowance on the deferred tax assets at June 30, 2022 and 2021 to reduce such asset to zero, since there is no assurance that the Company will generate future taxable income to utilize such asset. Management will review this valuation allowance requirement periodically and make adjustments as warranted. The net change in the valuation allowance for the year ended June 30, 2022, was an increase of \$136,000.

Veritec has net operating loss carryforwards of approximately \$14,749,000 for federal purposes available to offset future taxable income that expires in varying amounts through 2042. The ability to utilize the net operating loss carryforwards could be limited by Section 382 of the Internal Revenue Code which limits their use if there is a change in control (generally a greater than 50% change in ownership). The Company is subject to examination by tax authorities for all years for which a loss carryforward is utilized in subsequent periods.

The Company follows FASB guidelines that address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. This guidance also provides guidance on derecognition, classification, interest, and penalties on income taxes, accounting in interim periods and requires increased disclosures. As of June 30, 2022 and 2021, the Company did not have a liability for unrecognized tax benefits, and no adjustment was required at adoption.

The Company's policy is to record interest and penalties on uncertain tax provisions as income tax expense. As of June 30, 2022 and 2021, the Company has no accrued interest or penalties related to uncertain tax positions.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Matthews Group is owned 50% by Ms. 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 4).

Management Services Agreement and Related Notes Payable with Related Party

The Company's Barcode Technology was 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. 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 then 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 June 30, 2023. 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 of the services provided by the Company to The Matthews Group, the Company earned a fee of 20% of all revenues up to May 31, 2017, and 35% of all revenues up to June 30, 2023, from the barcode technology operations. During the years ended June 30, 2022 and 2021, the Company recorded management fee revenue related to this agreement of \$263,000 and \$296,000, respectively.

Additionally, 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 and reflected as proceeds from unsecured notes payable due The Matthews Group. During the years ended June 30, 2022 and 2021, cash flow loans of \$503,000 and \$497,000, respectively, were made to the Company at 10% interest per annum and due on demand. At June 30, 2022, cash flow loans of \$4,177,000 are due to The Matthews Group (see Note 4).

Advances from Related Parties

From time to time, Ms. Tran, the Company's CEO/Executive Chair, provides advances to finance the Company's working capital requirements. As of June 30, 2022 and 2021, total advances to Ms. Tran amounted to \$102,000 and \$96,000, respectively, and have been presented as accounts payable, related party on the accompanying Consolidated Balance Sheets. 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, the Company's CEO/Executive Chair. For both the years ended June 30, 2022 and 2021, lease payments to Ms. Tran totaled \$51,000.

NOTE 10 - LEGAL PROCEEDINGS

On September 21, 2016, the Company entered into a settlement agreement with an individual who was a former officer of the Company. The individual in prior years was also issued 500,000 shares of common stock for services. The Company alleged that the individual used the Company's intellectual property without approval. Under the terms of the settlement agreement, the individual agreed to relinquish a convertible note payable and unpaid interest aggregating \$365,000 and return 500,000 shares of common stock previously issued to him. In turn, the Company agreed to release and discharge the individual against all claims arising on or prior to the date of the settlement agreement. As of June 30, 2022, the 500,000 shares have not been relinquished. When the Company receives the shares, it will record a cancellation of shares.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

On March 26, 2022, as amended on May 10, 2022, the Company and Es Solo Holdings Ltd (“Es Solo”), an England & Whales limited liability company, entered into a Prepaid Card Client Program Management Agreement (“Management Agreement”). Es Solo develops, markets, and operates prepaid card programs through its affiliations with issuing banks, and the Company desires to have Es Solo develop a prepaid card program to be marketed by the Company for card issuing purposes, pursuant to the terms of the Management Agreement. Es Solo agreed to pay the Company \$10,000 as a program setup fee. The Company and Es Solo agreed to a 50%/50% revenue share arrangement based on fees collected from customers using the Company’ s prepaid, Bio-ID, and debit card products. As of June 30, 2022, no revenues have been realized under the Management Agreement.

On November 1, 2021, the Company and Elite Web Technology Inc. (“Marketer”) entered into a Sales and Marketing Agreement (“Agreement”). The Company agreed that Marketer can market and sale certain Company products as defined in the Agreement. The Company agreed to pay Marketer a sales commission of 15% of gross revenues, and to set aside 500,000 shares of Company common stock, as a bonus, once Marketer achieves \$2 million in gross revenues within the first year of the Agreement. In addition, the Company will issue 25,000 stock options for each additional \$1.0 million of gross revenues. As of June 30, 2022, the Marketer had not met any of its revenue targets and no commissions or equity compensation was due.

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 June 30, 2022, the Company had not achieved annual pre-tax earnings in excess of \$3,000,000.

On December 5, 2008, the Company entered into an employment agreement with Van Thuy Tran, its Chief Executive Officer, providing for an annual base salary of \$150,000 and customary medical and other benefits. The agreement may be terminated by either party upon 30 days’ notice. In the event the Company terminates the agreement without cause, Ms. Tran will be entitled to \$1,000,000 payable upon termination, and she will be entitled to severance equal to 12 months compensation and benefits. The Company has also agreed to indemnify Ms. Tran against any liability or damages incurred within the scope of her employment. During the years ended June 30, 2022 and 2021, salaries paid to Van Thuy Tran under this agreement totaled \$150,000 and \$150,000.

NOTE 12 - SUBSEQUENT EVENTS

On July 4, 2022, the Company entered a Memorandum of Understanding (the “MOU”) for the purpose of forming a strategic partnership between the Company and Nugen Universe, LLC (“Nugen”), a corporation located in Wrightsville Beach, North Carolina. Nugen seeks the Company to modify, create, or build a “private label” system for Nugen, with an initial interest in the Company’ s blinxPay technology and Bio-ID verification system. Nugen paid the Company \$50,000 at date of the MOU signing and agreed to pay the Company a 5% ongoing royalty for licensing the Company’ s blinxPay technology and Bio-ID verification system.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Based upon an evaluation of the effectiveness of our disclosure controls and procedures performed by our Chief Executive Officer as of the end of the period covered by this report, our Chief Executive Officer concluded that our disclosure controls and procedures have not been effective as a result of a weakness in the design of internal control over financial reporting identified below.

As used herein, “disclosure controls and procedures” mean controls and other procedures of our company that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) under the Securities Exchange Act of 1934. Our Chief Executive Officer/Chief Accounting Officer conducted an evaluation of the effectiveness of our control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on management’s evaluation under the framework, management has concluded that our internal control over financial reporting was not effective as of June 30, 2022.

We identified material weaknesses in our internal control over financial reporting primarily attributable to (i) lack of segregation of incompatible duties; and (ii) insufficient Board of Directors representation. These weaknesses are due to our inadequate staffing during the period covered by this report and our lack of working capital to hire additional staff. Management has retained an outside, independent financial consultant to record and review all financial data, as well as prepare our financial reports, in order to mitigate this weakness. Although management will periodically re-evaluate this situation, at this point it considers that the risk associated with such lack of segregation of duties and the potential benefits of adding employees to segregate such duties are not cost-justified. We intend to hire additional accounting personnel to assist with financial reporting as soon as our finances will allow.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

No changes in our internal control over financial reporting occurred during the year ended June 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

As of June 30, 2022, the members of the present Board of Directors and Officers are:

Name	Office	Age
Van Thuy Tran	Chief Executive Officer, Chairman of the Board, Treasurer	77
Laird Powers	Director	74

Each director will serve until the next annual meeting of shareholders, or until their respective successors have been elected and duly qualified. Directors serve one-year terms. The Board of Directors appoints officers.

Ms. Van Thuy Tran is the Chief Executive Officer and Chairman of the Board. Ms. Tran controls a majority interest in the Company. She was President of Asia Consulting and Trading Company from 1979 to 1999, a company dealing with trade in the Pacific Rim countries. She is the co-founder of Circle of Love, providing mission work in Vietnam since 1993. She is the founder of Caring for Others, a non-profit organization with the vision of sharing what we have with others. She was the founder of Equal Partners, Inc., a construction and building company in Minnesota. Ms. Van Tran has a medical degree and worked in the medical field for over 17 years.

Laird E. Powers is a member of the Board and is a private investor in emerging technology companies. He has been involved with the Company since its early stages in 1986. In addition, for the past 32 years, he is the president and owner of a construction company in Northern California. He holds a Bachelor of Science degree in Psychology with a Mathematics minor from California State University - Hayward.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the "34 Act") requires our officers and directors and persons owning more than ten percent of the Common Stock, to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC"). Additionally, Item 405 of Regulation S-K under the 34 Act requires us to identify in our Form 10-K and proxy statement those individuals for whom one of the above referenced reports was not filed on a timely basis during the most recent year or prior years. To the best of our knowledge, all required reports were filed.

Committee and Board Meetings

Three meetings of our Board of Directors was held in fiscal 2022. The Audit Committee is currently comprised of one independent director who does qualify as an "audit committee financial expert," as defined by the rules of the Securities and Exchange Commission and the NASDAQ Capital Market.

Director Independence

Each of our current board of directors is independent under the revised listing standards of The NASDAQ Stock Market, Inc.

Code of Ethics

We have adopted a code of ethics, which is available on our website at <https://www.veritecinc.com/management-team>. Our code of ethics applies to all of our employees, including our officers and directors. If our Board grants any waivers of, or amendments to, the code of ethics to any of our executive officers or directors, we will disclose these matters through our website.

Family Relationships

No family relationship has ever existed between any director, executive officer of the Company, and any person contemplated to become such.

Involvement in Certain Legal Proceedings

Our directors, executive officers, and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Corporate Governance

We are committed to having sound corporate governance principles. We believe that such principles are essential to running our business efficiently and to maintaining our integrity in the marketplace.

There have been no changes to the procedures by which stockholders may recommend nominees to our Board of Directors.

Director Qualifications

We believe that our directors should have the highest professional and personal ethics and values, consistent with our longstanding values and standards. They should have broad experience at the policy-making level in business or banking. They should be committed to enhancing stockholder value and should have sufficient time to carry out their duties and to provide insight and practical wisdom based on experience. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform responsibly all director duties for us. Each director must represent the interests of all stockholders. When considering potential director candidates, the board of directors also considers the candidate's character, judgment, diversity, age and skills, including financial literacy and experience in the context of our needs and the needs of the board of directors.

ITEM 11. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table summarizes all compensation for fiscal years 2022 and 2021 who was the only individual that served as a principal executive officer, and who was the only "Named Executive Officer" of the Company.

Name	Year	Salaries (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Van Thuy Tran Chief Executive Officer	2022	\$150,000	—	—	—	—	\$150,000
Van Thuy Tran Chief Executive Officer	2021	\$150,000	—	—	—	—	\$150,000

Employment Agreements

On December 5, 2008, the Company entered into an employment agreement with Van Thuy Tran providing for an annual base salary of \$150,000 and customary medical and other benefits. The agreement may be terminated by either party upon 30 days' notice. In the event the Company terminates the agreement without cause, Ms. Tran will be entitled to \$1,000,000 payable upon termination and entitled to severance equal to 12 months compensation and benefits. The Company has also agreed to indemnify Ms. Tran against any liability or damages incurred within the scope of her employment.

Director Compensation

The following table summarizes the compensation paid to our directors for the year ended June 30, 2022:

Name	Year	Fees Earned or Paid in Cash (\$)	Bonus (\$)	Stock Awards (\$ (3))	Option Awards (\$)	All Other Compensation (\$)	Total (\$)
Van Tran Director and Chief Executive Officer (1)	2022	—	—	—	—	—	—
Laird Powers, Director (1)	2022	—	—	—	—	—	—

(1) Directors who are employed by the Company do not receive separate compensation for services on the Board of Directors. Members of the Board of Directors who are not employees of the Company currently receive no fees. In addition, members of the Board of Directors are reimbursed for any expenses incurred in attending the meetings.

Outstanding Equity Awards at Fiscal Year End

None of our named executive officers has outstanding equity awards received as compensation, including unexercised options, stock that has not vested, or equity incentive plan awards, as of the end of the Company's last completed fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The following table sets forth certain information as of June 30, 2022 with respect to the holdings of: (1) each person known to us to be the beneficial owner of more than 5% of our Common Stock; (2) each of our directors, nominees for director and named executive officers; and (3) all directors and executive officers as a group. To the best of our knowledge, each of the persons named in the table below as beneficially owning the shares set forth therein has sole voting power and sole investment power with respect to such shares, unless otherwise indicated.

Except as otherwise indicated below, the persons named in the table have sole voting and investment power with respect to all shares of common stock held by them. Unless otherwise indicated, the principal address of each listed executive officer and director is 2445 Winnetka Avenue North, Golden Valley, MN 55427.

Name	Number of Shares Beneficially Owned	Percent of Shares
Laird Powers	252,984	0.6%
Van Thuy Tran	229,250	0.6%
All Officers and Directors as a group (3 persons)	482,234	1.2%
The Matthews Group LLC (1)	29,352,547	73.4%
(1) The above shares include 50% of the shares owned or issuable to The Matthews Group. Van Thuy Tran and Lawrence J. Johanns each own 50% of The Matthews Group.		

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The Company's transactions with its officers, directors, and affiliates have been, and such future transactions will be, on terms no less favorable to the Company than could have been realized by the Company in arms-length transactions with non-affiliated persons and will be approved by the board of directors.

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.

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 June 30, 2023. 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 up to May 31, 2017, and 35% of all revenues up to June 30, 2023, from the barcode technology operations. During the years ended June 30, 2022 and 2021, the Company recorded management fee revenue related to this agreement of \$263,000 and \$296,000, 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 years ended June 30, 2022 and 2021, cash flow loans of \$503,000 and \$497,000, respectively, were made to the Company at 10% interest per annum and due on demand. At June 30, 2022, cash flow loans of \$4,177,000 are due to The Matthews Group.

Advances from Related Parties

As of both June 30, 2022 and 2021, \$102,000 and \$96,000 of advances due to Ms. Van Tran have been presented as accounts payable, related party on the accompanying 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 both the years ended June 30, 2022 and 2021, lease payments to Ms. Van Tran totaled \$51,000.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed to the Company for professional services rendered by the Company's independent registered public accounting firm, for the years ended June 30, 2022 and 2021:

Fees	2022	2021
Weinberg & Company, CPAs		
Audit fees	\$ 43,000	\$ 67,000
Audit Related fees	—	—
Tax fees	—	—
All other fees	—	—
Total Fees	\$ 43,000	\$ 67,000

Audit Fees: Consist of fees billed for professional services rendered for the audits of our financial statements and reviews of our interim consolidated financial statements included in quarterly reports.

PART IV

Item 15. EXHIBITS

Exhibit Number	Ref	Description of Document
----------------	-----	-------------------------

3.1		<u>Restated Articles of Incorporation of Veritec, Inc. dated May 3, 1997 (incorporated by reference to Exhibit 3(i) to Veritec' s Quarterly Report on Form 10QSB for the quarter ended March 31, 2007, as filed on May 15, 2007).</u>
3.2		<u>Bylaws of Veritec, Inc. (incorporated by reference to Exhibit 3(ii) to Veritec' s Quarterly Report on Form 10QSB for the quarter ended December 31, 2006, as filed on February 14, 2007).</u>
31.1	*	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2		Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	*	<u>Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.</u>
32.2		Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	*	XBRL Instance Document
101.SCH	*	XBRL Taxonomy Extension Schema Document
101.CAL	*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

Item 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERITEC, INC.
a Nevada corporation

October 7, 2022

By: /s/ Van Thuy Tran
Van Thuy Tran
Chief Executive Officer
(Principal Executive Officer)

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

Signature	Title	Date
<u>/s/ VAN THUY TRAN</u> Van Thuy Tran	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	October 7, 2022
<u>/s/ LAIRD POWERS</u> Laird Powers	Director	October 7, 2022

