VERAMARK TECHNOLOGIES INC
Form 10-Q
May 14, 2008

Table of Contents

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934
For Quarter Ended March 31, 2008
Commission File Number 0-13898
Veramark Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	16-1192368
(State or other jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

3750 Monroe Avenue, Pittsford, NY 14534
(Address of principal executive offices)(Zip Code)
(585) 381-6000
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES o NO þ

The number of shares of Common Stock, $.10 par value, outstanding on March 10, 2008 was 9,461,368.

INDEX

Table of Contents

PART I FINANCIAL INFORMATION

VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 372,010	$ 713,342
Investments	1,676,914	1,492,288
Accounts receivable, trade (net of allowance for doubtful accounts of $32,826 and $30,000, respectively)	1,112,625	1,303,240
Inventories, net	13,794	31,764
Prepaid expenses and other current assets	259,598	254,274
Total Current Assets	3,434,941	3,794,908
PROPERTY AND EQUIPMENT		
Cost	3,832,076	5,955,064
Less accumulated depreciation	(3,338,013)	(5,433,650)
Property and Equipment (Net)	494,063	521,414
OTHER ASSETS:		
Software development costs (net of accumulated amortization of $2,442,754 and $2,179,290, respectively)	2,975,410	3,038,410
Pension assets	3,234,027	3,210,204
Deposits and other assets	815,756	830,756
Total Other Assets	7,025,193	7,079,370
TOTAL ASSETS	$ 10,954,197	$ 11,395,692

The accompanying notes are an integral part of these financial statements.

Table of Contents

VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 258,273	$ 317,127
Accrued compensation and related taxes	594,744	934,387
Deferred revenue	3,491,664	3,369,324
Current portion of pension obligation	450,565	440,084
Other accrued liabilities	181,381	270,524
Total Current Liabilities	4,976,627	5,331,446
Pension obligation	5,105,558	5,072,447
Total Liabilities	10,082,185	10,403,893
STOCKHOLDERS EQUITY:		
Common Stock, par value $.10; shares authorized, 40,000,000; shares issued and outstanding, 9,546,593 and 9,169,093	954,659	916,909
Additional paid-in capital	22,180,996	22,171,341
Accumulated deficit	(21,801,912)	(21,607,785)
Treasury stock (80,225 shares, at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	(75,974)	(102,909)
Total Stockholders Equity	872,012	991,799
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 10,954,197	$ 11,395,692

The accompanying notes are an integral part of these financial statements.

Table of Contents

VERAMARK TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF OPERATIONS (Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
NET SALES		
Product sales	$ 611,500	$ 736,475
Service sales	2,060,146	2,612,167
Total Net Sales	2,671,646	3,348,642
COSTS AND OPERATING EXPENSES:		
Cost of sales	714,963	987,944
Engineering and software development	297,858	250,947
Selling, general and administrative	1,871,673	2,004,491
Total Costs and Operating Expenses	2,884,494	3,243,382
INCOME (LOSS) FROM OPERATIONS	(212,848)	105,260
NET INTEREST INCOME	18,721	12,252
INCOME (LOSS) BEFORE INCOME TAXES	(194,127)	117,512
INCOME TAXES		
NET INCOME (LOSS)	$ (194,127)	$ 117,512
NET INCOME (LOSS) PER SHARE		
Basic	$ (0.02)	$ 0.01
Diluted	$ (0.02)	$ 0.01

The accompanying notes are an integral part of these financial statements.

Table of Contents

VERAMARK TECHNOLOGIES, INC.
CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended March 31,	
	2008	**2007**
OPERATING ACTIVITIES:		
Net income (loss)	$ (194,127)	$ 117,512
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities		
Depreciation and amortization	331,589	276,659
Bad debt expense	3,000	7,470
Share based compensation expense	21,500	3,000
Pension assets	(23,823)	
Loss on disposal of fixed assets	14,571	(23,823)
Unrealized gain on sale of investments	41,060	5,373
Changes in assets and liabilities		
Accounts receivable	187,615	(12,642)
Inventories	17,970	(5,539)
Prepaid expenses and other current assets	(5,324)	(46,444)
Deposits and other assets	15,000	
Accounts payable	(58,854)	(9,480)
Accrued compensation and related taxes	(339,643)	24,979
Deferred revenue	122,340	104,404
Other accrued liabilities	(89,143)	(15,277)
Pension obligation	29,467	113,067
Net cash flows provided by operating activities	73,198	539,259
INVESTING ACTIVITIES:		
Purchase of investments	(184,626)	(121,113)
Capitalized software development costs	(200,464)	(304,197)
Additions to property and equipment	(55,345)	(20,390)
Net cash flows used by investing activities:	(440,435)	(445,700)
FINANCING ACTIVITY:		
Exercise of stock options	25,905	172
Net cash flows provided by financing activities	25,905	172
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(341,332)	93,731
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	713,342	845,384
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 372,010	$ 939,115

6

Table of Contents

	Three Months Ended March 31, 2008	2007
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Transactions:		
Income taxes paid, net	$ 4,425	$ 404
Interest paid	$ 1,401	$ 453

The accompanying notes are an integral part of these financial statements.

Table of Contents

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

(1) GENERAL

The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company s management, are necessary to present fairly the Company s financial position as of March 31, 2008, the results of its operations for the three months ended March 31, 2008 and 2007, and cash flows for the three months ended March 31, 2008 and 2007.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the financial statements and related notes contained in the Company s Annual Report on Form 10-K to the Securities and Exchange Commission for the year ended December 31, 2007.

The results of operations and cash flows for the three months ended March 31, 2008 are not necessarily indicative of the results to be expected for the full year s operation.

(2) PROPERTY AND EQUIPMENT

The major classifications of property and equipment at March 31, 2008, and December 31, 2007 were:

	March 31, 2008	December 31, 2007
Machinery and equipment	$ 128,390	$ 795,905
Computer hardware and software	1,276,377	2,093,026
Furniture and fixtures	1,041,512	1,677,783
Leasehold improvements	1,385,797	1,388,350
	$ 3,832,076	$ 5,955,064

For the quarter ended March 31, 2008, the Company recorded depreciation expense of $68,125. Depreciation expense for the quarter ended March 31, 2007 was $62,877.

(3) STOCK-BASED COMPENSATION

The Company s share-based compensation consists of restricted stock and stock options, generally vesting over periods ranging from one to four years. For the quarter ended March 31, 2008, the company awarded restricted stock grants totaling 320,000 shares vesting over three years. There were no grants of stock options. During the first quarter of 2007 there were no awards of restricted stock or stock option grants.

A summary of the status of the Company s stock option plan as of March 31, 2008 is presented below:

Table of Contents

	Shares	Average Exercise Price	Average Grant-Date Fair Value	Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2007	2,257,943	$ 1.60	$ 1.32	5.1	$ 548,550
Granted					
Exercised	(57,500)	0.45			(4,630)
Canceled	(36,280)	4.81			(30,506)
Outstanding as of March 31, 2008	2,164,163	$ 1.57	$ 1.30	4.9	$ 513,414
Options exercisable at March 31, 2008	2,037,878	$ 1.62	$ 1.33	4.7	$ 512,853

As of March 31, 2008, there was $61,170 of total unrecognized compensation cost related to non-vested stock options granted under the Plan and $223,500 of unrecognized compensation cost related to non-vested restricted stock grants. The compensation cost for stock options will be recognized over a weighted-average period of 2.1 years. The compensation costs of restricted stock will be recognized over a weighted-average period of 1.5 years.

(4) TOTAL COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) for the first quarter of 2008 and 2007 was as follows:

	Three Months Ended March 31, 2008	2007
Net income (loss)	$ (194,127)	$ 117,512
Reclassification to net periodic benefit cost	22,122	
Unrealized change pension	(36,247)	
Unrealized change on investments	41,060	5,373
Total comprehensive loss	$ (167,192)	$ 122,885

(5) NET INCOME (LOSS) PER SHARE (EPS)

SFAS 128 Earnings Per Share requires the Company to calculate net income (loss) per share based on basic and diluted net income (loss) per share, as defined. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of outstanding options issued by the Company are reflected in diluted EPS using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options.

Table of Contents

Calculations of Earnings (Loss) Per Share

	Three Months Ended March 31, 2008	2007
Basic		
Net income (loss)	$ (194,127)	$ 117,512
Weighted average common shares outstanding	9,346,912	8,855,134
Net income (loss) per common share	$ (0.02)	$ 0.01
Diluted		
Net income (loss)	$ (194,127)	$ 117,512
Weighted average common shares outstanding	9,346,912	8,855,134
Additional dilutive effect of stock options and warrants after application of treasury stock method		567,361
Weighted average dilutive shares outstanding	9,346,912	9,422,495
Net income (loss) per common share assuming full obligation	$ (0.02)	$ 0.01

There were no dilutive effects of stock options in the first quarter of 2008, as the effect would have been anti-dilutive due to the net loss incurred.

(6) INDEMNIFICATION OF CUSTOMERS

Our agreements with customers generally require us to indemnify the customer against claims that our software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including our right to replace an infringing product. As of March 31, 2008 we had not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. We do not expect significant claims related to these indemnification obligations, and consequently, we have not established any related reserves.

(7) BENEFIT PLANS

The Company sponsors an employee incentive savings plan under Section 401(k) for all eligible employees. The Company s contributions to the plan are discretionary. There were no contributions to the plan for the three months ended March 31, 2008 and 2007.

Table of Contents

The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a non-qualified plan that provides certain key employees defined pension benefits. Periodic pension expense for the three months ended March 31, 2008 and 2007 consists of the following:

	Three Months Ended March 31,	
	2008	2007
Current Service Cost	$ 14,438	$ 68,180
Amortization of Prior Service Cost	22,122	15,700
Interest Cost	82,688	78,720
Unrealized change	(36,247)	
Pension Expense	$ 83,001	$ 162,600

The Company paid pension obligations of $53,533 for the three months ended March 31, 2008 and $49,533 for the three months ended March 31, 2007.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6% for the three months ended March 31, 2008 and 2007.

The Company maintains life insurance covering certain key employees under its Supplemental Executive Retirement Program with the Company named as beneficiary. The Company intends to use the death benefits of these policies, as well as loans against the accumulating cash surrender value of the policies, to fund future pension obligations. The total death benefit associated with these policies is $10.2 million, with an associated accumulated cash surrender value of approximately $3,234,000 at March 31, 2008. The accumulated cash surrender values of these policies at December 31, 2007 was approximately $3,210,000.

The projected pension benefits paid or expected to be paid under this plan are as follows, assuming retirement at 65 and a life expectancy of 80 years for all participants:

Period Ending December 31, Unless Stated Otherwise,	
Q1 2008	53,533
Q2 - Q4 2008	386,551
2009	498,192
2010	498,192
2011	468,058
2012	513,842
2013 - 2016	2,717,021

The Company has a contractual obligation to maintain certain health benefits for two of its former executive officers. These benefits are accounted for as Post Retirement Healthcare Benefits, (PRHB).

Table of Contents

Periodic PRHB expensed and paid for the three months ended March 31, 2008 and 2007 consists of the following:

	Three Months Ended March 31,	
	2008	**2007**
Current Service Cost	$ 1,892	$ 1,130
Interest Cost	1,521	620
PRHB Expense	$ 3,413	$ 1,750

The projected PRHB paid or expected to be paid are as follows:

Period Ending December 31, Unless Stated Otherwise,	
Q1 2008	3,413
Q2 - Q4 2008	10,239
2009	13,649
2010	13,649
2011	13,649
2012	13,649
2013 - 2016	37,096

Table of Contents

Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Management s Discussion and Analysis contains statements that are forward-looking. Such statements are identified by the use of words like plans, expects, intends, believes, will, anticipates, estimates and other w similar meaning in conjunction with, among other things, discussions of future operations, financial performance, the Company s strategy for growth, product development, regulatory approvals, market position and expenditures. Forward-looking statements are based on management s expectations as of the date of this report. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Forward-looking statements are subject to the risks identified in Issues and Risks and elsewhere in this report. Readers are cautioned not to place undue reliance on forward-looking statements and are advised to review the risks identified in Issues and Risks and elsewhere in this report. The Company has no obligation to update forward-looking statements.

Overview

Sales of $2,672,000 for Veramark s first quarter ended March 31, 2008 decreased $677,000 from sales of $3,349,000 for the quarter ended March 31, 2007. First quarter 2007 sales had included a non-recurring $570,000 component of a managed service contract initiated in late 2006. The net loss for the quarter ended March 31, 2008 of $194,000, or $0.02 per share, compared with a net income of $118,000, or $0.01 per diluted share for the first quarter of 2007. Orders booked for the quarter ended March 31, 2008 were virtually unchanged from the first quarter of 2007, with increased orders for VeraSMART and Managed Services offset by lower orders for eCAS and Quantum maintenance renewals. Support for the Quantum Series, VeraSMART s predecessor, was discontinued at the end of 2007. Effective January 1, 2008 Anthony C. Mazzullo joined Veramark as President and Chief Executive Officer. Since that time, the Company s management team and organizational structure have been realigned with initial benefits of lower annual labor expenses and the creation of positions for new management talent that was subsequently hired. One-time expenses of approximately $130,000 associated primarily with severance payments were incurred during the quarter negatively impacting net income and cash flow. The new management believes that the restructuring was necessary in order to better position the company to execute a more compelling market strategy. Labor expense savings offset somewhat by expense associated with new positions created to fill critical needs is expected to have a net reduction in the annualized expense rate.

Sales

Sales of VeraSMART product and services increased 32% for the quarter ended March 31, 2008 from the same quarter of 2007, accounting for 33% of total sales. New installations of VeraSMART were completed with Abbott Labs, Blue Cross/Blue Shield of Florida, Northrop Grumman, and the Sacramento Municipal Utility District, among others. Additionally, in the first quarter of 2008 we announced the release of VeraSMART 7.0 offering innovative Telecom Expense Management (TEM) features, user configurable dashboards, and enhanced support for diverse enterprise and carrier networks.

Table of Contents

Sales of eCAS products and services for the quarter ended March 31, 2008 decreased 18% as compared with the same quarter of 2007. The decrease in eCAS sales reflects lower sales through our largest channel of distribution for eCAS, Avaya Inc., and their master distributor channel partners. In February 2008, Veramark announced the signing of a distribution agreement with Ingram Micro enabling eCAS to be accessible to Ingram Micro s network of reseller customers in the United States beginning March 1, 2008.

Revenues generated from managed service contracts for the quarter ended March 31, 2008 decreased 45% from the prior year due to the non- recurring portion of 2007 revenue associated with the contract discussed above. After adjustment for that event, recurring revenues from existing managed service contracts increased 48% from the first quarter of 2007.

Cost of Sales

Gross margin (sales less cost of sales) for the quarter ended March 31, 2008 of $1,957,000 decreased $404,000 from the gross margin of $2,361,000 for the quarter ended March 31, 2007 primarily due to the lower sales volume. Gross margins as a percentage of sales improved however, representing 73% of sales for the quarter ended March 31, 2008 versus 70% of sales for the same quarter of 2007, reflecting lower costs associated with the provisioning of managed service contracts.

Operating Expenses

Engineering and software development expenses, net of the effect of software capitalization increased 19% from $251,000 for the quarter ended March 31, 2007 to $298,000 for the quarter ended March 31, 2008 due to a decrease in the level of software development costs capitalized. The chart below summarizes the Company s development efforts for the first quarters of 2008 and 2007, itemizing gross engineering and software development costs incurred, software development costs capitalized, and the resulting net engineering and software developments costs included in the statement of operations.

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Gross expenditures for engineering and software development	$ 498,000	$ 555,000
Less: Software development costs capitalized	(200,000)	(304,000)
Net expenses for engineering and software development included in the Company s statement of operations	$ 298,000	$ 251,000

Expenses for selling, general and administrative (SG&A) functions decreased 7%, or $132,000, from $2,004,000 for the quarter ended March 31, 2007 to $1,872,000 for the quarter ended March 31, 2008. The decrease was principally due to the restructuring efforts undertaken throughout the organization referred to in the overview section of this report, the effect of which resulted in reductions in salaries, benefits and pension expenses.

Table of Contents

Liquidity and Capital Resources

Our total cash position (cash plus short term investments) of $2,049,000 at March 31, 2008 compares with a total cash position of $2,206,000 at December 31, 2007 and $1,910,000 at March 31, 2007. The reduction in cash position includes the effect of severance and termination costs associated with the restructuring and reorganization efforts referred to earlier in this document. Accounts receivable of $1,113,000, net of a bad debt reserve of $33,000, at March 31, 2008 compares with accounts receivable of $1,303,000, net of a bad debt reserve of $30,000 at December 31, 2007. There were no significant write-offs or changes to customer payment trends during the first quarter of 2008.

Prepaid expenses at March 31, 2008 of $260,000 increased $6,000 from the December 31, 2007 balance of $254,000. The increase is attributable to the renewal and payment of 2008 business insurances, the economic benefit of which extends over the balance of the year.

Capital equipment additions for the first quarter of 2008 totaled $55,000 which compared with $20,000 of capital additions during the first quarter of 2007. During the first quarter we wrote-off $2,178,000 of capital assets, primarily computer equipment, office furniture, and fixtures which were either obsolete, or no longer in service. The majority of those assets were fully depreciated, with the net residual book value of these assets totaling $15,000, which was charged against operations in the quarter. At March 31, 2008 the net book value of property and equipment was $494,000, which compared with $521,000 at December 31, 2007.

Software development costs capitalized and reported in the balance sheet at March, 31, 2008 of $2,975,000, decreased 2% from the December 31, 2007 balance of $3,038,000. For the first three months of 2008 we capitalized $200,000 of software development costs, down from $304,000 for the first three months of 2007. Amortization of previously capitalized costs totaled $263,000 through March 31, 2008 as compared with amortization costs of $214,000 for the same period a year ago.

Pension assets of $3,234,000 at March 31, 2008 increased $24,000 from the December 31, 2007 balance of $3,210,000. Pension assets consist entirely of the current cash surrender values on a series of company-owned life insurance policies designed to fund future pension obligations. These cash surrender values are also available for use in meeting current operational activities if required.

Total current liabilities decreased 7%, or $354,000, from the December 31, 2007 balance of $5,331,000 to $4,977,000 at March 31, 2008. Accrued compensation costs decreased $354,000 primarily due to a reduction in accruals associated with the December 31, 2007 retirement of the company s former Chief Executive Officer. Additionally, accounts payable and other accrued liabilities were reduced by $59,000 and $90,000, respectively, from December 31, 2007 balances. Offsetting those reductions was an increase of $123,000 in deferred revenues, primarily in the form of additional maintenance contracts. Deferred revenues represent services for which the company has billed customers, but has not yet performed the contracted service, and as such, represent a portion of our current backlog. It is expected that the majority of those services, consisting largely of maintenance and support, training and installation services and will be performed over the next twelve months and recognized as revenue.

Stockholders equity at March 31, 2008 of $872,000 represents a decrease of $120,000 from the December 31, 2007 total of $992,000 and includes the first quarter 2008 net loss of $194,000. During the first quarter of 2008 there were 57,500 stock options exercised by employees.

Table of Contents

In light of the Company s cash and investment position, overall liquidity and absence of debt, it is the opinion of management that sufficient resources exist to fully fund current operations and development programs for the next twelve months and beyond.

Table of Contents

Accounting Pronouncements

1) In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115 . SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value at specified election dates. This Statement applies to all entities, including not-for-profit organizations. SFAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2008. Adoption of SFAS 159 did not have a material impact on the Company s financial statements.

2) In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2008. Adoption of SFAS 159 did not have a material impact on the Company s financial statements.

3) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations . SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending December 31, 2009. The Company does not expect adoption of SFAS 141(R) to have a material effect on its financial statements.

4) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending December 31, 2009. The Company does not expect SFAS 160 to have a material effect on its financial statements.

5) In December 2007, the SEC issued Staff Accounting Bulletin No. 110 (SAB 110). SAB 110 permits companies to continue to use the simplified method, under certain circumstances, in estimating the expected term of plain vanilla options beyond December 31, 2007. SAB 110 updates guidance provided in SAB 107 that previously stated that the Staff would not expect a company to use the simplified method for share option grants after December 31, 2007. Adoption of SAB 110 did not expect to have a material impact on the Company s financial statements.

Table of Contents

6) In March 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force (EITF) Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements . EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2008. Adoption of EITF 06-10 did not have a material impact on the Company s financial statements.

Table of Contents

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The most significant of these involving difficult or complex judgments include:

- Revenue recognition
- Capitalization of software development costs
- Allowance for Doubtful Accounts
- Pension liability

In each situation, management is required to make estimates about the effects of matters or future events that are inherently uncertain.

The Company s revenue consists of revenues from the licensing of software to resellers and end user customers; fees for services rendered to include installation, training, implementation, and customer maintenance contracts; and the outsourcing or hosting of services.

The Company recognizes software license revenue under Statement of Position No 97-2 Software Revenue Recognition as amended by Statement of Position No. 98-9, Software Revenue Recognition With Respect to Certain Transactions , Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables , and related interpretations.

Sales of licensed software sold directly to an end user customer are recognized as revenue upon delivery and installation of the software at the customer site. Sales of licensed software to a reseller are recognized as revenue when delivery is made to the reseller. Regardless of the form of sale no revenue is recognized without persuasive evidence of an arrangement existing. Persuasive evidence is determined to be a signed purchase order received from the customer or an equivalent form for those customers lacking a formalized purchase order system. In the case of VeraSMART sales, a software license agreement signed by both parties is often required in addition to a purchase order or equivalent. Additionally, revenue is only recognized when a selling price is fixed or determinable and collectibility of the receivable is deemed to be probable.

Service revenues such as training, installation and implementation are recognized when the service is complete and acknowledged by the customer, regardless as to whether the sale is on a direct basis or through a reseller arrangement.

Fees charged to customers for post-contract Customer Support are recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred.

Sales which constitute a multiple-element arrangement are accounted for by determining if the elements can be accounted for as separate accounting units, and if so, by applying values to those units for which there is vendor specific objective evidence of their fair value. We use the residual method to apply any remaining balance to the remaining elements of the arrangement. More specifically, this methodology applies when there is embedded maintenance (post-contract customer support) involved in the sale of a software license, or when the sale of a software license is made in conjunction with installation services. In the latter case, the recognition of the software license is deferred until installation is completed.

Table of Contents

The Company s revenues generated through hosting solutions are recognized using the proportional performance method. Revenues are recognized in the month services are rendered and earned under service agreements with clients where service fees are fixed or determinable. Contracts can be terminated with 90 days written notice. All services provided by us through the date of cancellation are due and payable under the contract terms.

The Company believes its revenue recognition policies are appropriate, in all circumstances, and that its policies are reflective of complexities arising from customer arrangements involving such features as maintenance, warranty agreements, license agreements, and other normal course of business arrangements.

The Company capitalizes software development costs when technological feasibility has been established for the software in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Such capitalized costs are amortized on a product-by-product basis over their economic life or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization. The Company periodically reviews the carrying value of capitalized software development costs and impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value. Should the Company inaccurately determine when a product reaches technological feasibility or the economic life of a product, results could differ materially from those reported. Veramark uses what it believes are reasonable assumptions and where applicable, established valuation techniques in making its estimates.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the potential inability of its customers to make required payments. Management specifically analyzes accounts receivable, historical bad debts, credit concentrations and customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

The Company sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a nonqualified plan that provides certain key employees a defined pension benefit. In order to properly record the net present value of future pension obligations a number of assumptions are required to be made by Company s management. These assumptions include years of service, life expectancies, and projected future salary increases for each participant. In addition, management must make assumptions with regard to the proper long-term interest and liability discount rates to be applied to these future obligations.

Should the Company need to alter any of these assumptions, there is the potential for significant adjustments to future projected pension liabilities.

Issues and Risks

The following factors, among others discussed herein and in the Company s filings under the Act, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: economic, competitive, governmental and technological factors, increased operating costs, failure to obtain necessary outside financing, risks related to natural disasters and financial market fluctuations. Such factors also include:

Intellectual Property Rights

Veramark regards its software as proprietary and attempts to protect it with a combination of copyright, trademark and trade secret protections, employee and third-party non-disclosure agreements and other methods of protection. Despite those precautions, it may be possible for unauthorized third parties to copy certain portions of Veramark s products, reverse engineer or obtain and use information that Veramark regards as proprietary. The laws of some foreign countries do not protect Veramark s proprietary rights to the same extent as the laws of the United States. Any misappropriation of Veramark s intellectual property could have a material adverse effect on its business and results of operations. Furthermore, although Veramark take steps to prevent unlawful infringement of other s intellectual property, there can be no assurance that third parties will not assert infringement claims against Veramark in the future with respect to current or future products. Any such assertion could require Veramark to enter into royalty arrangements or result in costly litigation.

New Products and Services

Veramark has made significant investments in research, development and marketing for new products, services and technologies, including the VeraSMART® software offering and its service bureau outsourced solutions. Significant revenue from new product and service investments may not be achieved for a number of years, if at all. Moreover, if such products or services are profitable, operating margins may not be as high as the margins historically experienced by Veramark.

Declines in Demand for Software

If overall market demand for software and computer devices generally, as well as call accounting software or enterprise level products specifically, declines, or corporate spending for such products declines, Veramark s revenue will be adversely affected. Additionally, Veramark s revenues would be unfavorably impacted if customers reduce their purchases of new software products or upgrades to existing products.

Product Development Schedule

The development of software products is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products, particularly any delays in future releases of the VeraSMART® suite of products, could adversely affect Veramark revenues.

Competition

Veramark experiences intensive competition across all markets for its products and services. Some competing firms have greater name recognition and more financial, marketing and technological resources than Veramark. These competitive pressures may result in decreased sales volumes, price reductions, and/or increased operating costs, such as for marketing and sales incentives, resulting in lower revenues, gross margins and operating income.

Marketing and Sales

Veramark s marketing and distribution strategy is founded on building mutually beneficial relationships with companies that have established distribution networks. Some sell privately labeled, customized products developed and manufactured by Veramark to their specific specifications, while others resell Veramark s products. Any loss of the continued availability of those relationships could have a material adverse effect on Veramark s business and results of operations.

Table of Contents

Item 3 Quantitative and Qualitative Disclosures About Market Risk

The Company has no long-term bank debt obligations. The Company has no foreign currency exchange risk and has no foreign currency exchange contracts.

Item 4 Controls and Procedures

Based upon an evaluation as of the end of the period covered by this report, the Company s Chief Executive Officer and Treasurer (Chief Accounting Officer) concluded that the Company s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms and (ii) accumulated and communicated to the Company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There have been no changes in the Company s internal controls over financial reporting, that occurred during the period covered by this report, that have materially affected, or are reasonably likely to materially affect the Company s internal controls over financial reporting.

The Company s disclosure controls and procedures and internal controls over financial reporting provide reasonable, but not absolute, assurance that all deficiencies in design or operation of those control systems, or all instances of errors or fraud, will be prevented or detected. Those control systems are designed to provide reasonable assurance of achieving the goals of those systems in light of the Company s resources and nature of the Company s business operations. The Company s disclosure controls and procedures and internal control over financial reporting remain subject to risks of human error and the risk that controls can be circumvented for wrongful purposes by one or more individuals in management or non-management positions.

Table of Contents

PART II OTHER INFORMATION

Item 5: Certification of Chief Executive Officer and Chief Financial Officer

The Company s Chief Executive Officer and the Company s Chief Financial Officer have provided the certifications with respect to this Form 10-Q that are required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. These certifications have been filed as Exhibits 31.1 and 31.2 and Exhibits 32.1 and 32.2, respectively.

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits required by Item 601 of Regulation S-K

(I) Registrant s Condensed Financial Statements for the three months ended March 31, 2008 and 2007 are set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q.

(31.1) CEO Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) CFO Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32.1) CEO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) CFO Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

VERAMARK TECHNOLOGIES, INC.
REGISTRANT

Date: May 14, 2008

/s/ Anthony C. Mazzullo

Anthony C. Mazzullo
President and CEO

Date: May 14, 2008

/s/ Ronald C. Lundy

Ronald C. Lundy
Vice President of Finance and CFO

24