VERAMARK TECHNOLOGIES INC
Form 10-K
April 02, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Annual Report Pursuant to Section 13 or 15 (d) of
the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2000

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)

(716) 381-6000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12 (b) of the Act

NONE	N/A
(Title of Each Class)	(Name of each exchange on which registered)

COMMON STOCK, $.10 PAR VALUE
(Securities registered pursuant to Section 12 (g) of the Act)

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. ____

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 of 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 X NO

The aggregate market value of the voting stock held by non-affiliates of the registrant as of January 31, 2001 was $11,918,981.

The number of shares of Common Stock, $.10 par value, outstanding on January 31, 2001 was 8,188,909.

DOCUMENTS INCORPORATED BY REFERENCE

PART I	-		None
PART II	-		None
PART III	-	Item 10	Pages 2 - 5 and page 11 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001, under "Election of Directors" and "Compliance With Section 16 (a)."
		Item 11	Pages 6 - 8 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001, under "Executive Compensation."
		Item 12	The tables contained on Pages 8 - 9 and the information under "Election of Directors" on Pages 3 - 5 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001.

PART 1

ITEM 1 BUSINESS

Veramark Technologies (the "Company") was incorporated (as MOSCOM Corporation) in New York in January 1983 and reincorporated in Delaware in 1984. The Company's name was changed to Veramark Technologies, Inc. on June 15, 1998. The Company merged with the privately-owned Angeles Group, Inc. on January 7, 2000.

Veramark Technologies, Inc. produces a broad range of telecommunications management systems for users of private branch exchange (PBX) based voice networks, Internet protocol (IP) based voice networks and data networks. These products are used to track, report and manage telephone usage, equipment location and maintenance activity, and telecom fraud. Veramark's products consist primarily of software running under Microsoft Windows 95, Windows 98, Windows 2000 and Windows NT Systems. Target end user customers range from small businesses with 25 employees to the largest organizations in industry, government and health care encompassing hundreds of locations with over 100,000 employees. Veramark's large system products incorporate database management software from Oracle, Informix or Microsoft.

Veramark is one of the world's leading producers of call accounting systems and has sold more than 85,000 of these systems, and related products, to customers in more than 80 countries. Veramark's call accounting systems are sold through leading manufacturers and resellers of telephone systems including Avaya, Exp@Nets, SBC/Ameritech, Philips, Siemens, Pinacor, ScanSource and VodaOne.

Veramark's Enterprise Telemanagement Systems provide to larger enterprises cable management, asset management, and service records in addition to call management. Due to their higher levels of complexity and cost, these more comprehensive systems are sold directly to end users.

Veramark's headquarters, operations, engineering and support staff is located in a 65,000 square foot leased facility in Pittsford, New York. Approximately 35 field sales and support personnel are located in cities with high concentrations of Veramark's products. The Angeles Group Division is located in a 9,453 square foot leased facility in Westlake Village, California.

PRODUCTS AND SERVICES

CALL ACCOUNTING

Veramark's most basic products are CALL ACCOUNTING SYSTEMS which connect to a business telephone system (or PBX) to collect, store, and process information on every outside telephone call made or received.

Call accounting systems give businesses easy access to complete information on telephone usage including the dialed number, calling extension, call duration, time of day, destination, trunk line and cost of each call. All of Veramark's call accounting products provide this fundamental information, in graphical summary and detailed report formats, without monitoring actual phone conversations.

A primary appeal of call accounting systems is that end users save money on telephone and network equipment bills. Telephone bills can be reduced by 10% - 30% through heightened awareness and management. As a result, the cost of a call accounting system can generally be recovered in less than one year through direct expense reduction.

Call accounting systems are purchased and used for many other valuable reasons as well, including:

- Traffic analysis to determine an optimal number of trunks and best long distance carrier configurations.
- Allocating telephone expense to specific cost centers or clients based on actual use.
- Producing revenues by reselling phone services to clients.
- Detecting fraudulent use of the phone system by hackers and unauthorized use of company phones for personal calls or 900 numbers.
- Evaluating employee productivity.

Veramark's premier call accounting product, since its release in 1999, is the Emerald XP software. Emerald XP comes in affordable model sizes ranging from 25 to 20,000 telephone extensions. The Emerald XP system is able to collect and process data from up to 100 different remote telephone switches (PBX's) from one central location. Veramark's economical Pollable Storage Unit (PSU) collects data from the remote PBX's and stores it until polled by a central Emerald XP system. Private label versions of Emerald XP are sold by Avaya and Philips. Emerald XP is designed to be an international product. It supports worldwide call rating, all world currencies, date schemes and privacy practices.

Veramark also produces call accounting software products based on the UNIX operating system. These products are marketed by Avaya and Avaya dealers as an integrated solution with Avaya's smaller telephone systems and application processors.

PBX FRAUD DETECTION SYSTEMS address a problem that is estimated to exceed $1 billion annually - the theft of telephone service through PBX "hacking." PBX owners use call accounting systems to spot potential fraud and take corrective measures to minimize the loss. Veramark offers an optional HackerTracker module with the Emerald XP system to automate the detection of fraud 24 hours per day and send out alarms by printed report or pager to initiate preventive measures.

A typical range of end user prices for Veramark's call accounting and fraud detection systems is from $1,100 to $40,000 per system.

DEFINITY NETWORK TELECOMMUNICATIONS SOFTWARE

Definity Network Telecommunications software ("DNT") is a client/server based enterprise management system that automates cost control and service operations in large corporate voice and network environments. DNT runs on highly scalable single or multi-processor Windows NT computer platforms, the de facto standard for client/server computing in information technology departments throughout the world.

Veramark sells DNT to end user customers as a certified Avaya branded product pursuant to a referral agreement with Avaya.

Target customers for DNT are mid to large size enterprises from all industries and include multi-national corporations, government agencies, and medical and educational institutions. Typical users will have 2,000 to 50,000 telephone extensions in multiple facilities. End user prices will typically range from $45,000 to $235,000 per system.

THE ANGELES GROUP SOLUTIONS

The Quantum Series produced by Veramark's Angeles Group Solution is the Company's most comprehensive telemanagement software product. It consists of fully integrated modules that can also be separated as stand-alone products for Call Accounting, Cable Management, Work Orders, Trouble-Tickets, Phone Bill Management, Consolidated Billing, Inventory Management Personnel Directory, and Telecom Fraud.

1. ASSETS & EQUIPMENT INVENTORY manage the allocation and maintenance of telephones, LAN equipment, videoconferencing systems and other voice, data and imaging apparatus, along with related warranty cost and vendor information.

2. PHONE BILL and its associated VENDOR DATA INTERFACE module automate the electronic receipt of bills from local and long distance service providers plus CLECs, and OCC's, merges these billing statements and translates them into an easily-understandable statement of external network charges. These modules, in conjunction with automated bill verification and auditing, can eliminate substantial sources of error in communications bills.

3. CONSOLIDATED BILLING provides internal network users and clients with a consolidated bill for network usage, trunk charges, special charges, taxes and other recurring and non-recurring network services. Angeles Group customers can customize the format of internally generated bills and provide interfaces to General Ledger and Accounts Payable systems.

4. CALL INTRUDER ALERT (CIA) is a security module that constantly monitors

calling activity looking for potential fraud and provides administrators with real-time pager alerts.

5. CALL-MASTER is a high-performance call accounting module that tracks telephone call usage. Of particular interest is the link to Vendor Data Interface to be able to capture and track detailed call records directly from vendor bills (from cellular phones, credit card calls, private lines). Typical clients process up to 20 million calls per month collected from as many as 35,000 sites.

6. CABLE-MASTER determines the best routing for new network connections, tracks circuits and network connectivity throughout a building or campus and determines who is affected by a cable break or failure of network resources. The AUTOCAD INTERFACE maps network circuit connections to existing facilities drawings.

7. WORK ORDERS & TROUBLE TICKETS accelerate the provisioning of network service changes, improve the accuracy of requests for moves, adds and changes (MACs) and quickly route trouble reports to the appropriate network technicians.

8. PERSONNEL DIRECTORY links each module to the person who "owns" the part or circuit and associates proper cost allocation to the department. It can maintain personal information as well as pictures.

9. DIRECTORY ASSISTANCE assists phone operators, security, reception or the mail room in rapidly locating employees and services.

10. CUSTOMIZED REPORTS and DATABASE BROWSERS helps administrators plan for network growth and movement of personnel.

Each Angeles Group system is customized to meet the special requirements of larger customers with complex voice, data and image networks.

The target for the Quantum series is Fortune 1000 companies and comparably sized organizations in health care, utilities, financial services and government sectors. The Quantum series is sold through a direct sales force and through distributors such as SBC/Ameritech and pursuant to a referral agreement with Avaya. Typical sales prices range from $75,000 to $1 million.

OUTSOURCED TELEMANAGEMENT SOLUTIONS

For companies that recognize the benefits of telemanagement, but lack the means or desire to utilize internal staff and equipment to perform it, Veramark offers a completely outsourced solution. Using the same telemanagement tools developed by Veramark for software customers, Veramark can remotely poll, process and report on telecommunications activity and data. Outsource customers can access standard as well as customized reports by email, fax or CD-ROM. Outsource customers sign multi-year contracts and pay for services monthly based on the number of call records processed.

CENTRAL OFFICES TELEMANAGEMENT

Veramark's INFO/MDR products capture, at the central office, vital information in the form of Message Detail Records on every call handled by that particular central office switch. These raw detail records are then processed into meaningful formats and distributed to a central telephone company billing processor or to business subscribers.

Telephone companies use INFO/MDR to enhance the appeal of Centrex and

Virtual Private Network service. With Centrex service, business customers utilize the telephone company's central office switch to route calls to individual extensions rather than a PBX. INFO/MDR gives telephone companies the ability to provide complete, timely and accurate call detail information to customers, economically and efficiently. Telephone companies are also using INFO/MDR to provide message accounting for virtual private networks, another rapidly growing segment of the telecommunications market. Virtual private networks utilize customized software design to provide private network functionality over the common carrier public network.

Telephone companies with multiple INFO/MDR systems installed include AT&T, Alltel, Bell Atlantic, Century Telephone, Citizens Utilities, Cable & Wireless, SBC/Ameritech and Sprint. End user prices for INFO/MDR range from $26,000 to $80,000 per system.

PROFESSIONAL SERVICES AND MAINTENANCE

To varying degrees all of the Company's products afford an opportunity to provide professional services to customers on a fee basis. The vast majority of active users of Veramark's products pay an annual maintenance fee, which entitles the user to post warranty support via telephone or modem, and new software service pack releases. Annual fees for maintenance range from 10% to 22.5% of the original software license fee, depending upon the hours and priority of support and whether a distributor plays an intermediary support role.

The licensing of Veramark's more complex products, including The Angeles Group Solution, DNT and some Emerald XP systems, include the provision of professional services on a fee basis. These sales typically include installation, implementation and training services and often include software customization and data conversion services.

MARKETING AND SALES

Veramark's marketing and sales personnel are located at its headquarters in Pittsford, New York and 18 locations throughout the United States.

Veramark's marketing and distribution strategy is founded on building mutually beneficial relationships with companies with large, established distribution networks for telecommunications and computer products. The nature of the relationships varies depending on the product and market. For some, Veramark develops and manufactures customized products under a private label while other purchase and resell Veramark's standard products. The Angeles Group Solution is sold through a direct sales force as well as through SBC/Ameritech.

Veramark's marketing strategy is focused upon telephone switch manufacturers and sellers and providers of telephone services. A partial listing of companies using or selling Veramark products follows:

TELECOMMUNICATIONS EQUIPMENT MANUFACTURERS
- Avaya
- Philips
- Siemens

TELEPHONE SERVICE PROVIDERS
- SBC/Ameritech
- AT&T
- Sprint

NEW PRODUCT DEVELOPMENT

Veramark is currently pursuing several opportunities to expand its telemanagement and billing product lines and to offer products for related markets.

Software development costs, meeting recoverability tests, are capitalized in accordance with Statement of Financial Accounting Standard No. 86 when technological feasibility has been established for the software. The costs capitalized are amortized on a product-by-product basis over its estimated life, or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization. The Company periodically records adjustments to write down certain capitalized costs to their net realizable value.

BACKLOG

At December 31, 2000, Veramark had a backlog of $3,878,070. Backlog as of December 31, 1999 was $2,428,377. Backlog is not deemed to be a material indicator of 2001 revenues.

The Company's policy is to recognize orders only upon receipt of firm purchase orders.

COMPETITION

The telecommunications management industry is highly competitive and highly fragmented. The number of domestic suppliers of telemanagement systems for business users is estimated to exceed 100 companies. The vast majority of those are regional firms with limited product lines and limited sales and development resources. Several competitors are established companies that are able to compete with Veramark on a national and international basis.

There are fewer competitors in the market for large scale telemanagement systems for telephone service providers, although several existing competitors are substantially larger than Veramark and may be able to devote significantly more resources to product development and marketing.

With respect to all of Veramark's products, some competing firms have greater name recognition and more financial, marketing and technological resources than Veramark. Competition in the industry is based on price, product performance, depth of product line and customer service. Veramark believes it products are priced competitively based upon their performance and functionality. However, Veramark does not strive to be consistently the lowest priced supplier in its markets. Historically, prices for application software have declined rapidly in the face of competition. Increased competition for the Company's software products could adversely affect the Company's sales volume and profits.

MANUFACTURING

Veramark assembles its products from components purchased from a large variety of suppliers both domestic and international. Wherever feasible, the Company secures multiple sources, but in some cases it is not possible.

Veramark offers warranty coverage on all products for 90 days or one year on parts and 90 days on labor. Customer support services are offered at the Pittsford, New York and Westlake Village, California facilities and by some of the Company's larger customers.

EMPLOYEES

As of December 31, 2000, Veramark employed 174 full-time personnel.

Veramark's employees are not represented by any labor unions.

ITEM 2 FACILITIES

The Company's principal administrative office and manufacturing facility is located in a one-story building in Pittsford, New York. Veramark presently leases approximately 65,000 square feet of the building of which approximately 5,000 square feet is devoted to manufacturing. The term of the lease expires on October 31, 2007.

The Angeles Group Division occupies 9,453 square feet of a building in Westlake Village, California, pursuant to a lease that expires on February 28, 2004.

ITEM 3 LEGAL PROCEEDINGS

There are no material pending legal proceedings against the Company or to which the Company is a party or of which any of its property is the subject.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

Veramark Technologies, Inc. Common Stock, $0.10 par value, is traded on the NASDAQ National Market System (symbol: VERA). The following quotations are furnished by NASDAQ for the periods indicated. The quotations reflect inter-dealer quotations that do not include retail markups, markdowns or commissions and may not represent actual transactions. (See Note 15 to the financial statements for disclosure regarding the cessation of trading on the NASDAQ National Market System).

COMMON STOCK PRICE RANGE

Quarters Ended

	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31
2000	$12.25-4.38	$5.00-3.50	$4.13-2.75	$3.19- 0.63
1999	$8.75-5.75	$7.75-5.88	$11.88-7.50	$14.75-11.00

As of December 31, 2000, there were 609 holders of record of the Company's common Stock and approximately 3,247 additional beneficial holders.

The Company paid a dividend of $0.02 per share in January 1996. No dividends have been paid in subsequent years and no dividend is planned for 2001.

ITEM 6 SELECTED FINANCIAL DATA

YEAR ENDED DECEMBER 31,

	2000	1999	1998	1997	
Net Sales	$16,525,357	$29,396,688	$22,329,113	$16,395,988	$1
Net Income (Loss)	$(6,858,645)	$2,398,586	$1,989,005	$(5,186,131)	$(

Net Income (Loss) per Diluted Share	$(0.85)	$0.27	$0.24	$(0.67)	
Weighted Average Diluted Shares Outstanding	8,079,281	8,800,662	8,272,609	7,692,210	
Cash Dividends paid per share	$0.00	$0.00	$0.00	$0.00	
Total Assets	$11,859,330	$21,289,282	$17,522,034	$12,724,178	$1
Long Term Obligations	$3,373,399	$4,254,483	$3,982,847	$1,983,348	$

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Except for the historical information contained herein, the matters discussed in this report are forward-looking statements, which involve risks and uncertainties including, but not limited to, economic, competitive, governmental and technological factors, affecting the Company's operations, markets, products, services and prices, as well as other factors discussed in the Company's filings with the Securities and Exchange Commission.

RESULTS OF OPERATIONS

2000 COMPARED WITH 1999

The year 2000 was a very difficult one for the Company. Early in 2000 the Company's largest customer, Lucent Technologies announced that they were exiting the PBX switch business via the sale of one business unit to Exp@nets and the spin-off of another (now known as Avaya Communications). The resulting disruption and turmoil within the Company's major distribution channel negatively impacted financial results for the year. However, by the end of the year, the Company had reacted to these events, significantly reducing its expense base, streamlining it operations, and most importantly, retaining the business of the resulting successors to the PBX market. On December 20, 2000, the Company announced a new three-year distribution contract, with Avaya Communications, covering the Company's complete line of Telemanagement products.

Primarily as a result of this disruption in the Company's major distribution channel, sales for the year decreased from $29,396,688 for the year ended December 31, 1999, to $16,525,357 for the year ended December 31, 2000, a decline of 44%. Hardest hit by the changes in the former Lucent channel were sales of the Company's core call accounting software products, which declined by 57% from 1999 sales. For the year ended December 31, 2000, call accounting products and services accounted for 46% of total Company sales, versus 60% of total sales for the year ended December 31, 1999.

Sales of the Company's enterprise products, DNT and Quantum, were down 3% from 1999 results and represented 37% of total sales for 2000 versus 22% of total sales for 1999. The Company sells DNT to end-user customers as a certified Avaya branded product, pursuant to a referral agreement with Avaya. Quantum is the Company's most comprehensive telemanagement product and is sold and marketed by The Angeles Group Division of the Company. The Company's acquisition of The Angeles Group was successfully completed in January 2000, and the Quantum product line has become a major component of the Company's total telemanagement and network management solutions offering. During 2000, the Company signed major contracts for the Quantum product with San Francisco Airport, M & I Data Systems and K-Mart.

Sales of Info/MDR for 2000, decreased by 34% from 1999 sales, accounting for 6% of total 2000 revenues. Despite the drop in 2000 sales, the Company feels that there is sufficient activity in the Centrex and Virtual Private Network market to warrant continued sales efforts and investment.

During 2000, the Company announced that it was seeking a strategic buyer for Verabill, its billing and customer care product. The Company's management made the decision that the Company's long-term interests were best served by focusing on marketing, sales and development within its core telemanagement and network management markets. The Company completed the sale of Verabill on March 26, 2001 (See Note 15 to the Financial Statements). The Company continued to sell and support the Verabill product as negotiations continued with potential buyers of the product line. For 2000, Verabill sales and services accounted for 9% of the Company's total sales, versus 12% of total sales for 1999.

For the year ended December 31, 2000, product sales accounted for 54% of total sales, with services, consisting of maintenance and support, training and installation, accounting for the remaining 46% of total sales. For the year ended December 31, 1999, product sales accounted for 65% of total sales, and services 35% of sales.

The gross profit margin earned on sales for the year ended December 31, 2000 was 81% of sales or $13,396,481 versus 87% of sales, or $25,600,480 for the year ended December 31, 1999. The lower percentage gross margin for 2000, as compared to 1999, reflects overhead and amortization expenses, both of which are relatively fixed in nature, being applied to lower sales volumes recognized in 2000, versus those recognized in 1999.

In reaction to lower sales volumes, the Company sharply reduced its operating expenses, primarily through staff reductions beginning in the second quarter of 2000 and continuing through the end of the year. As of December 31, 2000, the Company employed 174 full-time personnel, compared with an employment level of 266 as late as March 31, 2000. The result of these expense reductions was a 14% decrease in overall operating expenses for the year ended December 31, 2000, versus the year ended December 31, 1999. The reductions are more evident when comparing operating expense for the Company's quarter ended December 31, 2000, for which operating expenses totaled $3,997,487, and the quarter ended December 31, 1999, for which operating expenses were $7,011,384, representing a decrease of 43%. Since March 31, 2000, the Company has been able to reduce its quarterly breakeven point from approximately $7.7 million, to approximately $4.4 million at December 31, 2000.

Net engineering and software development expenses for the year ended December 31, 2000 were $5,145,352 as compared to $5,942,262 for the year ended December 31, 1999, a decrease of 13%. Engineering and development efforts in 2000 included an upgrade to the Company's CAS/Emerald call management product line to include e-mail and Internet capabilities, and the release of CAS/Emerald Lite, a shrink-wrapped, user-installable, telemanagement software solution.

The table below details gross engineering and development expenses, costs capitalized, net engineering and development expense, and the amount of previously capitalized expenditures amortized and charged to cost of sales, for the years ended December 31, 2000 and 1999.

	2000	1999
GROSS EXPENDITURES FOR ENGINEERING AND Software Development	$6,047,731	$6,336,169
LESS: COSTS CAPITALIZED	(902,379)	(393,907)
NET EXPENDITURES FOR ENGINEERING AND Software Development	5,145,352	5,942,262
PLUS: AMOUNTS AMORTIZED AND CHARGED to Cost of Sales	1,020,134	1,095,642
TOTAL EXPENSE RECOGNIZED	$6,165,486	$7,037,904

Selling, general and administrative expenses for the year ended December 31, 2000 were $14,667,292 as compared to $17,209,308 for the year ended December 31, 1999, a decrease of 15%. The reduction in expense levels reflects a combination of the staffing reductions across all functional areas referred to above, plus the consolidation of certain functions, particularly in the administration and marketing areas, subsequent to the acquisition of The Angeles Group. A comparison of the selling, general and administrative expense by functional area for the year ended December 31, 2000 and 1999, is as follows:

	2000	1999
Marketing/Product Management	$2,670,988	$2,775,031
Sales	3,477,004	4,230,159
Sales Support and Service	5,171,576	5,574,735
Administration	3,347,724	4,629,383
	$14,667,292	$17,209,308

The Company recognized $156,460 of other income for the year ended December 31, 2000 versus other income recognized of $47,883 for the year ended December 31, 1999. Other income primarily consists of interest income generated from the investment of excess cash balances, reduced by associated management fees, and interest expense. In 2000, other income included $55,000 of capital gain recognized on the sale of securities.

For the year ended December 31, 2000, the Company recognized a net loss of $6,858,645, or $0.85 per diluted share. This compared with a net profit of $2,398,586, or $.27 per diluted share for the year ended December 31, 1999.

RESULTS OF OPERATIONS

1999 COMPARED WITH 1998

Sales of $29,396,688 for the year ended December 31, 1999 established a Company record for annual sales achievement and represents an increase of 32%

from the $22,329,113 of sales achieved for the year ended December 31, 1998. The Company's fourth quarter 1999 sales of $8,115,242, set a new quarterly sales record, and was the eleventh consecutive quarterly sales increase.

The Company's record sales were attained as a result of gains in all major product categories for 1999 as compared to 1998. Sales of the Company's core telemanagement products and services, which accounted for approximately 60% of total 1999 revenues, increased 24% from 1998 results. Telemanagement products are used by organizations to optimize the usage of telecommunications services and equipment, and to control telephone expenses. The Company's telemanagement products are sold through leading manufacturers and resellers of telephone systems, including Lucent Technologies, SBC/Ameritech, Philips and Siemens.

Sales of VeraBill, the Company's billing and customer care offering, increased 144% from 1998 levels and accounted for 12% of the Company's total 1999 sales, versus 7% of the Company's 1998 sales. VeraBill is sold through distributors including Alcatel, and Ericsson Telecom, as well as on a direct sale basis. For 1999, approximately 48% of VeraBill revenues were generated from distributor relationships.

Sales of INFO/MDR, the Company's central office telemanagement product, increased by 43% from 1998 levels, accounting for 5% of 1999 total sales. Telephone companies use INFO/MDR to enhance the appeal of centrex and virtual private network services.

Sales of DNT (formerly called TMS for Windows), the Company's client/server enterprise product, increased by 63% from 1998 sales and accounted for 4% of the Company's total sales for 1999. During the fourth quarter of 1999, the Company completed a new release of DNT, which significantly enhances the product's reliability and functionality. As a result of this new release, the Company expects sales of DNT to increase significantly again in 2000.

Sales of Quantum, the Company's comprehensive telemanagement system for 1999 were nearly identical to 1998 sales, accounting for 18% of the Company's total 1999 revenues.

For the year ended December 31, 1999, shipment of product accounted for 65% of total sales, with the remaining 35% of sales being derived from services such as maintenance and support, training, and installation services. During 1998 product sales accounted for 67% of sales, and services accounted for 33% of the total. Overall product sales for 1999 increased 29% from 1998 levels and 1999 service revenues increased 38% over 1998.

In 1999, the Company generated a gross margin of $25,600,480 or 87% of sales versus a gross margin of $19,010,915 or 85% of sales for the year ended December 31, 1998. The higher margins reflect a combination of lower direct product costs associated with the increasing content of software based applications in the Company's product mix, and a reduction in the amortization of previously capitalized development costs as a percentage of total sales.

For the year ended December 31, 1999, the Company incurred $5,942,262 of engineering and development expenses, net of costs capitalized. This represented a 63% increase from the net engineering and development costs incurred for the year ended December 31, 1998. Gross expenditures for research and development, before the effects of capitalization, were $6,336,169 for 1999, an increase 29% from the 1998 expense level of $4,913,882.

The following table depicts the overall financial impact of engineering and development efforts on the Company's results, for 1999 and 1998, by highlighting gross expenditures, amounts capitalized, net engineering and development expense, and the amount of previously capitalized expenditures charged to cost of sales:

	1999	1998
GROSS EXPENDITURES FOR ENGINEERING AND Software Development	$6,336,169	$4,913,882
LESS: COSTS CAPITALIZED	(393,907)	(1,269,019)
NET EXPENDITURES FOR ENGINEERING AND Software Development	5,942,262	3,644,863
PLUS: AMOUNTS AMORTIZED AND CHARGED to Cost of Sales	1,095,642	983,945
TOTAL EXPENSE RECOGNIZED	$7,037,904	$4,628,808

During 1999 the Company's development efforts resulted in a number of notable accomplishments including:

a) New releases of VeraBill and DNT, both of which contained upgrades in features and functionality, allowing the Company to expand the addressable markets available.
b) A significant upgrade to Emerald, the Company's flagship telemanagement product, designed, not only to broaden the appeal of this product to existing channels, but also to open new potential areas of distribution. Private label versions of Emerald XP are now being sold by Lucent Technologies and Philips. Emerald XP is also designed to be an international product, supporting worldwide call rating, all world currencies, date schemes and privacy practices.
c) Development of the Company's new Internet accounting product (VeraWeb) and the integration of that product into a number of the Company's existing call management offerings. These network products will allow businesses to easily track, manage and allocate costs for use of the Internet and other network resources.

Selling, general and administrative expenses of $17,209,308 for the year ended December 31, 1999 were 27% higher than the expenses incurred for the year ended December 31, 1998 of $13,528,703. The higher expenses are attributable to an increase in employment level from 202 employees at December 31, 1998 to 266 employees at December 31, 1999. The chart below breaks down the increased employment by function:

	1999	1998
Manufacturing/Materials	15	12
Engineering/ Development	80	61
Marketing/Project Management	27	17
Support/Service/Implementation	86	61
Sales	34	32
Administration	24	19

266	202
===	===

The increased staffing in the support, service, and implementation areas, was deemed necessary to enhance the prospects of future sales growth and opportunity, especially in support of the Company's network products, DNT and VeraBill, and to provide the proper level of service and trained personnel in anticipation of the Company's first quarter 2000 launch of its Internet accounting product offerings.

The Company also invested heavily during 1999 to augment its product and project management functions. This investment has strengthened the Company's abilities to gather competitive market data, and more efficiently manage product releases.

For the year ended December 31, 1999, the Company realized a 21% increase in net income to $2,398,586 representing 8.2% of sales, from $1,989,005 or 8.9% of sales for the twelve months ended December 31, 1998.

Earnings per share for the year ended December 31, 1999 were $0.27 per diluted share versus $0.24 per diluted share earned for 1998, an increase of 12.5%.

LIQUIDITY AND CAPITAL RESOURCES

The Company's total cash position (cash plus short-term investments) at December 31, 2000 was $1,466,874. This compared with a total cash position of $8,031,768 at December 31, 1999. The decline in the Company's cash position reflects primarily the operating loss incurred for the year 2000, but also includes the repayment of a $1,100,000 note payable carried by The Angeles Group Division and approximately $600,000 of expenses incurred to consummate that merger. As mentioned in the management discussion section of this report, the Company undertook an aggressive streamlining of its operations through the year to bring its expense base back into line with expected revenue streams. As a result of these actions, the Company was able to stabilize its cash position throughout the last five months of 2000.

Accounts receivable at December 31, 2000 totaled $2,104,505, net of a $201,000 provision for doubtful accounts, as compared to accounts receivable of $3,821,244, net of a $260,000 provision at December 31, 1999. The reduction in accounts receivable is a reflection of the lower sales volumes recognized for 2000 versus 1999.

Inventories declined to $332,003 at December 31, 2000 from $557,123 at December 31, 1999. By the end of 2000, the Company's product offerings are primarily software-based solutions, thereby eliminating the need to stock significant raw components and finished goods.

Prepaid expenses and other current assets at December 31, 2000 were $96,336 as compared to $596,574 at December 31, 1999. The decrease reflects the elimination of prepaid interest associated with the note payable referred to above and the buy-out portion of a number of capital leases carried by The Angeles Group at the time of merger.

Capital spending for the year ended December 31, 2000 was $334,038, down significantly from the capital expenditures of $2,128,008 for the year ended December 31, 1999. The Company will continue to carefully monitor capital purchases throughout 2001.

Software development costs capitalized and carried on the Company's balance sheet total $1,948,728 at December 31, 2000 versus $2,691,807 at

December 31, 1999. During 2000, the Company capitalized $902,379 of development expenses and amortized $1,020,134 of costs capitalized in previous years. In addition, as of December 31, 2000, $625,324, representing the unamortized value of development costs associated with the Company's Verabill product line, has been reclassified to "Asset Held for Sale," in the current asset portion of the Company's balance sheet, pending the anticipated sale of the product line. (See Note 15 to the Financial Statements).

Total current liabilities at December 31, 2000 of $5,019,073 were down 26% from the total current liabilities of $6,803,683 at December 31, 1999, the result of the staffing reductions undertaken throughout the year and reduced sales volumes. Accounts payable decreased 53% from $827,837 at December 31, 1999 to $385,779 at December 31, 2000, accrued compensation fell 20% from $2,021,102 to $1,606,886, and deferred revenue decreased 28% from $3,038,726 to $2,175,986. Deferred revenues represent services for which the Company has billed customers, but has not yet performed the associated service. These services typically included training, installation, maintenance and support.

Long term liabilities decreased by $881,084, or 21% from $4,254,483 at December 31, 1999 to $3,373,399 at December 31, 2000. This was primarily the result of the repayment in January, 2000, of the $1,100,000 note held by The Angeles Group Division at December 31, 1999, in accordance with the terms of the merger agreement.

The Company maintains a private equity line of credit agreement with a single institutional investor. Under the equity line, the Company has the right to sell, to the investor, shares of the Company's common stock at a price equal to 94% of the average bid price of the stock for the subsequent ten trading days. During the term of the agreement the Company may sell up to $6 million to this investor with no more than $500,000 in any single month. During the third quarter of 2000, the Company sold 8,400 shares of common stock to this investor, recognizing proceeds, net of discount, of $23,688. This agreement expires August 30, 2001.

The Company maintains an agreement with a major commercial bank for a secured demand line of credit arrangement in the amount of $3,000,000. There have been no borrowings against this agreement as of December 31, 2000. From August 1999 until December 2000, the Company maintained a separate $7,000,000, three-year, acquisition revolving credit agreement with the same bank. The Company has decided not to continue this acquisition credit line for 2001.

Despite the significant operating loss incurred in 2000, the Company believes that with the combination of expense reductions already in place, the proceeds recognized from the sale of its Verabill product line, and the bank line of credit agreement referred to above, sufficient resources will be available to meet the Company's financial obligations and support anticipated growth over the next twelve months.

ITEM 8 CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA REQUIRED TO BE INCLUDED HEREIN AS FOLLOWS:

ITEM 9 DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

Report of Independent Accountants

To the Board of Directors and Stockholders of
Veramark Technologies, Inc.

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Veramark Technologies, Inc. and its subsidiary at December 31, 2000, and the results of their operations and their cash flows for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(c) on page 42 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

Rochester, New York
February 12, 2001, except for the second paragraph of
Note 15 - Subsequent Event, which is as of March 26, 2001

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in this Form 10-K of our report dated February 4, 2000 included in Veramark Technologies, Inc.'s Form 10-K for the year ended December 31, 1999. It should be noted that we have not audited any financial statements of the company subsequent to December 31, 1999 or preformed any audit procedures subsequent to the date of the report.

ARTHUR ANDERSEN LLP

Rochester, New York
March 30, 2001

VERAMARK TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,072,421	$ 2,894,500
Investments	394,453	5,137,268
Accounts receivable, trade (net of allowance for doubtful accounts of $201,000 and $260,000)	2,104,505	3,821,244
Inventories	332,003	557,123
Prepaid expenses and other current assets	96,336	596,574
Assets held for sale (Note 4)	625,324	-
Total current assets	4,625,042	13,006,709
PROPERTY AND EQUIPMENT:		
Cost	6,733,928	7,664,867
Less accumulated depreciation	4,203,173	4,563,669
Property and equipment, net	2,530,755	3,101,198
Software development costs (net of accumulated amortization of $1,464,890 and $1,531,720)	1,948,728	2,691,807
Pension assets	2,125,878	1,977,710
Deposits and other assets	628,927	511,858
Total other assets	4,703,533	5,181,375
TOTAL ASSETS	$ 11,859,330	$ 21,289,282

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

VERAMARK TECHNOLOGIES, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

LIABILITIES AND STOCKHOLDERS' EQUITY	2000	1999
CURRENT LIABILITIES:		
Accounts payable	$ 385,779	$ 827,837
Accrued compensation and related taxes	1,606,886	2,021,102
Deferred revenue	2,175,986	3,038,726
Capital lease obligation - Current	13,733	70,106
Customer deposits	636,175	477,231
Other accrued liabilities	200,514	368,681
Total current liabilities	5,019,073	6,803,683
Long-term portion of capital leases	41,582	110,712
Note payable	-0-	1,100,000
Pension obligation	3,331,817	3,043,771
Total liabilities	8,392,472	11,058,166
STOCKHOLDERS' EQUITY:		
Common stock, par value, $0.10; shares authorized, 40,000,000; issued 8,269,134 shares and 8,143,673 shares	826,913	814,367
Additional paid-in capital	20,191,304	20,109,463
Accumulated deficit	(17,165,602)	(10,306,957)
Treasury stock (80,225 shares at cost)	(385,757)	(385,757)
Total stockholders' equity	3,466,858	10,231,116
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 11,859,330	$ 21,289,282

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

VERAMARK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	2000	1999	1998
NET SALES	$16,525,357	$29,396,688	$22,329
COSTS AND OPERATING EXPENSES:			
Cost of sales	3,128,876	3,796,208	3,318
Engineering and software development	5,145,352	5,942,262	3,644
Selling, general and administrative	14,667,292	17,209,308	13,528
Other expenses (Note 11)	598,942	-	
Total costs and operating expenses	23,540,462	26,947,778	20,491
INCOME (LOSS) FROM OPERATIONS	(7,015,105)	2,448,910	1,837

OTHER INCOME	156,460	47,883	167
INCOME (LOSS) BEFORE INCOME TAXES	(6,858,645)	2,496,793	2,004
INCOME TAXES	-	98,207	15
NET INCOME (LOSS)	$(6,858,645)	$ 2,398,586	$ 1,989
NET INCOME (LOSS) PER SHARE			
Basic	$ (0.85)	$ 0.30	$
Diluted	$ (0.85)	$ 0.27	$
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	8,079,281	7,973,183	7,926
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED)	8,079,281	8,800,662	8,272

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

VERAMARK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	COMMON STOCK SHARES	COMMON STOCK PAR VALUE	ADDITIONAL PAID-IN CAPITAL
BALANCE - December 31, 1997	7,910,553	$791,055	$18,670,220
Sale of Stock	24,700	2,470	140,914
Fair Value of Warrants Issued with Debt	-	-	175,000
Exercise of stock options and warrants	26,044	2,605	79,951
Stock Purchase Plan	9,981	998	49,905
Stock Retirements	(2,719)	(272)	(17,231)
Treasury Stock	(52,300)	-	(213,215)
Stockholder Distributions	-	-	-
Net Income	-	-	-
BALANCE - December 31, 1998	7,916,259	$796,856	$18,885,544
Exercise of stock options and warrants	151,898	15,189	888,247
Stock Purchase Plan	24,099	2,410	134,038
Stock Retirements	(883)	(88)	(11,581)
Treasury Stock	(27,925)	-	(172,542)
Stockholder Distribution	-	-	-
Net Income	-	-	-

BALANCE - December 31, 1999	8,063,448	$814,367	$19,723,706
Liquidation of Warrants Issued	-	-	(163,589)
Sale of Stock	8,400	840	22,848
Exercise of stock options and warrants	20,536	2,054	54,790
Stock Purchase Plan	96,525	9,652	97,792
Fair Value of Warrants Issued	-	-	70,000
Net loss	-	-	-
BALANCE - December 31, 2000	8,188,909	$826,913	$19,805,547

*Represents distributions to TAG Division Shareholders
The accompanying notes are an integral part of these consolidated financial statements.

VERAMARK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

	2000	1999
OPERATING ACTIVITIES:		
Net income (loss)	$(6,858,645)	$2,398,586
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,905,776	1,801,743
Provision for bad debts	4,000	107,000
Provision for inventory obsolescence	139,996	73,101
Loss on disposal of fixed assets	18,839	4,497
Fair value of warrants issued	70,000	-
Changes in assets and liabilities:		
Accounts receivable	1,712,739	(730,656)
Inventories	85,124	(50,256)
Prepaid expenses and other current assets	336,649	(404,743)
License fees and purchased software	-	-
Deposits and other assets	(265,237)	(30,888)
Accounts payable	(442,058)	(8,037)
Accrued compensation and related taxes	(414,216)	1,021,911
Deferred revenue	(862,740)	(230,362)
Other accrued liabilities	(65,596)	(489,609)
Pension obligation	288,046	160,924
Net adjustments	2,511,322	1,224,625
Net cash (used in) provided by operating activities	(4,347,323)	3,623,211
INVESTING ACTIVITY:		
Sale (purchase) of investments	4,742,815	(418,574)
Additions to property and equipment	(334,038)	(2,128,008)
Capitalized software development costs	(902,379)	(393,907)

Net cash provided by (used in) investing activities	3,506,398	(2,940,489)
FINANCING ACTIVITIES:		
Proceeds from (Repayment of) Note Payable	(1,100,000)	-
Repayment of Capital Lease obligation	(69,130)	(18,364)
Distributions to Shareholders	-	(122,656)
Proceeds from sale of stock	23,688	-
Decrease in Short-term borrowings	-	-
Exercise of stock options and warrants	56,844	891,767
Employee stock purchase plan	107,444	136,448
Treasury stock purchases	-	(172,542)
Net cash provided by (used in) financing activities	(981,154)	714,653
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,822,079)	1,397,375
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,894,500	1,497,125
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,072,421	$2,894,500

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

VERAMARK TECHNOLOGIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements include the accounts of Veramark Technologies, Inc. (the Company) and The Angeles Group Division ("TAG"), reflecting the Company's merger with The Angeles Group effective January 7, 2000. Veramark Technologies, Inc. issued 360,850 shares of common stock in exchange for all of the outstanding shares of The Angeles Group, Inc. The business combination was accounted for as a pooling-of-interests, and accordingly, the historical financial statements of the Company have been restated to include the consolidated financial statements of Veramark Technologies, Inc. and The Angeles Group, Inc. for all periods presented. All significant intercompany accounts and transactions have been eliminated. The Company designs and produces telecommunication management, Internet management and billing systems for users and providers of telecommunication services in the global market. (See Note 11)

ESTIMATES - The preparation of consolidated financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The consolidated financial statements include management's best estimates of the net realizable value of software development costs. Accordingly, the Company periodically records adjustments to write down the carrying value of software development costs to their net realizable value. The amounts the Company will ultimately realize could differ materially from the carrying value of the software development costs. (See Note 4)

FAIR VALUE OF FINANCIAL INSTRUMENTS - Statement of Financial Accounting Standards (SFAS) No. 107 "Disclosures about Fair Value of Financial Instruments," requires disclosures of the fair value of certain financial instruments. The carrying amount of cash and cash equivalents, investments, accounts receivable and accounts payable approximate fair value due to their short-term nature.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

INVESTMENTS - The Company records its investments in accordance with SFAS No. 115, "Investments in Certain Debt and Equity Securities." As of December 31, 2000 and 1999, the Company has classified its portfolio as available-for-sale securities. At December 31, 2000 and 1999 the carrying value of investments approximated fair market value.

Investments at December 31, 2000 and 1999 consisted of the following:

	2000	1999
Commercial Paper	$ -	$ 550,000
Certificates of Deposit	-	483,541
US Government Securities	-	662,267
Bond Funds	394,452	3,991,460
Money Market Funds	1,022,886	1,979,695
	$1,417,338	$7,666,963

The contractual maturities of the Company's investments as of December 31, 2000 are primarily due within one year.

CONCENTRATIONS OF CREDIT RISK - Financial instruments, which potentially subject the Company to concentration of credit risk, consist principally of investments and accounts receivable. The Company places its investments with quality financial institutions and, by policy, limits the amount of investment exposure to any one financial institution.

The Company's customers are not concentrated in any specific geographic region, but are concentrated in the telecommunications industry. As of December 31, 2000 and 1999, one customer in this industry accounted for approximately $527,101 and $1,100,834, respectively, of the total accounts receivable balance. The Company performs ongoing credit evaluations of its customers' financial conditions but does not require collateral to support customer receivables. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

INVENTORIES are stated at the lower of cost (first-in, first-out) or market. The Company evaluates the net realizable value of inventory on hand considering deterioration, obsolescence, replacement costs and other pertinent factors, and records adjustments as necessary.

PROPERTY AND EQUIPMENT is recorded at cost and depreciated on a straight-line basis using the following useful lives:

Computer hardware and software	3-5 years
Machinery and equipment	4-7 years
Furniture and fixtures	5-10 years
Leasehold improvements	Term of lease

All maintenance and repair costs are charged to operations as incurred. The cost and accumulated depreciation for property and equipment sold, retired, or otherwise disposed of are removed from the accounts, and the resulting gains or losses are reflected in earnings.

LONG-LIVED ASSETS AND INTANGIBLES - In January 1996, the Company adopted SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable on an undiscounted cash flow basis. The statement also requires that long-lived assets and certain identifiable intangibles to be disposed of be reported at the lower of carrying amount or fair values less cost to sell. The adoption of SFAS No. 121 did not have a material effect on the financial statements.

SOFTWARE DEVELOPMENT COSTS meeting recoverability tests are capitalized, under Statement of Financial Accounting Standard No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed," and amortized on a product-by-product basis over their economic life, ranging from three to five years, or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization.

REVENUE RECOGNITION - The Company recognizes revenue from product sales upon shipment to the customer. Revenues from maintenance and extended warranty agreements are recognized ratably over the term of the agreements. The Company also enters into license agreements for certain of its software products. These revenues are recognized in accordance with the provisions of Statement of Position (SOP) No. 97-2, "Software Revenue Recognition" as amended by SOP 98-4.

INCOME TAXES are provided on the income earned in the financial statements. In accordance with SFAS 109, "Accounting for Income Taxes," the Company applies the liability method of accounting for income taxes, under which deferred income taxes are provided to reflect the impact of "temporary differences" between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. The Angeles Group was treated as an S-Corporation for Federal Income Tax purposes for all years prior to 2000.

NET INCOME (OR LOSS) PER COMMON SHARE is computed in accordance with the provisions of SFAS No. 128, "Earnings Per Share." Basic EPS is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding. No dilution for common share equivalents is included. Diluted EPS is computed on a similar basis to the previously calculated fully diluted EPS. Included in diluted earnings per share in 1998 and 1999 are 345,963 and 827,479 shares, respectively, which represents the dilutive effect of stock options and warrants issued. There is no dilutive effect of stock options and warrants in 2000 as the effect would be anti-dilutive.

RECLASSIFICATIONS - Certain prior year balances have been reclassified to conform with current year presentation.

STOCK-BASED COMPENSATION - In October 1995, SFAS No. 123, "Accounting for Stock-Based Compensation" was issued which sets forth a fair value method of recognizing stock-based compensation expense. As permitted by SFAS No. 123, the Company continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board (APB), Opinion No. 25, "Accounting for Stock Issued to Employees," and will disclose the additional information relative to issued stock options, and pro forma net income and earnings per share, as if the options granted were expensed at their estimated fair value at the time of grant.

NEW ACCOUNTING PRONOUNCEMENTS - In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard was amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of FASB Statement No. 133," and changed the effective date of SFAS No. 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of SFAS No. 133." SFAS requires that all derivative instruments be recorded on the balance sheet at their respective fair values. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on their designation as a hedge of a particular exposure. The Company has determined the adoption of SFAS No. 133 will not have a material impact on the financial statements.

In December 1999, the Securities and Exchange Commissions ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," which summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The SEC delayed the date by which registrants must apply the accounting and disclosures described in SAB No. 101 until the fourth quarter of 2000. The Company's revenue recognition policies comply with the guidance contained in SAB No. 101 and, therefore, the Company's results of operations were not materially affected.

2. INVENTORIES

The major classifications of inventories as of December 31, 2000 and 1999 are:

	2000	1999
Purchased parts and components	$198,995	$423,460
Work in process	65,127	94,991
Finished goods	67,881	38,672
	$332,003	$557,123

3. PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of December 31, 2000 and 1999 are:

	2000	1999
Machinery and equipment	$ 802,355	$1,241,036
Computer hardware and software	2,785,033	3,679,595
Furniture and fixtures	1,763,981	1,376,024
Leasehold improvements	1,382,559	1,368,212
	$6,733,928	$7,664,867

Depreciation expense was approximately $886,000, $677,000 and $366,000 for the years ended December 31, 2000, 1999 and 1998, respectively. The Company recorded a loss of approximately $19,000, representing the net book value of assets written-off during 2000.

4. ASSET HELD FOR SALE

During 2000, the Company announced its intention to either spin-off into a separate Company or sell to a strategic buyer, Verabill, the billing and customer care product line. As of December 31, 2000, the unamortized portion of capitalized software attributable to the Verabill product was $625,324. The Company continued to sell and support the Verabill product during the process of negotiation with interested parties. The Company completed the sale of this product line on March 26, 2001 (See Note 15 to the Financial Statements).

5. ENGINEERING AND SOFTWARE DEVELOPMENT EXPENDITURES

Engineering and software development expenditures incurred during the years ended December 31, 2000, 1999 and 1998 were recorded as follows:

	2000	1999	199

Engineering and software development expense included in the consolidated statements of operations	$5,145,352	$5,942,262	$3,644,86
Amounts capitalized and included in the consolidated balance sheets	902,379	393,907	1,269,01
Total expenditures for engineering and software development	$6,047,731	$6,336,169	$4,913,88

Additionally, the Company recorded amortization of capitalized software development costs of approximately $1,020,000, $1,096,000, and $984,000 for the years ended December 31, 2000, 1999 and 1998, respectively. Such amortization is included in cost of sales in the consolidated statements of operations.

6. 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 and totaled $100,000 in 1999 and $50,000 in 1998. There were no contributions in 2000.

The Company also sponsors an unfunded Supplemental Executive Retirement Program, which is a nonqualified plan that provides certain key employees defined pension benefits. Periodic pension expense for the years ended December 31, 2000, 1999 and 1998 consists of the following:

	2000	1999	1998
Service cost	$320,413	$307,637	$279,957
Interest cost	215,210	173,356	120,933
Net amortization and deferral	86,883	86,883	49,444
Pension expense	$622,506	$567,876	$450,334

A reconciliation of the pension plan's funded status with amounts recognized in the Company's balance sheets is as follows:

	2000	1999
Actuarial present value of accumulated benefit obligation	$ 3,331,817	$ 3,043,771
Actuarial present value of projected benefit obligation	$ 3,331,817	$ 3,043,771
Plan assets	-	-
Projected benefit obligation in excess of		

plan assets	3,331,817	3,043,771
Prior service cost not yet recognized in net periodic pension cost	(913,655)	(1,000,538)
Additional minimum liability	913,655	1,000,538
Accrued pension obligation	$ 3,331,817	$ 3,043,771

Included in the pension assets caption in the consolidated balance sheets as of December 31, 2000 and 1999 is an intangible asset of $913,655 and $1,000,538, respectively, related to the minimum liability adjustment for the unfunded accumulated benefit obligation.

The discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7% and 3% respectively, for all years presented.

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 death benefits as well as loans against the accumulating cash surrender value of the policies to fund the pension obligation.

7. STOCKHOLDERS' EQUITY

The Company maintains a private equity line of credit agreement with a single institutional investor. Under the equity line, the Company has the right to sell to the investor shares of the Company's common stock at a price equal to 94% of the average bid price of the stock for the subsequent ten trading days. During the term of the agreement the Company may sell up to $6 million of common stock to the investor with no more than $500,000 in any single month. During 2000, the Company sold 8,400 share of common stock to this investor, realizing net proceeds of $23,688. There were no shares of common stock sold to this investor during 1999. During 1998, the Company sold 24,700 shares of common stock to this investor realizing net proceeds of $143,384. This agreement expires August 30, 2001.

The Company has reserved 650,000 shares of its common stock for issuance under its 1993 Stock Option Plan, the successor plan to the 1983 Stock Option Plan. The Company's Board of Directors approved a 1998 Stock Option Plan on December 15, 1997 covering up to 2,500,000 shares of common stock, subject to shareholder approval, which was obtained in May, 1998. Both plans provide for options, which may be issued as nonqualified or qualified incentive stock options. All options granted are exercisable in increments of 20 - 50% per year beginning one year from the date of grant. All options granted to employees have a ten year term.

The Company accounts for its stock-based compensation plans under APB Opinion No. 25. Accordingly, compensation expense has been recognized only to the extent the exercise price was below the fair market value at the time of the grant. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, the Company's net income (loss) per share would have been adjusted to the pro forma amounts indicated below:

		2000	1999
Net income (loss)	As reported	$(6,858,645)	$2,398,586
	Pro forma	$(9,166,081)	$1,855,680
Net income (loss) per common share	As reported		
	Basic	$(.85)	$.30
	Diluted	$(.85)	$.27
	Pro forma		
	Basic	$(1.13)	$.23
	Diluted	$(1.13)	$.21

Compensation expense recognized in the statement of operations for the years ended December 31, 2000, 1999 and 1998 was $448,562, $355,638 and $215,991, respectively, for options issued at an exercise price below fair market value at the time of the grant. The SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995, so the resulting pro forma compensation cost may not be representative of that to be expected in future years.

For purposes of the disclosure above, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2000, 1999, and 1998.

	2000	1999	1998
Dividend yield	-	-	-

Expected volatility	66.98%	64.47%	59.00%
Risk-free interest rate	6.24%	4.58%	5.61%
Expected life	7 years	7 years	7 years

A summary of stock option and warrant transactions for the years ended December 31, 2000, 1999 and 1998 is shown below:

	2000		1999	
OPTIONS	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE
Shares under option, beginning of year	2,181,520	$4.76	1,715,475	$4.16
Options granted	1,131,550	4.70	536,537	6.55
Options exercised	(20,536)	2.36	(47,517)	3.14
Options terminated	(592,024)	6.44	(22,975)	5.43
Shares under option, end of year	2,700,510	$4.38	2,181,520	$4.76
Shares exercisable	893,371	$4.05	656,556	$4.15
Weighted average fair value of options granted	$4.70		$4.35	
WARRANTS				
Warrants outstanding, beginning of year	78,045	$7.68	185,822	$7.20
Warrants granted	50,000	3.12	5,289	6.38
Warrants exercised	-	-	(104,381)	6.92
Warrants expired	(13,301)	5.74	(8,685)	5.76
Warrants outstanding, end of year	114,744	$5.92	78,045	$7.68

8. SALES INFORMATION

Sales to one customer were approximately $7,394,000 or 45% of the Company's total sales in 2000. Sales to this same customer were approximately $16,287,000 or 55% of the

Company's total sales in 1999 and approximately $11,763,000 or 53% of the Company's total sales in 1998.

Export sales to unaffiliated customers, primarily in Europe and South America, were approximately $1,990,414, $5,219,000, and $3,435,000 in 2000, 1999 and 1998, respectively.

9. INCOME TAXES

The components of the income (loss) before income taxes for the years ended December 31, 2000, 1999 and 1998 is presented below:

	2000	1999	1998
Net (loss) income	$(6,858,645)	$2,789,452	$1,034,427

The income tax provision (benefit) includes the following:

	2000	1999	1998
Current income tax expense:			
Federal	-	$80,908	$12,775
State	-	17,299	3,025
	$ -	$98,207	$15,800
Deferred income tax provision (benefit):			
Federal	(2,000,921)	510,123	236,281
State	(173,993)	48,660	93,738
Increase (decrease) in valuation allowance	2,174,914	(558,783)	(330,019)
	-	-	-
	$ -	$ 98,207	$ 15,800

The income tax (benefit) provision differs from those computed using the statutory federal tax rate of 34%, due to the following:

	2000	1999	1998

Tax at statutory federal rate	$(2,331,939)	$948,414	$351,705
US Tax effect of foreign losses	-	(312,024)	-
State taxes, net of federal tax benefit	(69,425)	4,857	64,136
Merger costs	209,300	-	-
Utilization of tax credits	-	-	(31,977)
(Decrease) increase in valuation allowance	2,174,914	(558,783)	(354,118)
Other	17,150	15,743	(13,946)
	$ -	$ 98,207	$ 15,800

The deferred income tax asset (liability) recorded in the consolidated balance sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax asset (liability) follows:

	2000	1999
General business credits	1,451,747	$1,055,314
Net operating losses	2,907,598	1,305,396
Deferred compensation	1,203,943	956,317
Alternative minimum tax credits	322,216	329,273
Inventory	104,762	165,173
Accounts receivable	28,060	35,457
Capitalized software	(952,400)	(1,004,616)
Fixed assets	(78,685)	(65,687)
Restructuring	-	205,314
Other	145,402	46,264
New York State ITC	70,476	-
	5,203,119	3,028,205
Valuation allowance	(5,203,119)	(3,028,205)
Deferred asset (liability)	$ -	$ -

The Company has $7,858,374 of federal net operating loss carryforwards available as of December 31, 2000. Of that total, $682,000 is limited to a utilization of approximately $100,000 annually. The carryforwards expire in varying amounts in 2011 through 2020.

The Company's tax credit carryforwards as of December 31, 2000 are as follows:

DESCRIPTION	AMOUNT	EXPIRATION DATES
General business credits	$1,451,747	2000 - 2020
New York State investment tax credits	$106,778	2001 - 2015

Alternative minimum tax credits	$322,216	No expiration date

Cash paid (received) for income taxes during the years ended December 31, 2000, 1999 and 1998 totaled $2,132, $11,705, and $(87,018) respectively.

10. COMMITMENTS

LEASE OBLIGATIONS - The Company leases current manufacturing and office facilities and certain equipment under operating leases, which expire at various dates. The facility leases provide for extension privileges. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately $621,000, $453,000, and $534,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

Minimum lease payments as of December 31, 2000 under capital and operating leases are as follows:

YEAR ENDING DECEMBER 31,	CAPITAL LEASES	OPERATING LEASES	TOTAL
2001	$19,370	$ 617,359	$ 636,729
2002	19,370	629,230	648,600
2003	19,370	647,605	666,975
2004	8,069	468,905	476,974
2005	0	433,165	433,165
Thereafter	0	794,136	794,136
	$66,179	$3,590,400	$3,656,579

Less: Amounts representing interest	(10,864)
Present value of minimum capital lease payments	55,315
Less: Current Portion	(13,733)
	$41,582

Legal Matters - The Company is subject to litigation from time to time in the ordinary course of business. Although the amount of any liability with respect to such litigation cannot be determined, in the opinion of management, such liability will not have a material adverse effect on the Company's financial condition or results of operations.

11. OTHER EXPENSES

On January 7, 2000, the Company completed its merger with TAG, a supplier of telemanagement software systems for large enterprises. The transaction was structured as a stock-for-stock merger with the shareholders of TAG receiving 360,850 shares of the Company's common stock, which represented an aggregate value of approximately $4,060,000, assuming a per share amount of $11.25. In addition, Veramark assumed and paid debt of TAG totaling approximately $1.1 million. Transaction related broker, accounting, and legal fees of $598,942 are included in the accompanying consolidated statements of operations.

12. LONG-TERM DEBT

In November, 1998, TAG entered into a note payable in the amount of $1,100,000. Interest was payable monthly at the rate of thirteen percent per annum, through December 1, 2003, at which time the principal balance was due. The note was secured by substantially all the assets and intellectual property of TAG. This note was repaid in January, 2000.

13. LINES OF CREDIT

The Company maintains a secured line of credit agreement with a major commercial bank for up to $3,000,000, all of which is available as of December 31, 2000.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for the years ended December 31, 2000 and 1999 is as follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
2000				
Net sales	$4,914,417	$3,111,859	$4,889,126	$3,609,95
Gross profit	$4,046,277	$2,376,770	$4,068,089	$2,905,34
Net income (loss)	$(2,859,965)	$(3,292,588)	$(222,050)	$(484,04
Net loss per share				
- Basic	$ (0.36)	$ (0.40)	$ (0.03)	$ (0.0
- Diluted	$ (0.36)	$ (0.40)	$ (0.03)	$ (0.0
1999				
Net sales	$6,434,695	$7,309,406	$7,537,346	$8,115,24
Gross profit	$5,630,395	$6,270,471	$6,623,659	$7,075,95
Net income (loss)	$676,612	$870,318	$805,928	$45,72
Net loss per share				
- Basic	$ 0.09	$ 0.11	$ 0.10	$ 0.0
- Diluted	$ 0.08	$ 0.10	$ 0.09	$ 0.0

15. SUBSEQUENT EVENTS

On December 28, 2000, the Company announced that it had received a NASDAQ staff determination indicating that the Company failed to comply with net tangible assets requirements for continued listing on the NASDAQ National Market. After considering an appeal of the NASDAQ's determination, the Company announced on January 26, 2001, that it had decided that it was not in the Company's best interests to enter into potentially dilutive transactions in order to meet NASDAQ's net tangible assets requirement. As a result, effective March 16, 2001, the listing of the Company's securities was transferred to the NASDAQ Smallcap Market.

On March 26, 2001, the Company announced the completion of the sale of Verabill, its billing and customer care product line, to MIND CTI Ltd. of Yokneam, Israel. The sale price paid in cash at closing was $1,000,000. The Company will recognize a non-recurring gain on the sale, in the first quarter of 2001, of approximately $300,000.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information relating to directors of the Company is incorporated herein by reference to pages 3 - 5 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001 {see "Election of Directors" and "Compliance With Section 16 (a)".}

The following lists the names and ages of all executive officers of the Company, all persons chosen to become executive officers, all positions and offices with the Company held by such persons, and the business experience during the past five years of such persons. All officers were elected or re-elected to their present positions for terms ending on May 17, 2001 and until their respective successors are elected and qualified.

MANAGEMENT

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Directors and executive officers of Veramark are as follows:

NAME	AGE	POSITION
David G. Mazzella	60	Chairman of the Board, President and CEO
William J. Reilly	52	Director
John E. Gould	56	Director
James R. Scielzo	58	Director
Robert Stubbs	66	Director
Paul T. Babarik	59	Vice President - Telemanagement Sales
Robert L. Boxer	47	Vice President, Secretary, General Counsel
James W. Karr	57	Vice President - Sales, Billing And Customer C
Ronald C. Lundy	49	Treasurer
Douglas F. Smith	57	Vice President - Operations

All Directors hold office until the next annual meeting of stockholders, and until their successors are duly elected and qualified. Officers are elected annually by the Board of Directors and serve at the discretion of the Board.

DAVID G. MAZZELLA, JR. was appointed Chief Executive Officer in June 1997, he previously served as President and Chief Operating Officer of the Company from February 1997. He became Chairman of the Board on December 19, 1998. From June 1994 to February 1997, he was engaged in management consulting. From February 1992 to June 1994, he was the President and CEO of Scotgroup Enterprises, Inc., which was engaged in the development and sale of telecommunications software equipment and the sale of paging and cellular telephone services. From 1988 - 1991 Mr. Mazzella was Vice President of Glenayre Electronics, a manufacturer of software based telecommunications equipment. He was President and CEO of Multitone Electronics, Inc., a company engaged in the manufacture, sale and servicing of telecommunications equipment from 1983 until its acquisition by Glenayre Electronics in 1988.

WILLIAM J. REILLY has been a Director of Veramark since June 1997. He is the Executive Vice President for Checkpoint Systems, Inc., a manufacturer and distributor of systems for electronic article surveillance, electronic access control, closed circuit television and radio frequency identifications. He has served in that capacity for more than five years.

JOHN E. GOULD has been a Director of

Veramark since August 1997. For more than five years Mr. Gould has been a partner in Gould & Wilkie, a general practice law firm in New York City. Mr. Gould is also Chairman of the American Geographical Society.

JAMES R. SCIELZO was appointed to the Board of Directors of Veramark in March 1998. From 1994, until his retirement in 1999, Mr. Scielzo held the position of Senior Vice President and Chief Technology Officer for Young & Rubicam, Inc., a global corporate communications, advertising and public relations firm. Prior to that, he was Senior vice President/Chief Technology Officer at Wundermann Cajo Johnson, the direct response advertising subsidiary of Young & Rubicam, and the Director of systems Development for Young & Rubicam.

ROBERT W. STUBBS was appointed to the Board of Directors of Veramark in July 1998. Mr. Stubbs was President and Chief Executive Officer of Bell Atlantic Capital Corporation, the financial services organization of Bell Atlantic Corporation from 1986 until his retirement in 1993. Prior to that, he was the CEO of TriContinental Leasing Company which he founded in 1968 and sold to Bell Atlantic in 1984. Mr. Stubbs has served on the Board of Directors of the Equipment Leasing Association, the trade association of the equipment leasing industry and was elected its Chairman in 1989. He has been Director of Corporate Affairs for ELA since 1993. Presently, Mr. Stubbs is a Director of BMC Credit Corporation, a Director of Aviation Facilities Company, Inc., and a Trustee of Manhattan College.

PAUL T. BABARIK was appointed Vice President of Sales in April 1996. After joining Veramark in 1987 as a Regional Sales Manager he held several sales management positions, the most recent as Director of AT&T sales from 1989 to 1996. Prior to joining Veramark, Mr. Babarik was employed by AT&T from 1977 - 1986 in various sales management positions.

ROBERT L. BOXER became a Vice President of Veramark in November 1991. Prior to that he had been Secretary and Corporate Counsel of Veramark since March 1983. Prior to that he had been Counsel at Sykes Datatronics, Inc. and an attorney with the firm of Middleton-Wilson.

JAMES W. KARR has been Vice President - Sales, Billing and Customer Care since May 1, 1989. After joining Veramark in 1983, he had held various sales management positions. Prior to that he held sales management positions with Sykes Datatronics, Inc., Itel Corporation, Honeywell Information Systems, and NCR Corporation.

RONALD C. LUNDY was appointed Treasurer of Veramark in July 1993. Since joining Veramark in 1984 he has held a variety of financial management positions, the most recent having been Corporate Controller since December of 1992. Prior to that he held various financial positions with Rochester Instrument Systems from 1974-1983.

DOUGLAS F. SMITH was appointed Vice President of Operations in December 1998. Mr. Smith has been an employee of the Company since 1984 as Order Administration Manager and then as Director of Operations. Prior to joining the Company, Mr. Smith held various management positions with Rochester Instruments Systems, Inc.

ITEM 11 EXECUTIVE COMPENSATION

Information relating to executive compensation is incorporated by reference on pages 6 - 8 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001. (See "Executive Compensation" and "Corporate Governance Information.")

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to the security holdings of more than five percent holders and directors and officers of the Company is incorporated herein by reference to pages 3 - 5 of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2001.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None.

PART IV

ITEM 14 EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

(a) REPORTS ON FORM 8-K

1. Registrant filed a Form 8-K with the Securities and Exchange Commission on January 13, 2000 announcing that the Company on January 7, 2000 had consummated its acquisition of The Angeles Group ("TAG"), a supplier of enterprise software solutions.

   TAG has its headquarters located in Westlake village, California, and will be operated as a division of Veramark. The transaction was structured as a stock-for-stock merger with the shareholders of TAG receiving 360,850 shares of Veramark common stock, which represents an aggregate value of approximately $4,059,562, assuming a price per share of Veramark common stock of $11.25. In addition, Veramark assumed and paid debt of TAG totaling approximately $1.1 million and transaction related broker, accounting, and legal fees of approximately $600,000 were paid in cash out of working capital.

TAG was not affiliated with Veramark, any director or officer of Veramark or any associate of any such directory or officer prior to the merger.

2. On March 16, 2000, the Company filed a report on Form 8-KA providing, on a pro-forma basis, the consolidated financial statements of Veramark Technologies, Inc. and The Angeles Group, Inc. for the years 1997-1999.

3. On April 3, 2000, the Company filed a report on Form 8-K announcing a change in the Company's certifying accountants, effective March 28, 2000. The Company's Board of Directors approved the engagement of the accounting firm of PricewaterhouseCoopers LLP as independent auditors for the Company and its Divisions and subsidiaries for the year ending December 31, 2000, subject to approval of stockholders. The audit relationship between the Company and its past independent auditors, Arthur Andersen LLP was continued through an orderly completion of all matters related to the year, which ended December 31, 1999. During the two most recent fiscal years and interim period subsequent to December 31, 1999, there were no disagreements with Arthur Anderson LLP on any matter of accounting principles or policies, financial statement disclosure, or auditing scope or procedure.

(b) Exhibits (numbered in accordance with item 601 of regulation S-K)
   (11.1) Page 45 Calculation of earnings per share

(c) Schedule II Page 43 Valuation and Qualifying Accounts.

All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

VERAMARK TECHNOLOGIES, INC.

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

COLUMN A ALLOWANCE FOR Doubtful Accounts	COLUMN B Balance at Beginning of Year	COLUMN C Charged to Costs and Expenses	COLUMN D Accounts Written Off (Recovered)	C Bal
2000	$260,000	$4,000	$63,000	$
1999	$110,000	$107,000	$(43,000)	$
1998	$75,000	$68,973	$33,973	$

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.

VERAMARK TECHNOLOGIES, INC.

____

David G. Mazzella, President and CEO
Dated: ______________

Pursuant to the requirements of the Securities Exchange 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	CAPACITY	DATE
David G. Mazzella	Chairman of the Board, Director	March 27, 2001
John E. Gould	Director	March 27, 2001
William J. Reilly	Director	March 27, 2001
Robert Stubbs	Director	March 27, 2001
James R. Scielzo	Director	March 27, 2001
Ronald C. Lundy	Treasurer	March 27, 2001

Exhibit 11.1

VERAMARK TECHNOLOGIES, INC.
CALCULATION OF EARNINGS PER SHARE

	Year Ended December 31,	
	2000	1999
BASIC		
Net Earnings (Loss)	$(6,858,645)	$2,398,586
Weighted average common shares outstanding	8,079,281	7,973,183
Earnings (Loss) per common & common equivalent share	$(0.85)	$0.30
DILUTED		
Net Earnings (Loss)	$6,858,645	$2,398,586
Weighted average common shares outstanding	8,079,281	7,973,183
Additional dilutive effect of stock options & warrants after application of treasury stock method	-	827,479
Weighted average dilutive shares outstanding	8,079,281	8,800,662
Earnings (Loss) per common share assuming full dilution	$(0.85)	$0.27