

VERAMARK TECHNOLOGIES INC

Form 10-Q

November 13, 2007

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
Quarterly Report Under Section 13 or 15 (d)  
of the Securities Exchange Act of 1934  
For Quarter Ended September 30, 2007  
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  NO   
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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

YES  NO

The number of shares of Common Stock, \$.10 par value, outstanding as of September 30, 2007 was 9,075,571.

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**VERAMARK TECHNOLOGIES, INC.  
CONDENSED BALANCE SHEETS**

	(Unaudited) September 30, 2007	December 31, 2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 697,000	\$ 845,384
Investments	1,566,951	849,655
Accounts receivable, trade (net of allowance for doubtful accounts of \$35,000 and \$30,000, respectively)	1,171,915	1,443,685
Inventories, net	30,809	32,898
Prepaid expenses and other current assets	309,277	262,133
Total Current Assets	3,775,952	3,433,755
PROPERTY AND EQUIPMENT		
Cost	5,926,423	5,904,647
Less accumulated depreciation	(5,368,065)	(5,235,398)
Property and Equipment (Net)	558,358	669,249
OTHER ASSETS:		
Software development costs (net of accumulated amortization of \$1,931,996 and \$1,246,121, respectively)	3,192,634	3,175,385
Pension assets	2,986,973	2,866,470
Deposits and other assets	830,756	788,534
Total Other Assets	7,010,363	6,830,389
TOTAL ASSETS	\$ 11,344,673	\$ 10,933,393

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

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**VERAMARK TECHNOLOGIES, INC.  
CONDENSED BALANCE SHEETS**

	<b>(Unaudited) September 30, 2007</b>	<b>December 31, 2006</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 267,522	\$ 317,158
Accrued compensation and related taxes	843,624	680,930
Deferred revenue	3,272,456	3,317,119
Current portion of pension obligation	362,634	195,767
Other accrued liabilities	191,319	323,222
Total Current Liabilities	4,937,555	4,834,196
Pension obligation	5,213,264	5,096,031
Total Liabilities	10,150,819	9,930,227
<b>STOCKHOLDERS EQUITY:</b>		
Common Stock, par value \$.10; shares authorized, 40,000,000; shares issued and outstanding, 9,155,796 and 8,935,026	915,580	893,503
Additional paid-in capital	22,097,193	21,724,250
Accumulated deficit	(21,164,435)	(20,901,736)
Treasury stock (80,225 shares, at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	(268,727)	(327,094)
Total Stockholders Equity	1,193,854	1,003,166
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 11,344,673</b>	<b>\$ 10,933,393</b>

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
NET SALES				
Product sales	\$ 799,167	\$ 876,781	\$ 2,364,184	\$ 2,445,467
Service sales	2,129,073	1,712,856	6,960,781	5,194,647
Total Net Sales	2,928,240	2,589,637	9,324,965	7,640,114
COSTS AND OPERATING EXPENSES:				
Cost of sales	704,853	562,431	2,442,632	1,660,863
Engineering and software development	322,887	185,202	870,334	536,212
Selling, general and administrative	1,980,160	2,025,219	6,319,178	5,906,613
Total Costs and Operating Expenses	3,007,900	2,772,852	9,632,144	8,103,688
LOSS FROM OPERATIONS	(79,660)	(183,215)	(307,179)	(463,574)
NET INTEREST INCOME	19,593	10,342	44,480	26,172
LOSS BEFORE INCOME TAXES	(60,067)	(172,873)	(262,699)	(437,402)
INCOME TAXES				
NET LOSS	\$ (60,067)	\$ (172,873)	\$ (262,699)	\$ (437,402)
NET LOSS PER SHARE				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)

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

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

	<b>Nine Months Ended September</b>	
	<b>2007</b>	<b>30, 2006</b>
<b>OPERATING ACTIVITIES:</b>		
Net loss	\$ (262,699)	\$ (437,402)
Adjustments to reconcile net loss to net cash flows provided by operating activities		
Depreciation and amortization	876,737	943,810
Expense of bad debts	3,486	1,494
Compensation expense-stock options	289,000	24,700
Increase in cash surrender value of company-owned life insurance Policies	(120,503)	(143,076)
Realized loss on sale of investments		(2,922)
<b>Changes in assets and liabilities</b>		
Accounts receivable	268,284	220,112
Inventories	2,089	18,806
Prepaid expenses and other current assets	(47,144)	(98,501)
Deposits and other assets	(42,222)	8,211
Accounts payable	(49,636)	49,495
Accrued compensation and related taxes	162,694	(84,666)
Deferred revenue	(44,663)	261,732
Other accrued liabilities	(131,903)	(10,269)
Pension obligation	331,200	370,400
<b>Net cash flows provided by operating activities</b>	<b>1,234,720</b>	<b>1,121,924</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of investments	(706,030)	(221,287)
Capitalized software development costs	(703,124)	(1,053,693)
Additions to property and equipment	(79,970)	(96,950)
<b>Net cash flows used by investing activities:</b>	<b>(1,489,124)</b>	<b>(1,371,930)</b>
<b>FINANCING ACTIVITY:</b>		
Exercise of stock options	98,979	932
Proceeds from employee stock purchase plan	7,041	4,706
<b>Net cash flows provided by financing activities</b>	<b>106,020</b>	<b>5,638</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(148,384)</b>	<b>(244,368)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>845,384</b>	<b>911,310</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 697,000</b>	<b>\$ 666,942</b>



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	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash Transactions:		
Income taxes paid, net	\$4,042	\$17,141
Interest paid	\$1,075	\$ 619

*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 September 30, 2007, the results of its operations for the three and nine months ended September 30, 2007 and 2006, and cash flows for the nine months ended September 30, 2007 and 2006.

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, 2006.

The results of operations and cash flows for the three and nine months ended September 30, 2007 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 September 30, 2007, and December 31, 2006 were:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Machinery and equipment	\$ 795,905	\$ 795,905
Computer hardware and software	2,065,380	2,057,099
Furniture and fixtures	1,676,787	1,669,084
Leasehold improvements	1,388,351	1,382,559
	<b>\$ 5,926,423</b>	<b>\$ 5,904,647</b>

For the three and nine months ended September 30, 2007, the Company recorded depreciation expense of \$64,835 and \$190,862. Depreciation expense for the three and nine months ended September 30, 2006 was \$64,549 and \$198,273.

**(3) STOCK-BASED COMPENSATION**

The Company's primary type of share-based compensation consists of stock options. For the quarter ended September 30, 2007 the company issued 100,000 stock options, which vest over a four year period.

A summary of the status of the Company's stock option plan as of September 30, 2007 is presented below:

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	Shares	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value	Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2006	2,790,278	\$ 2.35	\$ 1.92	3.3	\$ 1,157,625
Granted	532,485	0.80			
Exercised	(210,150)	0.47			(17,772)
Canceled	(658,170)	2.89			(334,943)
Outstanding as of September 30, 2007	2,454,443	\$ 2.03	\$ 1.67	4.6	\$ 804,910
Options exercisable at September 30, 2007	2,316,408	\$ 2.10	\$ 1.73	4.3	\$ 803,609

As of September 30, 2007, there was \$77,422 of total unrecognized compensation cost related to non-vested share-based compensation arrangements related to stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.1 years.

**(4) TOTAL COMPREHENSIVE INCOME (LOSS)**

Total comprehensive income (loss) for the three and nine months ended September 30, 2007 and 2006 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net loss	\$ (60,067)	\$ (172,873)	\$ (262,699)	\$ (437,402)
Amortization of Prior Service Costs	15,700		47,100	
Unrealized gain on investments	12,390	16,241	11,267	9,884
Total Comprehensive Loss	\$ (31,977)	\$ (156,632)	\$ (204,332)	\$ (427,518)

**(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**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Basic</b>				
Net Loss	\$ (60,067)	\$ (172,873)	\$ (262,699)	\$ (437,402)
Weighted average common shares outstanding	9,004,789	8,847,273	8,933,593	8,841,699
Net loss per common share	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)
<b>Diluted</b>				
Net loss	\$ (60,067)	\$ (172,873)	\$ (262,699)	\$ (437,402)
Weighted average common shares outstanding	9,004,789	8,847,273	8,933,593	8,841,699
Additional dilutive effect of stock options and warrants after application of treasury stock method				
Weighted average dilutive shares outstanding	9,004,789	8,847,273	8,933,593	8,841,699
Net loss per common share assuming full obligation	\$ (0.01)	\$ (0.02)	\$ (0.03)	\$ (0.05)

There were no dilutive effects of stock options for the three and nine months ended September 30, 2007 and 2006, as the effect would have been anti-dilutive due to the net losses 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 September 30, 2007 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 and nine months ended September 30, 2007 and 2006.

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 and nine months ended September 30, 2007 and 2006 consists of the following:



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	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Current Service Cost	\$ 68,180	\$ 69,503	\$ 204,540	\$ 208,509
Amortization of Prior Service Cost	15,700	22,123	47,100	66,369
Interest Cost	78,720	73,374	236,160	220,122
Pension Expense	\$ 162,600	\$ 165,000	\$ 487,800	\$ 495,000

The Company paid pension obligations of \$156,600 for the nine months ended September 30, 2007 and \$124,600 for the nine months ended September 30, 2006.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6% for the three and nine months ended September 30, 2007 and 2006.

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 \$2,987,000 at September 30, 2007. The accumulated cash surrender values of these policies at December 31, 2006 was approximately \$2,866,000.

**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 words having 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 for the quarter ended September 30, 2007 of \$2,928,000 increased 13% from sales of \$2,590,000 for the quarter ended September 30, 2006. For the nine months ended September 30, 2007 sales of \$9,325,000 represent an increase of 22% from sales of \$7,640,000 for the first nine months of 2006.

The net loss for the quarter ended September 30, 2007 of \$60,000, or \$0.01 per share, was an improvement from the net loss of \$173,000, or \$0.02 per share, for the same quarter of 2006. For the nine months ended September 30, 2007 the net loss of \$263,000, or \$0.03 per share, compares with net loss of \$437,000, or \$0.05 per share, for the first nine months of 2006.

Total orders booked for the nine months ended September 30, 2007 decreased 5% from the same nine month period of 2006 primarily due to the planned reduction in orders for maintenance renewals associated with discontinued Quantum Series of products. Support for Quantum, VeraSMART's predecessor in the enterprise market, has been gradually phased out since 2003 when new sales of Quantum were suspended with the introduction of the VeraSMART® product line. Support for Quantum will cease entirely at December 31, 2007. Orders for eCAS products and services have decreased 14% for the first nine months of 2007 from 2006 levels, primarily through our largest distribution channel for eCAS, Avaya Inc. and Avaya's master distributors. Offsetting the decline in eCAS orders and Quantum maintenance renewals has been increased orders for VeraSMART and Managed Services of 43% and 38% respectively, for the nine months ended September 30, 2007 versus the first nine months of 2006.

To increase future order rates for eCAS and subsequent to the close of the third quarter we announced a new release of eCAS, version 5.0. Featuring an innovative fresh look eCAS 5.0 streamlines the operation for the user with an advanced user interface and increased functionality, in addition to an improved and simplified installation process which allows users to download upgrades via the web.

**Sales**

Sales of VeraSMART products and services for the three and nine months ended September 30, 2007 increased 62% and 71%, respectively, from the same three and nine month periods of 2006. During the third quarter new installations of VeraSMART were completed with the City of Kansas City, Google, Novell, and the Bank of

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Montreal. Sales of VeraSMART have accounted for 24% of 2007 sales as compared with 17% of sales a year ago. Revenues generated from Managed Service contracts increased 347% for the three months ended September 30, 2007 and 458% for the nine months ended September 30, 2007 as compared with the same three and nine month periods of 2006, with the majority of the increased revenues attributable to the contract signed with Sears Holding Corporation in late 2006. In addition to Sears, we now provide managed solutions to ten clients pursuant to multi-year contracts. Revenues from Managed Service contracts have accounted for 22% of total 2007 sales, up from 5% of total sales during 2006.

Sales of eCAS, our core telemanagement product, have decreased in 2007 from levels experienced in 2006. Sales of eCAS for the three months ended September 30, 2007 decreased 16% from the same quarter a year ago, and 10% for the nine months ended September 30, 2007 from prior year levels. The decrease in sales is attributable to lower sales volumes generated from Avaya Inc. and its master distribution channels.

**Cost of Sales**

Gross margin (defined as sales minus cost of sales) of \$2,223,000 for the three months ended September 30, 2007 increased 10% from the gross margin of \$2,027,000 for the three months ended September 30, 2006. For the nine months ended September 30, 2007 gross margin of \$6,882,000 compares with a gross margin of \$5,979,000 for the first nine months of 2006, an increase of 15%. Gross margins as a percentage of sales have decreased slightly from 2006 due to a higher cost structure required to support Managed Service clients than would be typical of a direct sale of software. For the nine months ended September 30, 2007 our gross margin of 74% of sales compares with a gross margin of 78% of sales for the first nine months of 2006.

**Operating Expenses**

Net engineering and software development expenses of \$323,000 and \$870,000 for the three and nine months ended September 30, 2007 compare with net engineering and software development expenses of \$185,000 and \$536,000 for the same three and nine month periods of 2006. The increase in net expense results from a reduction in the amounts of development costs capitalized in 2007 as opposed to 2006. As depicted in the chart below, which summarizes gross engineering and software development expenses, software development costs capitalized, and the resulting net expense charged against operations, gross expenses for engineering and software development decreased 9% and 1% respectively for the three and nine months ended September 30, 2007 from the same periods a year ago.

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	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Gross expenditures for engineering & software development	\$ 501,000	\$ 550,000	\$ 1,573,000	\$ 1,590,000
Less: Software development costs capitalized	(178,000)	(365,000)	(703,000)	(1,054,000)
Net expense for engineering and software	\$ 323,000	\$ 185,000	\$ 870,000	\$ 536,000

Selling, general and administrative (SG&A) expenses of \$1,980,000 for the three months ended September 30, 2007 decreased 2% from SG&A expenses of \$2,025,000 for the three months ended September 30, 2006. SG&A expense of \$6,319,000 for the nine months ended September 30, 2007 however increased 7% from expenses of \$5,907,000 for the nine months ended September 30, 2006. The increased 2007 year to date expenses are attributable to the cost of employee stock options issued in the second quarter of this year in addition to and accruals required to meet contractual bonus obligations payable in 2008.

**Liquidity and Capital Resources**

Cash on hand and under investment totaled \$2,264,000 at September 30, 2007, an increase of 4% from the June 30, 2007 total of \$2,176,000 and 34% from the December 31, 2006 total of \$1,695,000. The increase in cash and investment balances reflect a combination of the higher sales volumes in 2007 versus 2006 and careful monitoring of operating expenses.

Accounts receivable of \$1,172,000, net of a reserve for bad debts of \$35,000 at September 30, 2007 compares with accounts receivable of \$1,444,000, net of a bad debt reserve of \$30,000 at December 31, 2006. As of September 30, 2007 there were no past due customer accounts of significance.

Prepaid expenses of September 30, 2007 of \$309,000 increased 18% from prepaid expenses of \$262,000 at December 31, 2006 primarily the result of business insurance premiums paid during the second quarter of the year, the coverage for which extends into 2008.

During the third quarter of 2007 the Company purchased \$40,000 of new capital equipment which increased year to date capital equipment additions to \$80,000. During the nine months ended September 30, 2007 we have disposed of \$58,000 of obsolete capital equipment, all of which had been fully depreciated.

Software development costs capitalized and reported on the balance sheet at September 30, 2007 total \$3,193,000, an increase of \$17,000 from the December 31, 2006 total of \$3,176,000. During the first nine months of 2007 we have capitalized \$703,000 of software development costs and amortized \$686,000 of development costs capitalized in previous periods. Software development costs are generally amortized over a five year period.

Pension assets total \$2,987,000 at September 30, 2007, up from \$2,866,000 at December 31, 2006. Pension assets represent the current cash surrender value of company- owned life insurance policies, the cash value and

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death benefits of which are intended to fund future pension obligations. The cash surrender values are also available to fund current operations in the event that should become necessary.

Total current liabilities of \$4,938,000 at September 30, 2007 increased 2% from the December 31, 2006 total of \$4,834,000 with reductions in accounts payable and deferred revenues offset by increases in accrued compensation and the current portion of pension obligations. Deferred revenues, which account for 66% of current liabilities essentially represent backlog to the company in that the balance represents amounts billed to customers for services to be provided at a later date. These services typically include the unused portion of current maintenance contracts, in addition to training, installation and consulting services.

Stockholders equity of \$1,194,000 at September 30, 2007 increased from the December 31, 2006 balance of \$1,003,000. During the first nine months of 2007 the Company received proceeds of \$99,000 from the exercise of 210,150 employee stock options, \$7,000 from the purchase of 10,620 shares of stock purchased through the Company's employee stock purchase plan, and recorded \$289,000 of paid in capital required by the issuance of new employee stock options.

It is the opinion of Company's management that given the current cash and investment position, current operating expense levels, and the absence of debt, more than sufficient resources exist to meet all operating requirements for the next twelve months and beyond.

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**Accounting Pronouncements**

- 1) In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( 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 is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. The Company is currently evaluating the impact of SFAS 159 on its financial statements.
- 2) In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement NO. 109*. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Fin 48 is effective for fiscal years beginning after December 15, 2006. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2007. Adoption of Fin 48 did not have a significant effect on the Company s financial statements.
- 3) In September 2006, SEC Staff Accounting Bulletin No. 108 ( SAB 108 ) was issued to provide guidance on Quantifying Financial Statement Misstatements. SAB 108 addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. The SAB 108 requires registrants to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. When the effect of initial adoption is determined to be material, the SAB 108 allows registrants to record that effect as a cumulative-effect to beginning-of-year retained earnings. SAB 108 is effective for fiscal years ending after November 15, 2006 and early application is encouraged for any interim period of the first fiscal year ending after that date. Adoption of SAB 108 did not have a significant effect on the Company s financial statements.
- 4) In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( 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 is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial statements.

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**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.

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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

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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 takes 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.

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**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 Chief Financial 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.

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**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 and nine months ended September 30, 2007 and 2006 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.

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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: November 13, 2007

/s/ David G. Mazzella

David G. Mazzella

President and CEO

Date: November 13, 2007

/s/ Ronald C. Lundy

Ronald C. Lundy

Vice President of Finance and CFO