VERAMARK TECHNOLOGIES INC
Form 10-Q
August 13, 2009

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FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934
For Quarter Ended June 30, 2009
Commission File Number 0-13898
Veramark Technologies, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company þ

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

The number of shares of Common Stock, $.10 par value, outstanding on June 30, 2009 was 9,913,731.

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PART I FINANCIAL INFORMATION

VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) June 30, 2009	December 31, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 734,300	$ 1,014,669
Investments	643,657	982,331
Accounts receivable, trade (net of allowance for doubtful accounts of $19,000 and $30,000, respectively)	873,835	1,047,527
Inventories, net	26,588	35,055
Prepaid expenses and other current assets	377,419	244,511
Total Current Assets	2,655,799	3,324,093
PROPERTY AND EQUIPMENT		
Cost	3,567,717	3,862,879
Less accumulated depreciation	(3,150,537)	(3,406,882)
Property and Equipment (Net)	417,180	455,997
OTHER ASSETS:		
Software development costs (net of accumulated amortization of $2,695,863 and $3,332,886, respectively)	2,756,118	2,719,787
Pension assets	2,861,479	3,160,639
Deposits and other assets	995,766	905,761
Total Other Assets	6,613,363	6,786,187
TOTAL ASSETS	$ 9,686,342	$ 10,566,277

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

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VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) June 30, 2009	December 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 278,423	$ 270,842
Accrued compensation and related taxes	558,659	466,150
Deferred revenue	3,425,197	3,746,488
Current portion of pension obligation	502,059	486,059
Other accrued liabilities	86,857	94,954
Total Current Liabilities	4,851,195	5,064,493
Pension obligation	4,795,664	5,000,010
Total Liabilities	9,646,859	10,064,503
STOCKHOLDERS EQUITY:		
Common Stock, par value $.10; shares authorized, 40,000,000; shares issued and outstanding, 9,993,956 and 9,852,954	999,396	985,295
Additional paid-in capital	22,355,801	22,293,688
Accumulated deficit	(22,761,247)	(22,039,196)
Treasury stock (80,225 shares, at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	(168,710)	(352,256)
Total Stockholders Equity	39,483	501,774
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 9,686,342	$ 10,566,277

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
NET SALES				
Product sales	$ 382,259	$ 542,661	$ 850,528	$ 1,154,161
Service sales	2,097,131	1,995,622	4,151,541	4,055,768
Total Net Sales	2,479,390	2,538,283	5,002,069	5,209,929
COSTS AND OPERATING EXPENSES:				
Cost of sales	677,651	707,944	1,321,870	1,422,907
Engineering and software development	278,648	334,243	573,164	632,101
Selling, general and administrative	2,049,105	1,771,230	3,822,732	3,642,903
Total Costs and Operating Expenses	3,005,404	2,813,417	5,717,766	5,697,911
LOSS FROM OPERATIONS	(526,014)	(275,134)	(715,697)	(487,982)
NET INTEREST INCOME (LOSS)	(15,918)	15,425	(6,354)	34,146
LOSS BEFORE INCOME TAXES	(541,932)	(259,709)	(722,051)	(453,836)
INCOME TAXES				
NET LOSS	$ (541,932)	$ (259,709)	$ (722,051)	$ (453,836)
NET LOSS PER SHARE				
Basic	$ (0.05)	$ (0.03)	$ (0.07)	$ (0.05)
Diluted	$ (0.05)	$ (0.03)	$ (0.07)	$ (0.05)

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

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
OPERATING ACTIVITIES:		
Net Loss	$ (722,051)	$ (453,836)
Adjustments to reconcile net loss to net cash flows provided by operating activities		
Depreciation and amortization	773,896	690,427
Bad debt expense (recovery)	(11,339)	3,332
Share based compensation expense	61,933	47,116
Pension assets	(10,840)	(70,985)
Loss on disposal of fixed assets	20	14,571
Unrealized gain (loss) on sale of investments	229	7,068
Changes in assets and liabilities		
Accounts receivable	185,031	339,561
Inventories	8,467	(3,229)
Prepaid expenses and other current assets	(132,908)	(48,498)
Deposits and other assets	(90,005)	(75,005)
Accounts payable	7,581	63,725
Accrued compensation and related taxes	92,509	(210,543)
Deferred revenue	(321,291)	117,643
Other accrued liabilities	(8,097)	(75,731)
Pension obligation	(5,029)	(51,219)
Net cash flows provided by operating activities	(171,894)	294,397
INVESTING ACTIVITIES:		
Sale (purchase) of investments	338,674	121,917
Capitalized software development costs	(636,833)	(412,824)
Additions to property and equipment	(134,597)	(130,048)
Net cash flows used by investing activities	(432,756)	(420,955)
FINANCING ACTIVITY:		
Transfer of Cash Surrender Values	310,000	
Exercise of stock options		57,150
Proceeds from employee stock purchase plan	14,281	11,743
Net cash flows provided by financing activities	324,281	68,893
NET DECREASE IN CASH AND CASH EQUIVALENTS	(280,369)	(57,665)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,014,669	713,342

CASH AND CASH EQUIVALENTS, END OF PERIOD	$	734,300	$	655,677
SUPPLEMENTAL CASH FLOW INFORMATION				
Cash Transactions:				
Income taxes paid, net	$	4,350	$	7,725
Interest paid	$	(202)	$	874

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

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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 June 30, 2009, the results of its operations for the three and six months ended June 30, 2009 and 2008, and cash flows for the six months ended June 30, 2009 and 2008.

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, 2008.

The results of operations and cash flows for the three and six months ended June 30, 2009 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 June 30, 2009, and December 31, 2008 were:

	June 30, 2009	December 31, 2008
Machinery and equipment	$ 128,390	$ 128,390
Computer hardware and software	1,200,397	1,224,343
Furniture and fixtures	853,133	1,124,349
Leasehold improvements	1,385,797	1,385,797
	$ 3,567,717	$ 3,862,879

For the six months ended June 30, 2009, the Company recorded depreciation expense of $173,393. Depreciation expense for the six months ended June 30, 2008 was $140,682.

(3) STOCK-BASED COMPENSATION

The Company s share-based compensation consists of restricted stock and stock options, generally vesting over periods ranging from one to four years. For the six months ended June 30, 2009, the Company awarded restricted stock grants totaling 99,000 shares vesting over three years, and 35,500 of stock options vesting over four years. During the first six months of 2008 the Company awarded 320,000 restricted shares, and 134,500 stock options.

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A summary of the status of the Company s stock option plan as of June 30, 2009 is presented below:

	Shares	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value	Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2008	1,899,583	$ 1.28	$ 1.07	4.7	$ 344,300
Granted	35,500	$ 0.39			
Exercised					
Canceled	(122,915)	5.73			(124,084)
Outstanding as of June 30, 2009	1,812,168	$ 0.96	$ 0.86	4.6	$ 220,216
Options exercisable at June 30, 2009	1,687,918	$ 0.99	$ 0.89	4.3	$ 220,216

As of June 30, 2009, there was $42,842 of total unrecognized compensation cost related to non-vested stock options granted under the Plan and $211,373 of unrecognized compensation cost related to non-vested restricted stock grants. The compensation cost for stock options will be recognized over a weighted-average period of 1.4 years. The compensation costs of restricted stock will be recognized over a weighted-average period of 1.1 years.

(4) TOTAL COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008 were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Net loss	$ (541,932)	$ (259,709)	$ (722,051)	$ (453,836)
Reclassification to net periodic benefit cost		22,123		44,245
Unrealized change pension	80,000	(36,247)	183,317	(72,494)
Unrealized change on investments	5,580	(33,992)	229	7,068
Total comprehensive loss	$ (456,352)	$ (307,825)	$ (538,505)	$ (475,017)

(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.

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Calculations of Earnings (Loss) Per Share

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Basic				
Net Loss	$ (541,932)	$ (259,709)	$ (722,051)	$ (453,836)
Weighted average common shares outstanding	9,869,026	9,504,989	9,826,878	9,425,951
Net loss per common share	$ (0.05)	$ (0.03)	$ (0.07)	$ (0.05)
Diluted				
Net loss	$ (541,932)	$ (259,709)	$ (722,051)	$ (453,836)
Weighted average common shares outstanding	9,869,026	9,504,989	9,826,878	9,425,951
Additional dilutive effect of stock options and warrants after application of treasury stock method				
Weighted average dilutive shares outstanding	9,869,026	9,504,989	9,826,878	9,425,951
Net loss per common share assuming full obligation	$ (0.05)	$ (0.03)	$ (0.07)	$ (0.05)

There were no dilutive effects of stock options in the first and second quarters of 2009 or 2008, as the effect would have been anti-dilutive.

(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 June 30, 2009 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. During the first quarter of 2009 the Company contributed $23,868 to employee s 401k accounts. There were no contributions to the plan during the first six months of 2008.

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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 six months ended June 30, 2009 and 2008 consists of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Current Service Cost		$ 10,270		$ 24,708
Amortization of Prior Service Cost		22,123		44,245
Interest Cost	55,000	82,688	46,683	165,376
Unrealized change	80,000	(36,247)	183,317	(72,494)
Pension Expense	$ 135,000	$ 78,834	$ 230,000	$ 161,835

The Company paid pension obligations of $235,030 for the six months ended June 30, 2009 and $114,055 for the six months ended June 30, 2008.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6.0% for the six month periods ended June 30, 2009 and 2008.

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 $2,861,000 at June 30, 2009. The accumulated cash surrender values of these policies at December 31, 2008 was approximately $3,161,000.

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

Period Ending December 31, Unless Stated Otherwise,	
Q3 - Q4 2009	251,030
2010	502,059
2011	471,925
2012	506,918
2013	522,159
2014 - 2018	2,607,898

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The Company has a contractual obligation to maintain certain health benefits for two of its former chief executive officers. These benefits are accounted for as Post Retirement Healthcare Benefits, (PRHB). Periodic PRHB expensed and paid for the three and six months ended June 30, 2009 and 2008 consists of the following:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Current Service Cost	$ 2,005	$ 1,892	$ 4,010	$ 3,784
Interest Cost	1,407	1,521	2,814	3,042
PRHB Expense	$ 3,412	$ 3,413	$ 6,824	$ 6,826

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

Period Ending December 31, Unless Stated Otherwise,	
Q3 - Q4 2009	6,825
2010	13,649
2011	13,649
2012	13,649
2013	13,649
2014 - 2018	36,745

(8) SUBSEQUENT EVENTS

Subsequent events were evaluated through August 12, 2009, the date the financial statements were issued.

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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 of si 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 three months ended June 30, 2009 of $2,479,000, decreased 2% from sales of $2,538,000 for the same three months of 2008. For the six months ended June 30, 2009 sales of $5,002,000 decreased 4% from sales of $5,210,000 recognized for the six months ended June 30, 2008. The net operating loss of $542,000, for the three months ended June 30, 2009 and $722,000 for the six months ended June 30, 2009 compare with net operating losses of $260,000 and $454,000 for the same three and six month periods of 2008. The loss per share for the first six month of 2009 of $0.07 per share compares with a loss per share of $0.05 per share for the first two quarters of 2008. The higher operating loss incurred for the second quarter of 2009 results from a decrease in revenues from the sale of premise based software products and services, coupled with an increase in selling expenses associated with upgrading the capabilities of our direct sales force.

Orders for the first six months of 2009 increased $9,000 from the same six month period of 2008, including a nearly 200% increase for Telecom Expense Management (TEM) and Business Process Outsourcing (BPO) services. The increase in orders for TEM and BPO services offset a decline in demand for premise based software and related services, a segment of the market that is more sensitive to current economic conditions. The demand for TEM and BPO services support our stated longer term strategy of transitioning from a provider of solely premise based software products and services, to an organization offering a wide array of TEM and BPO solutions under multi-year agreements. As a result of recognizing revenues over the life of the agreement, short term revenues recognized from TEM and BPO sales will be lower than those derived from a one-time direct sale of software. However, long term recurring revenues and cash flows are expected to be more sustainable and predictable. Embedded revenues at June 30, 2009 total approximately $7.1 million, an increase of 11% from embedded revenues of approximately $6.4 million at December 31, 2008. Embedded revenues consist of the unrecognized future revenues of maintenance and managed service contracts, for services yet to be performed.

Sales

Revenues generated from managed services contracts for TEM and BPO services increased 41% for the quarter ended June 30, 2009 over the same quarter of 2008, and 17% for the six months ended June 30, 2009, as compared with the first six months of 2008. Revenues of premise based software and services decreased 11% and 9% respectively, for the three and six months ended June 30, 2009 as compared to the same three and six month periods of 2008. The lower revenues reflect a decrease in orders received from Avaya and its master distribution channel for call accounting solutions, as well as a decline in direct sales of larger enterprise level expense management products and services.

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Cost of Sales and Gross Margin

Gross margin (sales less cost of sales) for the quarter ended June 30, 2009 of $1,802,000 compares with gross margin of $1,830,000 for the same quarter of 2008. For the six months of ended June 30, 2009 gross margin of $3,680,000, compares with $3,787,000, for the first six months of 2008. The decrease in gross margins result from the slightly lower sales volumes achieved for the first two quarters of 2009 as compared with the prior year. Gross margins as a percentage of revenues, however, improved to 74% of revenues for the six months ended June 30, 2009, from 73% of revenues for the first six months of 2008.

Operating Expenses

As a result of increased capitalization of development costs, reported net engineering and software development costs for the three and six months ended June 30, 2009 decreased 16% and 9% respectively, as compared with the same three and six months periods ended June 30, 2008. As depicted in the chart below, gross expenses for engineering and software development before the effects of capitalization, increased 13% for the three months ended June 30, 2009 and 16% for the six months ended June 30, 2009 as compared with prior year results.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Gross expenditures for engineering & software development	$ 618,000	$ 547,000	$ 1,210,000	$ 1,045,000
Less: Software development costs capitalized	(339,000)	(213,000)	(637,000)	(413,000)
Net expense for engineering and software	$ 279,000	$ 334,000	$ 573,000	$ 632,000

Development efforts undertaken in 2009 led to the second quarter release of VeraSMART Performance Advisor, a business intelligence solution for analyzing communication network expenses and generating actionable information that help reduce costs and improve productivity. Performance Advisor allows businesses to analyze expenses organizationally, department, location, vendor, service type and inventory type, or by business unit such as IT, finance, or procurement utilizing easy-to-comprehend dashboards, charts and graphs.

Selling, general and administrative (SG&A) expenses of $2,049,000 for the quarter ended June 30, 2009 increased $278,000 or 16% from expenses of $1,771,000 for the second quarter of 2008. For the six months ended June 30, 2009, SG&A expense of $3,823,000 increased 5% from expenses of $3,643,000 for the first six months of 2008. The increased expense level for 2009 reflects investments strengthening our direct sales efforts in the TEM/BPO market.

Liquidity and Capital Resources

The total cash position (cash on hand plus the value of short- term investments) of $1,378,000 at June 30, 2009 decreased from $1,620,000 at March 31, 2009 and $1,997,000 at December 31, 2008. The reduction in cash position stems primarily from the increase in operating expenses incurred for the first half of 2009 as compared with the same period of 2008. During the second quarter, $300,000 of cash surrender values were utilized to cover pension obligations.

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Accounts receivable of $874,000 at June 30, 2009 decreased 17% from the accounts receivable balance of $1,048,000 at December 31, 2009. Due to the lower accounts receivable balance, the reserve for bad debts has been reduced from $30,000 at December 31, 2008 to $19,000 at June 30, 2009.

Prepaid expenses at June 30, 2009 of $377,000 decreased $83,000, or 18% from $460,000 at March 31, 2009. At December 31, 2008 prepaid expenses totaled $245,000. Prepaid expenses, which include the unutilized portions of business insurances, maintenance and service agreements, are anticipated to decline throughout the last two quarters of the year.

Capital expenditures for the first two quarters of 2009 totaled $135,000, which compares with capital expenditures of $130,000 for the first half of 2008. We do not anticipate any significant increase in the level of capital expenditures throughout the second half of the year. During the second quarter of 2009 we retired $430,000 of fully depreciated capital assets no longer in service, primarily unused office furniture and fixtures.

Software development costs capitalized and included in the Company s balance sheet at June 30, 2009 of $2,756,000 increased 1% from the December 31, 2008 balance of $2,720,000. During the first six months of 2009, we capitalized $637,000 of software developments costs versus $413,000 of development costs capitalized during the first six months of 2008. Amortization charges of $601,000 for the first six months of 2009 compare with $550,000 of amortization expensed during the first six months of 2008.

Pension assets, consisting of the cash surrender values available under company owned life insurance policies, decreased $300,000 from the December 31, 2008 balance of $3,161,000 to $2,861,000 at June 30, 2009, reflecting the transfer of funds to general operating accounts to fund pension obligations, as designed.

Total current liabilities total $4,851,195 at June 30, 2009 decreased 4%, or $213,000, from total current liabilities of $5,064,000 at December 31, 2008. The largest component of current liabilities is deferred revenues, which constitute a portion of the Company s embedded future revenues. Deferred revenues, which total $3,425,000 at June 30, 2009, include the value of maintenance, training, installation and other contracted services for which the customer has been billed, but the service has not yet been performed. The vast majority of theses services will be completed during the next twelve months and recorded as revenues at that time.

Future long-term pension obligations of $4,796,000 at June 30, 2009 decreased 4% from the December 31, 2008 balance of $5,000,000. Future pension obligation will be funded via a series of company-owned life insurance policies utilizing the associated death benefits and cash surrender values.

Stockholders equity of $39,000 at June 30, 2009 compares with stockholders equity of $502,000 at December 31, 2008. The reduction in equity includes the net operating loss for the first six months of 2009. Through the first six months of 2009, employees have purchased 42,002 shares of Veramark common stock via the employee stock purchase plan.

Given our current cash position, projected future cash flows, the absence of debt, access to credit lines and the availability of cash surrender values to augment cash flows when necessary, it is management s opinion that sufficient resources are in place to support the Company s operational and strategic objectives for the next twelve months.

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Accounting Pronouncements

1) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations . SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of SFAS 141(R) did not have a material effect on the Company s financial statements.
2) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of SFAS 160 did not have a material effect on the Company s financial statements.
3) In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* . SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of SFAS 161 did not have a material effect on the Company s financial statements.
4) In May 2008, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 162, *The Hierarchy of Generally Accepted Accounting Principles* . SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. The Company is currently evaluating the impact of SFAS 162 on its financial statements, but does not expect it to have a material effect.
5) In May 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 163, *Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60* (SFAS 163). SFAS 163 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of SFAS 163 did not have a material effect on the Company s financial statements.

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6) In June 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* . FSP EITF 03-6-1 clarifies that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. We have granted and expect to continue to grant restricted stock that contain non-forfeitable rights to dividends and will be considered participating securities upon adoption of FSP EITF 03-6-1. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share (EPS), and we will need to calculate basic EPS using the two-class method. Restricted stock is currently included in our dilutive EPS calculation using the treasury stock method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of FSP EITF 03-6-1 did not have a material effect on the Company s financial statements.
7) In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) SFAS 132(R)-1, *Employer s Disclosures about Postretirement Benefit Plan Assets,* (FSP SFAS 132(R)-1). FSP SFAS 132(R)-1 requires additional disclosures about assets held in an employer s defined benefit pension or other postretirement plan. FSP SFAS 132(R)-1 is effective for fiscal years ending after December 15 2009. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of FSP SFAS 132(R)-1 did not have a material effect on the Company s financial statements.
8) In May 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events* (SFAS 165). SFAS 165 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. SFAS 165 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of SFAS 165 did not have a material effect on the Company s financial statements.
9) In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). SFAS 168 replaces Statement 162 and to establish the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS 168 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the interim period ending September 30, 2009. The Company does not expect adoption of SFAS 168 to have a material effect its 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 collectability 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.

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Risk Factors

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 this report: economic, competitive, governmental and technological factors, increased operating costs, failure to obtain necessary financing, risks related to natural disasters and financial market fluctuations. Such factors also include:

Intellectual Property Rights

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

Existing Customer Base

We derive an increasingly significant portion of our revenues from multi- year managed service contracts. As a result, if we lose a major customer, or if a managed service contract is delayed, reduced, or cancelled, our revenues could be adversely affected. In addition, customers who have accounted for significant revenues in the past may not generate the same amount of revenues in future periods.

Product Development

Veramark has made significant investments in research, development and marketing for new products, services and technologies, including the VeraSMART software offering and its hosted or managed 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. 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 or services, could adversely affect Veramark revenues.

Declines in Demand for Software

If overall market demands for software and computer devices generally, as well as call accounting software or enterprise level products and services 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.

New Products and Services

Veramark is in the process of transforming its business model from a company selling largely premise based software products and services, to one offering hosted solutions providing a wide variety of TEM/BPO processes, such as wireless management, invoice processing and payment, and expanded reporting capabilities. These services are generally provided under multi-year arrangements, and revenues are generally recognized over the life of the arrangements. Consequently, such sales are expected to result in less revenue being recognized at the beginning of a multi-year arrangement than would be recognized with a one-time sale of software.

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Competition

Veramark experiences intense 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.

Security and Privacy Breaches in our Systems May Damage Client Relations and Inhibit our Growth

The uninterrupted operation of our hosted solutions and the confidentiality of third party information that resides on our systems is critical to our business. We have what we believe to be sufficient security in place to prevent major interruptions in service and to prevent unauthorized access. Any failure in our security and privacy measures could have a material adverse impact on our financial position 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

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), as of the end of such period, are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There have been no significant 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.

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

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PART II OTHER INFORMATION

Item 5 Other Information

None

Item 6 Exhibits

(a) Financial Statements as set forth under Item 1 of this report on Form 10-Q

(b) Exhibits required to be filed by Item 601 of Regulation S-K

3.1	Restated Certificate of Incorporation (incorporated by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-18 (File No. 2-96787) filed on March 22, 1985)
3.2	Bylaws (incorporated by reference to Exhibit 3 to the Company s Registration Statement on Form S-8 filed on October 5, 1992)
10.2	Letter Agreement dated as of March 29, 2007 by and between the Company and David G. Mazzella (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on April 3, 2007)
10.3	Letter Agreement dated as of July 30, 2007 by and between the Company and Martin LoBiondo (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 3, 2007)
10.4*	Amended and Restated Board of Directors Deferred Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on November 26, 2007)
10.5	Consulting Agreement dated as of December 12, 2007 by and between the Company and David G. Mazzella (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 13, 2007)
10.6*	Employment Agreement dated as of December 17, 2007 by and between the Company and Anthony C. Mazzullo (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on December 19, 2007)
10.7*	Letter Agreement dated as of February 4, 2008 by and between the Company and Douglas F. Smith (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on February 4, 2008)
10.8*	Restricted Stock Award Agreement dated as of January 1, 2008 by and between the Company and Anthony C. Mazzullo (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on March 25, 2008)
10.9*	2008 Incentive Plan for Management and Key Employees (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on April 2, 2008)
10.10*	2008 Employee Stock Purchase Plan (incorporated by reference to Exhibit F to the Company s Proxy Statement for its 2008 Annual Meeting of Shareholders filed on April 29, 2008)

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10.11*	Description of non-employee director compensation (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on August 18, 2008)
10.12*	Amended Salary Continuation Agreement dated as of October 10, 2008 by and between the Company and Ronald C. Lundy (incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K filed on October 17, 2008)
10.13*	Form of 2008 Employee Stock Purchase Plan Enrollment Agreement (incorporated by reference to Exhibit 4.2 to the Company s Registration Statement on Form S-8 (File No. 333-155286) filed on November 12, 2008)
14	Code of Business Conduct and Ethics (incorporated by reference to Exhibit E to the Company s Proxy Statement for its 2008 Annual Meeting of Shareholders filed on April 29, 2008)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Management contract or compensatory plan or arrangement

(c) Schedules required to be filed by Regulation S-X

none

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

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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: August 12, 2009

/s/ Anthony C. Mazzullo

Anthony C. Mazzullo
President and CEO

Date: August 12, 2009

/s/ Ronald C. Lundy

Ronald C. Lundy
Vice President of Finance and CFO

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EXHIBIT INDEX

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