

VERAMARK TECHNOLOGIES INC

Form 10-Q

August 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 June 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 June 30, 2007 was 8,967,071.

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

|  | (Unaudited)<br>June 30,<br>2007 | December 31,<br>2006 |
|--|---------------------------------|----------------------|
| <b>ASSETS</b>  |                                 |                      |
| CURRENT ASSETS:  |                                 |                      |
| Cash and cash equivalents  | \$ 600,443                      | \$ 845,384           |
| Investments  | 1,575,675                       | 849,655              |
| Accounts receivable, trade (net of allowance for doubtful accounts of \$35,000 and \$30,000, respectively) | 1,291,351                       | 1,443,685            |
| Inventories, net   | 29,845                          | 32,898               |
| Prepaid expenses and other current assets  | 285,409                         | 262,133              |
| Total Current Assets   | 3,782,723                       | 3,433,755            |
| PROPERTY AND EQUIPMENT   |                                 |                      |
| Cost   | 5,894,188                       | 5,904,647            |
| Less accumulated depreciation  | (5,310,529)                     | (5,235,398)          |
| Property and Equipment (Net)   | 583,659                         | 669,249              |
| OTHER ASSETS:  |                                 |                      |
| Software development costs (net of accumulated amortization of \$1,691,497 and \$1,246,121, respectively)  | 3,254,856                       | 3,175,385            |
| Pension assets   | 2,937,455                       | 2,866,470            |
| Deposits and other assets  | 830,756                         | 788,534              |
| Total Other Assets   | 7,023,067                       | 6,830,389            |
| TOTAL ASSETS   | \$ 11,389,449                   | \$ 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)<br/>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|--|------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |  |                              |
| <b>CURRENT LIABILITIES:</b>  |  |                              |
| Accounts payable   | \$ 231,370                               | \$ 317,158                   |
| Accrued compensation and related taxes   | 824,148                                  | 680,930                      |
| Deferred revenue   | 3,395,637                                | 3,317,119                    |
| Current portion of pension obligation  | 313,134                                  | 195,767                      |
| Other accrued liabilities  | 292,201                                  | 323,222                      |
| <br>   |  |                              |
| Total Current Liabilities  | 5,056,490                                | 4,834,196                    |
| <br>   |  |                              |
| Pension obligation   | 5,169,397                                | 5,096,031                    |
| <br>   |  |                              |
| Total Liabilities  | 10,225,887                               | 9,930,227                    |
| <br>   |  |                              |
| <b>STOCKHOLDERS EQUITY:</b>  |  |                              |
| Common Stock, par value \$.10; shares authorized, 40,000,000; shares issued and outstanding, 9,047,296 and 8,935,026 | 904,730                                  | 893,503                      |
| Additional paid-in capital   | 22,045,774                               | 21,724,250                   |
| Accumulated deficit  | (21,104,368)                             | (20,901,736)                 |
| Treasury stock (80,225 shares, at cost)  | (385,757)                                | (385,757)                    |
| Accumulated other comprehensive income   | (296,817)                                | (327,094)                    |
| <br>   |  |                              |
| Total Stockholders Equity  | 1,163,562                                | 1,003,166                    |
| <br>   |  |                              |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>   | <b>\$ 11,389,449</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>Six Months Ended</b> |              |
|--------------------------------------|---------------------------|--------------|-------------------------|--------------|
|                                      | <b>June 30,</b>           |              | <b>June 30,</b>         |              |
|                                      | <b>2007</b>               | <b>2006</b>  | <b>2007</b>             | <b>2006</b>  |
| NET SALES                            |                           |              |                         |              |
| Product sales                        | \$ 828,542                | \$ 829,043   | \$ 1,565,016            | \$ 1,568,687 |
| Service sales                        | 2,219,541                 | 1,777,238    | 4,831,709               | 3,481,790    |
| Total Net Sales                      | 3,048,083                 | 2,606,281    | 6,396,725               | 5,050,477    |
| <br>                                 |                           |              |                         |              |
| COSTS AND OPERATING EXPENSES:        |                           |              |                         |              |
| Cost of sales                        | 749,835                   | 574,093      | 1,737,779               | 1,098,432    |
| Engineering and software development | 296,500                   | 198,301      | 547,447                 | 351,010      |
| Selling, general and administrative  | 2,334,527                 | 2,048,755    | 4,339,018               | 3,881,394    |
| Total Costs and Operating Expenses   | 3,380,862                 | 2,821,149    | 6,624,244               | 5,330,836    |
| LOSS FROM OPERATIONS                 | (332,779)                 | (214,868)    | (227,519)               | (280,359)    |
| NET INTEREST INCOME                  | 12,635                    | 7,816        | 24,887                  | 15,830       |
| LOSS BEFORE INCOME TAXES             | (320,144)                 | (207,052)    | (202,632)               | (264,529)    |
| INCOME TAXES                         |                           |              |                         |              |
| NET LOSS                             | \$ (320,144)              | \$ (207,052) | \$ (202,632)            | \$ (264,529) |
| NET LOSS PER SHARE                   |                           |              |                         |              |
| Basic                                | \$ (0.03)                 | \$ (0.02)    | \$ (0.02)               | \$ (0.03)    |
| Diluted                              | \$ (0.03)                 | \$ (0.02)    | \$ (0.02)               | \$ (0.03)    |

*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>Six Months Ended June 30,</b> | <b>2007</b>      | <b>2006</b>       |
|--|----------------------------------|------------------|-------------------|
| <b>OPERATING ACTIVITIES:</b>   |                                  |                  |                   |
| Net loss   | \$                               | (202,632)        | \$ (264,529)      |
| Adjustments to reconcile net loss to net cash flows provided by operating activities |                                  |                  |                   |
| Depreciation and amortization  |                                  | 571,403          | 630,749           |
| Expense of bad debts   |                                  | 4,470            | (1,506)           |
| Compensation expense-stock options   |                                  | 282,000          | 18,700            |
| Increase in cash surrender value of company-owned life insurance Policies            |                                  | (70,985)         | (72,446)          |
| Realized loss on sale of investments   |                                  |                  | (1,356)           |
| <b>Changes in assets and liabilities</b>   |                                  |                  |                   |
| Accounts receivable  |                                  | 147,864          | 346,106           |
| Inventories  |                                  | 3,053            | (18,145)          |
| Prepaid expenses and other current assets  |                                  | (23,276)         | (70,496)          |
| Deposits and other assets  |                                  | (42,222)         | 8,211             |
| Accounts payable   |                                  | (85,788)         | (88,386)          |
| Accrued compensation and related taxes   |                                  | 143,218          | (20,498)          |
| Deferred revenue   |                                  | 78,518           | 176,617           |
| Other accrued liabilities  |                                  | (31,021)         | (3,106)           |
| Pension obligation   |                                  | 222,133          | 246,933           |
| Net cash flows provided by operating activities                                      |                                  | 996,735          | 886,848           |
| <b>INVESTING ACTIVITIES:</b>   |                                  |                  |                   |
| Purchase of investments  |                                  | (727,143)        | (114,626)         |
| Capitalized software development costs   |                                  | (524,847)        | (689,486)         |
| Additions to property and equipment  |                                  | (40,437)         | (78,031)          |
| Net cash flows used by investing activities:   |                                  | (1,292,427)      | (882,143)         |
| <b>FINANCING ACTIVITY:</b>   |                                  |                  |                   |
| Exercise of stock options  |                                  | 43,710           | 932               |
| Proceeds from employee stock purchase plan   |                                  | 7,041            | 4,706             |
| Net cash flows provided by financing activities                                      |                                  | 50,751           | 5,638             |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                          |                                  | <b>(244,941)</b> | <b>10,343</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>\$</b>                        | <b>600,443</b>   | <b>\$ 921,653</b> |





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|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2007</b>                          | <b>2006</b> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b> |                                      |             |
| Cash Transactions:                        |                                      |             |
| Income taxes paid, net                    | \$ 1,859                             | \$ 4,500    |
| Interest paid                             | \$ 575                               | \$ 144      |

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

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(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, 2007, the results of its operations for the three and six months ended June 30, 2007 and 2006, and cash flows for the six months ended June 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 six months ended June 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 June 30, 2007, and December 31, 2006 were:

|                                | <b>June 30,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|--------------------------------|--------------------------|----------------------------------|
| Machinery and equipment        | \$ 795,905               | \$ 795,905                       |
| Computer hardware and software | 2,039,273                | 2,057,099                        |
| Furniture and fixtures         | 1,670,659                | 1,669,084                        |
| Leasehold improvements         | 1,388,351                | 1,382,559                        |
|                                | <b>\$ 5,894,188</b>      | <b>\$ 5,904,647</b>              |

For the three and six months ended June 30, 2007, the Company recorded depreciation expense of \$63,150 and \$126,027. Depreciation expense for the three and six months ended June 30, 2006 was \$66,530 and \$133,724.

**(3) STOCK-BASED COMPENSATION**

The Company's primary type of share-based compensation consists of stock options. For the quarter ended June 30, 2007 the company issued 432,485 stock options, 400,000 of which vest immediately. The remaining 32,485 stock options vest one year from the date of grant. There were no stock options granted in the first quarter of 2007.

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

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|                                      | Shares    | Average<br>Exercise<br>Price | Average<br>Grant-Date<br>Fair<br>Value | Remaining<br>Contractual<br>Term<br>(Yrs) | Intrinsic<br>Value |
|--------------------------------------|-----------|------------------------------|--|---|--------------------|
| Outstanding as of December 31, 2006  | 2,790,278 | \$ 2.35                      | \$ 1.92                                | 3.3                                       | \$ 1,157,625       |
| Granted                              | 432,485   | 0.78                         |  |   |                    |
| Exercised                            | (101,650) | 0.43                         |  |   | (8,132)            |
| Canceled                             | (619,600) | 2.79                         |  |   | (303,551)          |
| Outstanding as of June 30, 2007      | 2,501,513 | \$ 2.05                      | \$ 1.69                                | 4.6                                       | \$ 845,942         |
| Options exercisable at June 30, 2007 | 2,439,678 | \$ 2.08                      | \$ 1.71                                | 4.5                                       | \$ 842,381         |

As of June 30, 2007, there was \$23,162 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 0.6 years.

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

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

|                                | Three Months Ended<br>June 30, |              | Six Months Ended<br>June 30, |              |
|--------------------------------|--------------------------------|--------------|------------------------------|--------------|
|                                | 2007                           | 2006         | 2007                         | 2006         |
| Net loss                       | \$ (320,144)                   | \$ (207,052) | \$ (202,632)                 | \$ (264,529) |
| Amortization of Prior Services | 31,400                         |              | 31,400                       |              |
| Unrealized loss on investments | (6,496)                        | (4,232)      | (1,123)                      | (6,357)      |
| Total Comprehensive Loss       | \$ (295,240)                   | \$ (211,284) | \$ (172,355)                 | \$ (270,886) |

**(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<br/>June 30,</b> |              | <b>Six Months Ended<br/>June 30,</b> |              |
|---|--|--------------|--------------------------------------|--------------|
|   | <b>2007</b>                            | <b>2006</b>  | <b>2007</b>                          | <b>2006</b>  |
| <b>Basic</b>  |  |              |                                      |              |
| Net Loss  | \$ (320,144)                           | \$ (207,052) | \$ (202,632)                         | \$ (264,529) |
| Weighted average common shares outstanding  | 8,940,855                              | 8,839,452    | 8,897,994                            | 8,838,913    |
| Net loss per common share   | \$ (0.03)                              | \$ (0.02)    | \$ (0.02)                            | \$ (0.03)    |
| <b>Diluted</b>  |  |              |                                      |              |
| Net loss  | \$ (320,144)                           | \$ (207,052) | \$ (202,632)                         | \$ (264,529) |
| Weighted average common shares outstanding  | 8,940,855                              | 8,839,452    | 8,897,994                            | 8,838,913    |
| Additional dilutive effect of stock options and warrants after application of treasury stock method |  |              |                                      |              |
| Weighted average dilutive shares outstanding  | 8,940,855                              | 8,839,452    | 8,897,994                            | 8,838,913    |
| Net loss per common share assuming full obligation  | \$ (0.03)                              | \$ (0.02)    | \$ (0.02)                            | \$ (0.03)    |

There were no dilutive effects of stock options for the three and six months ended June 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 June 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 six months ended June 30, 2007 and 2006.

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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, 2007 and 2006 consists of the following:

|                                    | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |             |
|------------------------------------|---------------------------|-------------|-------------------------|-------------|
|                                    | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|                                    | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b> |
| Current Service Cost               | \$ 68,180                 | \$ 69,503   | \$ 136,360              | \$ 139,006  |
| Amortization of Prior Service Cost | 15,700                    | 22,123      | 31,400                  | 44,246      |
| Interest Cost                      | 78,720                    | 73,374      | 157,440                 | 146,748     |
| <br>                               |                           |             |                         |             |
| Pension Expense                    | \$ 162,600                | \$ 165,000  | \$ 325,200              | \$ 330,000  |

The Company paid pension obligations of \$103,067 for the six months ended June 30, 2007 and \$83,067 for the six months ended June 30, 2006.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6% for the three and six months ended June 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 \$2,937,000 at June 30, 2007. The accumulated cash surrender values of these policies at December 31, 2006 was approximately \$2,866,000.

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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 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 of \$3,048,000 for the three months ended June 30, 2007 increased 17% from sales of \$2,606,000 for the three months ended June 30, 2006. For the six months ended June 30, 2007 sales of \$6,397,000 increased 27% from sales of \$5,050,000 for the first six months of 2006. The increase in sales for both periods was attributable to a growth in revenues generated from Managed Service contracts, in addition to increased sales of VeraSMART products and services.

The net loss incurred for the three months ended June 30, 2007 was \$320,000 or \$0.03 per share, which compares with a net loss of \$207,000, or \$0.02 per share for the same three month period of 2006. For the six months ended June 30, 2007 the net loss of \$203,000, or \$0.02 per share compares with a net loss of \$265,000, or \$0.03 per share, for the six months ended June 30, 2006.

Results for the second quarter and year were impacted by the grant of 432,485 stock options to selected long-term employees. In accordance with SFAS 123, Share-based Payments which requires the expensing of stock options, \$279,000 of compensation expense was recorded during the second quarter. During the first six months of 2007 a total of 619,600 previously granted stock options either expired without being exercised, or were terminated. As of June 30, 2007 there are 2,501,513 stock options outstanding as compared with 2,760,878 stock options outstanding as of June 30, 2006. Results for the six months ended June 30, 2007 as compared with the prior year were also impacted by lower capitalization of software development costs, and an increase in cost of sales attributable to fees paid a third party contractor to fulfill portions of our managed service contract with Sears Holding Corporation.

Orders for the three months ended June 30, 2007 increased 11% from the same quarter of 2006 and increased 2% for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006.

During the second quarter we announced the release of VeraSMART 6.0, the latest in a series of enhancements to our VeraSMART Communications Management suite. Key features of this new release include enhanced invoice processing, payment tracking, contract management capabilities, and new reporting functionality. VeraSMART 6.0 integrates with accounts payable and general ledger systems allowing for automatic invoice

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alerts, the measurement of invoiced charges against contractual commitments, and compares actual usage against wireless plans.

Cash and investments at June 30, 2007 totaled \$2,176,000, an increase of 14%, or \$266,000 from the March 31, 2007 total of \$1,910,000.

**Sales**

Sales of VeraSMART products and services increased 130% and 76% respectively, for the three and six months ended June 30, 2007 as compared with the same three and six month periods of 2006. New client installations of VeraSMART completed during the second quarter included Kimberly Clark, Connecticut Department of Revenue, Bechtel, and The Ohio Department of Jobs.

Managed Service revenues for the three months ended June 30, 2007 increased 378% for the three months ended June 30, 2006 and 516% for the six months ended June 30, 2007 as compared with the first six months of 2006. The increase in Managed Service revenues include the revenue derived from the three year Telecommunication Expense Management (TEM) contract signed with Sears Holding Corporation in late 2006.

Sales of eCAS products and services decreased from 2006 levels due to lower sales through our largest distribution channel, Avaya and its master distributors. For the three and six months ended June 30, 2007 sales of eCAS products and services decreased 18% and 6% respectively, from 2006 levels for the same three and six month periods.

**Cost of Sales**

Gross margins (defined as sales less cost of sales) of \$2,298,000 and \$4,659,000 increased from gross margins of \$2,032,000 and \$3,952,000, or 13% and 18% respectively, as compared with the three and six months ended June 30, 2006, reflecting the increased sales volumes for 2007 versus the prior year. For the six months ended June 30, 2007 the gross margin as a percentage of sales has declined from 78% of sales to 73% of sales as a result of a higher cost structure required to support our Managed Service clients than would be typical of a direct sale of software.

**Operating Expenses**

Expenses for Engineering and Software Development, net of software capitalization, increased for both the three and six months ended June 30, 2007 as compared with the same of three and six month periods of 2006, primarily as a result of a decrease in the amount of development costs capitalized as compared with the prior year. Expenses, net of capitalization, of \$297,000 for the three months ended June 30, 2007 and \$548,000 for the six months ended June 30, 2006 compared with expenses, net of capitalization, of \$198,000 and \$351,000 for the same periods of 2006. The table below summarizes gross engineering and software development expenses incurred, development cost capitalized, and the resulting net engineering expenses charged to operations for the three and six months ended June 30, 2007 and 2006.

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|   | <b>Three Months Ended</b> |             | <b>Six Months Ended</b> |              |
|---|---------------------------|-------------|-------------------------|--------------|
|   | <b>June 30,</b>           |             | <b>June 30,</b>         |              |
|   | <b>2007</b>               | <b>2006</b> | <b>2007</b>             | <b>2006</b>  |
| Gross expenditures for engineering & software development | \$ 518,000                | \$ 514,000  | \$ 1,073,000            | \$ 1,040,000 |
| Less: Software development costs capitalized              | (221,000)                 | (316,000)   | (525,000)               | (689,000)    |
| Net expense for engineering and software                  | \$ 297,000                | \$ 198,000  | \$ 548,000              | \$ 351,000   |

Selling, General and Administrative (SG&A) expenses of \$2,335,000 and \$4,339,000 incurred for the three and six months ended June 30, 2007 increased from SG&A expenses of \$2,049,000 and \$3,881,000 for the three and six months ended June 30, 2006. The increase in expense incurred for the second quarter 2007 versus the same quarter of 2006 results entirely from the issuance of employees stock options, discussed in the overview section of this report, the non-cash expense for which totaled \$282,000. The higher expense level for the six months ended June 30, 2007 as compared with the prior year reflects, in addition to the expenses associated with the issuance of the stock options, an increase in accruals required to meet contractual bonus obligations due in 2008.

**Liquidity and Capital Resources**

Cash in the bank and the value of short- term investments at June 30, 2007 total \$2,176,000, an increase of \$266,000 from the March 31, 2007 total of \$1,910,000, and an increase of \$481,000 from the December 31, 2006 balance of \$1,695,000. The growth in cash balances stem from the increased sales volumes realized during the first six months of 2007 as compared with the first six months of 2006.

Accounts receivable at June 30, 2007 are \$1,291,000, down from \$1,444,000 at December 31, 2006. The reserve for bad debts at June 30, 2007 is \$35,000 which compares with a reserve of \$30,000 at December 31, 2006. We have incurred no significant collection problems during the first half of 2007, and have experienced only minor variations in the overall aging of current receivables.

Prepaid expenses of \$286,000 at June 30, 2007 increased \$24,000, or 9% from the December 31, 2006 balance of \$262,000. The increase reflects second quarter prepayments for the renewal of business insurance policies whose coverage s extend through the balance of 2007 and into 2008.

The cost value of property and equipment at June 30, 2007 of \$5,894,000 includes \$20,000 of new capital equipment purchased during the second quarter. Capital equipment purchases for the first six months of 2007 total \$40,000. During the first half of 2007 we have disposed of approximately \$51,000 of equipment, all of which had been fully depreciated and removed from service.

As of June 30, 2007 the value of software development costs capitalized and carried on our balance sheet is \$3,255,000, an increase of 3% from the December 31, 2006 balance of \$3,175,000. For the six months ended



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June 30, 2007 we have capitalized \$525,000 of developments costs versus the capitalization of \$689,000 of development costs for the first six months of 2006. Amortization of previously capitalized development costs charged to cost of sales totaled \$445,000 for the first six months of 2007, versus \$497,000 of amortization costs incurred for the first six months of 2006.

Pension assets, which consist of the cash surrender values of company-owned life insurance policies designed to fund future pension obligations, total \$2,937,000 at June 30, 2007. The cash surrender value of these policies totaled \$2,866,000 at December 31, 2006.

Current liabilities at June 30, 2007 are \$5,056,000, of which \$3,396,000, or 67% represent deferred revenues, which essentially are a component of the Company's backlog. Deferred revenues consist of services for which we have billed customers, but for which we have not yet performed the contracted service, and accordingly have not yet recognized the associated revenues. The majority of deferred revenues will be converted to revenues over the next twelve months. Total current liabilities at December 31, 2006 were \$4,834,000, of which deferred revenues accounted for 69%, or \$3,317,000 of the total.

Stockholders equity at June 30, 2007 is \$1,164,000 as compared with \$1,003,000 at December 31, 2006. The net change includes the net loss of \$203,000 incurred for the six months of 2007, which was offset by an increase in paid-in capital associated with the issuance of stock options and \$51,000 of proceeds received from the exercise of 101,650 employee stock options and the purchase of 10,620 shares of common stock through the Company's Employee Stock Purchase Plan.

In light of the Company's current cash and investment position, overall liquidity and the absence of debt, it is management's opinion that sufficient resources are available to meet all operating requirements and support ongoing development efforts 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 is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2007. Adoption of Fin 48 does 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.

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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**

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Veramark regards its software as proprietary and attempts to protect it with a combination of copyright, trademark and trade secret protections, employee and third-party non-disclosure agreements and other methods of protection. Despite those precautions, it may be possible for unauthorized third parties to copy certain portions of Veramark's products, reverse engineer or obtain and use information that Veramark regards as proprietary. The laws of some foreign countries do not protect Veramark's proprietary rights to the same extent as the laws of the United States. Any misappropriation of Veramark's intellectual property could have a material adverse effect on its business and results of operations. Furthermore, although Veramark 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.

**Table of Contents****PART II OTHER INFORMATION****Item 4: Submission of Matters to a Vote of Security Holders**

The 2007 Annual Meeting of stockholders was held on May 21, 2007. The following matters were voted upon and received the votes set forth below:

**A. Election of Directors.** The individuals named below were re-elected to serve as members of the Board of Directors of the Company to serve until the next annual meeting of stockholders and until their successors shall have been elected and qualified:

| Director               | Votes Cast |                    |
|------------------------|------------|--------------------|
|                        | For        | Withheld Authority |
| Charles A. Constantino | 5,904,864  | 2,128,008          |
| John E. Gould          | 5,910,464  | 2,122,408          |
| Andrew W. Moylan       | 5,901,364  | 2,131,508          |
| David G. Mazzella      | 5,925,516  | 2,107,356          |
| William J. Reilly      | 5,910,764  | 2,122,108          |
| Michael R. Holly       | 5,910,964  | 2,121,908          |

**B. Ratification of the appointment of independent auditors for the year ending December 31, 2007.** At the meeting the following votes and abstentions were cast with respect to the ratification of the appointment of Rotenberg & Co., LLP as independent auditors for the year ending December 31, 2007:

|          |           |
|----------|-----------|
| For:     | 6,453,238 |
| Against: | 1,482,341 |
| Abstain  | 97,292    |

**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.

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**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 six months ended June 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: August 10, 2007

/s/ David G. Mazzella

David G. Mazzella  
President and CEO

Date: August 10, 2007

/s/ Ronald C. Lundy

Ronald C. Lundy  
Vice President of Finance and CFO