VERAMARK TECHNOLOGIES INC
Form 10-Q
May 14, 2007

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 March 31, 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 þ NO o

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

o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer o Non-accelerated filer 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 as of March 31, 2007 was 8,855,201.

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VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2007	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 939,115	$ 845,384
Investments	970,768	849,655
Accounts receivable, trade (net of allowance for doubtful accounts of $38,000 and $30,000, respectively)	1,448,857	1,443,685
Inventories, net	38,437	32,898
Prepaid expenses and other current assets	308,577	262,133
Total Current Assets	3,705,754	3,433,755
PROPERTY AND EQUIPMENT		
Cost	5,876,825	5,904,647
Less accumulated depreciation	(5,250,063)	(5,235,398)
Property and Equipment (Net)	626,762	669,249
OTHER ASSETS:		
Software development costs (net of accumulated amortization of $1,459,903 and $1,246,121, respectively)	3,265,800	3,175,385
Pension assets	2,890,293	2,866,470
Deposits and other assets	788,534	788,534
Total Other Assets	6,944,627	6,830,389
TOTAL ASSETS	$ 11,277,143	$ 10,933,393

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

VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

	(Unaudited) March 31, 2007	December 31, 2006
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 307,678	$ 317,158
Accrued compensation and related taxes	705,909	680,930
Deferred revenue	3,421,523	3,317,119
Current portion of pension obligation	263,634	195,767
Other accrued liabilities	307,945	323,222
Total Current Liabilities	5,006,689	4,834,196
Pension obligation	5,141,231	5,096,031
Total Liabilities	10,147,920	9,930,227
STOCKHOLDERS EQUITY:		
Common Stock, par value $.10; shares authorized, 40,000,000; shares issued and outstanding, 8,935,426 and 8,935,026	893,543	893,503
Additional paid-in capital	21,727,382	21,724,250
Accumulated deficit	(20,784,224)	(20,901,736)
Treasury stock (80,225 shares, at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	(321,721)	(327,094)
Total Stockholders Equity	1,129,223	1,003,166
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 11,277,143	$ 10,933,393

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

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

	Three Months Ended March 31, 2007	2006
NET SALES		
Product sales	$ 736,475	$ 739,644
Service sales	2,612,167	1,704,552
Total Net Sales	3,348,642	2,444,196
COSTS AND OPERATING EXPENSES:		
Cost of sales	987,944	524,339
Engineering and software development	250,947	152,709
Selling, general and administrative	2,004,491	1,832,639
Total Costs and Operating Expenses	3,243,382	2,509,687
INCOME (LOSS) FROM OPERATIONS	105,260	(65,491)
NET INTEREST INCOME	12,252	8,014
INCOME (LOSS) BEFORE INCOME TAXES	117,512	(57,477)
INCOME TAXES		
NET INCOME (LOSS)	$ 117,512	$ (57,477)
NET INCOME (LOSS) PER SHARE		
Basic	$ 0.01	$ (0.01)
Diluted	$ 0.01	$ (0.01)

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

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

	Three Months Ended March 31, 2007	2006
OPERATING ACTIVITIES:		
Net income (loss)	$ 117,512	$ (57,477)
Adjustments to reconcile net income (loss) to net cash flows provided by operating activities		
Depreciation and amortization	276,659	315,707
Expense of bad debts	7,470	11,000
Compensation expense-stock options	3,000	10,000
Increase in cash surrender value of company-owned life insurance Policies	(23,823)	(23,823)
Realized gain (loss) on sale of investments	5,373	(2,125)
Changes in assets and liabilities		
Accounts receivable	(12,642)	(70,738)
Inventories	(5,539)	(25,452)
Prepaid expenses and other current assets	(46,444)	(44,608)
Accounts payable	(9,480)	(51,708)
Accrued compensation and related taxes	24,979	(136,782)
Deferred revenue	104,404	293,678
Other accrued liabilities	(15,277)	8,163
Pension obligation	113,067	123,466
Net cash flows provided by operating activities	539,259	349,301
INVESTING ACTIVITIES:		
Purchase of investments	(121,113)	(11,135)
Capitalized software development costs	(304,197)	(373,091)
Additions to property and equipment	(20,390)	(53,147)
Net cash flows used by investing activities:	(445,700)	(437,373)
FINANCING ACTIVITY:		
Exercise of stock options	172	933
Net cash flows provided by financing activities	172	933
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	93,731	(87,139)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	845,384	911,310
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 939,115	$ 824,171

	Three Months Ended March 31,	
	2007	**2006**
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash Transactions:		
Income taxes paid, net	$ 404	$ 500
Interest paid	$ 453	$ 83

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

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)
(1) GENERAL

The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company s management, are necessary to present fairly the Company s financial position as of March 31, 2007, the results of its operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 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 months ended March 31, 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 March 31, 2007, and December 31, 2006 were:

	March 31, 2007	**December 31, 2006**
Machinery and equipment	$ 795,905	$ 795,905
Computer hardware and software	2,027,702	2,057,099
Furniture and fixtures	1,670,659	1,669,084
Leasehold improvements	1,382,559	1,382,559
	$ 5,876,825	$ 5,904,647

For the quarter ended March 31, 2007, the Company recorded depreciation expense of $62,877. Depreciation expense for the quarter ended March 31, 2006 was $67,194.

(3) STOCK-BASED COMPENSATION

The Company s primary type of share-based compensation consists of stock options, generally vesting over four years. For the quarters ended March 31, 2007 and 2006, the company did not issue any stock options.

A summary of the status of the Company s stock option plan as of March 31, 2007 is presented below:

	Shares	Average Exercise Price	Average Grant-Date Fair Value	Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2006	2,790,278	$ 2.35	$ 1.92	3.3	$ 1,157,625
Granted					
Exercised	(400)	0.43			(32)
Canceled	(1,900)	4.68			(1,577)
Outstanding as of March 31, 2007	2,787,978	$ 2.35	$ 1.92	3.1	$ 1,156,016
Options exercisable at March 31, 2007	2,730,828	$ 2.38	$ 1.94	3.0	$ 1,150,195

As of March 31, 2007, there was $14,011 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 1.2 years.

(4) TOTAL COMPREHENSIVE INCOME (LOSS)

Total comprehensive income (loss) for the first quarter of 2007 and 2006 was as follows:

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Net income (loss)	$ 117,512	$ (57,477)
Unrealized gain (loss) on investments	5,373	(2,125)
Total comprehensive loss	$ 122,885	$ (59,602)

(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.

Calculations of Earnings (Loss) Per Share

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Basic		
Net income (loss)	$ 117,512	$ (57,477)
Weighted average common shares outstanding	8,855,134	8,838,373
Net income (loss) per common share	$ 0.01	$ (0.01)
Diluted		
Net income (loss)	$ 117,512	$ (57,477)
Weighted average common shares outstanding	8,855,134	8,838,373
Additional dilutive effect of stock options and warrants after application of treasury stock method	567,361	
Weighted average dilutive shares outstanding	9,422,495	8,838,373
Net income (loss) per common share assuming full obligation	$ 0.01	$ (0.01)

There were no dilutive effects of stock options in the first quarter of 2006, as the effect would have been anti-dilutive due to the net loss incurred.

(6) INDEMNIFICATION OF CUSTOMERS

Our agreements with customers generally require us to indemnify the customer against claims that our software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including our right to replace an infringing product. As of March 31, 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 months ended March 31, 2007 and 2006.

The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a non-qualified plan that provides certain key employees defined pension benefits. Periodic pension expense for the three months ended March 31, 2007 and 2006 consists of the following:

	Three Months Ended March 31,	
	2007	**2006**
Current Service Cost	$ 68,180	$ 69,503
Amortization of Prior Service Cost	15,700	22,123
Interest Cost	78,720	73,374
Pension Expense	$ 162,600	$ 165,000

The Company paid pension obligations of $49,533 for the three months ended March 31, 2007 and $41,534 for the three months ended March 31, 2006.
The discount rate used in determining the actuarial present value of the projected benefit obligation was 6% for the three months ended March 31, 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 $2,890,000 at March 31, 2007. The accumulated cash surrender values of these policies at December 31, 2006 was approximately $2,866,000.

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

Results of Operations

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

Overview

Sales of $3,349,000 for the three months ended March 31, 2007 increased 37% from sales of $2,444,000 for the three months ended March 31, 2006. Net income of $118,000 for the three months ended March 31, 2007 increased $175,000 from the net loss of $57,000 incurred for the first three months of 2006.

The increase in sales was primarily attributable to revenues generated from the three year managed services contract to provide Telecommunication Expense Management (TEM) services to Sears Holding Corporation (SHC) pursuant to a contract announced in the fourth quarter of 2006. Additionally we realized increased sales of our eCAS and VeraSMART products and services.

Orders received for VeraSMART during the first quarter of 2007 increased 50% from the orders received in the first quarter of 2006 and included orders from organizations such as eBay, Kimberly Clark, University of Phoenix, and The Connecticut Department of Revenue, among others. Portions of the revenues associated with these orders will be recognized in the second quarter. Subsequent to the end of the first quarter we received a three year extension of our current managed service contract with Travelers Indemnity Company. The expected revenue from this extension will approximate $575,000 over the term of the agreement.

For the quarter ended March 31, 2007 we generated a positive cash flow of$215,000 and increased the value of deferred revenues, which essentially represents backlog, by $105,000.

Sales

Sales generated through our Managed Services operation for the first quarter of 2007 increased 656% from the first quarter a year ago as a result of revenues generated from our contract with SHC. Our VeraSMART enterprise software is an integral component of the TEM solution to SHC including inventory management, analysis and optimization of all telecom services, contract management to validate terms and conditions of carriers, process management, and network management of the day to day inventory life cycle. Veramark currently provides solutions on a managed service basis to nine companies, including St. Paul /Travelers, Coca Cola, Lockheed Martin, Bank of America, and Sony Corporation. Managed services accounted for 27% of total first quarter revenues.

Sales of VeraSMART product and services for the first quarter of 2007 increased 37% over sales generated for the first quarter of 2006, accounting for 20% of total first quarter revenues. During the quarter, implementations of VeraSMART products included CBS, The Port of Portland, Watson Pharmaceutical, John Wiley and Company, and Children s Hospital of Cincinnati.

Sales of eCAS product and services for the quarter ended March 31, 2007 increased 7% from the same period of 2006 as a result of increased maintenance revenues generated. Sales to the company s largest channel of distribution for call accounting products, Avaya, Inc. and its master distribution channels, decreased 5% from prior year levels, but that shortfall was compensated for by increased eCAS sales through other channels.

Partially offsetting the increased sales from managed services, VeraSMART, and eCAS, was a decrease in maintenance revenues realized from VeraSMART s predecessor product, The Quantum Series, which decreased 46% for the first quarter of 2007 as compared with the first quarter of 2006. New sales of Quantum were discontinued in April 2003 with the initial introduction of VeraSMART. Maintenance support for the Quantum product will cease in its entirety as of December 31, 2007.

Cost of Sales

Gross margin, (defined as sales minus cost of sales) increased 23% from $1,920,000 for the three months ended March 31, 2006 to $2,361,000 for the three months ended March 31, 2007, though representing a lower percentage of total sales. The gross margin percentage of 70% for the three months ended March 31, 2007 compares with a gross margin percentage of 79% for the same three months of 2006. The lower gross margin percentage results from fees paid to a third party contractor utilized in providing portions of the services associated with the SHC contract.

Operating Expenses

Engineering and Software development expenses, net of software capitalization, totaled $251,000 for the three months ended March 31, 2007, an increase of 64% from the first three months of 2006. Though gross spending for engineering and software development expenses increased just 6% from a year ago, lower capitalization of development costs in 2007 resulted in higher expenses charged to the Company s statement of operations. The table below summarizes both gross and net engineering and software development expenses incurred, as well as development costs capitalized and amortized for both the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007	2006
Gross expenditures for engineering and software development	$ 555,000	$ 526,000
Less: Software development costs capitalized	(304,000)	(373,000)
Net expenses for engineering and software development included in the Company s statement of operations	251,000	153,000
Plus: Software development costs amortized and charged to cost of sales	214,000	249,000
Total Expense Recognized	$ 465,000	$ 402,000

Selling, general, and administrative (SG&A) expenses of $2,004,000 for the three months ended March 31, 2007 compares with SG&A expenses of $1,833,000 for the three months ended March 31, 2006, an increase of $171,000, or 9%. The increased spending includes staffing additions made to the sales force, initiated in 2006, which have increased compensation and associated travel expenses in 2007 as compared with the previous year.

Liquidity and Capital Resources

For the quarter ended March 31, 2007 we generated a positive cash flow of $215,000 increasing our total cash position (cash plus short term investments) from $1,695,000 at December 31, 2006 to $1,910,000 at March 31, 2007. The increased cash flow was primarily attributable to the increased sales revenue realized in the first quarter.

Accounts receivable of $1,449,000 at March 31, 2007 increased $5,000 from $1,444,000 at December 31, 2006. The reserve for bad debts has been increased from $30,000 at December 31, 2006 to $38,000 at March 31, 2007 reflecting minor shifts in the overall aging of receivables, though the company does not anticipate any significant collection difficulties.

Prepaid expenses increased from $262,000 at December 31, 2006 to $309,000 at March 31, 2007. The increase was attributable to prepayments made to a third party contractor providing services associated with the SHC managed service contract. It is expected that those prepayments will be charged to cost of sales during the second quarter of 2007.

The total cost value of property and equipment at March 31, 2007 of $5,877,000 decreased $28,000 from the total cost value of property and equipment of $5,905,000 at December 31, 2006. During the first quarter we disposed of $48,000 of obsolete capital assets, all of which had been fully depreciated. New capital additions in the first quarter totaled $20,000.

Software development costs capitalized and carried on the balance sheet at March 31, 2007 total $3,266,000, an increase of 3% from the capitalized development costs of $3,175,000 at December 31, 2006. During the first quarter of 2007 we capitalized $304,000 of software development costs and amortized $214,000 of previously capitalized costs, which were charged to cost of sales for the quarter.

Pension assets of $2,890,000 at March 31, 2007 increased from $2,866,000 at December 31, 2006. These assets consist of the cash surrender values of company-owned life insurance policies designed to fund future pension obligations of the Company. These cash surrender values are also available to fund current operations in the event that should become necessary.

Current liabilities increased $173,000, or 4%, from $4,834,000 at December 31, 2006 to $5,007,000 at March 31, 2007 as a result of increases of $105,000 in deferred revenues and a $68,000 in the current portion of the Company pension obligation. Deferred revenues, which essentially represent a portion of our current backlog, consist of services for which we have billed customers, but for which we have not yet performed the contracted service, and therefore have not recognized the associated revenue. The vast majority of currently deferred revenues are expected to be converted to revenue over the next twelve months. Deferred revenues do not include revenues that will arise from current managed service contracts. The increased current pension obligation reflects the previously announced December 31, 2007 retirement of the company s current CEO.

Stockholders equity of $1,129,000 at March 31, 2007 increased $126,000 from the December 31, 2006 balance of $1,003,000, primarily as a result of the first quarter 2007 net profit of $118,000.

Given the company s current cash and investment position, overall liquidity and absence of debt, it is the opinion of management that sufficient resources are available to fully fund operations and support ongoing product development efforts for the next twelve months and beyond.

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 December 2004, the FASB issued SFAS 123®, Share-Based Payment , which established standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires an issuer to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award and the recording of such expense in the consolidated financial statements. This eliminated the exception to account for such awards using the intrinsic value method previously allowable under Accounting Principles Board (APB) Opinion No. 25. Pro forma disclosure of fair value recognition will no longer be an alternative. In addition, the adoption of SFAS No. 123® required additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements.

SFAS 123® permits public companies to adopt its requirements using one of two methods:

Modified prospective method: Compensation cost is recognized beginning with the effective date of adoption (a) based on the requirements of SFAS No. 123® for all share-based payments granted after the effective date of adoption and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of adoption that remain unvested on the date of adoption.

Modified retrospective method: Includes the requirements of the modified prospective method described above, but also permits restatement using amounts previously disclosed under the pro forma provisions of SFAS No. 123 either for (a) all periods presented or (b) prior interim periods of the year of adoption.

In March 2005, the SEC released Staff Accounting Bulletin (SAB) 107, Share-Based Payment , which expresses views of the SEC Staff about the application of SFAS No. 123®. In April 2005, the SEC issued a rule that SFAS No. 123® will be effective for annual reporting periods beginning on or after June 15, 2005.

3) In December 2004, FASB issued SFAS 153, Exchanges of Nonmonetary Assets an amendment to APB Opinion No. 29. This statement amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the

exchange. Adoption of this statement did not have a significant impact on our results of operations or financial condition.

4) In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. These requirements apply to all voluntary changes and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 is effective for fiscal years beginning after December 15, 2005. As such, the Company was required to adopt these provisions at the beginning of the fiscal year ended December 31, 2006. The Adoption of SFAS 154 did not have to have a significant impact on the Company s financial statements.

5) 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. The Company is currently evaluating the impact of adopting Fin 48 on its financial statements, but does not expect adoption to have a significant effect.

6) 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. The Company will adopt SAB 108 in January, 2007 and is currently evaluating the impact of adopting SAB 108 on its financial statements, but does not expect adoption to have a significant effect.

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.

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

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

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

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

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

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

Issues and Risks

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

Intellectual Property Rights

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

New Products and Services

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

Declines in Demand for Software

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

Product Development Schedule

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

Competition

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

Marketing and Sales

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

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

Item 4 Controls and Procedures

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

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

PART II OTHER INFORMATION

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

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

Item 6: Exhibits and Reports on Form 8-K

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

(I) Registrant s Condensed Financial Statements for the three months ended March 31, 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.

SIGNATURES

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

VERAMARK TECHNOLOGIES, INC.
REGISTRANT

Date: May 11, 2007

/s/ David G. Mazzella
David G. Mazzella
President and CEO

Date: May 11, 2007

/s/ Ronald C. Lundy
Ronald C. Lundy
Vice President of Finance and CFO