

VERAMARK TECHNOLOGIES INC

Form 10-K

March 27, 2009

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2008
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)

Securities to be registered pursuant to Section 12(b) of the Act: NONE

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.10 Par Value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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, a non-accelerated filer, or a smaller reporting company.

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2008 was \$5,128,588.

The number of shares of Common Stock, \$.10 par value, outstanding on February 27, 2009 was 9,822,729.

DOCUMENTS INCORPORATED BY REFERENCE

PART I None

PART II None

- PART III
- Item 10 Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the headings Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance.
 - Item 11 Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading Executive Compensation.
 - Item 12 The tables contained in portions of the information under the headings of Election of Directors and Stock Options of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009.
 - Item 13 Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading Certain Relationships and Related Transactions.
 - Item 14 Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading Audit Fees and Services.

Exhibit 11.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Exhibit 99

Table of Contents

FORWARD-LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Act) that discuss the Company s beliefs, expectations or intentions or those pertaining to the Company s operations, markets, products, services, price and performance. Forward-looking statements and the success of the Company, generally involve numerous risks and uncertainties such as trends of the economy, including interest rates, income tax laws, governmental regulations, legislation and those risk factors discussed elsewhere in this report and the Company s filings under the Act. 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.

PART I

Item 1 Business

Veramark Technologies, Inc. (the Company or Veramark) was originally incorporated under the name MOSCOM Corporation in New York in January 1983 and reincorporated in Delaware in 1984. The Company s name was changed to Veramark Technologies, Inc. on June 15, 1998.

Veramark is a leading provider of communications management solutions that help organizations gain visibility into their communications networks and reduce expenses associated with their voice, data, and wireless services and infrastructure. Veramark solutions, which include software and services for telecom expense management (TEM), provide business intelligence for managing complex unified communications expenses on a global scale.

Veramark at a glance:

- Twenty-five years of experience as a leading provider of call accounting and telecom expense management solutions.

- More than 3,900 customers under maintenance, including 45% of the Fortune 500® as well as small businesses, public sector, government agencies, and the military.

- Extensive experience with sourcing management, ordering and provisioning management, inventory management, invoice management, usage management, dispute management, and business intelligence.

- Dedicated service and support personnel, averaging 10 years of service at Veramark per person.

- Offerings include the VeraSMART® Communications Management Suite (Veramark s proprietary software that provides a modular, scalable, TEM enabling technology), business process outsourcing (BPO) services for TEM, and a selection of expert managed and professional services.

Table of Contents

Veremark sells and markets its products and services directly and through leveraged distribution channels. Veremark's customers range from global enterprises to small businesses, as well as the public sector, including government agencies and the military. Veremark maintains relationships with many top telecommunications providers including: AT&T Inc., Avaya®, Cisco Systems®, NEC Unified, Nortel Networks®, Sprint®, and others.

Veremark continuously seeks to enhance its services and solutions to meet the changing communications management needs of our customers.

The Company is developing new products to address the corporate need to manage expenses associated with new digital networks (e.g., wireless, VoIP, fixed/mobile) that are augmenting and replacing traditional telephone systems.

Veremark offers BPO services covering the procure-to-pay processes for TEM.

TEM is extending into a much broader market for Information Technology Expense Management (iTEM).

iTEM is the enabling software and services for managing the total cost of ownership of information technology. iTEM encompasses up to five times as much enterprise spend as TEM. Veremark intends to develop and introduce products and services to serve the iTEM market.

In 2008, Veremark began executing a strategy to address the iTEM market. Veremark expects to introduce iTEM product offerings in 2009. These are expected to include a library of business intelligence tools that provide operational, tactical and strategic decision support to help customers manage the greater range of expenses associated with information technology and provide a proactive contract management capability that will encompass contracts related to information technology (IT) including telecom contracts and IT service contracts.

Products and Services

VeraSMART Communications Management Suite (software)

Process automation, usage and spend visibility, expense management

The costs of telecommunications technology and services, including data services and wireless networks, represent a significant expense for organizations across all industries. The VeraSMART Communications Management Suite helps organizations control their complex communications networks, improve business processes and reduce expenses. VeraSMART assists organizations to manage their overall telecom requirements, including costs associated with managing assets, work orders, wireline and wireless usage, and service provider invoices.

Single, fully integrated, and scalable platform

VeraSMART technology assists in telecom expense management. It also automates many functions associated with enterprise telecom order management, invoice processing and auditing, inventory and asset management, dispute management, call accounting, reporting, and data analytics. Customers can purchase the capabilities they initially need and integrate additional capacities as their needs change. VeraSMART can be deployed as part of an outsourced, hosted or licensed solution.

Table of Contents

VeraSMART solutions include software, services, and comprehensive reporting capabilities for:

- Sourcing Management the process for finding the best terms and prices on telecom services and products.
- Ordering and Provisioning Management processes and enabling technology for ordering of telecom devices and service plans, changes (MACD), and provisioning
- Inventory Management tracking and management of telecom services, circuits, and assets.
- Invoice Management automated invoice receipt, audit, and approval processing
- Usage Management wireless and wireline call accounting and cost allocation
- Dispute Management track and manage the full life cycle of every invoice dispute, from inception to resolution

The MySMART portal (powered by VeraSMART software)

The MySMART portal provides access to VeraSMART through a user interface that supports powerful capabilities for delivering customized content and applications to everyone in the organization.

MySMART improves productivity by giving users access to the VeraSMART features they need, without overwhelming them with menus and options they do not use. MySMART users can access their reports, telecom charges, assigned devices, service requests, and any service tickets awaiting their review and approval.

MySMART also supports Web-based ordering and fulfillment, help desk, and other automated service workflows that can be customized for each organization and user role.

Wireless Procurement

Wireless Procurement is the first in a planned library of packaged VeraSMART solutions that are expected to provide end-to-end process automation. Wireless Procurement assists users to place orders for approved wireless plans and products in compliance with corporate policies and negotiated rates. With a configurable online catalog and robust order tracking, MySMART Wireless Procurement can quickly put the right devices in the hands of employees who need them, while helping to minimize off-contract orders and administrative demands on IT staff.

Veramark Call Accounting Software

Veramark has 25 years of experience in the development and deployment of call accounting software and in providing call accounting solutions. Veramark has been the only cross-industry OEM vendor to Avaya for call accounting since 2001. Avaya, its distributors, and its resellers sell a private label version of Veramark call accounting software.

Table of Contents

Veramark call accounting software is Web-browser based. It enables organizations of all sizes to gain visibility into and helps them control their voice, data, and wireless communications networks. Our software connects to business telephone systems (PBXs, IP-PBXs, hybrid systems, key systems, etc.) to collect, store, and rate information on every telephone call made or received. It automatically generates alerts, dashboards, and reports that provide management with valuable information about productivity, network utilization, and expenses. Veramark believes call accounting to offer significant business benefits in its own right and to be a key component of telecom expense management.

VeraSMART Call Accounting, Veramark's newest call accounting product, replaces eCAS (Veramark's previous call accounting software). Because it is part of the VeraSMART Communications Management Suite, VeraSMART Call Accounting includes all the call accounting functionality of eCAS, offers greater flexibility and scalability, and allows customers to add additional VeraSMART components and TEM capabilities as their business needs grow and evolve. VeraSMART Call Accounting is available as a complimentary upgrade to eCAS users as part of their annual maintenance renewal.

TEM Business Process Outsourcing (BPO) and Managed Services

Veramark offers BPO services whereby Veramark, utilizing VeraSMART technology, manages some or all of the customer's TEM processes on an outsourced basis, providing customers with an alternative to developing the expertise, processes and software environment necessary to establish a best practices TEM environment in-house. In providing outsourced services, Veramark attempts to follow industry best practices for sourcing, optimization and payment processing of telecommunications services. BPO services may include procurement of services, payment of invoices, asset management, including help desk services, asset tracking and policy development for mobile, voice and data assets and services.

Professional Services

As a software and services company with 25 years of experience, Veramark possesses a wealth of technical knowledge and consulting know-how. Our Professional Services team can assist customers with a wide range of services offered on a fee basis to help them derive increased value from their Veramark TEM solution. These services may include inventory management, wireless device management, data analytics and reporting, custom software development, and more.

Software Maintenance

Veramark provides software support and maintenance for an annual fee. Software support and maintenance includes post warranty support via telephone or modem as well as new software service pack releases. Initial annual fees for maintenance range from 15% - 20% of the original software license fee, depending upon the hours and priority of support and whether a distributor plays an intermediary support role.

Table of Contents

Marketing and Sales

Veramark has a dual marketing and distribution strategy for its enterprise and midsize business markets. Veramark defines the enterprise market as the top 1,000 organizations in North America, based on revenue. Because of the size and complexity of enterprise organizations, Veramark sells directly to the end user, in partnership with sophisticated systems integration partners or on a referral basis with traditional resellers.

Sales to midsize business organizations are driven through the traditional reseller channel involved with the distribution of information technology including communications equipment and software. Veramark has an established distribution network including Avaya and Cisco resellers.

Veramark marketing programs include quarterly newsletters, periodic Web seminars, press releases, participation in select industry trade shows, and other marketing campaigns and activities. The marketing team regularly updates the Company's Web site and works on search engine optimization. Veramark retains a public relations firm to help identify public relations opportunities, assist with media placement, and interface with industry analysts. Veramark seeks speaking engagements and publishes white papers and by-lined articles.

New Product Development

Veramark believes VeraSMART to be one of the best software platforms for TEM and that it has become a competitive advantage and market differentiator. Veramark intends to continue to make significant investment in software products and software innovation, thereby creating value for Veramark in its intellectual property.

In 2008, Veramark made changes to its the software product development process in an attempt to accelerate development cycles for faster time-to-market cycles. Veramark believes software development effectiveness to be a source of competitive advantage. Veramark intends to continue to develop Information Technology Expense Management (iTEM products, which it believes to be the next generation of TEM.

Competition

The TEM market is highly fragmented. According to Gartner, there are approximately 150 companies competing for TEM market share, with no one dominant player in command. A majority of the TEM companies are privately held and have revenues of less than \$5MM.

The market offers opportunities in voice, data, and mobile communications. Services for mobile device expense management is the fastest growing segment of TEM. Many of the TEM companies specialize in one segment such as mobile device management, invoice management, or call accounting. Fewer than ten companies appear to be capable of effectively offering a comprehensive set of TEM capabilities (such as those offered by Veramark), including proprietary software and business process outsourcing services.

Backlog

At December 31, 2008, Veramark had a backlog of \$6,401,000, the majority of which is expected to be recognized as revenue during 2009. Backlog as of December 31, 2007 was \$6,481,000. The Company's policy is to accept orders only upon receipt of purchase orders.

Table of Contents

Employees

As of February 27, 2009 Veramark employed 74 full-time personnel. Veramark's employees are not represented by any labor unions.

Item 1A Risk Factors

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

Intellectual Property Rights

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

Existing Customer Base

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

Product Development

Veramark has made significant investments in research, development and marketing for new products, services and technologies, including the VeraSMART software offering and its hosted or managed solutions. Significant revenue from new product and service investments may not be achieved for a number of years, if at all. Moreover, if such products or services are profitable, operating margins may not be as high as the margins historically experienced by Veramark. The development of software products is a complex and time-consuming process. New products and enhancements to existing products can require long development and testing periods. Significant delays in new product releases or significant problems in creating new products, particularly any delays in future releases of the VeraSMART suite of products or services, could adversely affect Veramark revenues.

Table of Contents

Declines in Demand for Software

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

New Products and Services

Veramark is in the process of transforming its business model from a company providing largely premise based software products and services to one offering hosted solutions providing a wide variety of TEM processes, such as wireless management, invoice processing, and reporting - as managed services under multi year arrangements. The effect of this transformation will be a reduction in the amount of revenues recognized initially on any given contract than would be realized from a one-time sale of software, but higher embedded future revenues over the life of the contract. Since major components of our cost structure including personnel and facility costs are relatively fixed based on anticipated revenues, period to period comparisons of our operating results should not be relied upon as an indicator of future performance.

Competition

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

Marketing and Sales

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

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

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

Table of Contents

Item 2 Properties

The Company's principal headquarters facility is located in a one-story building in Pittsford, New York. Veramark presently leases approximately 65,000 square feet of the building, of which approximately 8,600 square feet is currently sub-let. The term of the lease expires on October 31, 2010.

Item 3 Legal Proceedings

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

Item 4 Submission of Matters to a Vote of Security Holders

None.

Table of Contents

PART II

Item 5 Market for the Registrant's Common Stock and Related Stockholder Matters

Veramark Common Stock, \$0.10 par value, is traded on the Over The Counter Bulletin Board (OTCBB) (symbol: VERA.OB). The following quotations are furnished by NASDAQ through the OTCBB for the periods indicated. The quotations reflect inter-dealer prices that do not include retail markups, markdowns or commissions and may not represent actual transactions.

Quarters Ended

| | March 31 | | June 30 | | September 30 | | December 31 | |
|-------------|----------|---------|---------|---------|--------------|---------|-------------|---------|
| | High | Low | High | Low | High | Low | High | Low |
| 2008 | \$ 0.89 | \$ 0.65 | \$ 0.87 | \$ 0.35 | \$ 0.64 | \$ 0.35 | \$ 0.36 | \$ 0.20 |
| 2007 | \$ 1.10 | \$ 0.78 | \$ 1.04 | \$ 0.70 | \$ 1.00 | \$ 0.76 | \$ 0.98 | \$ 0.70 |

As of March 13, 2009, there were approximately 500 holders of record of the Company's Common Stock and approximately 1,400 additional beneficial holders.

Item 6 Selected Financial Data

| | Year Ended December 31, | | | | |
|---|-------------------------|---------------|---------------|---------------|---------------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Net Sales | \$ 10,673,891 | \$ 11,918,852 | \$ 10,361,150 | \$ 10,858,871 | \$ 11,035,966 |
| Net Income (Loss) | \$ (431,411) | \$ (706,049) | \$ (488,341) | \$ 381,733 | \$ (113,560) |
| Net Income (Loss) per Diluted Share | \$ (0.04) | \$ (0.08) | \$ (0.06) | \$ 0.04 | \$ (0.01) |
| Weighted Average Diluted Shares Outstanding | 9,560,414 | 8,972,412 | 8,843,154 | 9,309,888 | 8,606,759 |
| Total Assets | \$ 10,566,277 | \$ 11,395,692 | \$ 10,933,393 | \$ 10,123,366 | \$ 8,943,920 |
| Long-Term Obligations | \$ 5,000,010 | \$ 5,072,447 | \$ 5,096,031 | \$ 4,264,537 | \$ 3,874,562 |

Table of Contents

**Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition
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, seeks, attempts, will, anticipates, estimates of 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.

2008 Compared with 2007

Overview

Sales for the fourth quarter ended December 31, 2008 of \$2,740,000 increased 6% from sales of \$2,594,000 for the fourth quarter of 2007. For the full year ended December 31, 2008 sales of \$10,674,000 decreased 10% from sales of \$11,919,000 for the year ended December 31, 2007.

Veramark achieved a net income of \$59,000 for the quarter ended December 31, 2008, representing \$0.01 per diluted share, a significant improvement from the net loss of \$443,000, or \$0.05 per share, incurred for the fourth quarter of 2007. For the full year ended December 31, 2008 the net loss totaled \$431,000, or \$0.04 per share, an improvement from the net loss of \$706,000 or \$0.08 per share for the year ended December 31, 2007.

2008 was a year of transformation for the Company. Anthony Mazzullo joined Veramark as President and Chief Executive Officer effective January 1, 2008, and embarked on a series of initiatives to transform the company into a multi-faceted Telecom Expense Management (TEM) organization. Those initiatives included:

- Restructuring of the executive management team, customer services organization, and the direct sales group, resulting in increased operating efficiencies and reducing operating expenses by 13% from the prior year.

- Devoting additional resources to product development and marketing programs, thereby expanding Veramark's presence and positioning in the TEM marketplace.

- Accelerating major new product releases which significantly enhance our VeraSMART Communications Management Suite with new capabilities for international applications, wireless device management and procurement, and flexibility of use.

- Establishing new sales and marketing partnerships with AT&T and Ingram Micro.

- Opening a west coast sales office, expanding our efforts nationally, and increasing accessibility to the Company's west coast clients.

Table of Contents

Revenues

Sales for the year ended December 31, 2008, of \$10,674,000 decreased \$1,245,000 from sales of \$11,919,000 for the year ended December 31, 2007. The reduction in sales is attributable to a non-recurring component of the Company's managed service contract with Sears Holding Corporation (SHC) recognized as revenue in 2007, and the suspension of maintenance revenues derived from the Quantum Series of products, VeraSMART's predecessor product offering in the enterprise market. Maintenance for Quantum was discontinued effective December 31, 2007. The decline in revenues associated with these two events totaled approximately \$1.4 million.

Sales of premise based VeraSMART products and associated services increased 76% for the three months ended December 31, 2008 and 29% for the year ended December 31, 2008, as compared with the same periods of 2007. VeraSMART products and services accounted for 35% of total revenues in 2008, up from 24% of total revenues in 2007.

Sales of eCAS products and services decreased 7% for the quarter ended December 31, 2008 and 10% for the year ended December 31, 2008, as compared with prior year results. The decline in eCAS sales reflects the continued reduction in license sales for stand alone call accounting solutions from Avaya, Inc, and its master distribution partners. Avaya and its partners have historically represented Veramark's largest single channel for eCAS products and services.

Revenues generated from managed service contracts decreased 33% in 2008 versus 2007, as a result of the non-recurring revenue associated with the SHC contract referred to above. Managed service revenues generated from clients other than SHC increased 19% in 2008, as compared with the previous year. We anticipate strong growth in managed service revenues in 2009 and beyond, as we continue the process of broadening our TEM capabilities. Managed service clients added in 2008 include Nike, Staples, Sheetz, DHL, and AAA - Arizona.

Cost of Sales

Veramark's gross margin on sales (defined as sales less cost of sales) totaled \$7,787,000, for the year ended December 31, 2008, representing 73% of sales. Gross margin for the year ended December 31, 2007 totaled \$8,804,000, or 74% of sales. Included in 2008 cost of sales is \$1,154,000 of amortization costs associated with software developments costs capitalized in prior years. Amortization expense in 2007 totaled \$933,000.

Table of Contents**Engineering and Development Expenses**

Engineering and software development expenses, net of the effects of software capitalization, increased 15% from \$1,227,000 for the year ended December 31, 2007 to \$1,410,000 for the year ended December 31, 2008. During 2008, the Company's development efforts as discussed in the overview section of this report, focused on the transformation of the VeraSMART platform into a complete telecom expense management tool, whether deployed as a premise based or hosted solution. The following chart summarizes the financial impact of our software development efforts, detailing gross expense incurred for engineering and software development, costs capitalized and amortized, and the resulting net impact on our financial statements for the years ended December 31, 2008 and 2007.

| | 2008 | 2007 |
|---|--------------|--------------|
| Gross Expenditures for Engineering and Software Development | \$ 2,245,000 | \$ 2,023,000 |
| Less: Software Development Costs Capitalized | (835,000) | (796,000) |
| Net Expenditures for Engineering and Software Development | 1,410,000 | 1,227,000 |
| Plus: Software Development Costs Amortized and Charged to Cost of Sales | 1,154,000 | 933,000 |
| Total Expense Recognized | \$ 2,564,000 | \$ 2,160,000 |

Selling, General and Administrative Expenses

Selling, General and Administrative (SG&A) expenses for the year ended December 31, 2008 totaled \$6,876,000, a reduction of 18% from SG&A expenses of \$8,352,000 for the year ended December 31, 2007. The reduction in expense results from the reorganization of our direct sales force and a 33% reduction in administrative expenses from a year ago. The reduction in administrative and sales expenses allowed the Company to increase its investment in marketing and product development efforts.

2007 Compared with 2006**Overview**

For the year ended December 31, 2007 sales of \$11,919,000 increased 15% from sales of \$10,361,000 for the year ended December 31, 2006. The net loss of \$706,000, or \$0.08 per share, for the year ended December 31, 2007 compared with a net loss of \$488,000, or \$0.06 per share, for the year ended December 31, 2006.

As of December 31, 2007 the company's backlog was approximately \$6.5 million, the majority of which is expected to be recognized as revenue in 2008. At December 31, 2006 backlog totaled approximately \$7.3 million. The change in backlog reflects a \$792,000 one-time component of our managed service contract with Sears Holding Corporation (SHC) included in backlog at December 31, 2006 that was completed and recognized as revenue in the first quarter of 2007.

Table of Contents

During 2007 new product releases strengthening the capabilities of both the VeraSMART and eCAS product lines were completed. VeraSMART 6.0, released in May 2007, significantly upgraded our telecom expense management (TEM) capabilities with the addition of enhanced invoice processing, payment tracking, contract management, wireless plan management, and upgraded report functionality. This latest release of VeraSMART was designed to integrate with accounts payable and general ledger systems, generate automatic invoice alerts, allow for the measurement of invoiced charges against contractual charges and allows the ability to compare actual usage against wireless calling plans. In late October we announced the release of eCAS 5.0 adding an advanced user interface, real time charting of call activity and user definable dashboards to the basic eCAS product, while also improving and simplifying the installation process.

In December 2007 the company announced that Anthony C. Mazzullo was joining Veramark as President and Chief Executive Officer, effective January 1, 2008 replacing David Mazzella who had previously announced his retirement effective December 31, 2007. Mr. Mazzullo brings to Veramark over 25 years of experience leading software and professional service companies, most recently as Senior Vice-President of ePLUS Systems, Inc.

Revenues

Sales of VeraSMART products and services increased 40% for the year ended December 31, 2007 as compared with the year ended December 31, 2006, accounting for 24% of total sales in 2007 versus 20% of sales in 2006. Joining the growing list of VeraSMART customers during 2007 were organizations that included Google, eBay, First National Bank of Omaha, The Bank of Montreal, Northrop Grumman, Connecticut Department of Revenue, The City of Kansas City, and The University of Phoenix.

Revenues generated from managed service contracts increased 408% for the year ended December 31, 2007 from prior year results and accounted for 21% of total sales in 2007, up from 5% of total sales in 2006. A significant portion of that increase was attributable to the SHC contract signed in December 2006, but also includes initial revenues generated from two new clients signed to multi-year contracts in 2007. Those clients are SC Johnson, a global supplier of household cleaning products and Green Tree Servicing LLC, a leading financial institution.

Sales of eCAS products and services decreased 11% for the year ended December 31, 2007 from the prior year, which included a decline of 20% in sales through our largest distribution channel for eCAS, Avaya Inc and its master distributors. Sales of eCAS products and services accounted for 50% of total sales revenues in 2007, down from 64% in 2006.

Cost of Sales

Gross margin (defined as sales less cost of sales) of \$8,804,000 for the year ended December 31, 2007 increased 8% from the gross margin of \$8,181,000 for the year ended December 31, 2006 as a result of the increased sales volume in 2007 versus 2006. Gross margin as a percentage of sales did decline from 79% in 2006 to 74% in 2007 due to utilizing a third party contractor to perform various components of the SHC managed service contract.

Table of Contents**Engineering and Software Development Expenses**

Engineering and software development expenses, net of the effects of software capitalization, and included in the Company's statement of operations for the year ended December 31, 2007 of \$1,227,000 increased \$336,000 from net engineering and software development expenses of \$891,000 for 2006. The increase in net expense results from a reduction in software development costs capitalized from \$1,285,000 in 2006 to \$796,000 for 2007. The reduction in development costs capitalized for 2007 reflects a higher percentage of development efforts being applied to upgrades and enhancements made to previously released products, the costs of which do not qualify for capitalization. The chart below summarizes our gross engineering and software development expenses, development costs capitalized, net expense charged to operations, and amortization expenses recorded and charged to cost of sales for the years ended December 31, 2007 and 2006.

| | 2007 | 2006 |
|---|--------------|--------------|
| Gross Expenditures for Engineering and Software Development | \$ 2,023,000 | \$ 2,176,000 |
| Less: Software Development Costs Capitalized | (796,000) | (1,285,000) |
| Net Expenditures for Engineering and Software Development | 1,227,000 | 891,000 |
| Plus: Software Development Costs Amortized and Charged to Cost of Sales | 933,000 | 936,000 |
| Total Expense Recognized | \$ 2,160,000 | \$ 1,827,000 |

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses for the year ended December 31, 2007 of \$8,352,000 increased \$538,000, or 7%, from SG&A expenses of \$7,814,000 for the year ended December 31, 2006. SG&A expenses for 2007 were impacted by contractual obligations associated with the retirement of the company's former Chief Executive Officer in the form of bonus accruals and the issuance of immediately exercisable stock options to replace unexercised options expiring during 2007. In addition to those expenses the Company also took steps in 2007 to strengthen its marketing, product management and sales management capabilities, resulting in higher salary, promotional, and travel expenses, particularly in the third and fourth quarters of the year.

Liquidity and Capital Resources

During the fourth quarter of 2008, we generated a positive cash flow of \$446,000 to end 2008 with a total cash and short term investment balance of \$1,997,000. At December 31, 2007, cash and short term investments totaled \$2,206,000. In addition to these cash resources, the Company entered into a revolving line of credit arrangement with a local commercial bank that will provide an additional \$400,000 of capital, if required, to finance anticipated upgrades to infrastructure planned for 2009.

Accounts receivable at December 31, 2008 totaled \$1,048,000, which compares with an accounts receivable balance of \$1,303,000 at December 31, 2007. The reserve for bad debts at December 31, 2008 is \$30,000, unchanged from the reserve provided at December 31, 2007. The Company incurred no significant write-offs of receivables during 2008.

Prepaid expenses of \$245,000 at December 31, 2008 decreased 4% from prepaid expenses of \$254,000 at December 31, 2007. Prepaid expenses include the unutilized portions of business insurance policies, prepaid commissions, and various other subscription based services.

Table of Contents

Property and equipment, net of accumulated depreciation, totaled \$456,000 at December 31, 2008, a reduction of 13% from net property and equipment of \$521,000 at December 31, 2007. Capital equipment purchases during 2008 of \$246,000, increased from \$111,000 of capital purchases in 2007. Approximately \$2,338,000 of obsolete assets were retired during 2008 resulting in a \$20,000 loss on the disposal of those assets, after the effects of accumulated depreciation, and charged against operations.

Software development costs capitalized and carried on the Company's Balance Sheet at December 31, 2008 of \$2,720,000 decreased 10% from the December 31, 2007 balance of \$3,038,000. For the year ended December 31, 2008 software development costs totaling \$835,000 were capitalized, an increase of 5% from development costs of \$796,000 capitalized in 2007. Amortization costs during 2008 totaled \$1,154,000, an increase of 24% from the amortization expense of \$933,000 for 2007. Amortization expenses are charged to cost of sales on product by product basis over periods ranging from 3-5 years.

Pension assets, which consist of the cash surrender values of company-owned life insurance policies, were \$3,161,000 at December 31, 2008, or 2% less than the December 31, 2007 total of \$3,210,000. The death benefit and cash surrender values associated with these insurance policies are intended to provide funding for the current and future benefit obligations of the Company, but are also available to fund current operations in the event that is deemed necessary.

Current liabilities of \$5,064,000 at December 31, 2008 decreased 5% from the December 31, 2007 balance of \$5,331,000 due to a \$468,000 reduction in accrued compensation costs. A significant portion of the decrease in compensation costs stems from contractual obligations to the Company's former Chief Executive Officer accrued upon his retirement at the end of 2007. Additionally, liabilities for accrued salaries and benefits have declined from the prior year due to lower average employment levels.

Deferred revenues, which form a considerable portion of our current backlog, increased 11% from \$3,369,000 at December 31, 2007 to \$3,747,000 at December 31, 2008. The largest components of deferred revenues consist of the unearned portions of maintenance contracts and services billed to customers, but not yet performed, including installation, training, and implementation activities. The majority of these services will be recognized as revenue during 2009 as the maintenance obligations are performed and the additional services provided.

The Company's total pension liability, inclusive of the current portion of \$486,000, totals \$5,486,000 at December 31, 2008, down from \$5,513,000 at December 31, 2007. The full cost of the Company's current and future obligations are expected to be funded by the death benefits attached to the series of Company-owned life insurance policies referred to earlier.

Stockholders equity at December 31, 2008, after the effect of the 2008 operating loss, is \$502,000 which compares with total stockholders equity of \$992,000 at December 31, 2007. At December 31, 2008 there are approximately 9,773,000 common shares outstanding. 2008 activity included the exercise of 119,000 stock options, the purchase of approximately 95,000 shares via the Employees Stock Purchase Plan, and the issuance of 470,000 shares of restricted stock.

Table of Contents

In managements opinion, in consideration of current cash and investment balances, the ability to access available cash surrender values, and the line of credit arrangement in place, sufficient resources exist to fully fund operations and execute key strategic initiatives for the next twelve months and beyond.

Off Balance Sheet Arrangements

Pension Obligations The Company sponsors a non-qualified, unfunded, Supplemental Executive Retirement Plan (SERP), which provides certain employees with a defined pension benefit. The SERP is not encumbered by the coverage and benefit restrictions imposed on qualified plans by the IRS. In addition, the Company generally is not required to comply with non-discrimination rules imposed on qualified plans under ERISA.

Unfunded means that the Company is not required to set aside any particular assets to satisfy its SERP liabilities. Accordingly any assets the Company may have available to satisfy SERP liabilities are subject to claims by the Company s creditors.

Recovery of 100% of projected SERP costs is designed through a program of Company-owned life insurance (COLI). Recovery for the imputed time value of the money, plus all costs associated with the COLI premium payments, and benefit obligations, are included in this program. The Company currently owns 14 separate life insurance contracts on selected current and former employees, not all of who will ultimately qualify for participation in the plan. The cumulative death benefit attached to these policies is \$10.2 million and is not included in the Company s Consolidated Balance Sheet as of December 31, 2008.

The cash surrender values of these policies at December 31, 2008 totaled approximately \$3,161,000 and are included in the Company s consolidated balance sheets under the caption of Pension Assets.

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

Year Ending December 31,

| | |
|-----------|-----------|
| 2009 | 486,059 |
| 2010 | 495,692 |
| 2011 | 465,558 |
| 2012 | 506,918 |
| 2013 | 522,159 |
| 2014-2018 | 2,607,898 |

The net present value of these projected pension obligations at December 31, 2008, totals \$5,486,069, and is included in the current and long-term liability sections of the Company s consolidated balance sheets.

Table of Contents

Lease Obligations The Company leases current office facilities and certain equipment under operating leases, which expire at various dates through 2010. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately \$350,000, \$346,000, and \$373,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Minimum lease payments as of December 31, 2008 under operating leases are as follows:

| Year Ending December 31, | Operating Leases |
|---------------------------------|-------------------------|
| 2009 | \$ 435,560 |
| 2010 | 342,133 |
| | \$ 777,693 |

The current term of the Company's lease on its facility expires October 31, 2010.

Purchase Commitments The Company has no purchase commitment contracts in place as of December 31, 2008.

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 in 2008 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.

Table of Contents

Service revenues such as training, installation and implementation are recognized when the service is complete and acknowledged by the customer, regardless of whether the sale is on a direct basis or through a reseller arrangement.

Fees charged to customers for Post-contract Customer Support (PCS) 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 whether 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 (PCS) 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.

As set forth in Note 1, 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.

Table of Contents

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.

As set forth in *Note 7 Benefit Plans*, the Company sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a nonqualified plan that provides certain 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.

Table of Contents

Accounting Pronouncements

- 1) In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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 was required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. Adoption SFAS 159 did not have a significant effect on the Company s financial statements.
- 2) In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company was required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. Adoption of SFAS 157 did not have a significant effect on the Company s financial statements.
- 3) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations . SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, an any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009.
- 4) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009.
- 5) In March 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force (EITF) Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements . EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. As such, the Company was required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. Adoption of EITF 06-10 did not have a significant effect on the Company s financial statements.

Table of Contents**Item 7A 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.

The Company generally invests its available cash in low risk securities such as bond funds or government issued securities.

At December 31, 2008 and 2007 the carrying value of investments approximated fair market value. Investments at December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|--------------------------|-------------|--------------|
| Bond Funds | \$ 278,276 | \$ 457,615 |
| US Government Securities | 704,055 | 1,034,673 |
| | \$ 982,331 | \$ 1,492,288 |

Table of Contents

Item 8 Index to Consolidated Financial Statements and Supplementary Data

| | Page |
|--|-------|
| <u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u> | 25 |
| <u>Balance sheets</u> | 26 27 |
| <u>Statements of operations</u> | 28 |
| <u>Statements of stockholders' equity</u> | 29 |
| <u>Statements of cash flows</u> | 30 |
| <u>Notes to financial statements</u> | 31 47 |

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheets of Veramark Technologies, Inc. (the Company) as of December 31, 2008 and 2007, and the related statements of operations, stockholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

/s/ Rotenberg & Co., LLP
Rochester, New York
March 24, 2009

Table of Contents
VERAMARK TECHNOLOGIES, INC.
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

| | 2008 | 2007 |
|--|----------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,014,669 | \$ 713,342 |
| Investments | 982,331 | 1,492,288 |
| Accounts receivable, trade (net of allowance for doubtful accounts of \$30,000 for both years) | 1,047,527 | 1,303,240 |
| Inventories, net | 35,055 | 31,764 |
| Prepaid expenses and other current assets | 244,511 | 254,274 |
| | | |
| Total current assets | 3,324,093 | 3,794,908 |
| | | |
| PROPERTY AND EQUIPMENT: | | |
| Cost | 3,862,879 | 5,955,064 |
| Less accumulated depreciation | (3,406,882) | (5,433,650) |
| | | |
| Property and equipment, net | 455,997 | 521,414 |
| | | |
| OTHER ASSETS: | | |
| Software development costs (net of accumulated amortization of \$3,332,886 and \$2,179,290) | 2,719,787 | 3,038,410 |
| Pension assets | 3,160,639 | 3,210,204 |
| Deposits and other assets | 905,761 | 830,756 |
| | | |
| Total other assets | 6,786,187 | 7,079,370 |
| | | |
| TOTAL ASSETS | \$ 10,566,277 | \$ 11,395,692 |

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

Table of Contents**VERAMARK TECHNOLOGIES, INC.
BALANCE SHEETS
DECEMBER 31, 2008 AND 2007**

| | 2008 | 2007 |
|--|----------------------|----------------------|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 270,842 | \$ 317,127 |
| Accrued compensation and related taxes | 466,150 | 934,387 |
| Deferred revenue | 3,746,488 | 3,369,324 |
| Current portion of pension obligation | 486,059 | 440,084 |
| Other accrued liabilities | 94,954 | 270,524 |
| | | |
| Total current liabilities | 5,064,493 | 5,331,446 |
| | | |
| Long-term portion of pension obligation | 5,000,010 | 5,072,447 |
| | | |
| Total liabilities | 10,064,503 | 10,403,893 |
| | | |
| STOCKHOLDERS EQUITY: | | |
| Common stock, par value, \$0.10; shares authorized, 40,000,000; 9,852,954 shares and 9,169,093 shares issued | 985,295 | 916,909 |
| Additional paid-in capital | 22,293,688 | 22,171,341 |
| Accumulated deficit | (22,039,196) | (21,607,785) |
| Treasury stock (80,225 shares at cost) | (385,757) | (385,757) |
| Accumulated other comprehensive income | (352,256) | (102,909) |
| | | |
| Total stockholders equity | 501,774 | 991,799 |
| | | |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 10,566,277 | \$ 11,395,692 |

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

Table of Contents

VERAMARK TECHNOLOGIES, INC.
STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

| | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|
| NET SALES | | | |
| Product Sales | \$ 2,657,695 | \$ 2,880,818 | \$ 3,441,829 |
| Service Sales | 8,016,196 | 9,038,034 | 6,919,321 |
| Total Net Sales | 10,673,891 | 11,918,852 | 10,361,150 |
| | | | |
| COSTS AND OPERATING EXPENSES: | | | |
| Cost of sales | 2,886,847 | 3,114,467 | 2,180,255 |
| Engineering and software development | 1,410,086 | 1,226,898 | 890,616 |
| Selling, general and administrative | 6,876,055 | 8,352,269 | 7,813,552 |
| Total costs and operating expenses | 11,172,988 | 12,693,634 | 10,884,423 |
| | | | |
| LOSS FROM OPERATIONS | (499,097) | (774,782) | (523,273) |
| | | | |
| INTEREST INCOME | 67,686 | 68,733 | 34,932 |
| | | | |
| LOSS BEFORE INCOME TAXES | (431,411) | (706,049) | (488,341) |
| | | | |
| INCOME TAXES | | | |
| | | | |
| NET LOSS | \$ (431,411) | \$ (706,049) | \$ (488,341) |
| | | | |
| NET LOSS PER SHARE | | | |
| Basic | \$ (0.04) | \$ (0.08) | \$ (0.06) |
| Diluted | \$ (0.04) | \$ (0.08) | \$ (0.06) |
| | | | |
| WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC) | 9,560,414 | 8,972,412 | 8,843,154 |
| | | | |
| WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED) | 9,560,414 | 8,972,412 | 8,843,154 |

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

Table of Contents
VERAMARK TECHNOLOGIES, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

| | Common Stock Shares | Common Stock Par Value | Additional Paid in Capital | Accumulated Deficit | Treasury Stock | Accumulated Comprehensive Income | Total Stockholders Equity |
|--|------------------------|------------------------------|----------------------------------|------------------------|-------------------|--|---------------------------------|
| BALANCE | | | | | | | |
| December 31, 2005 | 8,837,615 | \$ 891,784 | \$ 21,686,152 | \$ (20,413,395) | \$ (385,757) | \$ 7,530 | \$ 1,786,314 |
| Change in other comprehensive income | | | | | | (334,624) | (334,624) |
| Net Loss | | | | (488,341) | | | (488,341) |
| Total comprehensive Income (loss) | | | | (488,341) | | (334,624) | (822,965) |
| Stock purchase plan | 15,436 | 1,544 | 7,641 | | | | 9,185 |
| Exercise of stock options | 1,750 | 175 | 757 | | | | 932 |
| Compensation expenses stock options | | | 29,700 | | | | 29,700 |
| BALANCE | | | | | | | |
| December 31, 2006 | 8,854,801 | \$ 893,503 | \$ 21,724,250 | \$ (20,901,736) | \$ (385,757) | \$ (327,094) | \$ 1,003,166 |
| Change in other comprehensive income | | | | | | 224,185 | 224,185 |
| Net loss | | | | (706,049) | | | (706,049) |
| Total comprehensive Income (loss) | | | | (706,049) | | 224,185 | (481,864) |
| Stock purchase plan | 23,917 | 2,391 | 13,127 | | | | 15,518 |
| Exercise of stock options | 210,150 | 21,015 | 77,964 | | | | 98,979 |
| Compensation expenses stock options | | | 356,000 | | | | 356,000 |
| BALANCE | | | | | | | |
| December 31, 2007 | 9,088,868 | \$ 916,909 | \$ 22,171,341 | \$ (21,607,785) | \$ (385,757) | \$ (102,909) | \$ 991,799 |

| | | | | | | | |
|--------------------------------------|-----------|------------|---------------|-----------------|--------------|--------------|------------|
| Change in other comprehensive income | | | | | | (249,347) | (249,347) |
| Net loss | | | (431,411) | | | | (431,411) |
| Total comprehensive Income (loss) | | | (431,411) | | | (249,347) | (680,758) |
| Stock purchase plan | 94,861 | 9,486 | 14,706 | | | | 24,192 |
| Exercise of stock options | 119,000 | 11,900 | 45,250 | | | | 57,150 |
| Issuance of restricted stock | 470,000 | 47,000 | 38,749 | | | | 85,749 |
| Compensation expenses stock options | | | 23,642 | | | | 23,642 |
| BALANCE | | | | | | | |
| December 31, 2008 | 9,772,729 | \$ 985,295 | \$ 22,293,688 | \$ (22,039,196) | \$ (385,757) | \$ (352,256) | \$ 501,774 |

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

Table of Contents
VERAMARK TECHNOLOGIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

| | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|
| OPERATING ACTIVITIES: | | | |
| Net Loss | \$ (431,411) | \$ (706,049) | \$ (488,341) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 1,445,078 | 1,190,797 | 1,197,657 |
| Expense (Recovery) of bad debts | (1,207) | 1,486 | (736) |
| Compensation expense equity grants | 109,391 | 356,000 | 29,700 |
| Loss on disposal of fixed assets | 19,585 | 1,181 | |
| Unrealized Gain (Losses) on investments | 22,781 | 16,364 | 14,336 |
| Pension assets | 49,565 | (343,734) | (364,834) |
| Changes in assets and liabilities: | | | |
| Accounts receivable | 256,920 | 138,959 | 79,241 |
| Inventories | (3,291) | 1,134 | (1,174) |
| Prepaid expenses and other current assets | 9,763 | 7,859 | (101,006) |
| Deposits and other assets | (75,005) | (42,222) | 9,211 |
| Accounts payable | (46,285) | (31) | 41,402 |
| Accrued compensation and related taxes | (468,237) | 253,457 | 115,834 |
| Deferred revenue | 377,164 | 52,205 | 380,653 |
| Other accrued liabilities | (175,570) | (52,698) | 187,792 |
| Pension obligation | (298,590) | 428,554 | 518,534 |
| Net cash provided by operating activities | 790,651 | 1,303,262 | 1,618,269 |
| INVESTING ACTIVITIES: | | | |
| (Purchase) Sale of investments | 509,957 | (642,633) | (249,331) |
| Additions to property and equipment | (245,650) | (110,974) | (159,748) |
| Capitalized software development costs | (834,973) | (796,194) | (1,285,233) |
| Net cash used in by investing activities | (570,666) | (1,549,801) | (1,694,312) |
| FINANCING ACTIVITIES: | | | |
| Exercise of stock options | 57,150 | 98,979 | 932 |
| Employee stock purchase plan | 24,192 | 15,518 | 9,185 |
| Net cash provided by financing activities | 81,342 | 114,497 | 10,117 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 301,327 | (132,042) | (65,926) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 713,342 | 845,384 | 911,310 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 1,014,669 | \$ 713,342 | \$ 845,384 |
| | 2008 | 2007 | 2006 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | | |

Cash Transactions:

| | | | | | | |
|------------------------------|----|--------|----|-------|----|--------|
| Income taxes paid (received) | \$ | 13,129 | \$ | 562 | \$ | 18,022 |
| Interest paid | \$ | 3,402 | \$ | 1,679 | \$ | 915 |

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

Table of Contents

VERAMARK TECHNOLOGIES, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of business Veramark Technologies, Inc., (the Company) designs and produces communications management and operation support software for users and providers of telecommunication services in the global market. The Company operates in one segment.

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

Cash and cash equivalents The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The fair value of the Company's cash and cash equivalents approximates carrying value, which, due to the relatively short maturities and variable interest rates of the instruments, approximates current market rates.

Investments The Company records its investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Certain Debt and Equity Securities. As of December 31, 2008 and 2007, the Company has classified its portfolio as available-for-sale securities. These securities are recorded at fair value, based on quoted market prices in an active market, with net unrealized holding gains and losses reported in stockholders' equity as accumulated other comprehensive income. At December 31, 2008 and 2007 the carrying value of investments approximated fair market value, and are classified as Level 1 Assets as defined by SFAS No. 157, Fair Value Measurements.

Investments at December 31, 2008 and 2007 consisted of the following:

| | 2008 | 2007 |
|--------------------------|-------------|--------------|
| Bond Funds | \$ 278,276 | \$ 457,615 |
| US Government Securities | 704,055 | 1,034,673 |
| | \$ 982,331 | \$ 1,492,288 |

The contractual maturities of the Company's investments as of December 31, 2008 are primarily due within one year.

Accounts receivable and allowance for doubtful accounts The Company extends credit to its customers in the normal course of business and collateral is generally not required for trade receivables. Exposure to credit risk is controlled through the use of credit approvals, credit limits and monitoring procedures. Accounts receivable are reported net of an allowance for doubtful accounts. The Company estimates the allowance based on its analysis of specific balances, taking into consideration the age of the past due account and anticipated collections resulting from legal issues. An account is considered past due after thirty (30) days from the invoice date. Based on these factors, there was an allowance for doubtful accounts of \$30,000 at both December 31, 2008 and 2007. Changes to the allowance for doubtful accounts are charged to expense and reduced by charge-offs, net of recoveries.

Table of Contents

Concentrations of credit risk Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of investments and accounts receivable. The Company places its cash and investments with quality financial institutions and, by policy, limits the amount of investment exposure to any one financial institution. The Company has not experienced any significant losses to date on its invested cash and investments.

The Company's customers are not concentrated in any specific geographic region, nor in any specific industry. As of December 31, 2008, three customers accounted for approximately \$336,000 of the total accounts receivable balance. As of December 31, 2007, five customers accounted for approximately \$590,000 of the total accounts receivable balance. The Company performs periodic credit evaluations of its customers' financial conditions but does not require collateral to support customer receivables. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Such losses to date have been within management's expectations.

The Company maintains cash deposits with major banks, which may from time to time exceed federally insured limits. The Company periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

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

Prepaid Expenses consist of cash outlays made by the Company for economic benefits to be realized in future periods. These benefits typically include the unutilized portions of current business insurances, maintenance contracts on Company-owned equipment, and prepaid commissions. Prepaid expenses are generally expensed on a straight-line basis over the corresponding life of the underlying asset, with the exception of prepaid commissions which are expensed at the time the revenue that gave rise to the commission is recognized.

Property and equipment is recorded at cost and depreciated on a straight-line basis using the following useful lives:

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

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

Long-lived assets In accordance with Statement of Financial Accounting Standards (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, the Company tests long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment charges were recorded in 2008, 2007, or 2006.

Table of Contents

Software development costs meeting recoverability tests are capitalized, under SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, and amortized on a product-by-product basis over their economic life, ranging from three to five years, or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization in a particular period. The Company capitalized \$834,973 of development costs in 2008, \$796,194 of development costs in 2007 and \$1,285,233 of development costs in 2006. The Company amortized \$1,153,596 of development costs in 2008, \$933,169 of development costs in 2007 and \$936,492 of development costs in 2006. 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. No charges for impairment were required in 2008, 2007 or 2006.

Fair Value of Financial Instruments Statement of Financial Accounting Standards (SFAS) No. 107, Disclosure About Fair Value of Financial Instruments, requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. SFAS No. 107 defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. At December 31, 2008 and 2007, the carrying value of certain financial instruments (accounts receivable, accounts payable and current portion of capital lease obligations) approximates fair value due to the short-term nature of the instruments or interest rates, which are comparable with current rates. At December 31, 2008 and 2007, the Company has no long-term debt.

On January 1, 2008, the Company adopted FASB Statement No. 157, Fair Value Measurements (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value, and requires additional disclosures about fair value measurements. The criterion that is set forth in SFAS No. 157 is applicable to fair value measurement where it is permitted or required under other accounting pronouncements.

SFAS No. 157 defines fair value as the exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on inputs of observable and unobservable market data that a market participant would use in pricing the asset or liability. The use of observable inputs is maximized where available and the use of unobservable inputs is minimized for fair value measurement. As a means to illustrate the inputs used, SFAS No. 157 establishes a three-tier fair value hierarchy that prioritizes inputs to valuation techniques used for fair value measurement.

Level 1 consists of observable market data in an active market for identical assets or liabilities.

Level 2 consists of observable market data, other than that included in Level 1, that is either directly or indirectly observable.

Level 3 consists of unobservable market data. The input may reflect the assumptions of the Company of what a market participant would use in pricing an asset or liability. If there is little available market data, then the Company's own assumptions are the best available information.

In the case of multiple inputs being used in a fair value measurement, the lowest level input that is significant to the fair value measurement represents the level in the fair value hierarchy in which the fair value measurement is reported.

Table of Contents

Revenue recognition 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.

Income taxes are provided on the income earned in the financial statements. In accordance with SFAS 109, Accounting for Income Taxes, the Company applies the liability method of accounting for income taxes, under which deferred income taxes are provided to reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws and regulations. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not, that such assets will be realized.

Net income (or loss) per common share (EPS) is computed in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic EPS is computed by dividing net income (loss) by weighted average shares outstanding. Diluted EPS includes the dilutive effect of stock options issued. There were no dilutive effects of stock options in 2008, 2007 or 2006 as the effect would have been anti-dilutive, due to the net loss incurred for those years.

Table of Contents

Comprehensive Income Comprehensive income includes all changes in stockholders' equity during the period except those resulting from investments by owners and distribution to owners. The Company's comprehensive income includes net loss or earnings, unrealized gains or losses on available for sale investments, and unrecognized prior service costs and any gain or loss associated with the Company's Supplement Executive Retirement Program.

Research and Development Costs Research and development costs, other than certain software development costs previously disclosed in Note 1, are expensed as incurred. For the years ended December 31, 2008, 2007, and 2006, research and development costs expensed were \$1,410,086, \$1,226,898, and \$890,616, respectively.

Stock-Based Compensation The Company's primary type of share-based compensation consists of stock options and restricted stock. For the year ended December 31, 2008 the company issued 145,500 stock options, and 470,000 restricted shares.

The Company records its stock-based compensation expense in accordance with SFAS 123R, Share Based Payment. In estimating the value of stock options issued, the Company uses the Black-Scholes option pricing model. The following table provides the range of assumptions used by the Company, at the time stock options were issued.

| | 2008 | | 2007 | |
|------------------------|------|------|------|------|
| | low | high | low | high |
| Risk Free Rate* | 2.5% | 3.4% | 3.6% | 4.3% |
| Volatility | 114% | 130% | 113% | 129% |
| Dividend Yield | none | | none | |
| Expected Life In Years | 4 | | 5 | |

* Based on US
Treasury 5 Year
Constant
Maturities

Table of Contents

A summary of the status of the Company's stock option plan as of December 31, 2008 is presented below:

| | Shares | Average Exercise Price | Average Grant-Date Fair Value | Remaining Contractual Term (Yrs) | Intrinsic Value |
|---|-----------|------------------------------|-------------------------------------|--|--------------------|
| Outstanding as of December 31, 2007 | 2,257,943 | \$ 1.60 | \$ 1.32 | 5.1 | \$ 548,550 |
| Granted | 145,500 | 0.63 | | | |
| Exercised | (119,000) | 0.48 | | | (10,150) |
| Canceled | (384,860) | 3.14 | | | (194,100) |
| Outstanding as of December 31, 2008 | 1,899,583 | \$ 1.28 | \$ 1.07 | 4.7 | \$ 344,300 |
| Options exercisable at December 31, 2008 | 1,766,083 | \$ 1.33 | \$ 1.11 | 4.4 | \$ 344,300 |

As of December 31, 2008, there was \$54,778 of unrecognized compensation cost related to non-vested stock options granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.7 years. As of December 31, 2008, there was \$222,750 of unrecognized compensation cost related to restricted stock, the cost of which is expected to be recognized over a weighted-average period of 1.2 years.

Table of Contents

Accounting Pronouncements

- 1) In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (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. Adoption of SFAS 159 did not have a significant effect on the Company s financial statements.
- 2) In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. As such, the Company was required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. Adoption of SFAS 157 did not have a significant effect on the Company s financial statements.
- 3) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations . SFAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, an any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009.
- 4) In December 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009.
- 5) In March 2007, the Financial Accounting Standards Board ratified Emerging Issues Task Force (EITF) Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements . EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2008. Adoption of EITF 06-10 did not have a significant effect on the Company s financial statements.

Table of Contents

Stock Purchase Plans Under the Company's Employee Stock Purchase Plan (ESPP), employees can purchase Veramark stock at a 15% discount to market price at the ending date of the six-month periods ending approximately June 30th and December 31st. Employees may elect to make after-tax payroll deductions of 1% to 10% of compensation as defined by the Plan, to the extent that his or her rights to purchase stock under this Plan do not exceed Twenty-Five Thousand Dollars (\$25,000) worth of stock (determined at the full market value of the shares at the time such purchase would occur), and only to the extent that, immediately after the purchase, such employee would not own stock or hold outstanding options to purchase stock, such that his or her combined voting power would exceed 5% of all classes of capital stock of the Company. Employee payroll deductions are for six-month periods beginning approximately each January 1 and July 1. Shares of the Company's common stock are purchased on or about June 30 or December 31, unless the participant has either elected to withdraw from the Plan or was terminated. Purchased shares are restricted for sale or transfer for a six-month period. All participants funds received prior to the ESPP purchase dates are held as Company liabilities without interest or other increment. No dividends are paid on employee contributions until shares are purchased. Plan participants purchased 94,861 shares at an average purchase price of \$0.26 in 2008, 23,917 shares at an average purchase price of \$0.65 in 2007 and 15,436 shares at an average purchase price of \$0.60 in 2006.

2. PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of December 31, 2008 and 2007 are:

| | 2008 | 2007 |
|--------------------------------|---------------------|---------------------|
| Machinery and equipment | \$ 128,390 | \$ 795,905 |
| Computer hardware and software | 1,224,343 | 2,093,026 |
| Furniture and fixtures | 1,124,349 | 1,677,783 |
| Leasehold improvements | 1,385,797 | 1,388,350 |
| | \$ 3,862,879 | \$ 5,955,064 |

Depreciation expense was approximately \$291,000, \$258,000 and \$261,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

3. ENGINEERING AND SOFTWARE DEVELOPMENT EXPENDITURES

Engineering and software development costs incurred during the years ended December 31, 2008, 2007 and 2006 were recorded as follows:

| | 2008 | 2007 | 2006 |
|--|---------------------|---------------------|---------------------|
| Engineering and software development expenses included in the statements of operations | \$ 1,410,086 | \$ 1,226,898 | \$ 890,616 |
| Amounts capitalized and included in the balance sheets | 834,973 | 796,194 | 1,285,233 |
| Total costs for engineering and software development | \$ 2,245,059 | \$ 2,023,092 | \$ 2,175,849 |

Table of Contents

Additionally, the Company recorded amortization of capitalized software development costs of approximately \$1,154,000, \$933,000, and \$936,000 for the years ended December 31, 2008, 2007 and 2006, respectively. Such amortization is included in cost of sales in the consolidated statements of operations. Estimated aggregate minimum amortization expenses for each of the next five years is:

| | |
|------|--------------|
| 2009 | \$ 1,120,029 |
| 2010 | 768,930 |
| 2011 | 502,144 |
| 2012 | 202,616 |
| 2013 | 119,032 |

4. COMPREHENSIVE LOSS

Comprehensive loss for years ended December 31, 2008, 2007 and 2006 was as follows:

| | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|
| Net loss | \$ (431,411) | \$ (706,049) | \$ (488,341) |
| Adjustments for FASB No. 158 | | | |
| Reclassification to net periodic benefit cost | 286,128 | 62,832 | (374,618) |
| Unrealized gain (loss) arising during the period | (558,256) | 144,989 | 25,658 |
| Unrealized gain on investments | 22,781 | 16,364 | 14,336 |
| | | | |
| Comprehensive loss | \$ (680,758) | \$ (481,864) | \$ (822,965) |

Accumulated comprehensive income (loss) consisted of the following as of December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|---------------------------------|--------------|--------------|--------------|
| Unrecognized prior service cost | | \$ (286,128) | \$ (374,618) |
| Unrecognized actuarial gain | (413,267) | 144,989 | 25,658 |
| Unrealized gain on investments | 61,011 | 38,230 | 21,866 |
| | | | |
| Total | \$ (352,256) | \$ (102,909) | \$ (327,094) |

Unrecognized loss of \$413,267 is expected to be recognized in the periodic benefit cost in 2009.

5. NET LOSS PER SHARE (EPS)

SFAS 128 Earnings Per Share requires the Company to calculate its 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 generally 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

| | Year Ended December 31, | | |
|---|--------------------------------|--------------|--------------|
| | 2008 | 2007 | 2006 |
| Basic | | | |
| Net Loss | \$ (431,411) | \$ (706,049) | \$ (488,341) |
| Weighted average common shares outstanding | 9,560,414 | 8,972,412 | 8,843,154 |
| Net loss per common share | \$ (0.04) | \$ (0.08) | \$ (0.06) |
| Diluted | | | |
| Net Loss | \$ (431,411) | \$ (706,049) | \$ (488,341) |
| Weighted average common shares outstanding | 9,560,414 | 8,972,412 | 8,843,154 |
| Additional dilutive effect of stock options & warrants after application of treasury stock method | | | |
| Weighted average dilutive shares outstanding | 9,560,414 | 8,972,412 | 8,843,154 |
| Net Loss per common share assuming dilution | \$ (0.04) | \$ (0.08) | \$ (0.06) |

There were no dilutive effects of stock options and warrants in 2008, 2007 or 2006, as the effect would have been anti-dilutive due to the net loss incurred for those years.

6. INDEMNIFICATION OF CUSTOMERS

The Company's agreements with customers generally require us to indemnify the customer against claims that its 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 December 31, 2008, the Company had not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently, the Company has not established any related reserves.

Table of Contents**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. The Company will contribute approximately \$25,000 to employees 401K plan in 2009, the first contribution to the plan since 1999.

The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a nonqualified plan that provides certain key employees defined pension benefits. For the years ended December 31, 2008 and 2007 changes to the benefit obligation consisted of the following:

| | 2008 | 2007 |
|--|--------------|--------------|
| Benefit obligation-beginning of year | \$ 5,512,531 | \$ 5,291,798 |
| Current service cost-benefits earned during the period | 24,011 | 262,073 |
| Interest cost on projected benefit obligation | 317,566 | 307,416 |
| Unrealized loss (gain) | 413,267 | (144,989) |
| Curtailments | (347,589) | |
| Benefits paid | (433,717) | (203,767)) |
| Benefit obligation-end of year | \$ 5,486,069 | \$ 5,512,531 |

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

| | 2008 | 2007 |
|---|--------------|--------------|
| Actuarial present value of projected benefit obligation | \$ 5,486,069 | \$ 5,512,531 |
| Plan assets | | |
| Projected benefit obligation in excess of plan assets | \$ 5,486,069 | \$ 5,512,531 |

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% in 2008, 6% for 2007 and 2006. The rate of increase in future compensation levels used in determining the projected benefit obligation ranged from 0% to 3% for 2008, 2007, and 2006.

Pension expense for the years ended December 31, 2008, 2007 and 2006 consisted of the following.

| | 2008 | 2007 | 2006 |
|------------------------------------|-------------|-------------|-------------|
| Current service cost | \$ 24,011 | \$ 262,073 | \$ 270,381 |
| Amortization of prior service cost | 286,128 | 88,490 | 125,056 |
| Amortization of gain | (492,579) | (25,658) | |
| Interest costs | 317,566 | 307,416 | 293,494 |
| Total pension expense | \$ 135,126 | \$ 632,321 | \$ 688,931 |

Table of Contents

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 the pension obligation. The total death benefit associated with these policies is \$10.2 million, with an associated accumulated cash surrender value of approximately \$3,161,000 at December 31, 2008. The accumulated cash surrender values of these policies at December 31, 2007, was approximately \$3,210,000. All of the current accumulated cash surrender values are available to meet current pension obligations, or to fund current general operations of the Company in the event that should become necessary.

The projected future pension benefits under this plan are as follows, assuming a retirement age of 65 and a life expectancy of 80 years for all participants:

Year Ending December 31,

| | |
|-----------|------------|
| 2009 | \$ 486,059 |
| 2010 | 495,692 |
| 2011 | 465,558 |
| 2012 | 506,918 |
| 2013 | 522,159 |
| 2014-2018 | 2,607,898 |

8. STOCKHOLDERS EQUITY

The Company has reserved 4,500,000 shares of its common stock for issuance under its 1998 Stock Option Plan. As of December 31, 2008, 1,045,763 shares of common stock were available for future grants. The plan provides for options, which may be issued as nonqualified or qualified incentive stock options. All options granted are generally exercisable in increments of 20 - 100% per year beginning one year from the date of grant. All options granted to employees have a ten year term.

Table of Contents

A summary of stock option transactions for the years ended December 31, 2008, 2007 and 2006 is shown below:

| | 2008 | | 2007 | | 2006 | |
|---|-----------------|---------------------------------------|-----------------|---------------------------------------|-----------------|---------------------------------------|
| | SHARES | WEIGHTED AVERAGE PRICE | SHARES | WEIGHTED AVERAGE PRICE | SHARES | WEIGHTED AVERAGE PRICE |
| Shares under option, beginning of year | 2,257,943 | \$ 1.60 | 2,790,278 | \$ 2.35 | 2,865,028 | \$ 2.37 |
| Options granted | 145,500 | 0.63 | 632,485 | 0.79 | 10,000 | 0.55 |
| Options exercised | (119,000) | 0.48 | (210,150) | 0.47 | (1,750) | 0.53 |
| Options terminated | (384,860) | 3.14 | (954,670) | 3.51 | (83,000) | 2.82 |
| Shares under option, end of year | 1,899,583 | \$ 1.28 | 2,257,943 | \$ 1.60 | 2,790,278 | \$ 2.35 |
| Shares exercisable | 1,766,083 | \$ 1.33 | 2,120,158 | \$ 1.64 | 2,723,753 | \$ 2.39 |
| Weighted average fair market value of options granted | \$ 0.51 | | \$ 0.69 | | \$ 0.49 | |
| Exercise price of options outstanding | \$ 0.20-\$10.41 | | \$ 0.28-\$10.41 | | \$ 0.28-\$10.41 | |

The following table summarizes information relating to currently outstanding and exercisable stock options as of December 31, 2008:

| Range of Exercise Prices | Weighted Average Remaining Contractual Life (in years) | Options Outstanding | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price |
|-----------------------------|---|------------------------|--|------------------------|--|
| \$0.20 \$1.49 | 6 | 1,485,718 | \$ 0.61 | 1,352,218 | \$ 0.60 |
| \$1.50 \$4.99 | 2 | 291,000 | 2.33 | 291,000 | 2.33 |
| \$5.00 \$10.41 | 0 | 122,865 | 6.97 | 122,865 | 6.97 |
| | 5 | 1,899,583 | \$ 1.28 | 1,766,083 | \$ 1.33 |

Table of Contents**9. SALES INFORMATION**

Sales to five customers were approximately \$3,457,000 or 32% of the Company's total sales in 2008. Sales to two customers were approximately \$3,562,000 or 30% of the Company's total sales in 2007 and \$3,172,000 or 31% of the Company's total sales in 2006.

10. INCOME TAXES

The income tax provision includes the following:

| | 2008 | 2007 | 2006 |
|--|-------------|--------------|--------------|
| Current income tax expense: | | | |
| Federal | \$ | \$ | \$ |
| State | | | |
| | \$ | \$ | \$ |
| Deferred income tax provision (benefit): | | | |
| Federal | \$ 33,561 | \$ (282,354) | \$ (269,343) |
| State | (11,636) | (20,210) | (14,926) |
| Change in valuation allowance | (21,925) | 302,564 | 284,269 |
| | \$ | \$ | \$ |

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

| | 2008 | 2007 | 2006 |
|--|--------------|--------------|--------------|
| Tax expense (benefit) at statutory federal rate | \$ (146,680) | \$ (247,443) | \$ (166,036) |
| State taxes, net of federal tax benefit | (3,720) | (18,850) | (14,650) |
| Increase (decrease) in valuation allowance | (21,925) | 302,564 | 284,269 |
| Other | 311 | (5,874) | (2,809) |
| Nondeductible expenses | 13,584 | 2,017 | 26,757 |
| Deferred tax adjustment-fixed assets | | | (64,806) |
| Deferred tax adjustment-net operating loss | (8,119) | 491 | 13,849 |
| Deferred tax adjustment-general business credits | 166,549 | (32,905) | (76,574) |
| | \$ | \$ | \$ |

Table of Contents

Deferred income taxes recorded in the balance sheets results from differences between financial statement and tax reporting of income and deductions. A summary of the composition of the deferred income tax assets (liabilities) follows:

| | 2008 | 2007 |
|---------------------------------|--------------|--------------|
| General business credits | \$ 1,452,062 | \$ 1,618,521 |
| Net operating losses | 3,877,944 | 3,671,221 |
| Deferred compensation | 2,289,360 | 2,507,196 |
| Stock options | 172,195 | 131,720 |
| Alternative minimum tax credits | 327,154 | 327,154 |
| Inventory | 263 | 263 |
| Accounts receivable | 11,100 | 11,100 |
| Capitalized software | (1,006,321) | (1,124,212) |
| Fixed assets | 318,659 | 272,936 |
| Other | 72,726 | 121,078 |
| New York State ITC | 92,855 | 92,945 |
| | 7,607,997 | 7,629,922 |
| Valuation allowance | (7,607,997) | (7,629,922) |
| Net deferred asset (liability) | \$ | \$ |

The Company has \$10,480,929 of net operating loss carryforwards available as of December 31, 2008. Of that total, \$682,000 is limited to a utilization of approximately \$100,000 annually. The carryforwards expire in varying amounts in 2012 through 2028. The valuation allowance decreased by \$21,925 during the year ended December 31, 2008. The Company's tax credit carryforwards as of December 31, 2008 are as follows:

| Description | Amount | Expiration Dates |
|---------------------------------------|-----------|--------------------|
| General business credits | 1,452,062 | 2009 - 2027 |
| New York State investment tax credits | 92,855 | 2009 - 2023 |
| Alternative minimum tax credits | 327,154 | No expiration date |

The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2008. As the result of the implementation of the FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes – An Interpretation of FASB Statement No. 109, the Company recognized no material adjustments to unrecognized tax benefits. At the adoption date of January 1, 2008 and as of December 31, 2008, the Company has no unrecognized tax benefits. By statute, tax years ending in December 31, 2007 through 2005 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Cash paid for income taxes during the years ended December 31, 2008, 2007 and 2006 totaled \$13,129 \$562, and \$18,022 respectively.

Table of Contents**11. COMMITMENTS AND CONTINGENCIES**

Lease Obligations The Company leases office facilities under leases which expire at various dates through 2010. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately \$350,000, \$346,000, and \$373,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

Minimum lease payments as of December 31, 2008 under operating leases are as follows:

| Year Ending December 31, | Operating Leases |
|---------------------------------|-------------------------|
| 2009 | \$ 435,560 |
| 2010 | 342,133 |
| | \$ 777,693 |

The current term of the Company's lease on its Pittsford facility expires October 31, 2010.

Legal Matters The Company is subject to litigation from time to time in the ordinary course of business. In the opinion of management, there is no pending or threatened proceeding against the Company, if adversely determined, would have a material effect on the Company's financial condition or results of operations.

12. REVOLVING DEMAND NOTE AGREEMENT

On October 31, 2008, Veramark Technologies, Inc. entered into a Revolving Demand Note Agreement (the Agreement), effective as of October 31, 2008, with Manufacturers and Traders Trust Company (the Bank) to provide working capital in the ordinary course of business. As of the date of this Report, no funds have been borrowed under this Agreement.

The material terms of the Agreement include:

The maximum outstanding principal balance under the Agreement is Four Hundred Thousand Dollars (\$400,000).

Veramark may borrow under the Agreement, from time to time, an amount less than or equal to, but not greater than the available balance.

The outstanding principal balance will bear interest at a per annum rate equal to One-Half Percent (0.5%) above the Prime Rate.

The Bank may demand payment of the outstanding principal balance at any time.

Table of Contents**13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)**

Summarized quarterly financial information for the years ended December 31, 2008 and 2007 is as follows:

| | Three Months Ended | | | |
|------------------------------------|---------------------------|----------------|---------------------|--------------------|
| | March 31 | June 30 | September 30 | December 31 |
| 2008 | | | | |
| Net sales | \$ 2,671,646 | \$ 2,538,283 | \$ 2,724,296 | \$ 2,739,666 |
| Gross profit | \$ 1,956,683 | \$ 1,830,339 | \$ 2,003,057 | \$ 1,996,965 |
| Net income (loss) | \$ (194,127) | \$ (259,709) | \$ (36,259) | \$ 58,684 |
| Net income (loss) per common share | | | | |
| - Basic | \$ (0.02) | \$ (0.03) | \$ 0.00 | \$ 0.01 |
| - Diluted | \$ (0.02) | \$ (0.03) | \$ 0.00 | \$ 0.01 |
| 2007 | | | | |
| Net sales | \$ 3,348,642 | \$ 3,048,083 | \$ 2,928,240 | \$ 2,593,887 |
| Gross profit | \$ 2,360,698 | \$ 2,298,248 | \$ 2,223,387 | \$ 1,922,052 |
| Net income (loss) | \$ 117,512 | \$ (320,144) | \$ (60,067) | \$ (443,350) |
| Net income (loss) per common share | | | | |
| - Basic | \$ 0.01 | \$ (0.03) | \$ (0.01) | \$ (0.05) |
| - Diluted | \$ 0.01 | \$ (0.03) | \$ (0.01) | \$ (0.05) |

Table of Contents

Item 9A. Controls and Procedures

Evaluation of Disclosure 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 Vice President of Finance (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.

Management's Report on Internal Control Over Financial Reporting

The management of Veramark Technologies, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) of the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. These internal controls include policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of assets;

- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles;

- Provide reasonable assurance that receipts and expenditures are being made only in accordance with the authorization of our management and directors; and

- Provide reasonable assurance that unauthorized acquisition, use or disposition of company assets that would have a material impact on financial statements will be prevented or detected on a timely basis.

Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, management concluded that internal control over financial reporting was effective as of December 31, 2008.

Table of Contents

PART III

Item 10 Directors and Executive Officers of the Registrant

Information relating to the officers and directors of the Company and the Committees of the Company's Board of Directors is incorporated herein by reference to portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the headings "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance."

The following lists the names and ages of all executive officers of the Company, all persons chosen to become executive officers, all positions and offices with the Company held by such persons, and the business experience during the past five years of such persons. All officers and directors were elected to their present positions for terms ending on May 12, 2009, and until their respective successors are elected and qualified.

MANAGEMENT

Directors and Executive Officers of the Registrant

The Directors and executive officers of Veramark are as follows:

| Name | Age | Position |
|------------------------|-----|---------------------------------------|
| Andrew W. Moylan | 69 | Chairman of the Board |
| Seth J. Collins | 42 | Director |
| Charles A. Constantino | 69 | Director |
| John E. Gould | 64 | Director |
| Ralph A. Rodriguez | 41 | Director |
| Anthony C. Mazzullo | 51 | President and Chief Executive Officer |
| Ronald C. Lundy | 57 | Vice President of Finance and CFO |

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

Andrew W. Moylan has been a Director of Veramark since September 2004 and was elected Chairman of the Board in January 2008. Mr. Moylan retired as a senior Partner from the Deloitte management consulting practice in New York in 2002 after 20 years of practice. Since his retirement, Mr. Moylan has served as President of BCS plc. North America, a risk management software company, and President, Chief Operating Officer and a Director of MarketDataInsite, a spend management company.

Seth J. Collins is a co-founder and President of Stone Mountain Capital, a capital fund that provides loans primarily for commercial real estate projects. Prior to that, from February 1998 to July 2005, Mr. Collins served as President and a board member of Manchester Technologies, a single source solutions provider specializing in display technology and custom networking. For 20 years, Mr. Collins has been involved with technology companies, including various aspects of corporate management, mergers and acquisitions, sales channel development, consulting, and business strategy. Mr. Collins holds a BS in Finance and Computer Science from Rensselaer Polytechnic Institute (RPI).

Table of Contents

Charles A. Constantino has been a Director of Veramark since May, 2002. Mr. Constantino has also been a Director and Executive Vice President of PAR Technology Corporation (NYSE:PTC) for more than five years. PTC develops, manufactures, markets, installs and services microprocessor-based transaction processing systems for the restaurant and industrial market places and also designs software. Their government business segment provides the United State Department of defense, and other federal and state government organizations, with a wide range of technical products and services. Mr. Constantino is also a Director and Past Chairman of the Board of Trustees of St. John Fisher College, and a Director of Adirondack Bank.

John E. Gould has been a Director of Veramark since August 1997. For more than five years, Mr. Gould was a Partner in Gould & Wilkie LLP, a general practice law firm located in New York City. On May 1, 2002, Gould & Wilkie LLP combined with Thompson Hine LLP, a larger general practice law firm with headquarters in Cleveland, Ohio. Mr. Gould serves on the Executive Committee of Thompson Hine LLP. Mr. Gould is also Chairman of the American Geographical Society and a Director of the Gerber Life Insurance Company.

Ralph A. Rodriguez joined the Veramark Board of Directors in 2008. Mr. Rodriguez is an IT inventor and innovator, industry analyst and consultant, successful author and entrepreneur. He is currently an ASP Research Fellow with the Massachusetts Institute of Technology and a Senior Fellow with the Cambridge Institute of Applied Management. His previous positions include Senior Vice President of Technology Research and Practice Director for the Technology Markets Group at the Aberdeen Group, Chief Technology Officer of Brooks Automation's Enterprise Software Division, and Executive Vice President and Chief Information Officer of Excelon Corporation. Mr. Rodriguez has also co-authored several books on technology and the law.

Anthony C. Mazzullo was elected President and Chief Executive Officer of Veramark effective January 1, 2008. Since 2004 Mr. Mazzullo was Senior Vice President of ePLUS Systems, Inc., a wholly owned subsidiary of ePLUS, Inc., a publicly held software and professional services company. Prior to that, Mr. Mazzullo founded and served as President and Chief Executive Officer of eTrack Solutions, a professional services company that assisted organizations in streamlining operations and optimally applying software applications to their business. eTrack Solutions was sold to Manchester Technologies in 2001 where Mr. Mazzullo served as Chief Operating Officer until 2004.

Ronald C. Lundy was appointed Vice President of Finance and Chief Financial Officer in March 2007. Since joining Veramark in 1984 he has held a variety of financial management positions, the most recent having been Treasurer since August of 1993. Prior to that he held various financial positions with Rochester Instrument Systems, Inc. from 1974-1983.

The Company has adopted a Code of Business Conduct and Ethics for all principal executive officers, directors, and employees of the Company. A copy of this code is incorporated by reference to portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009. A copy of the Code of Business Conduct and Ethics is available, without charge, upon written request to the Company's Vice President of Finance and Chief Financial Officer at the Company's corporate offices.

Table of Contents

Item 11 Executive Compensation

Information relating to executive compensation is incorporated by reference to portions of to the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading Executive Compensation.

Item 12 Security Ownership of Certain Beneficial Owners and Management

Information relating to the security holdings of more than five percent holders and directors and officers of the Company is incorporated herein by reference to portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the headings Executive Compensation and Stock Options.

Item 13 Certain Relationships and Related Transactions

Information related to certain relationships and related transactions of the Company are incorporated herein by reference to portions of the Company's Proxy Statement, for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading Certain Relationships and Related Transactions.

Table of Contents

PART IV

Item 14 Principal Accounting Fees and Services

Information relating to accounting fees and services incurred by and provided to the Company are incorporated herein by reference to portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 12, 2009, under the heading "Audit Fees and Services."

Item 15 Exhibits, Consolidated Financial Statement Schedule and Reports on Form 8-K

(a) Financial Statements as set forth under Item 8 of this report on Form 10-K

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

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

2008 Incentive Plan for Management and Key Employees (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 2, 2008)

Table of Contents

| | |
|--------|---|
| 10.10* | 2008 Employee Stock Purchase Plan (incorporated by reference to Exhibit F to the Company's Proxy Statement for its 2008 Annual Meeting of Shareholders filed on April 29, 2008) |
| 10.11* | Description of non-employee director compensation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 18, 2008) |
| 10.12* | Amended Salary Continuation Agreement dated as of October 10, 2008 by and between the Company and Ronald C. Lundy (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 17, 2008) |
| 10.13* | Form of 2008 Employee Stock Purchase Plan Enrollment Agreement (incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (File No. 333-155286) filed on November 12, 2008) |
| 11.1 | Calculation of earnings per share |
| 14 | Code of Business Conduct and Ethics (incorporated by reference to Exhibit E to the Company's Proxy Statement for its 2008 Annual Meeting of Shareholders filed on April 29, 2008) |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* Management contract or compensatory plan or arrangement

(c) Schedules required to be filed by Regulation S-X
(99) Valuation and Qualifying Accounts

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

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VERAMARK TECHNOLOGIES, INC.,
Registrant

/s/ Anthony C. Mazzullo
Anthony C. Mazzullo, President and CEO
Dated: March 25, 2009

/s/ Ronald C. Lundy
Ronald C. Lundy, Vice President of Finance and
CFO
Dated: March 25, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, that this report be signed by the Company's principal executive officer(s), principal financial officer(s), controller or principal account officer and at least a majority of the members of the Company's Board of Directors, this report has been signed below, by the following persons, on behalf of the registrant, and in the capacities and on the dates indicated.

| Signature | Capacity | Date |
|----------------------------|----------|----------------|
| /s/ John E. Gould | Director | March 25, 2009 |
| John E. Gould | | |
| /s/ Seth J. Collins | Director | March 25, 2009 |
| Seth J. Collins | | |
| /s/ Ralph A. Rodriguez | Director | March 25, 2009 |
| Ralph A. Rodriguez | | |
| /s/ Charles A. Constantino | Director | March 25, 2009 |
| Charles A. Constantino | | |
| /s/ Andrew W. Moylan | Director | March 25, 2009 |
| Andrew W. Moylan | | |

Table of Contents

EXHIBIT INDEX

| | |
|------|--|
| 11.1 | Calculation of earnings per share |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 99 | Valuation and Qualifying Accounts |