VERAMARK TECHNOLOGIES INC
Form 10-K
March 27, 2009

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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 o NO þ

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 o NO þ

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

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

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

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

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

The 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

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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.

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Veramark sells and markets its products and services directly and through leveraged distribution channels. Vermark s to customers range from global enterprises to small businesses, as well as the public sector, including government agencies and the military. Veramark maintains relationships with many top telecommunications providers including: AT&T Inc., Avaya®, Cisco Systems®, NEC Unified, Nortel Networks®, Sprint®, and others.

Veramark 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.
- Veramark 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. Veramark intends to develop and introduce products and services to serve the iTEM market.

In 2008, Veramark began executing a strategy to address the iTEM market. Veramark 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.

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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.

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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 valued 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.

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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.

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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 take steps to prevent unlawful infringement of other s intellectual property, there can be no assurance that third parties will not assert infringement claims against Veramark in the future with respect to current or future products. Any such assertion could require Veramark to enter into royalty arrangements or result in costly litigation.

Existing Customer Base

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

Product Development

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

Declines in Demand for Software

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

New Products and Services

Veramark is in the process of transforming it s 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.

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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.

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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

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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.

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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.

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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.

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 contacts 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.

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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.

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.

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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.

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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.

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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.

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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.

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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.

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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, 20