

VERAMARK TECHNOLOGIES INC

Form 10-K

March 24, 2010

**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, 2009  
Commission File Number 0-13898  
Veramark Technologies, Inc.  
(Exact Name of Registrant as specified in its Charter)**

Delaware

16-1192368

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification Number)

3750 Monroe Avenue, Pittsford, NY

14534

(Address of principal executive offices)

(Zip Code)

(585) 381-6000

(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, 2009 was \$3,965,492.

The number of shares of Common Stock, \$.10 par value, outstanding on February 28, 2010 was 9,828,727.



**TABLE OF CONTENTS**

**PART I**

Item 1 Business

Item 1A Risk Factors

Item 2 Properties

Item 3 Legal Proceedings

Item 4 Submission of Matters to a Vote of Security Holders

**PART II**

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

Item 6 Selected Financial Data

Item 7 Management's Discussion and Analysis of Results of Operations and Financial Condition

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Item 8 Index to Financial Statements and Supplementary Data

Item 9A. Controls and Procedures

**PART III**

Item 10 Directors and Executive Officers of the Registrant

Item 11 Executive Compensation

Item 12 Security Ownership of Certain Beneficial Owners and Management

Item 13 Certain Relationships and Related Transactions

**PART IV**

Item 14 Principal Accounting Fees and Services

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

**SIGNATURES**

Exhibit 11.1

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Exhibit 32.2

Exhibit 99

---

**Table of Contents**

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 20, 2010, 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 20, 2010, 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 20, 2010.
	Item 13	Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held May 20, 2010, 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 20, 2010, under the heading Audit Fees and Services.

**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 innovative enterprise solutions for Telecom Expense Management (TEM) and Information Technology Financial Management (ITFM). Veramark solutions help organizations reduce operational expenses associated with telecommunications and information technology. VeraSMART, our proprietary software platform, helps enable efficient processes for procure-to-pay and IT asset management. Performance Advisor, our business intelligence platform, provides visibility into operational expenses and creates actionable business intelligence to help organizations reduce spend and optimize business processes.

Veramark solutions for TEM and ITFM include on-premise software deployments, hosted Software-as-a-Service (SaaS) services, software managed services, and Business Process Outsourcing (BPO), helping customers leverage Veramark's experienced staff and enabling software. These flexible deployment/service options enable customers to optimally utilize both in-house and Veramark resources to create best practices for managing the expenses associated with telecommunications and information technology.

Veramark at a glance:

Leading provider of telecom management solutions for more than 25 years

Innovator in IT financial management

Thousands of customers, from small businesses to global enterprises, educational institutions, government agencies and the military

Leading investment in new technology for expense management in 2009 over 24% of revenue was invested in R&D and product innovation

**Table of Contents**

Subject matter experts average more than 10 years of experience in network management, software development, business intelligence, finance, and telecommunications

Software products for the full procure-to-pay lifecycle for expense management with the VeraSMART Expense Management Suite (Veramark's proprietary software that provides a modular, scalable software platform) including support for TEM, Call Accounting and ITFM

Services for the full procure-to-pay lifecycle for expense management with software deployment, SaaS, managed services and business process outsourcing (BPO) services.

Veramark sells and markets its products and services directly and through leveraged distribution channels. Veramark maintains relationships with many top telecommunications providers including: AT&T Inc., Avaya®, Cisco®, Nortel and others.

Veramark services and solutions meet the changing communications management needs of our customers.

The Company's products address the corporate need to manage expenses associated with communications networks including wireless, VoIP, fixed wireline, mobile/cellular and video/voice/data.

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

Veramark is extending TEM into the emerging market Information Technology Financial Management (ITFM). ITFM includes the enabling software and services for managing the total cost of ownership of information technology. Veramark intends to develop and introduce products and services to serve the ITFM market. ITFM addresses three to five times the amount of operating expenses as compared with TEM.

Since 2008, Veramark has been extending its TEM capabilities and building the foundation to support ITFM. Veramark introduced significant new software capabilities in 2009 that pave the way for ITFM, including enhancements in inventory and contract management, workflow automation, and business intelligence capabilities.

**Products and Services**

**VeraSMART Telecom Expense Management Suite (software)**

**Visibility into usage and spend; inventory, invoice, and contract management; process automation; data analytics**

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

**Single, fully integrated, and scalable platform**

VeraSMART technology enables telecom expense management. It automates many functions associated with enterprise telecom contract management, invoice processing and auditing, inventory and asset management, dispute management, call accounting, reporting, and data analytics. Optional components can be combined in a fully integrated system that can scale to meet the customer's business requirements. 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:**

Contract and Sourcing Management Contract and vendor performance management and sourcing of telecom equipment and services

Ordering and Provisioning Management Self-service ordering of telecom devices and service plans and provisioning workflow automation

Inventory Management Tracking and management of telecom services, circuits, wireless devices, and other IT assets

Invoice and Dispute Management Automated invoice receipt, validation, and approval processing; dispute workflow management and resolution

Usage Management Wireless and wireline call accounting and cost allocation

TEM Process Automation Workflows for MACD, help desk, and other TEM processes boost productivity, eliminate errors, and reduce operating costs

**New Features and Capabilities**

VeraSMART version 9.0, released in 2009, introduced a number of new enhancements that reflect the innovation and thought leadership for which Veramark is known. New features and capabilities include:

Integrated Contract Management Provides visibility into contract and vendor performance and control over contract negotiation and commitments; includes invoice-to-contract validation, order-to-contract compliance, contract renewal tracking, and contract performance management

Ordering and Provisioning Management Lets customers create product catalogs and integrated workflows to streamline ordering and provisioning across their organizations; allows users to order products and services from online catalogs, automatically routes orders to appropriate individuals for review and approval, supports integration with other systems and vendors via Web-based methods, updates inventory upon fulfillment, provides an audit trail of every transaction, and minimize off-contract orders

Process Workflows for Help Desk, MACD, and Dispute these preconfigured workflows can be deployed quickly to enable and enforce best practices; an integrated business process manager lets customers modify workflows to meet their specific needs

Improved Invoice Processing improved invoice import wizard, new process workflows, and enhanced capabilities for charge validation and analysis streamline invoice processing and facilitate best practices

Unified Inventory Management a unified view of telecom services and IT assets such as wireless devices, network equipment, and computers help customers facilitate inventory management across their enterprises

Enhanced User Interface new color palette, navigation scheme, button and link placement, and more efficient use of screen real estate provide improved usability



**Table of Contents**

**Performance Advisor Provides Actionable Business Intelligence for Strategic Decision-making**

VeraSMART Performance Advisor is a business intelligence solution that summarizes and analyzes the telecom usage and expense data collected by VeraSMART and generates actionable information to help organizations reduce costs and improve productivity. Easy to understand dashboards, charts, graphs, and interactive analytics provide insight into telecom expenses at a glance, highlighting exceptions, the unexpected, and the inconsistent.

Performance Advisor features analytics and dashboards for:

- Expense Analytics Facilitates TEM cost-saving initiatives by providing multiple ways to analyze expense data collected and managed by the VeraSMART Suite
- Contract Analytics Part of the VeraSMART Contract Management component introduced with VeraSMART 9.0 in 2009, Performance Advisor Contract Analytics provides visibility into contract and vendor performance that helps customers track and manage commitments and negotiate the most favorable terms and conditions

**MySMART Portal (powered by VeraSMART software)**

The MySMART Web portal is a streamlined user interface that supports powerful capabilities for delivering customized content and applications to each VeraSMART user in the organization.

MySMART gives each user secure access to their reports, telecom charges, assigned devices, service requests, and any service tickets awaiting their review and approval.

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

**Veramark Call Accounting Software**

VeraSMART Call Accounting is one of the components of the VeraSMART Telecom Expense Management Suite. Version 9.0, released in 2009, shares many of the enhancements found in the full VeraSMART TEM Suite, while also providing the features and functionality familiar to our long-standing call accounting customers. VeraSMART Call Accounting customers can seamlessly add other VeraSMART components to expand their capabilities as their business needs change and grow.

Veramark has been the only call accounting OEM provider to Avaya since 1984. Until 2008, our call accounting product had software architecture distinct from VeraSMART and was sold exclusively under the eCAS brand. With the release of VeraSMART 8.0, we moved our call accounting software onto our TEM platform, essentially consolidating these products on a single code base. However, for marketing reasons, the eCAS name brand was retained.

Today, in our Avaya marketing channels, we continue to use the eCAS brand on our Avaya OEM product. VeraSMART eCAS Call Accounting allows us to leverage the customer recognition and brand loyalty that we have established in the Avaya channel over the last 25 years. All non-Avaya channels and Veramark direct call accounting customers receive our VeraSMART Call Accounting product. From a software standpoint, VeraSMART Call Accounting and VeraSMART eCAS Call Accounting are one in the same.

## **Table of Contents**

VeraSMART Call Accounting gives organizations visibility into and control over their wireline usage and spend. Compatible with TDM, IP, and hybrid networks, VeraSMART Call Accounting makes it easy to analyze and report on call detail records (CDRs) collected from VOIP/PBX switches and other network sources, perform inbound and outbound traffic analysis, identify toll fraud and abuse, and calculate and assign charges to extensions, personnel, or other user-defined billing numbers. An extensive library of configurable report templates enables customers to deliver usage information to individuals throughout the organization. Managers can use the 3D dashboards to monitor key data trends.

VeraSMART Call Accounting provides a unified view of extensions and other IT assets to facilitate management of inventory across the enterprise. Powerful, flexible support for MACD, help desk, ordering and provisioning, and other process workflows improves productivity and compliance with best practices. VeraSMART Call Accounting scales easily to serve tens of thousands of extensions at hundreds of sites and offers a wide variety of optional capabilities to reduce spend and improve productivity.

### **TEM Business Process Outsourcing (BPO) and Managed Services**

Veramark TEM BPO services for wireless and wireline networks allow our customers to outsource their TEM processes to our in-house experts and focus on their core capabilities. Our BPO customers retain full Web access to their VeraSMART system to monitor performance, control process workflows, and generate reports as desired. Veramark BPO services are described below.

#### **Invoice Loading**

Veramark will efficiently consolidate the customer's wireless and wireline invoices, convert paper invoices to e-Bills, and load invoices into the VeraSMART system. Compared to manual methods, our invoice loading service dramatically reduces labor costs and processing time. Invoices come directly to Veramark, where we load them into VeraSMART within a few days.

#### **Invoice Processing**

After invoices have been loaded into VeraSMART, Veramark will manage the entire invoice processing workflow for the customer. Every wireless and wireline invoice is validated against inventory and other configurable thresholds within VeraSMART. We facilitate the coding and approval process to reduce cycle times and mitigate the risk of incurring late payment fees. Veramark TEM experts will analyze invoices to find additional opportunities to optimize services and reduce expenses to for the customer.

#### **Bill Payment**

Veramark will pay all the customer's approved wireless and wireline invoices on their behalf and present the customer with a single monthly bill for the total amount. Veramark's bill payment service provides prompt, accurate payment of approved charges. Labor costs and risks of payment errors (both underpayment and overpayment) and late payment (and resulting penalties) are minimized.

#### **Dispute Management**

Our TEM services team works directly with the customer's vendors to settle disputes rapidly. We vigorously pursue the recovery of credits on the customer's behalf for any carrier overcharges. Our dispute management service allows customers to leverage the expertise of our TEM services team, while keeping their staff focused on core capabilities and strategic objectives.

## **Table of Contents**

### **Ordering and Provisioning**

Veramark's Ordering and Provision service helps customers reduce off-contract orders and meet their Minimum Annual Revenue Commitment (MARC) contract requirements. Veramark will:

- Manage all orders through VeraSMART
- Validate orders against negotiated contracts and corporate policies
- Authenticate appropriate pricing for standard orders and configurations
- Automate the approval routing process
- Manage vendor fulfillment to confirm Software License Agreement (SLA) compliance
- Receive, charge, pack, and ship wireless devices

### **Help Desk**

Veramark offers advanced wireless and wireline help desk services.

**Wireless** Our help desk team assists callers in resolving issues related to wireless device problems and usability issues. Every call is answered promptly by trained professionals in our U.S. call center. Our help desk team is committed to providing world class customer service and has the tools and metrics to make certain that we meet our goals

**Wireline** If wireline service fails at any customer location, one call or email to our centralized help desk will immediately initiate the process to restore their dial tone. We make it our business to know every local telecom provider servicing each of the customer's offices, so we know exactly who to call and how to get fast action to resolve connectivity issues

### **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 validation and historical review, 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.

### **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.

**Table of Contents**

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 with Avaya and Cisco resellers.

Marketing initiatives include a blend of cohesive online and offline programs. Veramark marketing manages: new product marketing launch activities; public relations; webinars and seminars; reference programs; customer satisfaction programs; sponsorship of industry and channel conferences; advertising, newsletters; email and Web marketing programs; social marketing; social responsibility programs; channel marketing programs and other programs. Veramark marketing actively seeks speaking engagements, customer case studies, and publishes white papers and by-lined articles.

**Backlog**

At December 31, 2009, Veramark had a backlog of \$7,543,000, the majority of which is expected to be recognized as revenue during 2010. Backlog as of December 31, 2008 was \$6,401,000. The Company's policy is to accept orders only upon receipt of purchase orders, or the equivalent thereof.

**Employees**

As of February 28, 2010 Veramark employed 78 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.

**Table of Contents**

**Existing Customer Base**

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

**Product Development**

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

**Declines in Demand for Software**

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

**New Products and Services**

Veramark is in the process of transforming its business model from a company 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.

**Table of Contents**

**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.

**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. The term of the lease expires on October 31, 2010. The Company has begun the process of investigating new facilities with the intent of relocating its headquarters when the current lease expires.

**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
<b>2009</b>	\$ 0.51	\$ 0.25	\$ 0.50	\$ 0.28	\$ 0.53	\$ 0.31	\$ 0.44	\$ 0.20
<b>2008</b>	\$ 0.89	\$ 0.65	\$ 0.87	\$ 0.35	\$ 0.64	\$ 0.35	\$ 0.36	\$ 0.20

As of March 22, 2010, there were approximately 500 holders of record of the Company's Common Stock and approximately 1,200 additional beneficial holders.

**Item 6 Selected Financial Data**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Net Sales	\$ 10,146,280	\$ 10,673,891	\$ 11,918,852	\$ 10,361,150	\$ 10,858,871
Net Income (Loss)	\$ (1,140,141)	\$ (431,411)	\$ (706,049)	\$ (488,341)	\$ 381,733
Net Income (Loss) per Diluted Share	\$ (0.12)	\$ (0.04)	\$ (0.08)	\$ (0.06)	\$ 0.04
Weighted Average Diluted Shares Outstanding	9,871,065	9,560,414	8,972,412	8,843,154	9,309,888
Total Assets	\$ 10,384,535	\$ 10,566,277	\$ 11,395,692	\$ 10,933,393	\$ 10,123,366
Long-Term Obligations	\$ 4,674,071	\$ 5,000,010	\$ 5,072,447	\$ 5,096,031	\$ 4,264,537

**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.

**2009 Compared with 2008**

**Overview**

Revenues for the fourth quarter of 2009 of \$2,634,000 decreased 4% from revenues of \$2,740,000 for the fourth quarter of 2008. For the twelve months ended December 31, 2009, revenues of \$10,146,000 compare to revenues \$10,674,000 for the twelve months ended December 31, 2008, a decrease of 5%. The net loss of \$68,000, or \$0.01 per share, for the quarter ended December 31, 2009, compares with a net profit of \$59,000 for the same quarter of 2008. For the full year ended December 31, 2009, the net loss of \$1,140,000, or \$0.12 per share, compares with a net loss of \$431,000, or \$0.04 per share, for the year ended December 31, 2008.

Significant progress was made in narrowing our operating losses during the final two quarters of 2009, and we continue to build our embedded backlog as we enter 2010. Most importantly, we continued the process of transforming Veramark into a leading provider of Telecom Expense Management (TEM) and Business Process Outsourcing (BPO) products and services, while developing the next generation of products targeted at the IT Financial Management (ITFM) market. In order to develop a leadership position in ITFM we intend to continue our commitment to investing in product innovation thereby creating additional value to organizations to include the following:

Provide software that replaces the heavy dependency on expense management experts and makes scarce in-house resources more productive.

Provide software that creates corporate value that is absent in a pure services scenario.

Develop innovative software that is essential to maintaining preferred partner status with strategic partners such as AT&T, Avaya, and Cisco.

Provide the tools required to assist organizations in reducing their costs and optimizing expenditures across their telecom and IT networks.



**Table of Contents**

Orders for TEM and BPO services increased 78% for the year ended December 31, 2009, as compared with 2008. TEM and BPO services are generally sold under multi-year contracts, whereby revenues are recognized over the term of the contract, rather than at the time of installation, which is typical with the sale of a premise based software product. As a result, TEM/BPO contracts provide for a significantly higher percentage of recurring and sustainable revenue and cash streams. Embedded backlog, which represents the value of orders received for services to be performed in future periods, increased 16% in 2009, from \$6.4 million at December 31, 2008 to approximately \$7.5 million at December 31, 2009.

We continue to aggressively invest in product development and innovation, despite pressures on pricing and sales lead times caused by the recession. Gross spending for engineering and software development in 2009 represented 24% of revenues, an increase from 21% of revenues in 2008.

**Revenues**

Revenues from the sale of premise based software products, which are most affected by current economic conditions as companies reduce capital budgets, decreased 33% for the three months ended December 31, 2009 and 35% for the twelve months ended December 31, 2009, from the same three and twelve month periods of 2008. Maintenance revenues and services associated with the sales of software products declined 9% and 5%, respectively, for the three and twelve months ended December 31, 2009, as compared with the same periods of 2008.

Revenues from managed service contracts for TEM and BPO services, increased 72% for the three months ended December 31, 2009, and 43% for the twelve months ended December 31, 2009 from the same periods of 2008. Thirteen new clients were added during 2009, including ABM Industries, AutoTrader, NASCAR, and Staples. Revenues derived from TEM and BPO managed service contracts accounted for 24% of total revenues in 2009, up from 16 percent in 2008.

**Cost of Sales**

Gross margin (defined as revenues less cost of sales) for the year ended December 31, 2009 was \$7,382,000, or 5% less than the gross margin of \$7,787,000 for the year ended December 31, 2008. For both years, gross margin represented 73% of revenues. Higher costs associated with providing TEM and BPO services have been offset by a reduction in costs associated with the sale of premise based products.

**Engineering and Software Development Expenses**

Net Engineering and software development expenses decreased 18%, from \$1,410,000 for the year ended December 31, 2008, to \$1,150,000 for the year ended December 31, 2009, a result of an increase in the amount of development costs capitalized. During 2009, we capitalized \$1,312,000 of software development costs, an increase from \$835,000 in 2008. The chart below summarizes engineering and software development expense prior to the effects of capitalization, post capitalization, and the resulting net engineering and software development costs included in the Company's statement of operations.

**Table of Contents**

	<b>2009</b>	<b>2008</b>
Gross Expenditures for Engineering and Software Development	\$ 2,462,000	\$ 2,245,000
Less: Software Development Costs Capitalized	(1,312,000)	(835,000)
Net Expenditures for Engineering and Software Development	1,150,000	1,410,000
Plus: Software Development Costs Amortized and Charged to Cost of Sales	1,126,000	1,154,000
Total Expense Recognized	\$ 2,276,000	\$ 2,564,000

**Selling, General and Administrative Expenses**

Selling, general and administrative (SG&A) expense for the twelve months ended December 31, 2009 of \$7,387,000 increased 7% from expenses of \$6,876,000, for the twelve months ended December 31, 2008. The higher expenses include the costs of expanding the direct sales force, and an increase in pension costs, caused by a decrease in the discount rate used to calculate the net present value of the long-term obligation. Pension costs will decrease significantly in future years as the Company has suspended further participation in the retirement program in addition to instituting a permanent freeze of benefits for current participants.

**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.

## **Table of Contents**

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.

### **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.

	<b>2008</b>	<b>2007</b>
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.

**Liquidity and Capital Resources**

The total cash position (cash plus short term investments) at December 31, 2009 of \$946,000, decreased \$111,000 from the September 30, 2009 total of \$1,057,000. For the full year ended December 31, 2009, cash and short term investments declined from a total of \$1,997,000 at December 31, 2008. The majority of the negative cash flow experienced in 2009 occurred during the first half of the year as the Company invested heavily in expanding its direct sales force and lead generation capabilities. In addition to the cash and investments referenced above, we also have access to approximately three million dollars of cash surrender values associated with Company owned life insurance policies, available to fund operations as needed, and a \$400,000 unutilized line of credit arrangement with a local bank.

**Table of Contents**

Accounts receivable at December 31, 2009 of \$1,315,000, increased 15% from the September 30, 2009 balance of \$1,148,000, and 25% from the December 31, 2008 total of \$1,048,000. Despite the increase in accounts receivable, the reserve for bad debts has been reduced to \$24,000 at the end of 2009 from \$30,000 a year ago, reflecting the excellent payment history of our customer base.

Prepaid expenses at December 31, 2009 of \$389,000, increased \$144,000 from the December 31, 2008 balance of \$245,000, representing commissions paid to our sales people for orders received in the form of multi-year contracts, from which the associated commission expense will be recorded in future periods.

Other current assets of \$509,000 at December 31, 2009, represent funding held by the Company on behalf of a single customer for whom we provide bill payment services as a component of their BPO services agreement. This asset is offset by an identical balance in other accrued liabilities.

Property and equipment, net of depreciation, was \$313,000 at December 31, 2009, a reduction from \$456,000 at December 31, 2008. Purchases of new capital equipment in 2009 totaled \$141,000, down from \$246,000 of capital equipment expenditures in 2008. In addition, the Company disposed of \$483,000 of assets through out the year, the residual book value of which totaled just under \$1,500.

At December 31, 2009 the value of software development costs capitalized and included in the Company's balance sheet was \$2,907,000, an increase of \$187,000, or 7%, from the December 31, 2008 balance of \$2,720,000. During 2009, we capitalized \$1,312,000 of software development costs and amortized \$1,126,000 of previously capitalized costs. During 2008, capitalization of software development costs totaled \$835,000, and amortization costs totaled \$1,154,000. Amortization costs are charged to cost of sales.

Pension assets, consisting of the cash surrender values of Company owned life insurance policies of \$2,996,000 at December 31, 2009, compares with a balance of \$3,161,000 a year ago. The cash surrender values and accumulated death benefits associated with the policies were established to fund the Company's current and future pension obligations, but are also available to fund current obligations of the Company, if required.

Total current liabilities of \$5,708,000 At December 31, 2009 increased \$644,000 from the December 31, 2008 balance of \$5,064,000. Of that increase, \$509,000 represents the offsetting liability to the funds held on behalf of a single BPO client referenced in the discussion of other current assets above. Accounts payable increased from \$271,000 at December 31, 2008 to \$325,000 at December 31, 2009, mainly as a result of timing involved in payments to vendors and suppliers, while accrued compensation costs of \$457,000 at December 31, 2009 remained virtually unchanged from \$466,000 one year ago. Deferred revenues, which form a portion of the embedded backlog discussed in the overview section of this report, increased from \$3,747,000 at December 31, 2008 to \$3,791,000 at December 31, 2009. The largest portion of deferred revenues consists of the unearned portion of maintenance contracts billed to customers, for services to be provided in future periods. The majority of these services will be recognized as revenues in 2009, as the maintenance obligations are performed.

**Table of Contents**

The pension liability of \$4,674,000 at December 31, 2009, decreased 7% from the December 31, 2009 liability of \$5,000,000. The cost of the Company's projected obligation will be funded through the use of Company-owned life insurance policies as described earlier in this report. The Company suspended any future growth in pension benefits during the second quarter of 2008.

Primarily due to the net loss incurred for the year, stockholders equity at December 31, 2009 declined to \$3,000, which compares with stockholders equity of \$502,000 at December 31, 2008. Total shares outstanding increased from 9,772,729 shares at the end of 2008 to 9,948,727 at the end of 2009. The change reflects 76,998 shares purchased through the Company's employee stock purchase plan and the net issuance of 99,000 restricted shares to key employees.

Management has reviewed our current liquidity position, the access to other sources of capital, and the line of credit arrangement in place, in conjunction with current expense levels, and determined that more than sufficient resources exist to fully fund operational and strategic initiatives contemplated 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, 2009.

The cash surrender values of these policies at December 31, 2009 totaled approximately \$2,996,000 and are included in the Company's consolidated balance sheets under the caption of Pension Assets.

**Table of Contents**

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,**

2010	502,059
2011	471,902
2012	477,005
2013	487,166
2014	487,166
2015-2019	2,329,859

The net present value of these projected pension obligations at December 31, 2009, totals \$5,176,130, and is included in the current and long-term liability sections of the Company's consolidated balance sheets.

**Lease Obligations** The Company leases current office facilities under an operating lease, which expires on October 31, 2010. Rent expense under this operating lease (exclusive of real estate taxes and other expenses payable under the lease) was approximately \$410,000, \$350,000, and \$346,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Minimum lease payments remaining as of December 31, 2009 under operating leases total \$342,133.

**Purchase Commitments** The Company has no purchase commitment contracts in place as of December 31, 2009.

**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 2009 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 ASC 985-605, formerly 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, and under ASC 605-25, formerly Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables, and related interpretations.

Sales of licensed software sold directly to an end user customer are recognized as revenue upon delivery and installation of the software at the customer site. Sales of licensed software to a reseller are recognized as revenue when delivery is made to the reseller. Regardless of the form of sale no revenue is recognized without persuasive evidence of an arrangement existing. Persuasive evidence is determined to be a signed purchase order received from the customer or an equivalent form for those customers lacking a formalized purchase order system. In the case of VeraSMART sales, a software license agreement signed by both parties is often required in addition to a purchase order or equivalent. Additionally, revenue is only recognized when a selling price is fixed or determinable and collectability of the receivable is deemed to be probable.





**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.

The Company capitalizes software development costs when technological feasibility has been established for the software in accordance with ASC 985-20, formerly 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.

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 December 2007, the Financial Accounting Standards Board issued Accounting Standards Codification ( ASC ) 805-10, formerly Statement of Financial Accounting Standards ( SFAS ) No. 141(R), Business Combinations . ASC 805-10 establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805-10 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of ASC 805-10 did not have a material effect on the Company s financial statements.
- 2) In December 2007, the Financial Accounting Standards Board issued ASC 810-10, formerly SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 . ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of ASC 810-10 did not have a material effect on the Company s financial statements.
- 3) In March 2008, the Financial Accounting Standards Board issued ASC 815-10, formerly ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* . ASC 815-10 requires enhanced disclosures about an entity s derivative and hedging activities. ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 815-10 did not have a material effect on the Company s financial statements.
- 4) In May 2008, the Financial Accounting Standards Board issued ASC 944, formerly SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60* ( SFAS 163 ). ASC 944 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. ASC 944 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 944 did not have a material effect on the Company s financial statements.

**Table of Contents**

- 5) In June 2008, the Financial Accounting Standards Board issued ASC 260-10, formerly FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. ASC 260-10 clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends or dividend equivalents before vesting should be considered participating securities. We have granted and expect to continue to grant restricted stock that contain non-forfeitable rights to dividends and will be considered participating securities upon adoption of ASC 260-10. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share (EPS), and we will need to calculate basic EPS using the two-class method. Restricted stock is currently included in our dilutive EPS calculation using the treasury stock method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. ASC 260-10 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 260-10 did not have a material effect on the Company's financial statements.
- 6) In December 2008, the Financial Accounting Standards Board issued ASC 715-20, formerly FASB Staff Position (FSP) SFAS 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets*, (FSP SFAS 132(R)-1). ASC 715-20 requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. ASC 715-20 is effective for fiscal years ending after December 15, 2009. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 715-10 did not have a material effect on the Company's financial statements.
- 7) In May 2009, the Financial Accounting Standards Board issued ASC 855-10, formerly SFAS No. 165, *Subsequent Events* (SFAS 165). ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of ASC 855-10 did not have a material effect on the Company's financial statements.
- 8) In June 2009, the Financial Accounting Standards Board issued ASC 105-10, formerly SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (SFAS 168). ASC 105-10 replaces Statement 162 and establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ending September 30, 2009. The adoption of ASC 105-10 did not have a material effect on the Company's financial statements.
- 9) In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05, *Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value*, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures. Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of several specific techniques. ASC 820-10 is effective upon the first reporting period, including interim periods, beginning after issuance. As such, the Company adopted these provisions

at the beginning of the interim period ending September 30, 2009. The adoption of ASC 820-10 did not have a material effect on the Company's financial statements.

**Table of Contents**

- 10) In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, which provides amendments to Topic 740, Income Taxes. This update provides additional implementation guidance. ASC 740 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ending September 30, 2009. The adoption of ASC 740 did not have a material effect on the Company's financial statements.
- 11) In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures Topic 820 - Investment in Certain Entities That Calculate Net Assets Value Per Share (or Its Equivalent)*, which provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this Update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this Update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The amendments in this Update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this Update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in U.S. GAAP on investments in debt and equity securities in paragraph 320-10-50-1B. The disclosures are required for all investments within the scope of the amendments in this Update regardless of whether the fair value of the investment is measured using the practical expedient. ASC 820-10 is effective for financial statements issued for fiscal years and interim periods ending after December 15, 2009. As such, the Company adopted these provisions at the beginning of the period ending December 31, 2009. The adoption of ASC 820-10 did not have a material effect on the Company's financial statements.

**Table of Contents**

- 12) In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB Codification Subtopic 605-25 (previously included within EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF 00-21). The consensus to EITF Issue No. 08-01, *Revenue Arrangements with Multiple Deliverables*, or EITF 08-01, provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. EITF 00-21 previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. This was difficult to determine when the product was not individually sold because of its unique features. Under EITF 00-21, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company will have to evaluate the impact of this standard on future revenue arrangements that we may enter into.

**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, 2009 and 2008 the carrying value of investments approximated fair market value. Investments at December 31, 2009 and 2008 consisted of the following:

	2009	2008
Bond Funds	\$ 34,367	\$ 278,276
US Government Securities	423,153	704,055
	\$ 457,520	\$ 982,331

**Table of Contents**

**Item 8 Index to Financial Statements and Supplementary Data**

	Page
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	28
<u>Balance sheets</u>	29 30
<u>Statements of operations</u>	31
<u>Statements of stockholders' equity</u>	32
<u>Statements of cash flows</u>	33
<u>Notes to financial statements</u>	34 52



**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

As successor by merger, effective October 1, 2009, to the registered public accounting firm Rotenberg & Co., LLP, we have audited the accompanying balance sheets of Veramark Technologies, Inc as of December 31, 2009 and 2008, and the related statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. Veramark Technologies, Inc'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 Veramark Technologies, Inc as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America.

/s/ EFP Rotenberg, LLP  
EFP Rotenberg, LLP  
Rochester, New York  
March 24, 2010

**Table of Contents****VERAMARK TECHNOLOGIES, INC.  
BALANCE SHEETS  
DECEMBER 31, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 488,381	\$ 1,014,669
Investments	457,520	982,331
Accounts receivable, trade (net of allowance for doubtful accounts of \$24,000 and \$30,000)	1,314,986	1,047,527
Inventories, net	13,510	35,055
Prepaid expenses	389,267	244,511
Other current assets	509,590	
Total current assets	3,173,254	3,324,093
PROPERTY AND EQUIPMENT:		
Cost	3,520,903	3,862,879
Less accumulated depreciation	(3,207,550)	(3,406,882)
Property and equipment, net	313,353	455,997
OTHER ASSETS:		
Software development costs (net of accumulated amortization of \$2,497,948 and \$3,332,886)	2,906,505	2,719,787
Pension assets	2,995,657	3,160,639
Deposits and other assets	995,766	905,761
Total other assets	6,897,928	6,786,187
TOTAL ASSETS	\$ 10,384,535	\$ 10,566,277

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

**Table of Contents**
**VERAMARK TECHNOLOGIES, INC.  
BALANCE SHEETS  
DECEMBER 31, 2009 AND 2008**

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 325,204	\$ 270,842
Accrued compensation and related taxes	457,332	466,150
Deferred revenue	3,790,856	3,746,488
Current portion of pension obligation	502,059	486,059
Other accrued liabilities	632,061	94,954
Total current liabilities	5,707,512	5,064,493
Long-term portion of pension obligation	4,674,071	5,000,010
Total liabilities	10,381,583	10,064,503
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, par value, \$0.10; shares authorized, 40,000,000; 10,028,952 shares and 9,852,954 shares issued	1,002,895	985,295
Additional paid-in capital	22,398,110	22,293,688
Accumulated deficit	(23,179,337)	(22,039,196)
Treasury stock (80,225 shares at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	167,041	(352,256)
Total stockholders equity	2,952	501,774
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 10,384,535</b>	<b>\$ 10,566,277</b>

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

**Table of Contents**

**VERAMARK TECHNOLOGIES, INC.**  
**STATEMENTS OF OPERATIONS**  
**YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
NET SALES			
Product Sales	\$ 1,733,216	\$ 2,657,695	\$ 2,880,818
Service Sales	8,413,064	8,016,196	9,038,034
Total Net Sales	10,146,280	10,673,891	11,918,852
COSTS AND OPERATING EXPENSES:			
Cost of sales	2,763,802	2,886,847	3,114,467
Engineering and software development	1,149,629	1,410,086	1,226,898
Selling, general and administrative	7,386,680	6,876,055	8,352,269
Total costs and operating expenses	11,300,111	11,172,988	12,693,634
LOSS FROM OPERATIONS	(1,153,831)	(499,097)	(774,782)
INTEREST INCOME	13,690	67,686	68,733
LOSS BEFORE INCOME TAXES	(1,140,141)	(431,411)	(706,049)
INCOME TAXES			
NET LOSS	\$ (1,140,141)	\$ (431,411)	\$ (706,049)
NET LOSS PER SHARE			
Basic	\$ (0.12)	\$ (0.04)	\$ (0.08)
Diluted	\$ (0.12)	\$ (0.04)	\$ (0.08)
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	9,871,065	9,560,414	8,972,412
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED)	9,871,065	9,560,414	8,972,412

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, 2009, 2008 AND 2007**

	Common Stock Shares	Par Value	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Accumulated Comprehensive Income	Total Stockholders' Equity
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
Change in other comprehensive income								
Net loss			(1,140,141)			(519,297)		(519,297)
								(1,140,141)
Total comprehensive Income (loss)								
			(1,140,141)			(519,297)		(620,844)
Stock purchase plan								
	76,998	7,700	15,505					23,205
Issuance of restricted stock								
	99,000	9,900	69,376					79,276
Compensation expenses stock options								
			19,541					19,541
BALANCE								
December 31, 2009	9,948,727	\$ 1,002,895	\$ 22,398,110	\$ (23,179,337)	\$ (385,757)	\$ 167,041	\$	2,952

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, 2009, 2008 AND 2007**

	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>OPERATING ACTIVITIES:</b>			
Net Loss	\$ (1,140,141)	\$ (431,411)	\$ (706,049)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	1,408,569	1,445,078	1,190,797
Expense (Recovery) of bad debts	(4,738)	(1,207)	1,486
Compensation expense equity grants	98,817	109,391	356,000
Loss on disposal of fixed assets	1,432	19,585	1,181
Unrealized Gain (Losses) on investments	(11,564)	22,781	16,364
Pension assets	164,982	49,565	(343,734)
Changes in assets and liabilities:			
Accounts receivable	(262,721)	256,920	138,959
Inventories	21,545	(3,291)	1,134
Prepaid expenses and other current assets	(654,346)	9,763	7,859
Deposits and other assets	(90,005)	(75,005)	(42,222)
Accounts payable	54,362	(46,285)	(31)
Accrued compensation and related taxes	(8,818)	(468,237)	253,457
Deferred revenue	44,368	377,164	52,205
Other accrued liabilities	537,107	(175,570)	(52,698)
Pension obligation	220,922	(298,590)	428,554
Net cash provided by operating activities	379,771	790,651	1,303,262
<b>INVESTING ACTIVITIES:</b>			
(Purchase) Sale of investments	524,811	509,957	(642,633)
Additions to property and equipment	(141,303)	(245,650)	(110,974)
Capitalized software development costs	(1,312,772)	(834,973)	(796,194)
Net cash used in by investing activities	(929,264)	(570,666)	(1,549,801)
<b>FINANCING ACTIVITIES:</b>			
Exercise of stock options		57,150	98,979
Employee stock purchase plan	23,205	24,192	15,518
Net cash provided by financing activities	23,205	81,342	114,497
NET CHANGE IN CASH AND CASH EQUIVALENTS	(526,288)	301,327	(132,042)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,014,669	713,342	845,384
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 488,381	\$ 1,014,669	\$ 713,342
	<b>2009</b>	<b>2008</b>	<b>2007</b>



**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash Transactions:

Income taxes paid (refund)	\$ (6,391)	\$ 13,129	\$ 562
Interest paid	\$ 1,253	\$ 3,402	\$ 1,679

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, 2009, 2008 AND 2007**

**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 ASC 320-10, formerly Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Certain Debt and Equity Securities. As of December 31, 2009 and 2008, 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, 2009 and 2008 the carrying value of investments approximated fair market value, and are classified as Level 1 Assets as defined by ASC 820-10, formerly SFAS No. 157, Fair Value Measurements. Investments at December 31, 2009 and 2008 consisted of the following:

	<b>2009</b>	<b>2008</b>
Bond Funds	\$ 34,367	\$ 278,276
US Government Securities	423,153	704,055
	<b>\$ 457,520</b>	<b>\$ 982,331</b>

The contractual maturities of the Company's investments as of December 31, 2009 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 \$24,000 at December 31, 2009 and \$30,000 at December 31, 2008. 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, 2009, four customers accounted for approximately \$433,000 of the total accounts receivable balance. As of December 31, 2008, three customers accounted for approximately \$336,000 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.

**Other Current Assets** of \$509,000 at December 31, 2009, represent funding held by the Company on behalf of a single customer for whom we provide bill payment services as a component of their BPO services agreement. This asset is offset by an identical balance in other accrued liabilities.

**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
Leasehold improvements	Term of lease or 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.

**Table of Contents**

**Long-lived assets** In accordance with ASC 360-10, formerly 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 2009, 2008, or 2007.

**Software development costs** meeting recoverability tests are capitalized, under ASC 985-20, formerly 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 \$1,312,772 of development costs in 2009, \$834,973 of development costs in 2008 and \$796,194 of development costs in 2007. The Company amortized \$1,126,054 of development costs in 2009, \$1,153,596 of development costs in 2008 and \$933,169 of development costs in 2007. 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 2009, 2008 or 2007.

**Fair Value of Financial Instruments** ASC 825-10, formerly 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. ASC 825-10 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, 2009 and 2008, the carrying value of certain financial instruments (accounts receivable and accounts payable) approximates fair value due to the short-term nature of the instruments or interest rates, which are comparable with current rates. At December 31, 2009 and 2008, the Company has no long-term debt.

On January 1, 2008, the Company adopted ASC 820-10, formerly 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 ASC 820-10 is applicable to fair value measurement where it is permitted or required under other accounting pronouncements. ASC 820-10 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, ASC 820-10 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.

**Table of Contents**

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.

**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 ASC 985-605, formerly 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, ASC 605-25, formerly Emerging Issues Task Force 00-21, Revenue Arrangements with Multiple Deliverables, and related interpretations.

Sales of licensed software sold directly to an end user customer are recognized as revenue upon delivery and installation of the software at the customer site. Sales of licensed software to a reseller are recognized as revenue when delivery is made to the reseller. Regardless of the form of sale no revenue is recognized without persuasive evidence of an arrangement existing. Persuasive evidence is determined to be a signed purchase order received from the customer or an equivalent form for those customers lacking a formalized purchase order system. In the case of VeraSMART sales, a software license agreement signed by both parties is often required in addition to a purchase order or equivalent. Additionally, revenue is only recognized when a selling price is fixed or determinable and collectability of the receivable is deemed to be probable.

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

Fees charged to customers for Post-contract Customer Support are recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred.

Sales which constitute a multiple-element arrangement are accounted for by determining if the elements can be accounted for as separate accounting units, and if so, by applying values to those units for which there is vendor specific objective evidence of their fair value. We use the residual method to apply any remaining balance to the remaining elements of the arrangement. More specifically, this methodology applies when there is embedded maintenance (post-contract customer support) involved in the sale of a software license, or when the sale of a software license is made in conjunction with installation services. In the latter case, the recognition of the software license is deferred until installation is completed.

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 ASC 740-10, formerly 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.

**Table of Contents**

**Net income (or loss) per common share** ( EPS ) is computed in accordance with the provisions of ASC 260-10, formerly 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 2009, 2008 or 2007 as the effect would have been anti-dilutive, due to the net loss incurred for those years.

**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 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, 2009, 2008, and 2007, research and development costs expensed were \$1,149,629, \$1,410,086, and \$1,226,898, 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, 2009 the company issued 40,000 stock options, and 107,000 new restricted shares. During 2009, 8,000 restricted shares, granted previously, were cancelled. The Company records its stock-based compensation expense in accordance with ASC 718-10, formerly 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.

	2009		2008	
	low	high	low	high
Risk Free Rate*	1.9%	2.3%	2.5%	3.4%
Volatility	142%	152%	114%	130%
Dividend Yield	none		none	
Expected Life In Years	4		4	

\* 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, 2009 is presented below:

	Shares	Average Exercise Price	Average Grant-Date Fair Value	Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2008	1,899,583	\$ 1.28	\$ 1.07	4.7	\$ 344,300
Granted	40,000	0.40			
Exercised					
Canceled	(198,790)	4.11			(142,674)
Outstanding as of December 31, 2009	1,740,793	\$ 0.94	\$ 0.84	4.2	\$ 201,626
Options exercisable at December 31, 2009	1,618,043	\$ 0.97	\$ 0.87	3.8	\$ 201,626

As of December 31, 2009, there was \$40,150 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 1.25 years. As of December 31, 2009, there was \$129,791 of unrecognized compensation cost related to restricted stock, the cost of which is expected to be recognized over a weighted-average period of 0.9 years.

**Accounting Pronouncements**

- 1) In December 2007, the Financial Accounting Standards Board issued Accounting Standards Codification (ASC) 805-10, formerly Statement of Financial Accounting Standards (SFAS) No. 141(R), Business Combinations. ASC 805-10 establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. ASC 805-10 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of ASC 805-10 did not have a material effect on the Company's financial statements.

**Table of Contents**

- 2) In December 2007, the Financial Accounting Standards Board issued ASC 810-10, formerly SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, an amendment of ARB No. 51. ASC 810-10 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. As such, the Company adopted these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of ASC 810-10 did not have a material effect on the Company's financial statements.
- 3) In March 2008, the Financial Accounting Standards Board issued ASC 815-10, formerly ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. ASC 815-10 requires enhanced disclosures about an entity's derivative and hedging activities. ASC 815-10 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008 with early application encouraged. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 815-10 did not have a material effect on the Company's financial statements.
- 4) In May 2008, the Financial Accounting Standards Board issued ASC 944, formerly SFAS No. 163, *Accounting for Financial Guarantee Insurance Contracts an interpretation of FASB Statement No. 60* ( SFAS 163 ). ASC 944 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. ASC 944 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 944 did not have a material effect on the Company's financial statements.
- 5) In June 2008, the Financial Accounting Standards Board issued ASC 260-10, formerly FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*. ASC 260-10 clarifies that share-based payment awards that entitle their holders to receive non-forfeitable dividends or dividend equivalents before vesting should be considered participating securities. We have granted and expect to continue to grant restricted stock that contain non-forfeitable rights to dividends and will be considered participating securities upon adoption of ASC 260-10. As participating securities, we will be required to include these instruments in the calculation of our basic earnings per share ( EPS ), and we will need to calculate basic EPS using the two-class method. Restricted stock is currently included in our dilutive EPS calculation using the treasury stock method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. ASC 260-10 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 260-10 did not have a material effect on the Company's financial statements.



**Table of Contents**

- 6) In December 2008, the Financial Accounting Standards Board issued ASC 715-20, formerly FASB Staff Position (FSP) SFAS 132(R)-1, *Employer's Disclosures about Postretirement Benefit Plan Assets*, ( FSP SFAS 132(R)-1 ). ASC 715-20 requires additional disclosures about assets held in an employer's defined benefit pension or other postretirement plan. ASC 715-20 is effective for fiscal years ending after December 15, 2009. As such, the Company adopted these provisions at the beginning of the fiscal year ended December 31, 2009. Adoption of ASC 715-10 did not have a material effect on the Company's financial statements.
- 7) In May 2009, the Financial Accounting Standards Board issued ASC 855-10, formerly SFAS No. 165, *Subsequent Events* ( SFAS 165 ). ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009. Adoption of ASC 855-10 did not have a material effect on the Company's financial statements.
- 8) In June 2009, the Financial Accounting Standards Board issued ASC 105-10, formerly SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ( SFAS 168 ). ASC 105-10 replaces Statement 162 and establishes the FASB Accounting Standards Codification™ (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ending September 30, 2009. The adoption of ASC 105-10 did not have a material effect on the Company's financial statements.
- 9) In August 2009, the FASB issued the FASB Accounting Standards Update No. 2009-05, *Fair Value Measurement and Disclosures Topic 820 – Measuring Liabilities at Fair Value*, which provides amendments to subtopic 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. This Update provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more of several specific techniques. ASC 820-10 is effective upon the first reporting period, including interim periods, beginning after issuance. As such, the Company adopted these provisions at the beginning of the interim period ending September 30, 2009. The adoption of ASC 820-10 did not have a material effect on the Company's financial statements.
- 10) In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-06, *Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, which provides amendments to Topic 740, Income Taxes. This update provides additional implementation guidance. ASC 740 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ending September 30, 2009. The adoption of ASC 740 did not have a material effect on the Company's financial statements.

**Table of Contents**

- 11) In September 2009, the FASB issued the FASB Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures Topic 820 – Investment in Certain Entities That Calculate Net Assets Value Per Share (or Its Equivalent)*, which provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures-Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this Update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this Update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820. The amendments in this Update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this Update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments (for example, a contractual commitment by the investor to invest a specified amount of additional capital at a future date to fund investments that will be made by the investee), and the investment strategies of the investees. The major category of investment is required to be determined on the basis of the nature and risks of the investment in a manner consistent with the guidance for major security types in U.S. GAAP on investments in debt and equity securities in paragraph 320-10-50-1B. The disclosures are required for all investments within the scope of the amendments in this Update regardless of whether the fair value of the investment is measured using the practical expedient. ASC 820-10 is effective for financial statements issued for fiscal years and interim periods ending after December 15, 2009. As such, the Company adopted these provisions at the beginning of the period ending December 31, 2009. The adoption of ASC 820-10 did not have a material effect on the Company's financial statements.
- 12) In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements*, which amends existing revenue recognition accounting pronouncements that are currently within the scope of FASB Codification Subtopic 605-25 (previously included within EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables*, or EITF 00-21). The consensus to EITF Issue No. 08-01, *Revenue Arrangements with Multiple Deliverables*, or EITF 08-01, provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. EITF 00-21 previously required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. This was difficult to determine when the product was not individually sold because of its unique features. Under EITF 00-21, if the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company will have to evaluate the impact of this standard on future revenue arrangements that we may enter into.
- 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 30<sup>th</sup> and December 31<sup>st</sup>. 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 76,998 shares at an average purchase price of \$0.30 in 2009, 94,861 shares at an average purchase price of \$0.26 in 2008 and 23,917 shares at an average purchase price of \$0.65 in 2007.

**Table of Contents****2. PROPERTY AND EQUIPMENT**

The major classifications of property and equipment as of December 31, 2009 and 2008 are:

	<b>2009</b>	<b>2008</b>
Machinery and equipment	\$ 117,541	\$ 128,390
Computer hardware and software	1,164,431	1,224,343
Furniture and fixtures	853,134	1,124,349
Leasehold improvements	1,385,797	1,385,797
	<b>\$ 3,520,903</b>	<b>\$ 3,862,879</b>

Depreciation expense was approximately \$283,000, \$291,000 and \$258,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

**3. ENGINEERING AND SOFTWARE DEVELOPMENT EXPENDITURES**

Engineering and software development costs incurred during the years ended December 31, 2009, 2008 and 2007 were recorded as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Engineering and software development expenses included in the statements of operations	\$ 1,149,629	\$ 1,410,086	\$ 1,226,898
Amounts capitalized and included in the balance sheets	1,312,772	834,973	796,194
Total costs for engineering and software development	<b>\$ 2,462,401</b>	<b>\$ 2,245,059</b>	<b>\$ 2,023,092</b>

Additionally, the Company recorded amortization of capitalized software development costs of approximately \$1,126,000, \$1,154,000 and \$933,000 for the years ended December 31, 2009, 2008 and 2007, 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:

2010	1,031,469
2011	764,692
2012	465,164
2013	381,580
2014	263,600

**Table of Contents****4. COMPREHENSIVE LOSS**

Comprehensive loss for years ended December 31, 2009, 2008 and 2007 was as follows:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Net loss	\$ (1,140,141)	\$ (431,411)	\$ (706,049)
Adjustments for FASB No. 158			
Reclassification to net periodic benefit cost		286,128	62,832
Unrealized gain (loss) arising during the period	530,861	(558,256)	144,989
Unrealized gain (loss) on investments	(11,564)	22,781	16,364
Comprehensive loss	\$ (620,844)	\$ (680,758)	\$ (481,864)

Accumulated comprehensive income (loss) consisted of the following as of December 31, 2009, 2008 and 2007:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Unrecognized prior service cost			\$ (286,128)
Unrecognized actuarial gain	117,594	(413,267)	144,989
Unrealized gain on investments	49,447	61,011	38,230
Total	\$ 167,041	\$ (352,256)	\$ (102,909)

Unrecognized gain of \$117,594 is expected to be recognized in the periodic benefit cost in 2010.

**5. NET LOSS PER SHARE (EPS)**

ASC 260-10 (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**

	<b>Year Ended December 31,</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Basic</b>			
Net Loss	\$ (1,140,141)	\$ (431,411)	\$ (706,049)
Weighted average common shares outstanding	9,871,065	9,560,414	8,972,412
Net loss per common share	\$ (0.12)	\$ (0.04)	\$ (0.08)
<b>Diluted</b>			
Net Loss	\$ (1,140,141)	\$ (431,411)	\$ (706,049)
Weighted average common shares outstanding	9,871,065	9,560,414	8,972,412
Additional dilutive effect of stock options & warrants after application of treasury stock method			
Weighted average dilutive shares outstanding	9,871,065	9,560,414	8,972,412
Net Loss per common share assuming dilution	\$ (0.12)	\$ (0.04)	\$ (0.08)

There were no dilutive effects of stock options and warrants in 2009, 2008 or 2007, 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, 2009, 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.

**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 \$30,000 to employee's 401K plans in 2010. The Company's contribution to employee's 401k plans was \$25,000 in 2009.

**Table of Contents**

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, 2009 and 2008 changes to the benefit obligation consisted of the following:

	<b>2009</b>	<b>2008</b>
Benefit obligation-beginning of year	\$ 5,486,069	\$ 5,512,531
Current service cost-benefits earned during the period		24,011
Interest cost on projected benefit obligation	301,733	317,566
Unrealized loss (gain)	(117,594)	413,267
Curtailements		(347,589)
Benefits paid	(494,078)	(433,717)
Benefit obligation-end of year	\$ 5,176,130	\$ 5,486,069

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

	<b>2009</b>	<b>2008</b>
Actuarial present value of projected benefit obligation	\$ 5,176,130	\$ 5,486,069
Plan assets		
Projected benefit obligation in excess of plan assets	\$ 5,176,130	\$ 5,486,069

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.5% in 2009 and 2008 and 6% for 2007. The rate of increase in future compensation levels used in determining the projected benefit obligation ranged from 0% to 3% for 2009, 2008, and 2007.

Pension expense for the years ended December 31, 2009, 2008 and 2007 consisted of the following.

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Current service cost	\$	\$ 24,011	\$ 262,073
Amortization of prior service cost		286,128	88,490
Amortization of gain	413,267	(492,579)	(25,658)
Interest costs	301,733	317,566	307,416
Total pension expense	\$ 715,000	\$ 135,126	\$ 632,321

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 \$2,996,000 at December 31, 2009. The accumulated cash surrender values of these policies at December 31, 2008, was approximately \$3,161,000. 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.



**Table of Contents**

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,**

2010	502,059
2011	471,925
2012	477,005
2013	487,166
2014	487,166
2015-2018	2,329,859

**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, 2009, 1,225,553 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, 2009, 2008 and 2007 is shown below:

	2009		2008		2007	
	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE
Shares under option, beginning of year	1,899,583	\$ 1.28	2,257,943	\$ 1.60	2,790,278	\$ 2.35
Options granted	40,000	0.40	145,500	0.63	632,485	0.79
Options exercised			(119,000)	0.48	(210,150)	0.47
Options terminated	(198,790)	4.11	(384,860)	3.14	(954,670)	3.51
Shares under option, end of year	1,740,793	\$ 0.94	1,899,583	\$ 1.28	2,257,943	\$ 1.60
Shares exercisable	1,618,043	\$ 0.97	1,766,083	\$ 1.33	2,120,158	\$ 1.64
Weighted average fair market value of options granted	\$ 0.34		\$ 0.51		\$ 0.69	
Exercise price of options outstanding	\$ 0.20-\$10.41		\$ 0.20-\$10.41		\$ 0.28-\$10.41	

The following table summarizes information relating to currently outstanding and exercisable stock options as of December 31, 2009:

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	5	1,458,843	\$ 0.60	1,336,093	\$ 0.61
\$1.50 \$4.99	1	267,000	2.24	267,000	2.24
\$5.00 \$10.41	0	14,950	10.14	14,950	10.14
	4	1,740,793	\$ 0.94	1,618,043	\$ 0.97

**9. SALES INFORMATION**

Sales to five customers were approximately \$3,015,000 or 30% of the Company's total sales in 2009. Sales to five customers were approximately \$3,457,000 or 32% of the Company's total sales in 2008 and \$3,562,000 or 30% of the Company's total sales in 2007.



**Table of Contents****10. INCOME TAXES**

The income tax provision includes the following:

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Current income tax expense:			
Federal	\$	\$	\$
State			
	\$	\$	\$
Deferred income tax provision (benefit):			
Federal	\$ (419,646)	\$ 33,561	\$ (282,354)
State	(67,726)	(11,636)	(20,210)
Change in valuation allowance	487,372	(21,925)	302,564
	\$	\$	\$

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>
Tax benefit at statutory federal rate	\$ (387,648)	\$ (146,680)	\$ (247,443)
State taxes, net of federal tax benefit	(69,766)	(3,720)	(18,850)
Increase (decrease) in valuation allowance	487,372	(21,925)	302,564
Other	1	311	(5,874)
Nondeductible expenses	23,477	13,584	2,017
Deferred tax adjustment-net operating loss		(8,119)	491
Deferred tax adjustment-general business credits	(53,436)	166,549	(32,905)
	\$	\$	\$

**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:

	<b>2009</b>	<b>2008</b>
General business credits	\$ 1,504,631	\$ 1,452,062
Net operating losses	4,150,714	3,877,944
Deferred compensation	2,391,914	2,289,360
Stock options	208,757	172,195
Alternative minimum tax credits	328,021	327,154
Inventory	263	263
Accounts receivable	8,880	11,100
Capitalized software	(441,424)	(1,006,321)
Fixed assets	156,612	318,659
Other	95,493	72,726
New York State ITC	92,855	92,855
	8,496,716	7,607,997
Valuation allowance	8,496,716	(7,607,997)
Net deferred asset (liability)	\$	\$

The Company has \$11,218,147 of net operating loss carryforwards available as of December 31, 2009. 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 \$487,372 during the year ended December 31, 2009.

The Company's tax credit carry forwards as of December 31, 2009 are as follows:

<b>Description</b>	<b>Amount</b>	<b>Expiration Dates</b>
General business credits	1,504,631	2009 2027
New York State investment tax credits	92,855	2009 2023
Alternative minimum tax credits	328,021	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 (received) for income taxes during the years ended December 31, 2009, 2008 and 2007 totaled \$(6,391), \$13,129 and \$562 respectively.



**Table of Contents**

**11. COMMITMENTS AND CONTINGENCIES**

***Lease Obligations*** The Company leases office facilities under a lease which expires October 31, 2010. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately \$410,000, \$350,000, and \$346,000 for the years ended December 31, 2009, 2008 and 2007, respectively. The current term of the Company's lease on its Pittsford facility expires October 31, 2010. Minimum lease payments for the remainder of the current lease total \$342,133.

***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, 2009 and 2008 is as follows:

	<b>Three Months Ended</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
<b>2009</b>				
Net sales	\$ 2,522,679	\$ 2,479,390	\$ 2,510,515	\$ 2,633,696
Gross profit	\$ 1,878,460	\$ 1,801,739	\$ 1,790,303	\$ 1,911,976
Net income (loss)	\$ (180,119)	\$ (541,932)	\$ (350,325)	\$ (67,765)
Net income (loss) per common share				
- Basic	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.01)
- Diluted	\$ (0.02)	\$ (0.05)	\$ (0.04)	\$ (0.01)
<b>2008</b>				
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



**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, 2009.

**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 20, 2010, 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 and Directors of the Company as of the date of this report, all persons chosen to become executive officers, all persons nominated or chosen to become directors, all positions and offices with the Company held by such persons and the business experience during the past five years of such persons.

## MANAGEMENT

Directors and Executive Officers of the Registrant

Name	Age	Position
Seth J. Collins	43	Director
Charles A. Constantino	70	Director
John E. Gould	65	Director
Anthony C. Mazzullo	52	President and Chief Executive Officer, Chairman of the Board
Ronald C. Lundy	58	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.

**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).

**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 States 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.

**Table of Contents**

**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. On October 1, 2009, Mr. Gould retired from Thompson Hine, LLP and joined the firm's long-time client, CH Energy Group, Inc., as Executive Vice President and General Counsel. Mr. Gould is also Chairman of the American Geographical Society and a Director of the Gerber Life Insurance Company.

**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 20, 2010. 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 20, 2010, 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 20, 2010, 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 20, 2010, 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 20, 2010, 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)



**Table of Contents**

10.9*	2008 Incentive Plan for Management and Key Employees (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 2, 2008)
10.10*	2008 Employee Stock Purchase Plan (incorporated by reference to Exhibit F to the Company's Proxy Statement for its 2008 Annual Meeting of Shareholders filed on April 29, 2008)
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 24, 2010

/s/ Ronald C. Lundy  
Ronald C. Lundy, Vice President of Finance and  
CFO  
Dated: March 24, 2010

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 John E. Gould	Director	March 24, 2010
/s/ Seth J. Collins Seth J. Collins	Director	March 24, 2010
/s/ Charles A. Constantino Charles A. Constantino	Director	March 24, 2010