

VERAMARK TECHNOLOGIES INC

Form 10-Q

May 13, 2011

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**FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934
or

Transition Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For Quarter Ended March 31, 2011
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)

1565 Jefferson Road, Suite 120 Rochester, NY 14623

(Address of principal executive offices)(Zip Code)

(585) 381-6000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark 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 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 number of shares of Common Stock, \$.10 par value, outstanding on March 31, 2011 was 10,058,037.

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PART I FINANCIAL INFORMATION
VERAMARK TECHNOLOGIES, INC.
CONDENSED BALANCE SHEETS

| | (Unaudited) March 31, 2011 | December 31, 2010 |
|--|---|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 878,467 | \$ 1,236,375 |
| Investments | 241,492 | 265,962 |
| Accounts receivable, trade (net of allowance for doubtful accounts of \$33,000 for both periods) | 1,979,562 | 1,911,693 |
| Prepaid expenses | 335,883 | 294,090 |
| Other current assets | 678,200 | 290,762 |
| Total Current Assets | 4,113,604 | 3,998,882 |
| PROPERTY AND EQUIPMENT | | |
| Cost | 2,558,495 | 2,512,162 |
| Less accumulated depreciation | (1,941,375) | (1,909,965) |
| Property and Equipment (net) | 617,120 | 602,197 |
| OTHER ASSETS: | | |
| Software development costs (net of accumulated amortization of \$2,480,084 and \$2,245,268) | 2,887,111 | 2,961,617 |
| Pension assets | 3,111,741 | 3,107,952 |
| Intangibles, net | 743,750 | 804,000 |
| Goodwill | 336,219 | 336,219 |
| Deposits and other assets | 1,062,152 | 1,062,152 |
| Total Other Assets | 8,140,973 | 8,271,940 |
| TOTAL ASSETS | \$ 12,871,697 | \$ 12,873,019 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 392,829 | \$ 360,382 |
| Accrued compensation | 559,959 | 667,062 |
| Deferred revenue | 4,383,409 | 4,250,933 |
| Current portion of pension obligation | 502,059 | 502,059 |
| Contingent liability | 618,100 | 899,400 |
| Short term debt | 66,667 | 246,667 |
| Other accrued liabilities | 773,832 | 415,459 |
| Total Current Liabilities | 7,296,855 | 7,341,962 |
| Long-Term debt | 213,081 | 174,555 |

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| | | |
|--|---------------|---------------|
| Long-Term portion of pension obligation | 4,849,243 | 4,914,757 |
| Total Liabilities | 12,359,179 | 12,431,274 |
| STOCKHOLDERS EQUITY: | | |
| Common Stock, par value \$.10; shares authorized, 40,000,000; 10,138,262 shares and 10,190,595 shares issued | 1,013,826 | 1,019,059 |
| Additional paid-in capital | 22,689,293 | 22,661,405 |
| Accumulated deficit | (22,515,478) | (22,568,440) |
| Treasury stock (80,225 shares, at cost) | (385,757) | (385,757) |
| Accumulated other comprehensive income | (289,366) | (284,522) |
| Total Stockholders Equity | 512,518 | 441,745 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 12,871,697 | \$ 12,873,019 |

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

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

| | Three Months Ended | |
|--------------------------------------|---------------------------|-------------|
| | March 31, | |
| | 2011 | 2010 |
| NET REVENUES | | |
| Product revenues | \$ 374,571 | \$ 532,406 |
| Service revenues | 3,011,752 | 2,249,323 |
| Total Net Revenues | 3,386,323 | 2,781,729 |
| COSTS AND OPERATING EXPENSES: | | |
| Cost of revenues | 1,081,613 | 736,058 |
| Engineering and software development | 307,627 | 320,039 |
| Selling, general and administrative | 1,964,193 | 1,676,344 |
| Total Costs and Operating Expenses | 3,353,433 | 2,732,441 |
| INCOME FROM OPERATIONS | 32,890 | 49,288 |
| NET INTEREST INCOME | 20,072 | 17,223 |
| INCOME BEFORE TAXES | 52,962 | 66,511 |
| INCOME TAXES | | |
| NET INCOME | \$ 52,962 | \$ 66,511 |
| NET INCOME PER SHARE | | |
| Basic | \$ 0.01 | \$ 0.01 |
| Diluted | \$ 0.01 | \$ 0.01 |

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

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

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2011 | 2010 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 52,962 | \$ 66,511 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 367,318 | 371,611 |
| Increase in bad debt reserve | | 1,000 |
| Change in acquisition liabilities | 18,700 | |
| Compensation expense equity grants | 22,015 | 30,255 |
| Loss on disposal of fixed assets | | 140 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (67,869) | (64,566) |
| Prepaid expenses and other current assets | (429,231) | 72,311 |
| Pension assets | (3,789) | (20,120) |
| Deposits and other assets | | (42,222) |
| Accounts payable | 32,447 | 28,804 |
| Accrued compensation | (107,103) | 49,370 |
| Deferred revenue | 132,476 | 217,586 |
| Other accrued liabilities | 358,373 | (127,905) |
| Prepaid rent liability | 55,193 | |
| Pension obligation | (65,514) | (63,016) |
| Net cash provided by operating activities | 365,978 | 519,759 |
| INVESTING ACTIVITIES: | | |
| Acquisition cash paid | (300,000) | |
| Sale of investments | 19,626 | 23,010 |
| Additions to property and equipment | (68,109) | (126,937) |
| Capitalized software development costs | (179,376) | (302,811) |
| Net cash flows used by investing activities | (527,859) | (406,738) |
| FINANCING ACTIVITY: | | |
| Borrowing (repayment) line of credit | (180,000) | |
| Bank borrowing repayment of term loan | (16,667) | |
| Exercise of stock options | 640 | |
| Net cash provided (used) by financing activities | (196,027) | |
| Net change in cash and cash equivalents | (357,908) | 113,021 |
| Cash and cash equivalents, beginning of year | 1,236,375 | 488,381 |
| Cash and cash equivalents, end of quarter | \$ 878,467 | \$ 601,402 |

| | 2011 | 2010 |
|---|-------------|-------------|
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash Transactions: | | |
| Income taxes paid | \$ 800 | \$ 250 |
| Interest paid | \$ 3,309 | \$ 488 |

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

Table of Contents**NOTES TO CONDENSED FINANCIAL STATEMENTS**

(Unaudited)

(1) GENERAL

The accompanying unaudited financial statements include all adjustments of a normal and recurring nature which, in the opinion of Company's management, are necessary to present fairly the Company's financial position as of March 31, 2011, the results of its operations for the three months ended March 31, 2011 and 2010, and cash flows for the three months ended March 31, 2011 and 2010.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These condensed financial statements should be read in conjunction with the financial statements and related notes contained in the Company's Annual Report on Form 10-K to the Securities and Exchange Commission for the year ended December 31, 2010.

The results of operations and cash flows for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the full year's operation.

(2) PROPERTY AND EQUIPMENT

The major classifications of property and equipment at March 31, 2011, and December 31, 2010 were:

| | March 31, 2011 | December 31, 2010 |
|--------------------------------|---------------------------|------------------------------|
| Machinery and equipment | \$ 117,541 | \$ 117,541 |
| Computer hardware and software | 1,258,473 | 1,216,120 |
| Furniture and fixtures | 1,182,481 | 1,178,501 |
| | \$ 2,558,495 | \$ 2,512,162 |

For the quarter ended March 31, 2011 and March 31, 2010, the Company recorded depreciation expense of \$53,186 and \$51,672, respectively.

(3) STOCK-BASED COMPENSATION

The Company's share-based compensation consists of restricted stock and stock options, vesting over periods ranging from one to four years. For the quarter ended March 31, 2011, the company awarded 169,375 stock options vesting over four years. During the first quarter of 2010 the Company awarded 3,000 stock options vesting over four years.

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A summary of the status of the Company's stock option plan as of March 31, 2011 is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Grant-Date Fair Value | Average Remaining Contractual Term (Yrs) | Intrinsic Value |
|--|-----------|--|---|---|--------------------|
| Outstanding as of December 31, 2010 | 1,557,768 | \$ 0.62 | \$ 0.58 | 4.1 | \$ 79,154 |
| Granted | 169,375 | 0.69 | 0.67 | | 0 |
| Exercised | (1,000) | 0.64 | | | (110) |
| Canceled | (32,500) | 0.60 | | | (2,348) |
| Outstanding as of March 31, 2011 | 1,693,643 | \$ 0.63 | \$ 0.59 | 4.4 | \$ 76,696 |
| Options exercisable at March 31, 2011 | 1,411,018 | \$ 0.63 | \$ 0.59 | 3.5 | \$ 76,696 |

As of March 31, 2011, there was \$110,843 of total unrecognized compensation cost related to non-vested stock options granted under the Plan and \$38,768 of unrecognized compensation cost related to non-vested restricted stock grants. The compensation cost for stock options will be recognized over a weighted-average period of 1.5 years. The compensation costs of restricted stock will be recognized over a weighted-average period of 1.0 years.

(4) COMPREHENSIVE INCOME

Total comprehensive income for the first quarter of 2011 and 2010 was as follows:

| | Three Months Ended March 31, | |
|-------------------------------|---|-------------|
| | 2011 | 2010 |
| Net income | \$ 52,962 | \$ 66,511 |
| Unrealized change pension | | (29,400) |
| Unrealized change investments | (4,844) | (13,547) |
| Total comprehensive income | \$ 48,118 | \$ 23,564 |

(5) NET INCOME (LOSS) PER SHARE (EPS)

ASC 260-10 (SFAS 128) Earnings Per Share requires the Company to calculate net income (loss) per share based on basic and diluted net income (loss) per share, as defined. Basic EPS excludes dilution and is computed by dividing net income (loss) by the weighted average number of shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The dilutive effect of outstanding options issued by the Company are reflected in diluted EPS using the treasury stock method. Under the treasury stock method, options will only have a dilutive effect when the average market price of common stock during the period exceeds the exercise price of the options.

Table of Contents**Calculations of Earnings Per Share**

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| Basic | | |
| Net income | \$ 52,962 | \$ 66,511 |
| Weighted average common shares outstanding | 10,092,860 | 9,828,727 |
| Net income per common share | \$ 0.01 | \$ 0.01 |
| Diluted | | |
| Net income | \$ 52,962 | \$ 66,511 |
| Weighted average common shares outstanding | 10,092,860 | 9,828,727 |
| Additional dilutive effect of stock options and warrants after application of treasury stock method | 346,280 | 18,850 |
| Weighted average dilutive shares outstanding | 10,439,140 | 9,847,577 |
| Net income per common share assuming full dilution | \$ 0.01 | \$ 0.01 |

(6) INDEMNIFICATION OF CUSTOMERS

Our agreements with customers generally require us to indemnify the customer against claims that our software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including our right to replace an infringing product. As of March 31, 2011 we had not experienced any material losses related to these indemnification obligations and no material claims with respect thereto were outstanding. We do not expect significant claims related to these indemnification obligations, and consequently, we have not established any related reserves.

(7) BENEFIT PLANS

The Company sponsors an employee incentive savings plan under Section 401(k) for all eligible employees. The Company's contributions to the plan are discretionary. During the first quarter of 2011 the Company contributed \$26,589 to employee's 401(k) accounts. During the first quarter of 2010 the Company's contribution to employee 401(k) accounts totaled \$24,644.

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The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a non-qualified plan that provides certain key employees defined pension benefits. Periodic pension expense for the three months ended March 31, 2011 and 2010 consists of the following:

| | Three Months Ended March | |
|---------------------------|---------------------------------|-------------|
| | 2011 | 2010 |
| Interest Cost | \$ 60,000 | \$ 91,899 |
| Unrealized Actuarial Gain | | (29,400) |
| Pension Expense | \$ 60,000 | \$ 62,499 |

The Company paid pension obligations of \$125,515 for both the three months ended March 31, 2011 and March 31, 2010.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 5.0% for the three months ended March 31, 2011 and 5.5% for the three months ended March 31, 2010.

The Company maintains life insurance covering certain current and former employees under its Supplemental Executive Retirement Program with the Company named as beneficiary. The Company intends to use the death benefits of these policies, as well as loans against the accumulating cash surrender value of the policies, to fund future pension obligations. The total death benefit associated with these policies is \$10.2 million, with an associated accumulated cash surrender value of approximately \$3,112,000 at March 31, 2011. The accumulated cash surrender values of these policies at December 31, 2010 was approximately \$3,108,000.

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

Period Ending December 31, Unless Stated Otherwise,

| | |
|--------------|-----------|
| Q2 - Q4 2011 | 376,544 |
| 2012 | 507,139 |
| 2013 | 517,300 |
| 2014 | 419,166 |
| 2015 | 377,566 |
| 2016 - 2020 | 2,194,441 |

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The Company has a contractual obligation to maintain certain health benefits for two of its former executive officers. These benefits are accounted for as Post Retirement Healthcare Benefits, (PRHB). Periodic PRHB expensed and paid for the three months ended March 31, 2011 and 2010 consists of the following:

| | Three Months Ended March 31, | |
|----------------------|---|-------------|
| | 2011 | 2010 |
| Current Service Cost | \$ 2,253 | \$ 2,125 |
| Interest Cost | 1,159 | 1,287 |
| | | |
| PRHB Expense | \$ 3,412 | \$ 3,412 |

The projected PRHB paid or expected to be paid are as follows:

Period Ending December 31, Unless Stated Otherwise,

| | |
|--------------|--------|
| Q2 - Q4 2011 | 10,237 |
| 2012 | 13,649 |
| 2013 | 13,649 |
| 2014 | 10,149 |
| 2015 | 6,649 |
| 2016 - 2020 | 33,245 |

8. ACQUISITION

On June 18, 2010 we acquired the enterprise telecom expense management (TEM) consulting business of privately held Source Loop, LLC, based in Alpharetta, Georgia. The aggregate purchase price paid for those assets was up to \$1.5 million, plus the issuance of up to 500,000 shares of Veramark's common stock. At closing, \$300,000 in cash was paid and 100,000 shares of Veramark common stock issued to the principals of Source Loop. In addition, Source Loop retained \$300,000 in accounts receivable and cash on hand prior to the acquisition date, leaving contingent consideration of \$900,000 and 400,000 shares of Veramark common stock that could be earned, subject to attaining certain revenue and employee retention parameters through December 31, 2011. Subsequent to closing we have paid the Principals of Source Loop \$300,000 and issued 100,000 shares of common stock reflecting the attainment of 100% of the performance targets for 2010.

As of March 31, 2011, based on management's projections of actual performance against targets contained in the asset purchase agreement for 2011, the estimated remaining contingent liability is \$618,000 in cash and common stock. Under the purchase method of accounting, the remaining contingent stock consideration (300,000 shares) is treated as a financial derivative, and recorded as a liability, as it does not have a fixed settlement provision. This liability will vary in a mark-to-market fashion with the value of the Company's stock, until the settlement amount is known. Increases in the Company's stock price will result in an accounting expense, and any decrease in the Company's stock price will be recorded as income.

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The unaudited financial information in the table below summarizes the combined results of operations on a pro-forma basis, as if we had acquired Source Loop on January 1, 2010.

| Unaudited (In 000s) | Three Months Ended March 31, | |
|---------------------|---------------------------------|----------|
| | 2011 | 2010 |
| Revenue | \$ 3,386 | \$ 3,181 |
| Income | \$ 53 | \$ 43 |
| Earnings Per Share | \$ 0.01 | \$ 0.00 |

9. INTANGIBLE ASSETS AND GOODWILL

Under the purchase method of accounting, we allocated the fair value of the total consideration expected to be transferred, to the tangible and identifiable intangible assets acquired from Source Loop based on their estimated fair values on the date of acquisition. The fair values assigned to the identifiable intangible assets were based on estimates and assumptions determined by management. The table below summarizes the fair values assigned by asset class at the time of acquisition, and the subsequent amortization through March 31, 2011 of those intangible assets.

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Amortization of Intangible Assets Acquired in Source Loop Acquisition
(In 000s except weighted ave life in years)

| Intangible Asset Class | Weighted Avg Life Years | FMV at Acquisition Date | Current Year Amortization | Accumulated Amortization at 3/31/11 | Net Value by Asset Class at 3/31/11 |
|----------------------------------|--|--|--|--|--|
| Customer Contracts | 3 | \$ 526 | \$ 28 | \$ 106 | \$ 420 |
| Customer Relationships | 3 | 260 | 18 | 68 | 192 |
| Key Employee Agreements | 1 | 177 | 12 | 62 | 115 |
| Other | 1 | 30 | 2 | 13 | 17 |
| Sub-Total Intangibles | | | | | |
| Subject to Amoritization | 3 | 993 | \$ 60 | \$ 249 | \$ 744 |
| Goodwill | | 336 | | | |
| Total Intangible Assets Acquired | | \$ 1,329 | | | |

Expected Future Amoritization

| Intangible Asset Class | Q2 - Q4 | 2012 | 2013 | 2014 | 2015 |
|-------------------------------|----------------|-------------|-------------|-------------|-------------|
| Customer Contracts | \$ 84 | \$ 88 | \$ 67 | \$ 60 | \$ 51 |
| Customer Relationships | 55 | 42 | 31 | 25 | 19 |
| Key Employee Agreements | 34 | 42 | 39 | | |
| Other | 8 | 5 | 3 | 1 | |
| Sub-Total Intangibles | | | | | |
| Subject to Amoritization | \$ 181 | \$ 177 | \$ 140 | \$ 86 | \$ 70 |

Goodwill represents the excess of the purchase price paid over the fair value of assets acquired. Goodwill is not amortized and is subject to an impairment test conducted on a semi-annual basis in June and December of each year, or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. Through March 2011, there has been no impairment of goodwill associated with the Source Loop acquisition.

10. COMMITMENTS AND CONTINGENCIES

On October 4, 2010, the Company was served with a complaint in an action brought by Asentinel LLC, against the Company. AnchorPoint, a division of MTS, and CASS Information Systems, were also served with the same complaint. The complaint alleges infringement of two telecom expense management (TEM) patents held by Asentinel concerning systems and methods for identifying and processing billing exceptions in telecommunications invoices. The Company has challenged the allegations made in the complaint. The litigation is still in the discovery stage at this time, and it is not possible to determine the ultimate resolution of, or estimate the liability, if any, related to this matter. The Company's policy is to expense legal costs as incurred, and no provision for losses has been provided in connection with this litigation.

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11. 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. This agreement was amended in October 2010 increasing the amount available under the agreement from \$400,000 to \$750,000. At March 31, 2011, the Company did not have any outstanding balance under this Agreement.

The material terms of the Agreement include:

The maximum outstanding principal balance under the Agreement is Seven Hundred Fifty Thousand Dollars (\$750,000).

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 LIBOR rate plus 3.5% with a minimum rate of 4.0%.

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

12. TERM NOTE AGREEMENT

On October 29, 2010 the Company entered into an agreement with Manufacturers and Traders Trust Company to provide a three year term note in the amount of \$200,000, the proceeds of which were used to purchase furnishings and fixtures for the Company s new headquarters facility. The loan bears an interest rate of LIBOR plus 4.0%, with a minimum interest rate of 4.5%. At March 31, 2011 the remaining balance of the term loan was \$172,222.

Table of Contents**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**
Results of Operations

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

Overview

Revenues for the quarter ended March 31, 2011 of \$3,386,000 increased 22% from revenues of \$2,782,000 for the quarter ended March 31, 2010. The increase includes revenue of \$559,000 from clients added pursuant to the acquisition of Source Loop in June 2010. Net income of \$53,000 for the quarter ended March 31, 2011 compares with net income of \$67,000 for the same quarter of 2010, both representing \$0.01 per diluted share.

First quarter 2011 results include \$139,000 of legal costs incurred in connection with the patent infringement complaint filed against the Company by Asentinel LLC in October 2010. AnchorPoint, a division of MTS, and CASS Information Systems, were also served in that complaint. Those legal costs have been charged to selling, general and administrative expenses as incurred.

Orders received for the quarter ended March 31, 2011 of \$4.2 million increased 40% from orders of \$3.0 million received during the first quarter of 2010. Embedded backlog, representing the value of orders received for products and services to be provided in future periods, increased 8% from \$9.6 million at December 31, 2010 to \$10.4 million at March 31, 2011.

Revenues

Our revenues are earned by providing Telecom Expense Management (TEM) products and services, including call accounting, through the direct sale of licensed software, or under multi-year managed service contracts offered in either a Software as a Service (SaaS) environment or as a Managed Service. For the quarter ended March 31, 2011 revenues from managed service contracts and related TEM services increased 80% from the first quarter of 2010. Revenues generated from the direct sale of licensed software and associated services related to those sales, including maintenance, decreased 1% from the first quarter of 2010.

Gross Margin

Gross margin (revenues less cost of revenues) of \$2,305,000 increased 13% from the gross margin of \$2,046,000 for the first quarter of 2010 due to the increase in total revenues recognized. Gross margin as a percentage of total revenue decreased from 74% of revenues for the first quarter of 2010 to 68% of revenues for the first quarter of 2011 due to a higher percentage of managed service revenues in the product mix. Initial margins earned from multi-year contracts will be lower than the margin from the sale of a one-time license; however, multi-year contracts typically provide greater revenues and margins over the life of the contract.

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

Engineering and software development costs, net of the effects of software capitalization, decreased 4% from \$320,000 for the first quarter of 2010, to \$308,000 for the first quarter of 2011 due to a reduction in development costs capitalized. During the first quarter of 2011 we capitalized \$179,000 of development costs, significantly less than the \$303,000 of development costs capitalized in the same quarter of 2010. Gross expenses for engineering and software development expenses, prior to the effects of capitalization decreased 22% or \$136,000, from \$623,000 in the first quarter of 2010 to \$487,000 for the first quarter of 2011. The chart below displays gross engineering expenses, development costs capitalized, and the resulting net engineering and software development costs included in the Statement of Operations for the three months ended March 31, 2011 and 2010.

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2011 | 2010 |
| Gross expenditures for engineering & software development | \$ 487,000 | \$ 623,000 |
| Less: Software development costs capitalized | (179,000) | (303,000) |
| Net expense for engineering and software | \$ 308,000 | \$ 320,000 |

Selling, General, and Administrative Costs

Selling, general and administrative (SG&A) expenses of \$1,964,000 for the quarter ended March 31, 2011 increased \$288,000, or 17% from the same quarter of 2010 due to the acquisition of Source Loop in June 2010 (\$136,000), and the legal expenses (\$139,000) incurred defending the patent infringement complaint referred to in the overview section of this report.

Liquidity and Capital Resources

Cash and short term investments totaled \$1,120,000 at March 31, 2011, a reduction of \$382,000 from the December 31, 2010 balance of \$1,502,000. Significant outflows of cash during the quarter included \$300,000 paid to the principals of Source Loop for attainment of 2010 revenue goals contained in the asset purchase agreement, and the repayment of \$180,000 of net borrowing against the Company's line of credit agreement. As of March 31, 2011 we have no outstanding balance against the line of credit which provides for up to \$750,000 of working capital.

Accounts receivable of \$1,980,000 at March 31, 2011 increased from accounts receivable of \$1,912,000 at December 31, 2010. Based on an analysis of current payment trends and past due balances, the reserve for bad debts at March 31, 2011 remains unchanged from the \$33,000 reserve at December 31, 2010.

Prepaid expenses, consisting of cash outlays made for economic benefits to be realized in future periods, such as business insurance premiums, deposits and prepaid commissions, increased from \$294,000 at December 31, 2010 to \$336,000 at March 31, 2011.

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Property and equipment, net of depreciation, totaled \$617,000 at March 31, 2011, an increase of 2% from \$602,000 at December 31, 2010. Capital purchases of \$68,000 for the first quarter of 2011 were significantly lower than the \$127,000 of capital purchases for the same quarter of 2010. Depreciation expense of \$53,000 for the quarter ended March 31, 2011 compares with depreciation expense of \$52,000 for the same quarter of 2010.

Software development expenses capitalized and included on our balance sheet of \$2,887,000 at March 31, 2011 decreased 3% from development costs capitalized of \$2,962,000 at December 31, 2010. We capitalized \$179,000 of development costs in the first quarter of 2011, a decrease of 41% from \$303,000 of development costs capitalized in the first quarter of 2010. The amortization of previously capitalized costs, which are charged to costs of revenues, decreased from \$320,000 for the quarter ended March 31, 2010 to \$254,000 for the quarter ended March 31, 2011.

Pension assets, representing the accumulated cash surrender values of a series of company-owned life insurance contracts totaled \$3,112,000 at March 31, 2011, which compared with \$3,108,000 at December 31, 2010. The cash surrender values and associated death benefits attached to these policies are intended to fund future pension obligations. The cash surrender values are also available to fund current operations of the Company, if required.

The intangible asset of \$744,000 at March 31, 2011 reflects management's current estimate of the unamortized fair market value of the assets acquired from Source Loop in June 2010. We expect to amortize approximately \$60,000 per quarter for the balance of 2011. See note 9 to the financial statements for a summary of intangible assets acquired and expected future amortization.

Other current assets of \$678,000 at March 31, 2011 include \$659,000 of funds held by the Company on behalf of clients for whom we provide bill payment services as a component of their managed service agreements. This asset is offset by an identical balance in other accrued liabilities. Client funds held by the Company increased from the December 31, 2010 balance of \$276,000, in part due to the addition of a new bill pay client in the first quarter.

Current liabilities of \$7,297,000 decreased 1% from the December 31, 2010 balance of \$7,342,000. Reductions in accrued compensation costs (\$107,000), short term debt (\$180,000), and the contingent liability remaining pursuant to the acquisition of Source Loop (\$281,000) were offset by increases in deferred revenues (\$132,000), accounts payable (\$32,000), and other accrued liabilities (\$358,000). Deferred revenues represent the unrecognized portion of customer orders for services including maintenance, training and installation that will be performed in future periods and recognized as revenue in the Statement of Operations at that time. Other accrued liabilities of \$774,000 at March 31, 2011 include \$659,000 of obligations for the bill payment services referenced above.

During the first quarter we re-paid \$180,000 outstanding on our line of credit arrangement at year end, and paid the Principals of Source Loop \$300,000 for the attainment of 100% of the 2010 revenue goals specified in the asset purchase agreement. The remaining contingent liability of \$618,000 at March 31, 2011 is an estimate of the remaining consideration in cash and common stock to be paid in connection with the acquisition of Source Loop based on employee retention and revenue goals established for 2011.

Long term debt of \$213,000 at March 31, 2011, consists of the non-current portion of a three year term note (\$106,000) for the purchase of office equipment and furnishings in the fourth quarter of 2010, and a rent liability associated with the lease of our new facility, which provided for a five-month rent-free period at the inception of the lease (\$107,000). Accounting rules require that rent expense for operating leases with rent-free periods be accounted for on a straight line basis over the lease term (7 years), including the related rent free period. Our balance sheet will therefore include a lease liability during the term of the lease, which at the end of each accounting period, will represent the difference between the amount of rent expense recognized, and the amount of rent paid through the reporting period.

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Shareholder's equity of \$513,000 at December 31, 2011 increased \$71,000 from shareholder's equity of \$442,000 at December 31, 2010.

Given current cash and investment balances, a fully available line of credit agreement and access to other sources of capital, it is management's opinion that sufficient resources exist to fully fund operations and strategic initiatives for the next twelve months and beyond.

Accounting Pronouncements

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. This update does not have a material effect on the Company's financial statements.

In January 2010, the FASB issued Accounting Standards Update No. 2010-06, topic 820, *Fair Value Measurements and Disclosures*, which amends existing fair value disclosure pronouncements. This update provides amendments to Subtopic 820-10 that require new disclosures as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
2. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

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This update also provides amendments to Subtopic 820-10 that clarify existing disclosures as follows:

1. Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities.
2. Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

This update also includes conforming amendments to the guidance on employers' disclosures about postretirement benefit plan assets (Subtopic 715-20). The conforming amendments to Subtopic 715-20 change the terminology from *major categories* of assets to *classes* of assets and provide a cross reference to the guidance of Subtopic 820-10 on how to determine appropriate classes to present fair value disclosures.

This update is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. This update does not have a material effect on the Company's financial statements. In April 2010, the FASB issued Accounting Standards Update No. 2010-13, topic 718, *Compensation - Stock Compensation*, which adds clarification that an employee share-based award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as an equity. This update is effective for fiscal years, and interim periods within those fiscal years beginning on or after December 15, 2010. This update does not have a material effect on the Company's financial statements.

In April 2010, the FASB issued Accounting Standards Update No. 2010-17, topic 605, *Revenue Recognition - Milestone Method*, which provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. This update is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. This update does not have a material effect on the Company's financial statements. In July 2010, the FASB issued Accounting Standards Update No. 2010-20, topic 310, *Receivables*, which requires disclosures about the credit quality of financing receivables and the allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. This update does not have a material effect on the Company's financial statements.

In December 2010, the FASB issued Accounting Standards Update No. 2010-28, topic 350, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. For those reporting units with zero or negative carrying value, step 2 of the impairment test is required to be performed, even if step 1 indicates it is not necessary. The Company does not expect this to have a material effect on the Company's financial statements.

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In December 2010, the FASB issued Accounting Standards Update No. 2010-29, topic 805, *Disclosure of Supplementary Pro Forma Information for Business Combinations*, to clarify diversity in practice of applying this topic. Paragraph 805-10-50-2(h) requires a public entity to disclose pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The Company properly reports such supplementary information in its filings.

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 involves difficult or complex judgments as described below. In each situation, management is required to make estimates about the effects of matters or future events that are inherently uncertain.

Revenue Recognition

The Company's revenue consists of revenues from the licensing of software to resellers and end user customers; fees for services rendered including installation, training, implementation, and customer maintenance contracts; and the outsourcing or hosting of services, commonly referred to as Software as a Service (SaaS).

The Company recognizes software license revenue under ASC 985-605, formerly Statement of Position No 97-2 *Software Revenue Recognition*, 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, as amended.

Licensed software may be sold as a stand-alone element, with other software elements, or in conjunction with supplemental services. When an order consists of more than one element, it is considered to be a multiple element arrangement (MEA). When sold as a stand-alone element, the revenue is recognized upon shipment. When sold as part of a MEA, revenue from the licensed software is recognized when each element is activated at the customer site, via the entry of a software key-code. This typically occurs at the same time that installation occurs. Service revenues such as training, installation and implementation, are recognized when the service is complete, and acknowledged by the customer.

For either a single element transaction or a MEA, Veramark allocates consideration to all deliverables based on their relative stand-alone selling prices. Amendments to ASC 605-25, which became effective January 1, 2011, establish a hierarchy to determine the stand-alone selling price as follows:

- Vendor Specific Objective Evidence of the fair value (VSOE),
- Third Party Evidence (TPE)
- Best Estimate of the Selling Price (ESP)

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Sales which constitute a MEA 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, per the hierarchy above. If VSOE is not available, management estimates the fair selling price using historical pricing for similar items, in conjunction with current pricing and discount policies.

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. Additionally, revenue is only recognized when a selling price is fixed or determinable, and collectability of the receivable is deemed to be probable.

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

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 the Company 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.

Capitalization of Software Development

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. The Company uses what it believes are reasonable assumptions and where applicable, established valuation techniques in making its estimates.

Allowance for Doubtful Accounts

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.

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Pension Liability

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

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

Item 3 Quantitative and Qualitative Disclosures About Market Risk

On October 29, 2010 the Company entered into an agreement with Manufacturers and Traders Trust Company to provide a three year term note in the amount of \$200,000, the proceeds of which were used to purchase furnishings and fixtures for the Company's new headquarters facility. The loan bears an interest rate of LIBOR plus 4.0%, with a minimum interest rate of 4.5%. At March 31, 2010 the remaining balance of the term loan was \$172,222.

Item 4 Controls and Procedures

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

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

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PART II OTHER INFORMATION

Item 1 Legal Proceedings

On October 4, 2010, the Company was served with a complaint in an action brought by Asentinel LLC, against the Company. AnchorPoint, a division of MTS, and CASS Information Systems, were also served with the same complaint. The complaint alleges infringement of two telecom expense management (TEM) patents held by Asentinel concerning systems and methods for identifying and processing billing exceptions in telecommunications invoices. The Company has challenged the allegations made in the complaint. The litigation is still in the discovery stage at this time, and it is not possible to determine the ultimate resolution of, or estimate the liability, if any, related to this matter. The Company's policy is to expense legal costs as incurred, and no provision for losses has been provided in connection with this litigation.

Item 1A Risk Factors

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

Intellectual Property Rights

Veramark regards its products as proprietary and attempts to protect them with a combination of copyright, trademark and trade secret protections, employee and third-party non-disclosure agreements and other methods of protection. Despite those precautions, it may be possible for unauthorized third parties to copy certain portions of Veramark's products, reverse engineer or obtain and use information that Veramark regards as proprietary. The laws of some foreign countries do not protect Veramark's proprietary rights to the same extent as the laws of the United States. Any misappropriation of Veramark's intellectual property could have a material adverse effect on its business and results of operations. Furthermore, although Veramark takes steps to prevent unlawful infringement of other's intellectual property, there can be no assurance that third parties will not assert infringement claims against Veramark in the future with respect to current or future products. Any such assertion could require Veramark to enter into royalty arrangements or result in costly litigation. On October 4, 2010 the Company was one of three companies named in a complaint filed by Asentinel LLC, alleging infringement of two telecom expense management (TEM) patents held by Asentinel. The Company is in the process of challenging those allegations.

Existing Customer Base

We derive a 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.

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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 could be adversely affected. Additionally, Veramark's revenues could be unfavorably impacted if customers reduce their purchases of new software products or upgrades to existing products.

Competition

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

Marketing and Sales

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

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

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

Loss of Key Employees

Veramark's delivery of quality products and services requires the experience and knowledge of our staff. The loss of key employees could hinder our ability to deliver services, possibly resulting in loss of customers or loss of revenue. Any loss of key employees could have a material adverse effect on Veramark's business and results of operations.

Changing Market

Veramark serves the highly dynamic telecommunications market characterized by continuous technological enhancements and choices that effect the costs incurred versus benefit received by our customers. Veramark staff must remain current otherwise the quality and value of our services could be diminished and competition could offer better value. The failure to remain current could have a material adverse effect on Veramark's business and results of operations.

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Access to Capital

Veramark may not have the access to capital that will be necessary to maintain competitive products, to hire the experienced staff, to fund growth or to fund acquisitions. This could cause Veramark to fall behind market growth rates and have an adverse effect on Veramark's business.

Public Company

Veramark is one of only a few TEM companies that has a publicly traded stock. In addition, Veramark's revenue is small relative to most public companies and the cost of compliance is relatively high when compared with revenue and earnings. This reduces the capital available to run operations and to invest in innovation which could have an adverse effect on business.

Stock Price Volatility

The acquisition of Source Loop has resulted in a contingent liability, comprised in part by shares of Company stock that may be issued in the future, as partial consideration of the acquisition. The value of the stock liability could vary based upon several factors, including changes in the Company's stock price through December 31, 2011. Under ASC 805, the Company is required to record the change in the value of the stock liability, if any, through the statement of operations.

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Item 5: Other Information

None

Item 6: Exhibits

- (a) Financial Statements as set forth under Item 1 of this report on Form 10-Q
- (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 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)
- 10.2* 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)
- 10.3* 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)
- 10.4* Restricted Stock Award Agreement dated as of January 1, 2008 by and between the Company and Anthony C. Mazzullo (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 25, 2008)
- 10.5* 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)
- 10.6* 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)
- 10.7* 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)
- 10.8* 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)

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| 10.9* | 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) |
| 10.10* | 2010 Bonus Compensation Plan dated as of March 1, 2010 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 5, 2010) |
| 10.11* | 2010 Incentive Plan for Management and Key Employees (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 5, 2010) |
| 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

none

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

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SIGNATURES

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

VERAMARK TECHNOLOGIES, INC.
REGISTRANT

Date: May 12, 2011

/s/ Anthony C. Mazzullo

Anthony C. Mazzullo
President and CEO

Date: May 12, 2011

/s/ Ronald C. Lundy

Ronald C. Lundy
Vice President of Finance and CFO