

VERAMARK TECHNOLOGIES INC

Form 10-Q

November 13, 2012

[Table of Contents](#)

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

x **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 September 30, 2012

Commission File Number 0-13898

Veramark Technologies, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

16-1192368
(IRS Employer

Incorporation or Organization)

Identification Number)

1565 Jefferson Road, Suite 120 Rochester, NY 14623

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(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input checked="" type="checkbox"/>

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 September 30, 2012 was 10,664,109.

Table of Contents

INDEX

	Page
PART I <u>FINANCIAL INFORMATION</u>	
Item 1 Financial Statements	
<u>Condensed Balance Sheets -</u>	
<u>September 30, 2012 and December 31, 2011 (Unaudited)</u>	3
<u>Condensed Statements of Operations (Unaudited)</u>	
<u>Three and Nine Months Ended September 30, 2012 and 2011</u>	4
<u>Condensed Statements of Comprehensive Income (Unaudited)</u>	
<u>Three and Nine Months Ended September 30, 2012 and 2011</u>	5
<u>Condensed Statements of Cash Flows (Unaudited)</u>	
<u>Nine Months Ended September 30, 2012 and 2011</u>	6
<u>Notes To Condensed Financial Statements (Unaudited)</u>	7 - 12
Item 2 <u>Management's Discussion and Analysis of</u>	
<u>Financial Condition and Results of Operations</u>	13 - 19
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	19
Item 4 <u>Controls and Procedures</u>	19
PART II <u>OTHER INFORMATION</u>	
Item 1 <u>Legal Proceedings</u>	20
Item 1A <u>Risk Factors</u>	20 - 22
Item 4 <u>Mine Safety Disclosures</u>	22
Item 5 <u>Other Information</u>	23
Item 6 <u>Exhibit Index</u>	23 - 24

Table of Contents**PART I FINANCIAL INFORMATION****VERAMARK TECHNOLOGIES, INC.****CONDENSED BALANCE SHEETS (Unaudited)**

	September 30, 2012	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 604,451	\$ 679,405
Investments	118,332	161,949
Accounts receivable, trade (net of allowance for doubtful accounts of \$45,200 and \$35,000, respectively)	1,982,470	1,711,171
Prepaid expenses	491,293	434,357
Other current assets	685,491	873,975
Total Current Assets	3,882,037	3,860,857
PROPERTY AND EQUIPMENT		
Cost	2,437,950	2,601,535
Less accumulated depreciation	(1,901,394)	(2,033,766)
Property and Equipment (net)	536,556	567,769
OTHER ASSETS:		
Software development costs (net of accumulated amortization of \$2,004,706 and \$1,892,938)	2,614,901	2,736,572
Pension assets	3,341,324	3,320,073
Intangibles, net	415,250	563,000
Goodwill	336,219	336,219
Deposits and other assets	1,162,612	1,121,738
Total Other Assets	7,870,306	8,077,602
TOTAL ASSETS	\$ 12,288,899	\$ 12,506,228
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 229,064	\$ 300,878
Accrued compensation	888,907	740,947
Deferred revenue	4,257,968	4,276,071
Current portion of pension obligation	558,660	538,159
Contingent liability	0	140,828
Short term debt	66,667	316,667
Other accrued liabilities	809,142	992,052
Total Current Liabilities	6,810,408	7,305,602
Long-Term debt	5,555	55,555
Long-Term portion of pension obligation	5,295,535	5,534,531
Other long-term liabilities	98,946	103,237
Total Liabilities	12,210,444	12,998,925
STOCKHOLDERS' EQUITY:		
Common Stock, par value \$.10; shares authorized, 40,000,000; 10,744,334 and 10,696,996 shares issued	1,074,433	1,069,699
Additional paid-in capital	23,001,930	22,906,932
Accumulated deficit	(23,616,298)	(24,091,174)

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Treasury stock (80,225 shares, at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	4,147	7,603
Total Stockholders' Equity	78,455	(492,697)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 12,288,899	\$ 12,506,228

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

Table of Contents**VERAMARK TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
NET REVENUES				
Product revenues	\$ 490,495	\$ 400,612	\$ 1,351,853	\$ 1,242,181
Service revenues	3,369,438	3,028,727	9,969,904	8,820,124
Total Net Revenues	3,859,933	3,429,339	11,321,757	10,062,305
COSTS AND OPERATING EXPENSES:				
Cost of revenues	1,568,246	1,486,058	4,728,189	4,258,404
Engineering and software development	321,722	227,350	886,145	828,097
Selling, general and administrative	1,727,636	1,639,572	5,258,214	4,687,116
Litigation expenses & settlement costs	0	0	0	862,995
Total Costs and Operating Expenses	3,617,604	3,352,980	10,872,548	10,636,612
INCOME (LOSS) FROM OPERATIONS	242,329	76,359	449,209	(574,307)
NET INTEREST INCOME	4,818	9,182	25,668	41,958
INCOME (LOSS) BEFORE TAXES	247,147	85,541	474,877	(532,349)
INCOME TAXES	0	0	0	0
NET INCOME (LOSS)	\$ 247,147	\$ 85,541	\$ 474,877	\$ (532,349)
NET INCOME (LOSS) PER SHARE				
Basic	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.05)
Diluted	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.05)

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

Table of Contents

VERAMARK TECHNOLOGIES, INC,

CONDENSED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income (Loss)	\$ 247,147	\$ 85,541	\$ 474,877	\$ (532,349)
Unrealized Change - Investments, net of tax	(1,437)	(1,342)	(3,456)	(11,407)
Total Comprehensive Income (Loss)	\$ 245,710	\$ 84,199	\$ 471,421	\$ (543,756)

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

Table of Contents**VERAMARK TECHNOLOGIES, INC.****CONDENSED STATEMENTS OF CASH FLOWS (Unaudited)**

	Nine Months Ended September 30,	
	2012	2011
OPERATING ACTIVITIES:		
Net income (Loss)	\$ 474,877	\$ (532,349)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	941,031	1,122,836
Increase (decrease) in Bad Debt Reserve	10,200	(7,000)
Change in acquisition liabilities	(140,828)	(239,400)
Compensation expense - equity grants	81,625	36,523
Loss on Disposal of Assets	1,698	39
Changes in assets and liabilities:		
Accounts receivable	(281,499)	182,299
Prepaid expenses	(56,936)	(788,720)
Pension assets	(21,251)	(91,470)
Deposits and other assets	147,610	(42,222)
Accounts payable	(71,814)	(83,048)
Accrued compensation and related taxes	147,960	69,547
Deferred revenue	(18,103)	265,880
Other accrued liabilities	(182,910)	541,287
Note Payable	(250,000)	250,000
Prepaid rent liability	(4,291)	52,334
Pension obligation	(218,495)	(196,544)
Net cash provided by operating activities	558,874	539,992
INVESTING ACTIVITIES:		
Acquisition of Source Loop	0	(450,000)
Sale of investments	40,160	92,934
Additions to property and equipment	(117,656)	(120,306)
Capitalized software development costs	(524,439)	(648,325)
Net cash flows used by investing activities	(601,935)	(1,125,697)
FINANCING ACTIVITY:		
Borrowing (repayment) - line of credit	0	(180,000)
Bank borrowing - repayment of term loan	(50,000)	(50,000)
Exercise of stock options	0	161,259
Employee Stock Purchase Plan	18,107	12,414
Net cash used by financing activities	(31,893)	(56,327)
Net change in cash and cash equivalents	(74,954)	(642,032)
Cash and cash equivalents, beginning of year	679,405	1,236,375
Cash and cash equivalents, end of period	\$ 604,451	\$ 594,343
SUPPLEMENTAL CASH FLOW INFORMATION		
Income taxes paid (refunded)	\$ 2,862	\$ (8,306)
Interest paid	\$ 5,881	\$ 9,446

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 September 30, 2012, the results of its operations for the three and nine months ended September 30, 2012 and 2011, and cash flows for the nine months ended September 30, 2012 and 2011.

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, 2011.

The results of operations and cash flows for the three and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the full year's operation. Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) PROPERTY AND EQUIPMENT

The major classifications of property and equipment at September 30, 2012, and December 31, 2011 were:

	September 30, 2012	December 31, 2011
Machinery and equipment	\$ 0	\$ 116,385
Computer hardware and software	1,374,504	1,301,043
Furniture and fixtures	1,063,446	1,184,107
	\$ 2,437,950	\$ 2,601,535

For the nine months ended September 30, 2012 and 2011, the Company recorded depreciation expense of \$147,170 and \$151,486, 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 nine months ended September 30, 2012, the Company awarded 104,500 stock options vesting over one to four years. During the first nine months of 2011, the Company awarded 301,875 stock options vesting over one to four years.

Table of Contents

A summary of the status of the Company's stock option plan as of September 30, 2012, is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Grant-Date Fair Value	Average Remaining Contractual Term (Yrs)	Intrinsic Value
Outstanding as of December 31, 2011	1,422,443	\$ 0.68	\$ 0.64	6.2	\$ 32,080
Granted	104,500	0.45	0.44		0
Exercised	0	0.00			0
Canceled	(55,360)	0.61			(2,710)
Outstanding as of September 30, 2012	1,471,583	\$ 0.67	\$ 0.62	5.8	\$ 29,370
Options exercisable at September 30, 2012	1,061,926	\$ 0.71	\$ 0.65	4.6	\$ 29,370

As of September 30, 2012, there was \$141,394 of total unrecognized compensation cost related to non-vested stock options granted under the Plan, and \$7,020 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 0.5 years.

(4) NET INCOME PER SHARE (EPS)

ASC 260-10 Earnings Per Share requires the Company to calculate net income per share based on basic and diluted net income per share, as defined. Basic EPS excludes dilution and is computed by dividing net income 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 (Loss) Per Share**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<u>Basic</u>				
Net Income (loss)	\$ 247,147	\$ 85,541	\$ 474,877	\$ (532,349)
Weighted average common shares outstanding	10,664,109	10,426,311	10,634,111	10,234,239
Net Income (loss) per common share	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.05)
<u>Diluted</u>				
Net Income (loss)	\$ 247,147	\$ 85,541	\$ 474,877	\$ (532,349)
Weighted average common shares outstanding	10,664,109	10,426,311	10,634,111	10,234,239
Additional dilutive effect of stock options and warrants after application of treasury stock method	21,034	57,080	20,867	0
Weighted average dilutive shares outstanding	10,685,143	10,483,391	10,654,978	10,234,239
Net Income (loss) per common share assuming full dilution	\$ 0.02	\$ 0.01	\$ 0.04	\$ (0.05)

There were no dilutive effects of stock options for the nine months ended September 30, 2011, as the effect would have been anti-dilutive due to the losses incurred for the period.

(5) 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 September 30, 2012, 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.

(6) 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's contribution to employee 401(k) accounts totaled \$26,589. There are no contributions to date in 2012.

Table of Contents

The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a non-qualified plan that provides certain former employees, and one current employee defined pension benefits. Periodic pension expense for the three and nine months ended September 30, 2012 and 2011, consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest Cost	60,000	60,000	180,000	180,000

The Company paid pension obligations of \$398,494 for the nine months ended September 30, 2012 and \$376,544 for the nine months ended September 30, 2011.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 4.5% for the nine months ended September 30, 2012 and 5.0% for the nine months ended September 30, 2011.

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 \$3,341,000 at September 30, 2012. The accumulated cash surrender values of these policies at December 31, 2011 was approximately \$3,320,000.

The projected pension benefits paid or expected to be paid under this plan are as follows, assuming retirement at age 65 and life expectancies based on IRS mortality tables:

Period Ending December 31, Unless Stated Otherwise,

Q4 2012	139,665
2013	558,660
2014	490,660
2015	449,060
2016	454,340
2017 - 2021	2,547,478

Table of Contents**(7) 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 in June 2010, 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 following table summarizes the fair values assigned to the identifiable intangible assets by asset class at the time of acquisition, and the subsequent amortization through September 30, 2012 of those intangible assets.

Amortization of Intangible Assets Acquired in Source Loop Acquisition

(In 000s except weighted avg life in years)

Intangible Asset Class	Weighted Avg Life Years	FMV at Acquisition Date	Current Year Amortization	Accumulated Amortization at 9/30/12	Net Value by Asset Class at 9/30/12
Customer Contracts	3	\$ 526	\$ 81	\$ 271	\$ 255
Customer Relationships	3	260	31	154	106
Key Employee Agreements	1	177	33	129	48
Other	1	30	3	24	6
Sub-Total Intangibles Subject to Amortization	3	993	\$ 148	\$ 578	\$ 415
Goodwill		336			
Total Intangible Assets Acquired		\$ 1,329			

Expected Future Amortization

Intangible Asset Class	Q4 2012	2013	2014	2015	2016
Customer Contracts	\$ 22	\$ 62	\$ 55	\$ 47	\$ 41
Customer Relationships	11	31	25	19	15
Key Employee Agreements	9	39	0	0	0
Other	2	3	1	0	0
Sub-Total Intangibles Subject to Amortization	\$ 44	\$ 135	\$ 81	\$ 66	\$ 56

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 in December of each year, or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. Through September 30, 2012, there has been no impairment of goodwill associated with the Source Loop acquisition.

Table of Contents

(8) COMMITMENTS AND CONTINGENCIES

On June 16, 2011 the Company entered into a Nonexclusive Patent License and settlement agreement relating to an action brought by Asentinel LLC, against Veramark, AnchorPoint - a division of MTS, and CASS Information Systems, alleging infringement of two patents held by Asentinel concerning systems and methods for identifying and processing billing exceptions in telecommunications invoices.

Material terms of the agreement included:

Asentinel waived all claims for damages for prior infringement and agreed not to make claims for future infringement of its patents.

The Company agreed to pay Asentinel \$500,000. Of that amount \$250,000 was paid upon execution of the agreement, and \$250,000 was paid on June 16, 2012.

The lawsuit was dismissed against the Company.

(9) REVOLVING DEMAND NOTE AGREEMENT

On October 31, 2008, Veramark Technologies, Inc. entered into a Revolving Demand Note Agreement (the Agreement), 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 September 30, 2012, the Company had no 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.

(10) 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 loan 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 September 30, 2012, the remaining balance of the term loan was \$72,222.

Table of Contents

Item 2 Management's Discussion and Analysis of Financial Condition and 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 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.

Overview

Revenues of \$3,860,000 for the three months ended September 30, 2012, and \$11,322,000 for the nine months ended September 30, 2012, represent increases of 13% from revenues of \$3,429,000 and \$10,062,000 for the same three and nine months periods of 2011. Net income of \$247,000, or \$0.02 per diluted share for the three months ended September 30, 2012 compares with net income of \$86,000, or \$0.01 per diluted share for the third quarter of 2011. Net income of \$475,000, or \$0.04 per diluted share, for the nine months ended September 30, 2012 compares with a net loss of \$532,000 for the first nine months of 2011.

Orders received of \$4.3 million for the three months ended September 30, 2012 increased total orders for the nine months ended September 30, 2012 to \$13.0 million, an increase of 1% from orders received of \$12.9 million for the nine months ended September 30, 2011. The backlog of recurring revenues at September 30, 2012 of \$13.8 million, increased 2% from the end of the second quarter of 2012, and 10% from the December 31, 2011 backlog of \$12.6 million.

Revenues

Revenues are earned from providing Telecom Expense Management (TEM) product and services under multi-year managed service contracts, or by the direct sale of licensed software. In either case, the sale may be made through strategic partners or directly to the end user. For the three and nine months ended September 30, 2012, revenues earned under multi-year contracts increased 25% and 40% respectively, from the same three and nine month periods of 2011. Revenues earned from the sale of licensed software, including associated maintenance and services, increased 4% for the three months ended September 30, 2012, and 3% for the nine months ended September 30, 2012, from the same three and nine month periods of 2011.

Gross Margin

Gross margin (revenues less cost of revenues) of \$2,292,000, or 59% of revenues, for the three months ended September 30, 2012 increased 18% from gross margin of \$1,943,000, or 57% of revenues for the three months ended September 30, 2011. For the nine months ended September 30, 2012, gross margin of \$6,594,000 increased 14% from \$5,804,000 for the nine months ended September 30, 2011. Gross margin represented 58% of revenue for both nine-month periods ended September 30, 2012 and 2011.

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

Engineering and software development expenses, net of the capitalization of software development costs, totaled \$322,000 and \$886,000 for the three and nine months ended September 30, 2012. This represents increases of 42% and 7% respectively, from net engineering and software development costs of \$227,000 and \$828,000 for the three and nine months ended September 30, 2011. The increase in expense results from a reduction in software development costs capitalized in 2012 as compared to the prior year. For the three and nine month periods ended September 30, 2012, development costs capitalized totaled \$164,000 and \$525,000, respectively. This compares with development costs capitalized of \$269,000 and \$648,000 for the same three and nine month periods of 2011. The table below summarizes gross expenses incurred for the engineering and software development, development costs capitalized, and the resulting net expense charged to the statement of operations, for the three and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Gross expenditures for engineering & software development	\$ 486,000	\$ 496,000	\$ 1,411,000	\$ 1,476,000
Less: Software development costs capitalized	(164,000)	(269,000)	(525,000)	(648,000)
Net expense for engineering and software development	\$ 322,000	\$ 227,000	\$ 886,000	\$ 828,000

Selling, General and Administrative Costs (SG&A)

SG&A expenses of \$1,728,000 for the three months ended September 30, 2012 increased 5% from \$1,640,000 for the same quarter of 2011. The increase was attributable to higher costs for business insurance policies and an increase in fees paid third party professional service providers. SG&A expenses of \$5,258,000 for the nine months ended September 30, 2012 increased 12% from expenses of \$4,687,000 for the nine months ended September 30, 2011. In addition to the higher expenses referenced above, the year to date increase includes a 21% increase in marketing and product management costs.

Liquidity and Capital Resources

Our total cash position (cash plus cash equivalents and short term investments) totaled \$723,000 at September 30, 2012, an increase of \$261,000 from the June 30, 2012 balance of \$462,000. At December 31, 2011, our total cash position was \$841,000. During the third quarter, the Company repaid \$155,000 outstanding on its \$750,000 line of credit arrangement with a local bank, and currently has no outstanding balance under that arrangement.

Accounts receivable of \$1,982,000 at September 30, 2012 increased 16% from the December 31, 2011 balance of \$1,711,000, reflecting higher sales revenue in 2012 versus the prior year. The reserve for bad debts at September 30, 2012 is \$45,000, up from \$35,000 at the end of 2011.

Prepaid expenses increased from \$434,000 at December 31, 2011 to \$491,000 at September 30, 2012 due to an increase in commissions paid on the sale of multi-year TEM service contracts, which will be expensed in future periods as the associated revenues are recognized.

Table of Contents

Through September 30, 2012, the Company has made capital expenditures of \$118,000, primarily in the form of technology upgrades. For the first nine months of 2011, capital expenditures totaled \$120,000. Depreciation expense for the first nine months of 2012 totaled \$147,000, down from \$151,000 for the first nine months of 2011.

Software development costs capitalized and included in our balance sheet at September 30, 2012 of \$2,615,000 decreased 4% from the December 31, 2011 balance of \$2,737,000. During the first nine months of 2012, we capitalized \$524,000 of software development costs and amortized \$646,000 of costs capitalized in prior periods. For the first nine months of 2011, capitalized development costs totaled \$648,000 and amortization costs were \$791,000. Amortization costs are charged to cost of revenues in the statement of operations.

The intangible asset of \$415,000 at September 30, 2012 represents the remaining unamortized fair market values of assets acquired from Source Loop in 2010. For the first nine months of 2012, we have amortized \$148,000 of the remaining fair market values, which has been charged to SG&A expense in the statement of operations. See note 7 to the financial statements for a summary of the fair market values assigned at the time of acquisition and the future expected amortization expense.

Pension assets at September 30, 2012 of \$3,341,000 compare with a balance of \$3,320,000 at December 31, 2011, and consist of the current cash surrender values of a series of company-owned life insurance contracts designed to reimburse the Company for past, present and future pension obligations. These cash surrender values are also available to fund the current operations at the Company's discretion. Participation in and future growth of the Company's supplemental executive retirement program were suspended in 2008. The associated death benefits attached to those policies total \$10.2 million and are not included in the Company's balance sheet.

Current liabilities of \$6,810,000 at September 30, 2012 decreased \$496,000, or 7%, from \$7,306,000 at December 31, 2011. The decrease includes the second quarter 2012 payment of a \$250,000 note in final settlement of a patent infringement lawsuit filed against the Company in 2010, and \$141,000 paid as final consideration in connection with the 2010 acquisition of Source Loop. Reductions in accounts payable (\$72,000), deferred revenues (\$18,000), and accrued liabilities (\$183,000), were partially offset by an increase in accrued compensation costs of \$148,000.

Long term debt, in addition to future pension obligations include \$6,000 remaining on a three year term loan with a local bank and a non-cash prepaid rent liability of \$99,000, both relating to the move to our current facility in 2010.

Stockholder's equity of \$78,000 at September 30, 2012 increased from a negative \$493,000 at December 31, 2011, as a result of the net income earned for the first nine months of 2012. During 2012, employees of the Company have purchased 47,338 shares of Company stock for a total consideration of \$18,000.

It is management's opinion, given current cash and investment balances, availability under its line of credit arrangement, and access to cash surrender values of company-owned life insurance policies, that more than sufficient capital exists to fully fund operational and strategic objectives for the next twelve months and beyond.

Table of Contents

Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, topic 820, *Fair Value Measurement*, to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with United States GAAP and International Financial Reporting Standards. Some of the amendments clarify the Board's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Specifically, the guidance requires additional disclosures for fair value measurements that are based on significant unobservable inputs. The updated guidance is to be applied prospectively and became effective for the Company's interim and annual periods beginning January 1, 2012. The adoption of this guidance did not have a material impact on the Company's financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, topic 220, *Comprehensive Income*. The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), the FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders equity, among other amendments in this Update.

The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this update should be applied retrospectively, and became effective for the Company's interim and annual periods beginning after December 15, 2011. The Company chose to present two separate statements.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, topic 350, *Intangibles—Goodwill and Other*, to simplify how entities test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The amendments in this Update became effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. This update did not have a material effect on the Company's financial statements.

In December 2011, the FASB issued Accounting standards Update No. 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*, which defers the requirement to disclose the effect of items that are reclassified out of accumulated comprehensive income separately in the statement of operations. This requirement is deferred until such time as the FASB can reconsider the relevant paragraphs of that update. The deferral is effective for public companies for fiscal years and interim periods beginning after December 15, 2011.

Table of Contents

In July 2012, the FASB issued Accounting standards Update No. 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*, to reduce the complexity of performing an impairment test for indefinite-lived intangible assets by simplifying how an entity tests those assets for impairment and to improve consistency in impairment testing guidance among long-lived asset categories. The amendments permit an entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test in accordance with Subtopic 350-30, Intangibles—Goodwill and Other—General Intangibles Other than Goodwill. The amendments of this update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company does not expect this update to have a material effect on the Company's financial statements.

Critical Accounting Policies

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)

Sales which constitute a MEA 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, 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.

Table of Contents

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, "Costs of software to be sold, leased, or 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.

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.

Pension Liability - 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 the determination of 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 projected pension liabilities.

During the fourth quarter of 2011, Veramark retrospectively changed its method of accounting for pension and other postretirement benefits. Historically, Veramark has recognized actuarial gains and losses as a component of equity in its consolidated balance sheets on an annual basis. These gains and losses were amortized into

Table of Contents

operating results generally over the following year. Veramark elected to immediately recognize actuarial gains and losses in its operating results in the year in which the gains and losses occur. This change is intended to improve the transparency of Veramark's operational performance by recognizing the effects of current economic and interest rate trends on plan assumptions, during the year in which they occur. Accordingly, the financial data for all periods presented has been adjusted to reflect the effect of this accounting change.

Goodwill and Intangibles - Goodwill represents the excess of the purchase price paid over the fair value of assets acquired. Goodwill is not amortized and as per ASC 350-20, is subject to an impairment test conducted on an annual basis, or more frequently if a change in circumstances or the occurrence of events indicates that potential impairment exists. Through December 2011, there has been no impairment of goodwill associated with the Source Loop acquisition.

In determining whether it is necessary to impair intangible assets other than goodwill, the Company follows the guidance provided under ASC 360-10, *Property, Plant and Equipment*. The Company considers factors such as, but not limited to, estimated useful life, amortization policies, and legal regulations related to the intangible asset. No impairment charges were recorded in 2011, 2010, or 2009.

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 September 30, 2012, the remaining balance of the term loan was \$72,222.

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.

Table of Contents

PART II - OTHER INFORMATION

Item 1 Legal Proceedings

On June 16, 2011 the Company entered into a Nonexclusive Patent License and settlement agreement relating to an action brought by Asentinel LLC, against Veramark, AnchorPoint - a division of MTS, and CASS Information Systems, alleging infringement of two patents held by Asentinel concerning systems and methods for identifying and processing billing exceptions in telecommunications invoices.

Material terms of the agreement included:

Asentinel waived all claims for damages for prior infringement and agreed not to make claims for future infringement of its patents.

The Company agreed to pay Asentinel \$500,000. Of that amount \$250,000 was paid upon execution of the agreement and \$250,000 was paid on June 16, 2012.

The lawsuit was dismissed against the Company.

Item 1A Risk Factors

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

Intellectual Property Rights

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

Existing Customer Base

We derive 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.

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

Table of Contents

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 affect 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.

Table of Contents

Access to Capital

Veramark may not have the access to the capital necessary to maintain a competitive software product, 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.

A Failure of our Information Technology systems could materially Adversely Affect our Business.

A failure or prolonged interruption in our information technology systems that compromises our ability to meet our customers' needs, or impairs our ability to record, process and report accurate information to the SEC could have a material adverse effect on our financial condition.

A Breach of our Cyber Security Systems Could Materially Adversely Affect Our Business.

A breach that compromises proprietary customer data, our ability to meet our customers' needs or impairs our ability to record, process and report accurate information could have a material adverse effect on our financial condition.

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.

Item 4 Mine Safety Disclosures

Not Applicable.

Table of Contents

Item 5: Other Information

None

Item 6: 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 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 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)
 - 10.6* 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)
 - 10.7* 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)
 - 10.8* 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)
 - 10.9* Change of Control Agreement dated as of June 30, 2012, 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 August 31, 2012)
 - 10.10* 2012 Incentive Compensation Plan entered into on August 27, 2012, 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 August 30, 2012)

Table of Contents

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 14, 2011)
18	Preferability Letter from Independent Registered Public Accounting Firm Regarding Change in Accounting Principle (incorporated by reference to Exhibit 18 of the Company's Annual Report on Form 10-K, filed on March 26, 2012.)
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
101.INS	XBRL Instance Document
101.SCH	XBRL Extension Schema Document
101.CAL	XBRL Calculation Linkbase Document
101.LAB	XBRL Labels Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

* 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.

Table of Contents

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: November 12, 2012

/s/ Anthony C. Mazzullo
Anthony C. Mazzullo
President and CEO
Date: November 12, 2012

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