VERAMARK TECHNOLOGIES INC
Form 10-K
March 28, 2005

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

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2004

Commission File Number 0-13898

Veramark Technologies, Inc.

(Exact Name of Registrant as specified in its Charter)

Delaware	16-1192368
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
3750 Monroe Avenue, Pittsford, NY	14534
(Address of principal executive offices)	(Zip Code)

(585) 381-6000

(Registrant s telephone number, including area code)

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

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

Common Stock, $.10 Par Value

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined by Rule 12b-2 of the Act). YES o NO þ

The aggregate market value of the voting stock held by non-affiliates of the registrant as of February 28, 2005 was $13,725,446.

The number of shares of Common Stock, $.10 par value, outstanding on February 28, 2005 was 8,668,954.

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DOCUMENTS INCORPORATED BY REFERENCE

PART I - None

PART II - None

Item 10 Portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the headings Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance.

Item 11 Portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Executive Compensation.

Item 12 The tables contained in portions of the information under the headings of Election of Directors and Stock Options of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005.

Item 13 Portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Certain Relationships and Related Transactions.

Item 14 Portion of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Audit Fees and Services.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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SIGNATURES

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FORWARD-LOOKING STATEMENTS

In addition to historical information, certain sections of this Form 10-K may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the Act), that discuss the Company s beliefs, expectations or intentions or those pertaining to the Company s operations, markets, products, services, price and performance. Forward-looking statements and the success of the Company, generally involve numerous risks and uncertainties such as trends of the economy, including interest rates, income tax laws, governmental regulations, legislation and those risk factors discussed elsewhere in this report and the Company s filings under the Act. The Company cannot guarantee that any forward-looking statement will be accurate, although the Company believes that it has been reasonable in its expectations and assumptions. Forward-looking statements are subject to the risks identified in Issues and Risks and elsewhere in this report. Readers are cautioned not to place undue reliance on forward-looking statements and are advised to review the risks identified in Issues and Risks and elsewhere in this report. The Company has no obligation to update forward-looking statements.

PART I

Item 1 Business

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

For more than 20 years, Veramark (www.veramark.com) has set the industry standard for telecom spend management solutions by delivering technological excellence, application experience and process expertise. Our focus on convergence in the communications market has resulted in a broad portfolio of products and services that allow enterprises to measurably reduce communications expenses, optimize network performance, increase productivity, and improve enterprise security. Our solutions are fully compatible with IP-telephony, traditional PBX, and Centrex environments.

Veramark s totally web-based software architecture leverages leading edge technology to consistently deliver enterprise spend management solutions that are easy-to-use, install and maintain. The company s leadership position is demonstrated by relationships with telecom s elite Avaya®, Cisco Systems®, EADS Telecom North America, Nortel Networks®, NEC America®, SBC®, Sprint®, and others and an installed base of nearly 100,000 customers that range from the Fortune 500, to the public sector, and small businesses.

All of Veramark s products and services are made and provided by personnel in the United States.

Products and Services

VeraSMART®

Our new and evolving enterprise-level software solution, VeraSMART®, is a highly modular solution that takes advantage of its totally web-based design to quickly and effectively deliver business-critical information to the people who need it. The modularity of the system allows clients

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to purchase the modules they need today, while providing an option to expand the system through future purchases as needed.

Released in the second quarter of 2003, VeraSMART 1.0 delivered SMART Directory, the suite s core module, and SMART Call Accounting. This version was the Company s initial offering for the large enterprise market and effectively harnessed the speed and flexibility of Veramark s totally web-based endeavor architecture. VeraSMART 1.0 provided enterprise clients with unprecedented ability to see and control their telecommunications usage expenses.

The VeraSMART 2.0 software, released in the third quarter of 2004, brought even more ease and power to enterprise cost management. VeraSMART 2.0 featured enhancements to SMART Directory and SMART Call Accounting, as well as introducing three new modules: SMART Allocation, SMART Invoice Management and SMART Online Directory. Each new module was designed to expand the VeraSMART platform beyond management of telecom use, to include the costs of telecom assets, infrastructure, fixed costs, and ultimately wireless device costs; presenting a more robust management tool to enterprise customers. The SMART Online Directory solution, a natural extension of the SMART Directory core, allows large enterprise customers to put frequently needed contact information (extension number, cell phone or pager numbers, email and traditional mailing addresses, and more) on the desktop of any network connected user, effectively expanding the applications appeal and more tightly linking it to the day-to-day operations of the enterprise. VeraSMART 2.0 also introduced EZ-Share , Veramark s exclusive data configuration and export solution, which facilities much tighter integration of VeraSMART into enterprise back-office systems, like general ledgers and enterprise resource management systems.

VeraSMART 3.0, generally available since January 2005, is the most current release of Veramark s enterprise platform. In addition to providing numerous enhancements to the existing suite of modules, VeraSMART 3.0 introduced Electronic Billing Format (EBF) which allows customers to electronically import third-party product and service invoices, thereby streamlining the spend management process.

Today s VeraSMART consists of these modules:

SMART Directory, the central repository for personnel and organization data. It provides a complete personnel profile that includes location and affiliation to cost centers within the corporate structure. It also provides the tools for system-wide configuration, security, reports, and database/system-wide diagnostic utilities.

SMART Online Directory, which provides quick, customizable desktop access to key contacts and personnel information contained in the SMART Directory module. Corporate users can maintain their own phone listings, which may consist of any company entries plus personal numbers they might wish to add.

SMART Allocation, which allows the user to accurately distribute fixed charges on a one-time, recurring and pro-rated basis for equipment, services, and more to any individual or group. Because it has the ability to distribute any charges, it can provide a complete picture of all telecom costs.

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SMART Invoice Management, which allows the allocation of outside vendor charges by individual, logical functional group or customized distribution list. SMART Invoice Management gives you the power to track and analyze all your communications costs, helping you prevent overpayments, while identifying areas for potential savings. Electronic Billing Format (EBF) gives you the ability to import third-party vendor invoices, saving you valuable time and assuring an unprecedented degree of accuracy.

Veramark will continue the cadenced release process of VeraSMART, with a goal to release new functionality twice annually through 2007. Functionality currently being considered for the VeraSMART platform include: Work Order/Trouble Ticket Management, Asset/Inventory Management, and Cable Management.

eCAS

Veramark s totally web-based eCAS Call Accounting software system connects to business telephone systems (PBXs, IP-PBXs, Key Systems, etc.) to collect, store, and rate information on every telephone call made or received.

The primary appeal of eCAS is that clients using the software can significantly reduce, through heightened awareness and proactive management, their telecommunications costs. As a result, the cost of an eCAS system can generally be recovered through direct expense reduction in less than one year. In addition, eCAS, addresses the problem of theft of telephone service through PBX hacking and employee abuse, estimated to exceed $1 billion annually. Using dynamic user-defined criteria, that is generally indicative of fraud/abuse, clients are immediately alerted to potential problems and are able to take corrective action to minimize loss.

In today s business climate, in addition to telecom costs, issues like productivity and security are top of mind concerns. Veramark s eCAS gives small and mid-size businesses a cost-effective method to measure productivity, improve business security, reduce fraud, and optimize network utilization. By capturing statistical details on every incoming and outgoing call, and delivering that information to the desktop as easy-to-use reports, eCAS delivers essential information to management, while retaining employee privacy, because the actual content of phone conversations is not captured.

Common business drivers for Veramark s eCAS software include:

Improving business security through alarms and reports that identify called parties or incoming calls that can threaten employees or the entire organization (e.g. bomb threats);

Evaluating employee productivity and detecting unauthorized use of company phones for personal calls or 900 numbers;

Traffic analysis used to optimize network performance and better project network capacity requirements, and to determine the best long distance carrier plans based on usage trends;

Detecting fraudulent use of the phone system by hackers.

Producing revenues by reselling phone services to third-parties (e.g., tenants); and

Allocating telephone expense to specific cost centers or clients based on actual use;

In early 2005, Veramark released eCAS version 3.0. Highlights of the new version included numerous security enhancements, the option to use network authentication and the option to send

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data using Secure Socket Layers (SSL), and scheduling tools for database backups. The software is installed on the client s network and is accessed entirely through a standard Internet browser, such as Microsoft Internet Explorer or Netscape Navigator. This architecture allows clients to administer the system from virtually anywhere, without the added cost and inconvenience of additional client software. The system s high-performance reporting engine delivers all reports electronically to the Internet browser or via email, allowing the user to readily view and manipulate the information and apply it for understanding cost, usage, security, and productivity trends.

The eCAS system collects and processes call records from up to 100 different remote locations and can be deployed in business environments that range from 20 to 10,000 extensions. Avaya, their distributors, and resellers sell a private label version of the eCAS system.

Clients running eCAS software with multiple locations have the option to use Veramark s Pollable Storage Unit (PSU). The PSU is a solid-state buffer box that collects call record data from circuit-switched PBXs and Key Systems and stores the data until polled by the call accounting system. Veramark s Service Bureau clients use these devices extensively. In 2004, Veramark introduced a new, network ready version of the PSU, and retired its predecessor. With the advent of IP-communications networks, Veramark anticipates a lesser need for PSU s over the coming year.

Outsourced Solutions Group

For companies that recognize the benefits of telecom spend management, but lack the means or desire to utilize internal staff and equipment to perform it, Veramark s Outsourcing team provides completely hosted or partially hosted (e.g., Application Service Provider) solutions. Using the same expense management software developed by Veramark for licensing, Veramark can remotely poll, process, and report on telecommunications activity and data, then provide comprehensive reports and analysis to remote clients in a variety of formats. Outsourced Solution customers can access their data remotely and securely by Internet login, email, fax, or CD-ROM. Clients that opt for outsourced solutions generally sign multi-year contracts and pay for services monthly based total call records processed and delivery of other value-added services.

Professional Services and Maintenance

To varying degrees, all of the Company s products offer an opportunity to provide professional services to customers on a fee basis. These sales typically include installation, implementation, and training services, and often include software customization and data conversion services. The majority of active users of Veramark s products pay annual maintenance fees, which entitle them to post warranty support via telephone or modem as well as new software service pack releases. Annual fees for maintenance range from 15 20% of the original software license fee, depending upon the hours and priority of support and whether a distributor plays an intermediary support role.

Marketing and Sales

Veramark s marketing and sales personnel are located at its headquarters in Pittsford, New York, and 9 locations throughout the United States.

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Veramark has separate marketing and distribution strategies for its enterprise and SME markets. Because of the size and complexity of its enterprise platform, Veramark s marketing and distribution strategy for VeraSMART is focused primarily on direct sales. On the other hand, the strategy for its SME product, eCAS, is founded on building mutually beneficial relationships with companies that have established distribution networks. The natures of these relationships vary, depending on the product and market. Some sell privately labeled, customized products developed and manufactured by Veramark to their defined specifications, while others resell Veramark-labeled products.

A partial listing of companies privately labeling or reselling Veramark products follows:

Telecommunications Equipment Manufacturers

Avaya

Distributors

Graybar

Jenne Communications

ScanSource/Catalyst Telecom

Sprint/North Supply

Westcon Group/Voda One

Telephone Service Providers

SBC

Cincinnati Bell

New Product Development

Veramark is currently pursuing several opportunities to expand its telemanagement lines and to offer products for related markets.

Software development costs, meeting recoverability tests, are capitalized in accordance with Statement of Financial Accounting Standards No. 86 when technological feasibility has been established for the software. The costs capitalized are amortized on a product-by-product basis over its estimated life, or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization. The Company periodically records adjustments to write down certain capitalized costs to their net realizable value.

Backlog

At December 31, 2004, Veramark had a backlog of $1,651,569, all of which is expected to be recognized as revenue during 2005. Backlog as of December 31, 2003 was $968,859. Backlog is not deemed to be a material indicator of 2005 revenues.

The Company s policy is to recognize orders only upon receipt of purchase orders.

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Competition

The telecommunications management industry is highly competitive and highly fragmented. The number of domestic suppliers of telemanagement systems for business users is estimated to exceed 100 companies. The vast majority of those are regional firms with limited product lines and limited sales and development resources. Several competitors are established companies that are able to compete with Veramark on a national and international basis.

There are fewer competitors in the market for large-scale telemanagement systems for telephone service providers, although several existing competitors are substantially larger than Veramark and may be able to devote significantly more resources to product development and marketing.

With respect to all of Veramark s products, some competing firms have greater name recognition and more financial, marketing, and technological resources than Veramark. Competition in the industry is based on price, product performance, breadth of product line, and customer service. Veramark believes its products are priced competitively based upon their performance and functionality. We also believe that our services organization effectively and efficiently differentiates Veramark from that of competition. However, Veramark does not strive to be consistently the lowest priced supplier in its markets. Historically, prices for application software have declined rapidly in the face of competition. Increased competition for the Company s software products could adversely affect the Company s sales volume and profits.

Employees

As of February 28, 2005 Veramark employed 91 full-time personnel. Veramark s employees are not represented by any labor unions.

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Item 2 Properties

The Company s principal administrative office and manufacturing facility is located in a one-story building in Pittsford, New York. Veramark presently leases approximately 65,000 square feet of the building, of which approximately 8,600 square feet is currently sub-let. The term of the lease expires on October 31, 2007.

The Company also occupies 3,819 square feet of a building in Westlake Village, California, pursuant to a lease that expires on March 31, 2007.

Item 3 Legal Proceedings

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

Item 4 Submission of Matters to a Vote of Security Holders

None.

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PART II

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

Veramark Common Stock, $0.10 par value, is traded on the Over The Counter Bulletin Board (OTCBB) (symbol: VERA.OB). As of the opening of business on June 3, 2002, the Company s Common Stock was no longer listed on the NASDAQ Small Cap Market. The following quotations are furnished by NASDAQ through the OTCBB for the periods indicated. The quotations reflect inter-dealer prices that do not include retail markups, markdowns or commissions and may not represent actual transactions.

Quarters Ended

	March 31		June 30		September 30		December 31	
	High	Low	High	Low	High	Low	High	Low
2004	$ 2.36	$ 1.70	$ 2.15	$ 1.20	$ 1.50	$ 0.91	$ 1.65	$ 0.82
2003	$ 0.45	$ 0.33	$ 1.50	$ 0.27	$ 1.50	$ 1.01	$ 1.80	$ 1.15

As of February 28, 2005, there were 561 holders of record of the Company s Common Stock and approximately 1,955 additional beneficial holders.

The Company last paid a dividend on common stock in January 1996. No dividend is planned for 2005.

Item 6 Selected Financial Data

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Net Sales	$ 11,035,966	$ 11,463,867	$ 11,141,507	$ 12,512,690	$ 16,525,357
Net Income (Loss)	$ (113,560)	$ 294,934	$ (2,008,443)	$ (1,802,457)	$ (6,858,645)
Net Income (Loss) per Diluted Share	$ (0.01)	$ 0.03	$ (0.24)	$ (0.22)	$ (0.85)
Weighted Average Diluted Shares Outstanding	8,606,759	9,061,134	8,343,155	8,242,615	8,079,281
Total Assets	$ 9,508,756	$ 9,353,217	$ 8,846,712	$ 10,148,837	$ 11,859,330
Long Term Obligations	$ 4,439,398	$ 4,009,849	$ 3,632,400	$ 3,495,210	$ 3,373,399

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

Results of Operations

Management s Discussion and Analysis contains statements that are forward-looking. Such statements are identified by the use of words like plans, expects, intends, believes, will, anticipates, estimates and other w 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.

2004 Compared with 2003

OVERVIEW

For the quarter ended December 31, 2004, Veramark s sales of $3,012,683 increased 8% from the third quarter of 2004, and 6% from sales of $2,844,153 for the same quarter of 2003. Sales for the fourth quarter of 2004 were the highest quarterly sales achieved since the second quarter of 2002. Veramark recorded a net income of $416,047, or $0.04 per diluted share, for the quarter ended December 31, 2004, versus a net income of $465,935, or $0.05 per diluted share for the fourth quarter of 2003.

For the twelve months ended December 31, 2004, Veramark s sales were $11,035,966, or 4% less than sales of $11,463,867 for the twelve months ended December 31, 2003. The Company incurred a net loss of $113,560, or $0.01 per share for the year ended December 31, 2004 as compared to a net income of $294,934, or $0.03 per diluted share for the year ended December 31, 2003.

Despite modest decreases in total sales and net income for 2004 as compared to 2003, management is pleased with the progress made during 2004 to improve the Company s long-term strategic objectives. The continuing focus on the development of the Company s VeraSMART® product line, the next generation enterprise-level product offering replacing the Quantum Series®, has gone exceedingly well in management s opinion and has been the catalyst for the increased sales achieved for the second half of 2004 as opposed to the first six months of the year. In April 2003, the Company suspended further sales of the Quantum product line in order to focus its efforts on accelerating further development of VeraSMART, despite the short-term negative effects that decision would have on sales and cash flows. VeraSMART 1.0 was released late in the second quarter of 2003, VeraSMART 2.0 in June of 2004, and VeraSMART 3.0 was released the first week of January, 2005.

Primarily as a result of these development efforts we incurred, as expected, a net cash outflow (which totaled approximately $543,000 for the full year ended December 31, 2004).

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However the Company did generate a net positive cash inflow of approximately $272,000 for the fourth quarter ended December 31, 2004, primarily as a result of increased sales of VeraSMART. With the latest version of VeraSMART now available, though we expect to realize positive cash flows throughout 2005, we will continue to keep a careful watch on current order and sales levels, as well as operating expenses.

During 2004 the Company capitalized approximately $1,279,000 of software development costs attributable to the VeraSMART product, encompassing product releases 2.0 and 3.0. During 2003 the Company capitalized approximately $682,000 of developments costs. Capitalized development costs are amortized over five years and charged to cost of sales.

SALES

Sales of VeraSMART® for the quarter ended December 31, 2004 increased 181% from the same quarter of 2003 and accounted for 23% of total sales for the quarter. VeraSMART sales for the full year ended December 31, 2004, increased 264% from the level achieved for 2003, accounting for 12% of total sales for the year. During the fourth quarter of 2004, the Company installed ten new VeraSMART systems spanning a wide range of markets to include state and local governmental units, financial institutions, health care and the defense industry. Included among these installations were Allina Healthcare, McChord Air Force Base, Ameriquest, the U.S. Department of Labor, the Commonwealth of Massachusetts and Cendant Mortgage.

Veramark still derives revenue from VeraSMART s predecessor, the Quantum Series®, primarily in the form of ongoing maintenance contracts. Revenues from the Quantum Series, as expected, decreased 29% and 28%, respectively, for the three and twelve months ended December 31, 2004 as compared to 2003. The decrease results from a reduction in the renewal of maintenance contracts by existing Quantum customers due to the gradual phase-out of Quantum Series.

Overall, the combined sales from enterprise-level product solutions, encompassing both VeraSMART and the Quantum Series, increased 18% for the quarter ended December 31, 2004 versus the same quarter of 2003, but decreased 2% for the twelve months ended December 31, 2004, as compared to the prior year, as a result of the decline in the Quantum Series maintenance revenues referred to above.

For both the quarter and year ended December 31, 2004, our sales of eCAS call accounting and telemanagement products were negatively impacted by Avaya Inc. s early 2004 purchase of Expanets, formerly a significant channel of distribution for the Company. Though the Company was able to generate additional sales to other existing channels of distribution and make inroads with several new channels, sales of call accounting products and services declined by 1% for the quarter ended December 31, 2004, and 4% for the year ended December 31, 2004, as compared with the same periods of 2003.

Veramark also realized increased sales through its Outsourced Management group for 2004, as opposed to 2003. These increases totaled 42% and 19% for the quarter and year ended December 31, 2004 versus the same periods a year ago. By utilizing Veramark s outsourcing capabilities, companies were able to realize the benefit of controls on the telemanagement costs without the need to make significant investments in equipment or staff.

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COST OF SALES

The Company earned gross margins (defined as net sales less cost of sales) of 86% and 84% for the three and twelve months ended December 31, 2004. This compared with gross margins of 87% and 85% for the same three and twelve month periods of 2003. The slightly lower margins for 2004 reflect an increase in amortization costs associated with the development costs previously capitalized for VeraSMART versions 1.0 and 2.0. The amortization of VeraSMART 3.0 will commence in the first quarter of 2005, but we do not expect overall gross margins, as a percentage of sales, to change significantly as a result.

ENGINEERING AND SOFTWARE DEVELOPMENT

Net engineering and development expenses for the year ended December 31, 2004 of $1,415,000 decreased significantly from the $1,819,889 of engineering and development expenses incurred for 2003. This decrease is entirely the result of a higher percentage of engineering expenses being capitalized in 2004, when compared to 2003.

The following chart summarizes the gross expenditures incurred for engineering and development costs, costs capitalized, the resulting net engineering and development expenses charged against income, and the amortization costs charged to cost of sales for the years ended December 31, 2004 and 2003.

	2004	2003
Gross Expenditures for Engineering and Software Development	$ 2,693,900	$ 2,501,980
Less: Software Development Costs Capitalized	(1,278,900)	(682,091)
Net Expenditures for Engineering and Software Development	1,415,000	1,819,889
Plus: Software Development Costs Amortized and Charged to Cost of Sales	577,856	454,707
Total Expense Recognized	$ 1,992,856	$ 2,274,596

As was the case in 2004, we will continue to apply the majority of our development efforts in 2005 on expansion of the VeraSMART product line. The next release of VeraSMART is currently scheduled for availability in mid 2005.

Selling, General and Administrative Expenses

For the year ended December 31, 2004, selling, general and administrative (SG&A) expenses were $7,975,746. This represents an increase of 4% from the SG&A expenses incurred of $7,666,338 for the year ended December 31, 2003. Total SG&A expenses encompass four functional areas of our corporate structure. Those four areas are Marketing and Product Management, Direct Sales, Sales Support and Service, and Corporate Administration. A breakdown of expenses by functional area for 2004 versus 2003 follows:

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	2004	2003
Marketing and Product Management	$ 902,781	$ 793,229
Direct Sales	2,421,958	2,075,084
Sales Support and Service	2,315,730	2,427,282
Corporate Administration	2,335,277	2,370,743
	$ 7,975,746	$ 7,666,338

Though we were able to maintain a stable employment base throughout 2004, with employment at December 21, 2004 totaling 99 employees versus 102 a year earlier, total SG&A costs did increase from the prior year. The increase in expense was primarily incurred in the marketing and direct sales areas to support product launch activities required of the VeraSMART 2.0 and 3.0 product releases. Additionally, we felt it necessary to reinstate pay cuts, in place over the last two years, to retain valuable and experienced employees.

2003 Compared with 2002

The Company s overall performance in 2003 represented a significant improvement in a number of key areas, both financial and operational, from results realized over the prior 3 years. Despite the necessity to maintain static staffing levels throughout 2003 the Company was able to continue its investment in a number of key product development projects essential to the Company s long term growth plans. These projects included major upgrades to the eCAS call accounting product line, as well as the initial release of a new enterprise level product platform, VeraSMART®. The Company intends that future releases of the VeraSMART software, currently under development, will continue to expand its inherent functionality and eventually replace the Company s current Quantum Series® enterprise class product.

We were also able to maintain and slightly improve our liquidity position, generating a positive cash flow from operations for 2003 of just under $100,000. This increase was achieved by closely monitoring staffing levels, discretionary spending, carefully analyzing capital expenditures and the streamlining of operations throughout the organization. We remain free of any bank debt as of December 31, 2003 and do not anticipate a need for borrowing in the near future. Management believes that, given its current cash position, level of operating expenses, and projections for 2004 revenues, adequate sources of capital are in place to meet its objectives throughout 2004 and beyond, subject to continued improvement of the economy generally and enterprise capital spending specifically.

While we are encouraged by the year s results, we remain cautious in the face of current economic conditions. While positive signs have emerged in certain segments of the economy, there has not been a consistent and sustainable upward trend in capital spending throughout our markets. Customers continue to hold back on their capital spending and continue to delay upgrades to their systems whenever and wherever possible. As the Company doesn t typically generate large backlogs, its financial results and short-term cash flows are heavily dependent on current market conditions and order rates. Over the last two quarters of 2003 in particular, the weekly order intakes have varied significantly from month to month, a situation, which makes long term forecasting and strategic planning difficult.

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For both the three and twelve months ended December 31, 2003, the Company achieved an increase in net sales of 3% from the same three and twelve months ended December 31, 2002. Net sales of $2,844,153 for the three months ended December 31, 2003, compared with net sales of $2,761,933 for the same three months of 2002, and net sales of $11,463,867 for the year ended December 31, 2003 increased from $11,141,507 for the prior year.

The Company reported net income of $465,935, or $0.05 per diluted share for the quarter ended December 31, 2003, which compared with a net loss of $413,415, or a loss of $0.05 per share for the quarter ended December 31, 2002. For the year ended December 31, 2003, the Company generated net income of $294,934 or $0.03 per diluted share, representing a significant improvement from the net loss of $2,008,443, or $0.24 per share, for the year ended December 31, 2002. This improvement in the Company s annual net income resulted from a combination of factors, including:

An increase in sales of approximately $322,000.

A reduction in cost of sales of approximately $591,000, primarily resulting from a reduction in amounts of previously capitalized software costs amortized and charged to cost of sales.

A decrease of approximately $1,385,000 in operating expenses, of which $682,000 represents the capitalization of software development costs associated with the VeraSMART 2.0 enterprise product. There were no development costs capitalized in 2002.

The increase in net sales for both the three and twelve months ended December 31, 2003, as compared to the same three and twelve months of the prior year resulted from increased sales of the Company s core call accounting and telemanagement products and services. Net sales of call accounting and telemanagement products increased 8% and 14% for the three and twelve months ended December 31, 2003 from 2002 results for the same periods, primarily due to increased sales of the Company s eCAS product line, still believed to be the only totally web-based product of its kind on the market two years after its initial launch.

The increase in net sales of core call accounting products, however, was partially offset by a decrease in net sales of our enterprise-level product offerings, repeating a pattern that we have experienced over the past several years. Sales of the Company s enterprise products decreased 4% and 12% for the three and twelve months ended December 31, 2003, as compared to the same three and twelve months ended December 31, 2002. The decline, particularly in sales of the Company s Quantum Series product line, which is being phased out by the Company and replaced by the VeraSMART software solution, reflects the continued reluctance of customers to increase capital spending and to delay upgrades to their systems and networks until economic conditions stabilize. Despite the decline in enterprise sales during 2003, we remain optimistic about our new VeraSMART enterprise product platform. The initial version of the product, VeraSMART 1.0, was released late in the second quarter of 2003, and accounted for 9% of fourth quarter revenues. Although we recognize that overall enterprise capital spending has been slow to resume, current economic forecasts reflect slow but steady improvement in enterprise spending during 2004 and we believe we are well positioned with the VeraSMART software solution to take full advantage of this recovery. Since the beginning of this year, we have seen a quantitative increase in the number of requests for proposals for larger enterprise solutions. For the year ended December 31, 2003, sales of enterprise-level products accounted for 33% of the Company s total sales.

Revenues generated from the Company s Service Bureau operations continue to increase, up 10% for 2003 versus 2002. By opting for an outsourced solution to meet their telemanagement

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needs, customers can reap the benefits of managed telemanagement services without having to utilize internal staff and equipment and the inherent costs that creates. While still relatively modest in terms of current revenues, the Company continues to promote its capability to provide outsourced telemanagement solutions to those that recognize the benefits of telemanagement, but lack the means or desire to utilize internal staff or equipment to perform it. Using the same telemanagement tools developed for software customers, the Company can remotely poll, process, and report on telecommunications activity and data. Service Bureau customers can access standard, as well as customized, reports by e-mail, fax, web or CD-ROM. Customers typically sign multi-year contracts and pay for services monthly, based on the number of call records processed. In early 2004 the Company reached terms with the Lockheed Martin Aeronautics Company, of the Lockheed Martin Corporation, to provide outsourced call accounting applications with services beginning in the first quarter of 2004. In addition to Lockheed Martin, current Service Bureau clients include Prudential Insurance, Travelers, and Fleet Bank.

The Company continues to recognize an increasing proportion of its revenues from a variety of post sale activities that include maintenance and support, installation services, training and customization. For the year ended December 31, 2003, these post sale activities accounted for 63% of the Company s total sales, as compared with 60% of total sales for the year ended December 31, 2002.

Gross profit margins, as determined by subtracting cost of sales from total net sales, improved in 2003 as compared with 2002, primarily due to a reduction in amortization expenses charged to cost of sales for development costs capitalized in prior years. For the year ended December 31, 2003, amortization expense totaled $454,707, as compared to $915,102 for the year ended December 31, 2002. For the year ended December 31, 2003, the Company earned a gross profit margin of $9,758,902, or 85% of sales, up 10% from the gross profit margin of $8,845,080, or 79% of sales, for the year ended December 31, 2002.

Despite the difficulties encountered in the last several years, principally due to the general economic conditions that caused enterprise capital spending of our customers to decrease significantly, we continue to move forward with new development projects. During 2003, the Company remained committed to investing development resources in both eCAS and VeraSMART products. Although pleased with the progress eCAS has made since its introduction in 2002, the Company sees new opportunities for this solution in the small to mid-sized marketplace. The Company also believes that the ongoing development efforts on the VeraSMART platform, which, when complete will be the next generation replacement of the current Quantum Series® enterprise product suite, will provide a distinct competitive advantage in the large enterprise market. Additionally, the expansion of the VeraSMART platform should broaden outsourced services capabilities, a key growth area for the Company.

For the year ended December 31, 2003, we realized a decrease in net engineering and development expenses, as compared with 2002, reflecting the capitalization of development costs related to the development of the VeraSMART enterprise platform. The table below summarizes the Company s engineering and development efforts for 2003, as compared with 2002, detailing gross spending, costs capitalized, amounts amortized, and the overall impact on the Company s Statements of Operations for the years ended December 31, 2003 and 2002.

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	2003	2002
Gross Expenditures for Engineering and Software Development	$ 2,501,980	$ 2,868,188
Less: Software Development Costs Capitalized	(682,091)	
Net Expenditures for Engineering and Software Development	1,819,889	2,868,188
Plus: Software Development Costs Amortized and Charged to Cost of Sales	454,707	915,102
Total Expense Recognized	$ 2,274,596	$ 3,783,290

For the year ended December 31, 2003, the Company incurred selling, general, and administrative expenses of $7,666,338, a reduction of 4% from selling, general, and administrative expenses of $8,002,936 incurred for the year ended December 31, 2002. The Company was able to reduce operating expenses, while maintaining employment levels through the careful monitoring of discretionary spending in the areas of salaries and benefits, travel, and facility costs. A breakdown of expenses incurred by function for 2003 versus 2002 follows:

	2003	2002
Marketing/Product Management	$ 793,229	$ 760,359
Sales	2,075,084	2,398,276
Sales Support and Service	2,427,282	2,583,116
Administration	2,370,743	2,261,185
	$ 7,666,338	$ 8,002,936

We continue to monitor operating expenses carefully, as well as search for additional operating efficiencies. As of December 31, 2003, the Company employed 102 full-time employees versus 101 employees at December 31, 2002.

Liquidity and Capital Resources

At December 31, 2004, Veramark s total cash position, consisting of cash in the bank and short-term investments, totaled $1,103,257. At December 31, 2003, the Company s total cash position was $1,645,926. The overall decline in our cash position was, to a large extent, anticipated by management and consistent with the strategic decision to suspend further sales of the Quantum product line and focus on accelerating development of the VeraSMART product line made in 2003. The Company experienced net cash outflows of approximately $194,000, $417,000 and $203,000 respectively, for each of the first three quarters of 2004. During the fourth quarter of 2004, this trend was reversed, with a net positive cash flow of approximately $272,000 being generated, largely as a result of the increased sales of VeraSMART.

Accounts receivable of $1,276,204 at December 31, 2004, decreased by approximately $49,000 from the December 31, 2003 balance of $1,324,794. We continue to experience an excellent credit history with our customers, the result of which has been a reduction in the reserve

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required for potential bad debts from $65,000 at December 31, 2003 to $24,000 at December 31, 2004.

Prepaid expenses of $109,809 at December 31, 2004 declined from $130,509 at December 31, 2003. The decrease was attributable to a reduction in the prepaid portion of the Company s Directors and Officers Liability policy resulting from a reduction in premium paid for coverage in 2004, as compared with 2003.

The cost value of property and equipment at December 31, 2004 of $5,740,535, decreased from $5,833,354 at December 31, 2003. During 2004 Veramark purchased $142,283 of new capital equipment and disposed of $235,102 of out of service or obsolete equipment. The Company realized a gain of $1,983 on the disposal of this equipment.

The asset value of Capitalized Software increased from $1,817,438 at December 31, 2003 to $2,518,482 at December 31, 2004. The increase reflects the capitalization of $1,278,900 of software development cost in 2004, all attributable to VeraSMART 2.0 and 3.0, and the amortization of $577,856 of previously capitalized development costs in connection with the development of eCAS and VeraSMART 1.0.

Pension and related assets of $2,778,482 at December 31, 2004 increased $266,635 from the December 31, 2003 balance of $2,511,847, due to an increase in the cash surrender value of company-owned life insurance policies. The death benefit and current cash values of these policies are intended to fund future SERP obligations. At December 31, 2004, the cash surrender values of these policies totals approximately $2,214,000. We also have the ability to access the cash surrender values to fund current operations of the business should that ever become necessary.

Accounts payable of $298,063 at December 31, 2004 increased $85,403 from the December 31, 2003 total of $212,660, but is comparable with the levels of the accounts payable reported for the first three quarters of 2004. There have been no changes of significance in our payment practices.

Accrued compensation and related taxes includes the value of salaries and wages payable at year-end, as well as an accrual for vacation time and commission s payable at December 31, 2004. The increase from $491,848 at December 31, 2003 to $557,805 at December 31, 2004 reflects an increase in commissions due our salespeople and an increase in salaries and wages payable at year end due to the timing of Company payrolls.

Deferred revenues decreased from $2,918,337 at December 31, 2003 to $2,572,120 at December 31, 2004 due to the gradual phase out of maintenance contracts associated with the older generation Quantum Series. We expect that with increased sales of VeraSMART, Quantum s successor product, that we will begin to see an increase in new maintenance contracts and services in 2005 and therefore a resulting increase in deferred revenues during the second half of the year. Deferred revenues represent services such as training, installation, and maintenance and support services for which the Company has billed customers, but for which it has not yet performed the actual services. All services currently deferred, are expected to be provided over the next twelve months, and recorded as sales revenue at the time those services are actually rendered.

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Other accrued liabilities of at December 31, 2004 of $187,977, decreased from $209,364 at December 31, 2003. The decrease results from lower year end provisions for legal and accounting fees and sales taxes due a number of states on current sales.

As of December 31, 2004, the Company has an accumulated pension obligation of $4,439,398, up from $4,009,849 at December 31, 2003. Refer to Note 7, Benefit Plans, of Notes to Consolidated Financial Statements, referenced later in this document.

Stockholders equity, at December 31, 2004 of $1,453,393, declined slightly from $1,508,687 at December 31, 2003. The decrease includes the 2004 net loss of $113,560, offset by proceeds received by the Company of approximately $71,000 from the exercise of employee stock options and the purchase of 24,938 shares of Company Stock by employees through a company sponsored Employee Stock Purchase Plan.

Off Balance Sheet Arrangements

Pension Obligations - The Company sponsors a non-qualified, unfunded, Supplemental Executive Retirement Plan (SERP), which provides certain key employees with a defined pension benefit. The Company believes that the SERP is an important part of its compensation package, necessary for the recruitment and retention of qualified employees.

The SERP is not encumbered by the coverage and benefit restrictions imposed on qualified plans by the IRS. In addition, the Company generally is not required to comply with non-discrimination rules imposed on qualified plans under ERISA.

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

Recovery of 100% of projected SERP costs is designed through a program of Company-owned life insurance (COLI). Recovery for the imputed time value of the money, plus all costs associated with the COLI premium payments, and benefit obligations, are included in this program. The Company currently owns 14 separate life insurance contracts on selected current and former employees, not all of who will ultimately qualify for participation in the plan. The cumulative death benefit attached to these policies is $10.2 million dollars and is not included in the Company s Consolidated Balance Sheet as of December 31, 2004.

The cash surrender values of these policies at December 31, 2004 totaled approximately $2,214,000 and are included in the Company s consolidated balance sheets under the caption of Pension and Related Assets.

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

Year Ending December 31,	
2005	$ 159,767
2006	387,767

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Year Ending December 31,	
2007	387,767
2008	429,692
2009	485,353
2010-2014	2,583,050

The net present value of these projected pension obligations at December 31, 2004, totals $3,874,562, and is included in the liability section of the Company s consolidated balance sheets under the caption under Pension Obligation.

Lease Obligations The Company leases current manufacturing and office facilities and certain equipment under operating leases, which expire at various dates through 2008. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately $ 470,000**,** $558,000, and $615,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Minimum lease payments as of December 31, 2004 under operating leases are as follows:

Year Ending December 31,		**Operating Leases**
2005	$	545,210
2006		532,835
2007		386,528
2008		693
Thereafter		0
	$	1,465,266

Purchase Commitments The Company has no purchase commitment contracts in place as of December 31, 2004.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported therein. The most significant of these involving difficult or complex judgments in 2004 include:

Revenue recognition

Capitalization of software development costs

Allowance for Doubtful Accounts

Pension liability

In each situation, management is required to make estimates about the effects of matters or future events that are inherently uncertain.

The Company s overall policies with regard to revenue recognition are set forth in *Note 1 of the Consolidated Financial Statements Description of Business and Summary of Significant Accounting Policies*. As noted therein, the Company recognizes revenue in accordance with SOP 97-2, Software Revenue Recognition, and related

interpretations. Our software licensing with customers typically have terms and conditions that are described in signed orders. Revenue from

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perpetual licenses is recognized upon delivery of the licensed product, provided that acceptance has occurred and a signed contractual obligation has been received, the price is fixed and determinable, and collectibility of the receivable is probable.

Service revenues consist principally of software installation, implementation, upgrades, and customer training, as well as software maintenance agreements that include both customer support and the right to upgrades. The Company estimates the value of post-contract customer support sold together with perpetual licenses by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. Revenue from maintenance contracts is recognized ratably over the term of the contract, usually one year. Revenue from training, support and other services is recognized as the services are performed.

The Company believes its revenue recognition policies are appropriate, in all circumstances, and that its policies are reflective of complexities arising from customer arrangements involving such features as maintenance, warranty agreements, license agreements, and other normal course of business arrangements.

As set forth in Note 1, the Company capitalizes software development costs when technological feasibility has been established for the software in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. Such capitalized costs are amortized on a product-by-product basis over their economic life or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization. The Company periodically reviews the carrying value of capitalized software development costs and impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value. Should the Company inaccurately determine when a product reaches technological feasibility or the economic life of a product, results could differ materially from those reported. Veramark uses what it believes are reasonable assumptions and where applicable, established valuation techniques in making its estimates.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the potential inability of its customers to make required payments. Management specifically analyzes accounts receivable, historical bad debts, credit concentrations and customer payment terms when evaluating the adequacy of the allowance for doubtful accounts.

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

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Accounting Pronouncements

1) In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which updates the guidance in SAB No. 101, integrates the related set of Frequently Asked Questions, and recognizes the role of EITF 00-21. The adoption of SAB No. 104 did not have a material effect on the Company s consolidated financial statements.

2) In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of variable Interest entities and interpretation of ARB 51 (FIN 46). FIN 46 addresses when a company should include in its financial statements the assets, liabilities and activities of a variable interest entity. It defines variable interest entities as those entities with a business purpose that either do not have equity investors with voting rights in proportion to such investors equity for the entity to support its activities and have equity investors that lack a controlling financial interest. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN 46 consolidation requirements apply immediately to variable interest entities created on or obtained after January 31, 2003, but this had no impact on the Company s 2003 financial statements. A modification to FIN 46 (FIN 46R) was released on December 17, 2003. FIN 46R delayed the effective date for variable interest entities created before February 1, 2003, with the exception of special-purpose entities, until the first fiscal year or interim period after December 15, 2003. As of January 1, 2004, the Company adopted FIN 46R. In conjunction with this adoption, the Company performed an evaluation of variable interest entities in which it has an ownership, contractual or other monetary interest and adopted FIN 46R. The adoption of FIN 46R did not have a material effect on the Company s condensed consolidated financial statements.

3) In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . This amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . This statement clarifies the accounting guidance on derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The standard is effective for contracts entered into or modified after June 30, 2003. The adoption of this standard has not had a material impact on the Company s financial condition or results of operations.

4) In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard has not had a material impact on the Company s financial condition or results of operations.

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5) In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 applied to revenue arrangements entered into in periods beginning after June 15, 2003. The adoption of Issue 00-21 did not have a material effect on the Company s financial position or results of operations.

6) In December 2004, the FASB issued SFAS 123(R), which replaces SFAS 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123(R) requires compensation costs relating to share-based payment transactions be recognized in financial statements. The pro forma disclosure previously permitted under SFAS 123 will no longer be an acceptable alternative to recognition of expenses in the financial statements. SFAS 123(R) is effective as of the beginning of the first reporting period that begins after June 15, 2005, with early adoption encouraged. We currently measure compensation costs related to share-based payments under APB 25, as allowed by SFAS 123, and provide disclosure in notes to financial statements as required by SFAS 123. We are required to adopt SFAS 123(R) starting from the fourth fiscal quarter of 2005. We expect the adoption of SFAS 123(R) will have a material adverse impact on our net income and net income per share. We are currently in the process of evaluating the extent of such impact.

7) In December 2004, FASB issued SFAS 153, Exchanges of Nonmonetary Assets an amendment to APB Opinion No. 29 . This statement amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Adoption of this statement is not expected to have a material impact on our results of operations or financial condition.

Issues and Risks

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 the forward-looking statements: economic, competitive, governmental and technological factors, increased operating costs, failure to obtain necessary outside financing, risks related to natural disasters and financial market fluctuations. Such factors also include:

Intellectual Property Rights

Veramark regards its software as proprietary and attempts to protect it 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. In addition, Veramark sometimes use click-wrap licenses, under which it license its products, which may be unenforceable under the laws of certain jurisdictions. Also, 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

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

New Products and Services

Veramark has made significant investments in research, development and marketing for new products, services and technologies, including the VeraSMART® software offering and its service bureau outsourced 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.

Declines in Demand for Software

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

Product Development Schedule

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, could adversely affect Veramark revenues.

Competition

Veramark experiences intensive 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.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

The Company has no long-term bank debt obligations. The Company has no foreign currency exchange risk and has no foreign currency exchange contracts.

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

At December 31, 2004 and 2003 the carrying value of investments approximated fair market value. Investments at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Bond Funds	$ 271,981	$ 683,592
US Government Securities	109,256	318,329
	$ 381,237	$ 1,001,921

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Item 8 Index to Consolidated Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying balance sheet of Veramark Technologies, Inc. as of December 31, 2004, and the related statements of operations, stockholders equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Veramark Technologies, Inc. as of December 31, 2003 and for the years ended December 31, 2003 and 2002, were audited by other auditors whose report dated March 22, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Rotenberg & Co., LLP

Rotenberg & Co., llp
Rochester, New York
January 21, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Veramark Technologies, Inc.
Rochester, New York

We have audited the accompanying consolidated balance sheet of Veramark Technologies, Inc. and subsidiary as of December 31, 2003, and the related consolidated statements of operations, stockholders equity, and cash flows for the years ended December 31, 2003 and 2002. Our audits also included the financial statement schedule Valuation and Qualifying Accounts for 2003 and 2002 listed in the Index at Item 15(c). These financial statements and financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Veramark Technologies, Inc. and subsidiary as of December 31, 2003, and the results of their operations and their cash flows for the years ended December 31, 2003 and 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule for 2003 and 2002, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects the information set forth therein.

/s/ Deloitte & Touche LLP

March 22, 2004
Rochester, New York

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VERAMARK TECHNOLOGIES, INC.

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 722,020	$ 644,005
Investments	381,237	1,001,921
Accounts receivable, trade (net of allowance for doubtful accounts of $24,000 and $65,000)	1,276,204	1,324,794
Inventories, net	30,717	43,183
Prepaid expenses and other current assets	109,809	130,509
Total current assets	2,519,987	3,144,412
PROPERTY AND EQUIPMENT:		
Cost	5,740,535	5,833,354
Less accumulated depreciation	(4,846,475)	(4,792,509)
Property and equipment, net	894,060	1,040,845
OTHER ASSETS:		
Software development costs (net of accumulated amortization of $1,506,777 and $928,920)	2,518,482	1,817,438
Pension and related assets	2,778,482	2,511,847
Deposits and other assets	797,745	838,675
Total other assets	6,094,709	5,167,960
TOTAL ASSETS	$ 9,508,756	$ 9,353,217

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

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VERAMARK TECHNOLOGIES, INC.

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 298,063	$ 212,660
Accrued compensation and related taxes	557,805	491,848
Deferred revenue	2,572,120	2,918,337
Capital lease obligation		2,472
Other accrued liabilities	187,977	209,364
Total current liabilities	3,615,965	3,834,681
Pension obligation	4,439,398	4,009,849
Total liabilities	8,055,363	7,844,530
STOCKHOLDERS EQUITY:		
Common stock, par value, $0.10; shares authorized, 40,000,000; 8,749,179 shares and 8,643,054 shares issued	874,918	864,305
Additional paid-in capital	21,744,969	21,703,571
Accumulated deficit	(20,795,128)	(20,681,568)
Treasury stock (80,225 shares at cost)	(385,757)	(385,757)
Accumulated other comprehensive income	14,391	8,136
Total stockholders equity	1,453,393	1,508,687
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 9,508,756	$ 9,353,217

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

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VERAMARK TECHNOLOGIES, INC.

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
NET SALES			
Product Sales	$ 4,066,110	$ 4,255,870	$ 4,508,859
Service Sales	6,969,856	7,207,997	6,632,648
Total Net Sales	11,035,966	11,463,867	11,141,507
COSTS AND OPERATING EXPENSES:			
Cost of sales	1,764,095	1,704,965	2,296,427
Engineering and software development	1,415,000	1,819,889	2,868,188
Selling, general and administrative	7,975,746	7,666,338	8,002,936
Total costs and operating expenses	11,154,841	11,191,192	13,167,551
INCOME (LOSS) FROM OPERATIONS	(118,875)	272,675	(2,026,044)
INTEREST INCOME	5,315	22,259	17,601
INCOME (LOSS) BEFORE INCOME TAXES	(113,560)	294,934	(2,008,443)
INCOME TAXES			
NET INCOME (LOSS)	$ (113,560)	$ 294,934	$ (2,008,443)
NET INCOME (LOSS) PER SHARE			
Basic	$ (0.01)	$ 0.03	$ (0.24)
Diluted	$ (0.01)	$ 0.03	$ (0.24)
WEIGHTED AVERAGE SHARES OUTSTANDING (BASIC)	8,606,759	8,448,797	8,343,155
WEIGHTED AVERAGE SHARES OUTSTANDING (DILUTED)	8,606,759	9,061,134	8,343,155

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

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VERAMARK TECHNOLOGIES, INC.

STATEMENTS OF STOCKHOLDERS EQUITY
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	Common Stock Shares	Common Stock Par Value	Additional Paid in Capital	Accumulated Deficit	Treasury Stock	Accumulated Comprehensive Income	Note Receivable For Common Stock	Total Stockholders Equity
BALANCE - December 31, 2001	8,323,689	$ 840,391	$ 21,541,650	$ (18,968,059)	$ (385,757)	$ -0-	$ (87,829)	$ 2,940,396
Stock purchase plan	67,045	6,705	19,862					26,567
Compensation expenses stock options			124,684					124,684
Reduction in note receivable - common stock							87,829	87,829
Net loss				(2,008,443)				(2,008,443)
BALANCE - December 31, 2002	8,390,734	$ 847,096	$ 21,686,196	$ (20,976,502)	$ (385,757)	$ -0-	$ -0-	$ 1,171,033
Change in other comprehensive income						$ 8,136		$ 8,136
Net income				294,934				294,934
Total comprehensive Income				294,934		8,136		303,070
Stock purchase plan	36,245	3,624	12,344					15,968
Exercise of stock options and warrants	135,850	13,585	45,208					58,793
Compensation expenses stock			(40,177)					(40,177)

options								
BALANCE - December 31, 2003	8,562,829	$ 864,305	$ 21,703,571	$ (20,681,568)	$ (385,757)	$ 8,136	$ -0-	$ 1,508,687
Change in other comprehensive income						$ 6,255		$ 6,255
Net loss				(113,560)				(113,560)
Total comprehensive Income				(113,560)		6,255		(107,305)
Stock purchase plan	24,938	2,494	18,285					20,779
Exercise of stock options and warrants	81,187	8,119	41,851					49,970
Compensation expenses stock options			(18,738)					(18,738)
BALANCE - December 31, 2004	8,668,954	$ 874,918	$ 21,744,969	$ (20,795,128)	$ (385,757)	$ 14,391	$ -0-	$ 1,453,393

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

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VERAMARK TECHNOLOGIES, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
OPERATING ACTIVITIES:			
Net income (loss)	$ (113,560)	$ 294,934	$ (2,008,443)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	855,376	776,225	1,450,352
Recovery of bad debts	(35,269)	(19,151)	(15,738)
Compensation expense, net of forfeitures stock options	(18,738)	(40,177)	124,684
Provision for inventory obsolescence		37,494	73,000
(Gain) Loss on disposal of fixed assets	(1,983)	1,003	18
Changes in assets and liabilities:			
Accounts receivable	83,859	(169,867)	502,808
Inventories	12,466	11,599	(10,117)
Prepaid expenses and other current assets	20,700	52,121	(106,455)
Deposits and other assets	(225,705)	(304,468)	(256,046)
Accounts payable	85,403	(52,524)	74,401
Accrued compensation and related taxes	65,957	99,040	(39,201)
Deferred revenue	(346,217)	(281,808)	360,813
Other accrued liabilities	(21,387)	41,556	(67,870)
Pension obligation	429,549	384,849	154,961
Net cash provided by operating activities	790,451	830,826	237,167
INVESTING ACTIVITIES:			
Sale (Purchase) of investments	620,684	(77,239)	(307,033)
Additions to property and equipment	(142,283)	(111,320)	(38,608)
Capitalized software development costs	(1,278,900)	(682,091)	
Proceeds from sale of equipment	13,531		
Increase in other comprehensive income	6,255	8,136	
Net cash used in by investing activities	(780,713)	(862,514)	(345,641)
FINANCING ACTIVITIES:			
Repayment of capital lease obligation	(2,472)	(22,262)	(15,866)
Exercise of stock options and warrants	49,970	58,793	
Employee stock purchase plan	20,779	15,968	26,567
Reduction of note receivable for common stock			87,829
Net cash provided by financing activities	68,277	52,499	98,530
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	78,015	20,811	(9,944)

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	644,005	623,194	633,138
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 722,020	$ 644,005	$ 623,194

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

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VERAMARK TECHNOLOGIES, INC.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

1. DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The financial statements include management s best estimates of the net realizable value of software development costs. Accordingly, the Company periodically records adjustments to write down the carrying value of software development costs to their net realizable value. The amounts the Company will ultimately realize could differ materially from the carrying value of the software development costs.

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

Investments **-** The Company records its investments in accordance with Statement of Financial Account Standards (SFAS) No. 115, Accounting for Certain Investments in Certain Debt and Equity Securities. As of December 31, 2004 and 2003, the Company has classified its portfolio as available-for-sale securities. These securities are recorded at fair value, based on quoted market prices in an active market, with net unrealized holding gains and losses reported in stockholders equity as accumulated other comprehensive income. At December 31, 2004 and 2003 the carrying value of investments approximated fair market value.

Investments at December 31, 2004 and 2003 consisted of the following:

	2004	2003
Bond Funds	$ 271,981	$ 683,592
US Government Securities	109,256	318,329
	$ 381,237	$ 1,001,921

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The contractual maturities of the Company s investments as of December 31, 2004 are primarily due within one year.

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

The Company s customers are not concentrated in any specific geographic region, but are concentrated in the telecommunications industry. As of December 31, 2004, one customer in this industry accounted for approximately $189,000 of the total accounts receivable balance. As of December 31, 2003, this same customer accounted for approximately $166,000 of the total accounts receivable balance. The Company performs ongoing credit evaluations of its customers financial conditions but does not require collateral to support customer receivables. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information. Such losses to date have been within managements expectations.

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

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

Prepaid Expenses consist of cash outlays made by the Company for economic benefits to be realized in future periods. These benefits typically include the unutilized portions of current business insurances and maintenance contracts on Company-owned equipment. Prepaid expenses are generally expensed on a straight-line basis over the corresponding life of the underlying asset.

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

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

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

Long-lived assets - In accordance with Statement of Financial Accounting Standards (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets, the Company tests long-lived assets for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment charges were recorded in 2004, 2003, and 2002.

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Software development costs meeting recoverability tests are capitalized, under SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed, and amortized on a product-by-product basis over their economic life, ranging from three to five years, or the ratio of current revenues to current and anticipated revenues from such software, whichever provides the greater amortization in a particular period. The Company capitalized $1,278,900 of development costs in 2004, and $682,901 of development costs in 2003. The Company amortized $577,856 of development costs in 2004, and $454,707 of development costs in 2003. The Company periodically reviews the carrying value of capitalized software development costs and impairments are recognized in the results of operations when the expected future undiscounted operating cash flow derived from the capitalized software is less than its carrying value. No charges for impairment were required in 2004, 2003 and 2002.

Fair Value of Financial Instruments Statement of Financial Accounting Standards (SFAS) No. 107, Disclosure About Fair Value of Financial Instruments, requires entities to disclose the fair value of financial instruments, both assets and liabilities recognized and not recognized on the balance sheet, for which it is practicable to estimate fair value. SFAS No. 107 defines fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties. At December 31, 2004 and 2003, the carrying value of certain financial instruments (accounts receivable, accounts payable, and current portion of capital lease obligations) approximates fair value due to the short-term nature of the instruments or interest rates, which are comparable with current rates. At December 31, 2004 and 2003, the Company has no long-term debt.

Revenue recognition - Revenue is derived from the sale of computer software products and from related maintenance contracts. The Company recognizes revenue in accordance with Statement of Position (SOP) 97-2, Software Revenue Recognition , and related interpretations. Revenue from the sale of computer software products is recognized upon delivery and acceptance of the product, the selling price is fixed and determinable, and collectibility of the receivable is probable. The Company estimates the value of post-contract customer support, sold together with the computer software products, by reference to published price lists which generally represent the prices at which customers could purchase renewal contracts for such services. Revenue from maintenance contracts is recognized ratably over the term of the contract. Costs related to maintenance obligations are expensed as incurred. Revenue from training, support and other services is recognized as the services are performed.

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

Net income (or loss) per common share (EPS) is computed in accordance with the provisions of SFAS No. 128, Earnings Per Share. Basic EPS is computed by dividing net income (loss) by weighted average shares outstanding. Diluted EPS includes the dilutive effect of stock options and warrants issued. There were no dilutive effects of stock options and warrants in 2004 or 2002, as the effect would be anti-dilutive, due to net losses incurred for those years. Included in diluted earnings per share in 2003 are 612,337 shares, representing the dilutive effect of stock options and warrants issued.

Comprehensive Income Comprehensive income includes all changes in stockholders equity during the period except those resulting from investments by owners and distribution to owners. The Company s

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comprehensive income includes net loss or earnings, and unrealized gains or losses on available for sale investments.

Research and Development Costs Research and development costs, other than certain software development costs previously disclosed in Note 1, are expensed as incurred.

Stock-Based Compensation - The Company accounts for stock-based compensation in accordance with SFAS No. 123, Accounting for Stock-Based Compensation. As permitted by SFAS No. 123, the Company continues to measure compensation for such plans using the intrinsic value based method of accounting, prescribed by Accounting Principles Board (APB), Opinion No. 25, Accounting for Stock Issued to Employees. Had compensation cost for the Company s stock-based compensation plans been determined based on the fair value at the grant dates for awards consistent with the method of SFAS No. 123, the Company s net income (loss) and net income (loss) per common share would have been adjusted to the pro forma amounts indicated below:

		2004	2003	2002
Net income (loss), as reported		$ (113,560)	$ 294,934	$ (2,008,443)
Add: Stock-based compensation expense included in net income, net of related tax effects.		$ (18,738)	$ (40,177)	$ 124,684
Deduct: Total stock-based compensation expense determined under fair value, net of related tax effects		(138,631)	(627,948)	(1,075,302)
Pro forma net income (loss)		$ (270,929)	$ (373,191)	$ (2,959,061)
Net income (loss) per common share	Pro forma:			
	Basic	$ (0.01)	$ 0.03	$ (0.24)
	Diluted	$ (0.01)	$ 0.03	$ (0.24)
	Pro forma:			
	Basic	$ (0.03)	$ (0.04)	$ (0.35)
	Diluted	$ (0.03)	$ (0.04)	$ (0.35)

For purposes of the disclosure above, the fair value of each option grant is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for grants in 2004, 2003 and 2002.

	2004	2003	2002
Dividend yield			
Expected volatility	145.05%	142.71%	137.65%
Risk-free interest rate	3.29%	2.73%	4.25%
Expected life	5 years	5 years	5 years

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Accounting Pronouncements

1) In December 2003, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition, which updates the guidance in SAB No. 101, integrates the related set of Frequently Asked Questions, and recognizes the role of EITF 00-21. The adoption of SAB No. 104 did not have a material effect on the Company s consolidated financial statements.

2) In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, Consolidation of variable Interest entities and interpretation of ARB 51 (FIN 46). FIN 46 addresses when a company should include in its financial statements the assets, liabilities and activities of a variable interest entity. It defines variable interest entities as those entities with a business purpose that either do not have equity investors with voting rights in proportion to such investors equity for the entity to support its activities and have equity investors that lack a controlling financial interest. FIN 46 also requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. FIN 46 consolidation requirements apply immediately to variable interest entities created on or obtained after January 31, 2003, but this had no impact on the Company s 2003 financial statements. A modification to FIN 46 (FIN 46R) was released on December 17, 2003. FIN 46R delayed the effective date for variable interest entities created before February 1, 2003, with the exception of special-purpose entities, until the first fiscal year or interim period after December 15, 2003. As of January 1, 2004, the Company adopted FIN 46R. In conjunction with this adoption, the Company performed an evaluation of variable interest entities in which it has an ownership, contractual or other monetary interest and adopted FIN 46R. The adoption of FIN 46R did not have a material effect on the Company s condensed consolidated financial statements.

3) In April 2003, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . This amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . This statement clarifies the accounting guidance on derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. The standard is effective for contracts entered into or modified after June 30, 2003. The adoption of this standard has not had a material impact on the Company s financial condition or results of operations.

4) In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this standard has not had a material impact on the Company s financial condition or results of operations.

5) In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Issue 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of Issue 00-21 applied to revenue arrangements entered into

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in periods beginning after June 15,2003. The adoption of Issue 00-21 did not have a material effect on the Company s financial position or results of operations.

6) In December 2004, the FASB issued SFAS 123(R), which replaces SFAS 123, Accounting for Stock-Based Compensation , and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS 123(R) requires compensation costs relating to share-based payment transactions be recognized in financial statements. The pro forma disclosure previously permitted under SFAS 123 will no longer be an acceptable alternative to recognition of expenses in the financial statements. SFAS 123(R) is effective as of the beginning of the first reporting period that begins after June 15, 2005, with early adoption encouraged. We currently measure compensation costs related to share-based payments under APB 25, as allowed by SFAS 123, and provide disclosure in notes to financial statements as required by SFAS 123. We are required to adopt SFAS 123(R) starting from the fourth fiscal quarter of 2005. We expect the adoption of SFAS 123(R) will have a material adverse impact on our net income and net income per share. We are currently in the process of evaluating the extent of such impact.

7) In December 2004, FASB issued SFAS 153, Exchanges of Nonmonetary Assets an amendment to APB Opinion No. 29 . This statement amends APB 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Adoption of this statement is not expected to have a material impact on our results of operations or financial condition.

Stock Purchase Plans Under the Company s Employee s Stock Purchase Plan (ESPP), employees can purchase Veramark stock at a 15% discount to the lesser of the market price at the beginning or ending date of the six-month periods ending approximately June 30th and December 31st. Employees may elect to make after-tax payroll deduction of 1% to 10% of compensation as defined by the plan to the extent that his or her rights to purchase stock under this plan does not exceed Twenty-Five Thousand Dollars ($25,000) worth of stock (determined at the full market value of the shares at the time such option is granted), and only to the extent that, immediately after the grant, such employee would not own or hold outstanding options to purchase stock, such that his or her combined voting power would exceed 5% of all classes of capital stock of the Company. The ESPP is intended to meet the requirements of section 423 of the Internal Revenue Code of 1986, as amended, and, based upon the guidance in APB 25 and related interpretations, is considered a non-compensatory plan. Accordingly, the Company records no compensation expense for the ESPP. Employee payroll deductions are for six-month period beginning approximately each January 1 And July 1. Shares of the Company s common stock are purchased on or about June 30 or December 31 unless the participant has either elected to withdraw from the plan or was terminated. Purchased shares are restricted for sale or transfer for a six-month period. All participants funds received prior to the ESPP purchase dates are held as Company liabilities without interest or other increment. No dividends are paid on employee contributions until shares are purchased. Plan participants purchased 24,938 shares at an average purchase price of $0.83 in 2004, 36,245 shares at an average purchase price of $0.44 in 2003 and 67,045 shares at an average purchase price of $0.40 in 2002.

2. PROPERTY AND EQUIPMENT

The major classifications of property and equipment as of December 31, 2004 and 2003 are:

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	2004	2003
Machinery and equipment	$ 794,314	$ 792,579
Computer hardware and software	1,935,985	1,889,404
Furniture and fixtures	1,627,677	1,768,812
Leasehold improvements	1,382,559	1,382,559
	$ 5,740,535	$ 5,833,354

Depreciation expense was approximately $278,000, $322,000 and $535,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

3. ENGINEERING AND SOFTWARE DEVELOPMENT EXPENDITURES

Engineering and software development costs incurred during the years ended December 31, 2004, 2003 and 2002 were recorded as follows:

	2004	2003	2002
Engineering and software development expenses included in the consolidated statements of operations	$ 1,415,000	$ 1,819,889	$ 2,868,188
Amounts capitalized and included in the consolidated balance sheets	1,278,900	682,091	
Total costs for engineering and software development	$ 2,693,900	$ 2,501,980	$ 2,868,188

Additionally, the Company recorded amortization of capitalized software development costs of approximately $578,000, $455,000, and $915,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Such amortization is included in cost of sales in the consolidated statements of operations. Estimated aggregate minimum amortization expenses for each of the next five years is:

2005	$ 805,062
2006	701,832
2007	392,196
2008	392,196
2009	227,196

4. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) for years ended December 31, 2004, 2003 and 2002 was as follows:

	2004	2003	2002
Net income (loss)	$ (113,560)	$ 294,934	$ (2,008,443)
Other comprehensive income unrealized gain on investments	6,255	8,136	

Comprehensive income (loss)	$ (107,305)	$ 303,070	$ (2,008,443)

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

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

	Year Ended December 31,		
	2004	2003	2002
Basic			
Net income (loss)	$ (113,560)	$ 294,934	$ (2,008,443)
Weighted average common shares outstanding	8,606,759	8,448,797	8,343,155
Net income (loss) per common share	$ (0.01)	$ 0.03	$ (0.24)
Diluted			
Net income (loss)	$ (113,560)	$ 294,934	$ (2,008,44)
Weighted average common shares outstanding	8,606,759	8,448,797	8,343,155
Additional dilutive effect of stock options & warrants after application of treasury stock method	(1)	612,337	(1)
Weighted average dilutive shares outstanding	8,606,759	9,061,134	8,343,155
Net income (loss) per common share assuming dilution	$ (0.01)	$ 0.03	$ (0.24)

(1) There were no dilutive effects of stock options and warrants in 2004 or 2002, as the effect would be anti-dilutive due to the net losses incurred for those years.

6. INDEMNIFICATION OF CUSTOMERS

The Company s agreements with customers generally require us to indemnify the customer against claims that its software infringes third party patent, copyright, trademark or other proprietary rights. Such indemnification obligations are generally limited in a variety of industry-standard respects, including our right to replace an infringing product. As of December 31, 2004, the Company had not experienced any material losses related to these indemnification obligations and no material claims with respect thereto

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were outstanding. The Company does not expect significant claims related to these indemnification obligations, and consequently, the Company has not established any related reserves.

7. BENEFIT PLANS

The Company sponsors an employee incentive savings plan under section 401(k) for all eligible employees. The Company s contributions to the plan are discretionary. There have been no contributions to the plan since 1999.

The Company also sponsors an unfunded Supplemental Executive Retirement Program (SERP), which is a nonqualified plan that provides certain key employees defined pension benefits. For the years ended December 31, 2004 and 2003, changes to the benefit obligation consisted of the following:

	2004	2003
Benefit obligation-beginning of year	$ 4,009,849	$ 3,625,000
Current service cost-benefits earned during the period	323,006	252,155
Interest cost on projected benefit obligation	276,472	238,409
Plan amendments	(3,795)	53,419
Benefits paid	(166,134)	(159,134)
Benefit obligation-end of year	$ 4,439,398	$ 4,009,849

The annual measurement date for the pension benefit obligation is October 1. A reconciliation of the SERP plan s funded status with amounts recognized in the Company s balance sheets is as follows:

	2004	2003
Actuarial present value of projected benefit obligation	$ 4,439,398	$ 4,009,849
Plan assets		
Projected benefit obligation in excess of plan assets	4,439,398	4,009,849
Prior service cost not yet recognized in net periodic pension cost	(564,836)	(653,005)
Net amount recognized	$ 3,874,562	$ 3,356,844

Included in the pension assets caption in the consolidated balance sheets as of December 31, 2004 and 2003 is an intangible asset of $564,836 and $653,005, respectively, related to the minimum liability adjustment for the unfunded accumulated benefit obligation.

The discount rate used in determining the actuarial present value of the projected benefit obligation was 6% for 2004 and 2003. The rate of increase in future compensation levels used in determining the projected benefit obligation ranged from 0% to 3% for 2004 and 3% for 2003.

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The Company maintains life insurance covering certain key employees under its Supplemental Executive Retirement Program with the Company named as beneficiary. The Company intends to use the death benefits of these policies, as well as loans against the accumulating cash surrender value of the policies, to fund the pension obligation. The total death benefit associated with these policies is $10.2 million, with an associated accumulated cash surrender value of approximately $2,214,000 at December 31, 2004. The accumulated cash surrender values of these policies at December 31, 2003, was approximately $1,858,000. All of the current accumulated cash surrender values are available to meet current pension obligations, or to fund current general operations of the Company in the event that should become necessary. The projected future pension benefits under this plan are as follows, assuming a retirement age of 65 and a life expectancy of 80 years for all participants:

Year Ending December 31,	
2005	$ 159,767
2006	387,767
2007	387,767
2008	429,692
2009	485,353
2010-2014	2,583,050

8. STOCKHOLDERS EQUITY

The Company has reserved 4,500,000 shares of its common stock for issuance under its 1998 Stock Option Plan. As of December 31, 2004, 1,584,481 shares of common stock were available for future grants. The plan provides for options, which may be issued as nonqualified or qualified incentive stock options. All options granted are exercisable in increments of 20 - 100% per year beginning one year from the date of grant. All options granted to employees have a ten year term.

A summary of stock option and warrant transactions for the years ended December 31, 2004, 2003 and 2002 is shown below:

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	2004		2003		2002	
	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE
Options						
Shares under option, beginning of year	3,547,470	$ 2.32	3,428,835	$ 2.59	3,725,875	$ 2.82
Options granted	91,833	1.31	497,500	0.60	152,750	0.49
Options exercised	(81,187)	0.62	(135,850)	0.43		
Options terminated	(212,813)	2.77	(243,015)	3.75	(449,790)	3.77
Shares under option, end of year	3,345,303	$ 2.30	3,547,470	$ 2.32	3,428,835	$ 2.59
Shares exercisable	2,799,682	$ 2.42	2,533,175	$ 2.24	2,662,653	$ 2.28
Weighted average fair value of options granted	$ 1.37		$ 0.63		$ 0.52	
Exercise price of options outstanding	$ 0.28-$10.41		$ 0.28-$10.41		$ 0.37-$10.41	
Warrants						
Warrants outstanding, beginning of year	14,701	$ 6.17	64,701	$ 3.82	92,881	$ 5.31
Warrants granted						
Warrants exercised						
Warrants expired	(14,701)	6.17	(50,000)	3.12	(28,180)	8.74
Warrants outstanding, end of year	-0-	N/A	14,701	$ 6.17	64,701	$ 3.82
Exercise price of warrants outstanding	N/A	N/A	$ 5.81-$6.38		$ 3.12-$6.38	

The following table summarizes information relating to currently outstanding and exercisable stock options as of December 31, 2004:

Range of Exercise Prices	Weighted Average Remaining Contractual Life (in years)	Options Outstanding	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.28-$1.49	7	1,601,833	$ 0.52	1,185,562	$ 0.50
$1.50-$4.99	4	1,089,788	2.52	1,008,038	2.51
$5.00-$10.41	4	653,682	6.30	606,082	6.04
	6	3,345,303	$ 2.30	2,799,682	$ 2.42

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9. SALES INFORMATION

Sales to two customers were approximately $3,687,000 or 33% of the Company s total sales in 2004. Sales to one of those customers was approximately $1,968,000 or 17% of the Company s total sales in 2003 and sales to another customer were approximately $1,609,000 or 14% of the Company s total sales in 2002.

10. INCOME TAXES

The income tax provision includes the following:

	2004	2003	2002
Current income tax expense:			
Federal	$	$	$
State			
	$	$	$
Deferred income tax provision (benefit):			
Federal	(290,768)	(242,166)	(519,823)
State	(21,240)	(17,795)	(93,224)
Increase in valuation allowance	312,008	259,961	613,047
	$	$	$

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

	2004	2003	2002
Tax benefit at statutory federal rate	(38,610)	$ 100,278	$ (682,871)
State taxes, net of federal tax benefit	(3,407)	(17,795)	(93,224)
Increase in valuation allowance	312,008	259,960	613,047
Other		8,686	(7,703)
Nondeductible expenses	4,618		
Deferred tax adjustment-fixed assets	(284,847)	(332,187)	
Deferred tax adjustment-net operating loss	44,237		
General business credits	(33,999)	(18,942)	170,751
	$	$	$

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

	2004	2003
General business credits	1,392,661	$ 1,357,360

Net operating losses	4,108,860	3,934,386
Deferred compensation	1,843,676	1,660,814

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	2004	2003
Alternative minimum tax credits	322,216	322,216
Inventory	344	86,008
Accounts receivable	8,880	24,050
Capitalized software	(931,838)	(672,452)
Fixed assets	169,180	(108,407)
Other	114,118	110,812
New York State ITC	96,202	97,504
	7,124,299	6,812,291
Valuation allowance	(7,124,299)	(6,812,291)
Net deferred asset (liability)	$	$

The Company has $11,105,028 of net operating loss carryforwards available as of December 31, 2004. Of that total, $682,000 is limited to a utilization of approximately $100,000 annually. The carryforwards expire in varying amounts in 2011 through 2024. The valuation allowance increased by $312,008 during the year ended December 31, 2004.

The Company s tax credit carryforwards as of December 31, 2003 are as follows:

Description	Amount	Expiration Dates
General business credits	$ 1,392,661	2005 2024
New York State investment tax credits	$ 96,202	2005 2019
Alternative minimum tax credits	$ 322,216	No expiration date

Cash paid for income taxes during the years ended December 31, 2004, 2003 and 2002 totaled $35,774, $2,882, and $1,568 respectively.

11. COMMITMENTS AND CONTINGENCIES

Lease Obligations - The Company leases current manufacturing and office facilities and certain equipment under operating leases, which expire at various dates through 2008. Rent expense under all operating leases (exclusive of real estate taxes and other expenses payable under the leases) was approximately $470,000, $558,000, and $615,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Minimum lease payments as of December 31, 2004 under operating leases are as follows:

Year Ending December 31,	Operating Leases
2005	$ 545,210
2006	532,835
2007	386,528
2008	693
Thereafter	-0-

$	1,465,266

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Legal Matters - The Company is subject to litigation from time to time in the ordinary course of business. In the opinion of management, such liability will not have a material adverse effect on the Company s financial condition or results of operations**.**

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial information for the years ended December 31, 2004 and 2003 is as follows:

	Three Months Ended			
	March 31	June 30	September 30	December 31
2004				
Net sales	$ 2,673,698	$ 2,567,599	$ 2,781,986	$ 3,012,683
Gross profit	$ 2,293,211	$ 2,091,967	$ 2,295,204	$ 2,591,489
Net income (loss)	$ 25,538	$ (521,386)	$ (33,759)	$ 416,047
Net income (loss) per common share				
- Basic	$ 0.00	$ (0.06)	$ 0.00	$ 0.05
- Diluted	$ 0.00	$ (0.06)	$ 0.00	$ 0.04
2003				
Net sales	$ 2,750,021	$ 2,952,514	$ 2,917,179	$ 2,844,153
Gross profit	$ 2,289,444	$ 2,523,269	$ 2,458,847	$ 2,487,342
Net income (loss)	$ (205,078)	$ (75,451)	$ 109,528	$ 465,935
Net income (loss) per common share				
- Basic	$ (0.02)	$ (0.01)	$ 0.01	$ 0.05
- Diluted	$ (0.02)	$ (0.01)	$ 0.01	$ 0.05

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PART III

Item 9A. 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 Treasurer (Chief Accounting 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.

Item 10 Directors and Executive Officers of the Registrant

Information relating to the officers and directors of the Company and the Committees of the Company s Board of Directors is incorporated herein by reference to portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the headings Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance.

The following lists the names and ages of all executive officers of the Company, all persons chosen to become executive officers, all positions and offices with the Company held by such persons, and the business experience during the past five years of such persons. All officers and directors were re-elected to their present positions for terms ending on May 17, 2005, with the exception of Mr. Moylan, who was appointed to the Board of Directors in September 2004, until their respective successors are elected and qualified.

MANAGEMENT

Directors and Executive Officers of the Registrant

The Directors and executive officers of Veramark are as follows:

Name	Age	Position
David G. Mazzella	64	Chairman of the Board, President and CEO
William J. Reilly	56	Director

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Name	Age	Position
Charles A. Constantino	65	Director
John E. Gould	60	Director
Andrew W. Moylan	65	Director
James R. Scielzo	62	Director
Ronald C. Lundy	53	Treasurer
Douglas F. Smith	60	Vice President Operations

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

David G. Mazzella, Jr. was appointed Chief Executive Officer in June 1997. He previously served as President and Chief Operating Officer of the Company from February 1997. He became Chairman of the Board on December 19, 1998. From June 1994 to February 1997, he was engaged in management consulting. From February 1992 to June 1994, he was the President and CEO of Scotgroup Enterprises, Inc., which was engaged in the development and sale of telecommunications software equipment and the sale of paging and cellular telephone services. From 1988 1991, Mr. Mazzella was Vice President of Glenayre Electronics, a manufacturer of software based telecommunications equipment. He was President and CEO of Multitone Electronics, Inc., a company engaged in the manufacture, sale and servicing of telecommunications equipment from 1983 until its acquisition by Glenayre Electronics in 1988.

William J. Reilly has been a Director of Veramark since June 1997. Since September 2004, Mr. Reilly has been President and Chief Executive Officer of Realtime Media, an online Relationship Marketing firm to the Pharmaceutical and Consumer Packaged Goods markets. From September 2001 until September 2004, Mr. Reilly also served as a Principal in the consulting firm ChesterBrook Growth Partners. From 1989 until September, 2003, Mr. Reilly was Chief Operating Officer of Checkpoint Systems, Inc., (NYSE:CKP) a global manufacturer and distributor of automatic identification, pricing, and retail security systems.

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

John E. Gould has been a Director of Veramark since August 1997. For more than five years, Mr. Gould has been a Partner in Gould & Wilkie LLP, a general practice law firm located in New York City. On May 1, 2002, Gould & Wilkie LLP combined with Thompson Hine LLP, a larger general practice law firm with headquarters in Cleveland, Ohio. The former firm of Gould and Wilkie LLP is now the New York City office of Thompson Hine LLP. Mr. Gould serves on the Executive Committee of Thompson Hine LLP. Mr.

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Gould is also Chairman of the American Geographical Society and a Director of the Gerber Life Insurance Company.

Andrew W. Moylan was appointed to the Board of Directors of Veramark in September 2004. Mr. Moylan is currently the President, Chief Operating Officer and Director of MarketDataInsite, as well as a consultant for Deloitte & Touche, LLP. Prior to his current position, Mr. Moylan was a senior Partner in the Deloitte management consulting practice in New York for more than 20 years. Mr. Moylan earned a BA and an MBA from the City University of New York.

James R. Scielzo was appointed to the Board of Directors of Veramark in March 1998. From 1994, until his retirement in 1999, Mr. Scielzo held the position of Senior Vice President and Chief Technology Officer for Young & Rubicam, Inc., a global corporate communications, advertising and public relations firm. Prior to that, he was Senior vice President/Chief Technology Officer at Wundermann Cato Johnson, the direct response advertising subsidiary of Young & Rubicam, and the Director of systems Development for Young & Rubicam.

Ronald C. Lundy was appointed Treasurer of Veramark in July 1993. Since joining Veramark in 1984 he has held a variety of financial management positions, the most recent having been Corporate Controller since December of 1992. Prior to that he held various financial positions with Rochester Instrument Systems, Inc. from 1974-1983.

Douglas F. Smith was appointed Vice President of Operations in December 1998. Mr. Smith has been an employee of the Company since 1984 as Order Administration Manager and then as Director of Operations. Prior to joining the Company, Mr. Smith held various management positions with Rochester Instrument Systems, Inc.

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The Company has adopted a Code of Business Conduct and Ethics for all principal executive officers, directors, and employees of the Company. A copy of this code is incorporated by reference to portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, as Exhibit F. A copy of the Code of Business Conduct and Ethics is available, without charge, upon written request to the Company s Treasurer at the Company s corporate offices.

Item 11 Executive Compensation

Information relating to executive compensation is incorporated by reference portions of to the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Executive Compensation.

Item 12 Security Ownership of Certain Beneficial Owners and Management

Information relating to the security holdings of more than five percent holders and directors and officers of the Company is incorporated herein by reference to portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the headings Executive Compensation and Stock Options.

Item 13 Certain Relationships and Related Transactions

Information related to certain relationships and related transactions of the Company, are incorporated herein by reference to portions of the Company s Proxy Statement, for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Certain Relationships and Related Transactions.

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PART IV

Item 14 Principal Accounting Fees and Services

Information relating to accounting fees and services incurred by and provided to the Company are incorporated herein by reference to portions of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held May 17, 2005, under the heading Audit Fees and Services.

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

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

(b) Reports on Form 8-K

1. On February 17, 2004, the Company filed a Current Report on Form 8-K reporting that the Company issued a press release announcing the Company s financial results for the year ended December 31, 2003, a copy of such press release, which was attached as Exhibit 99.1.

2. On May 14, 2004, the Company filed a Current Report on Form 8-K reporting that the Company issued a press release announcing the Company s financial results for the quarter ended March 31, 2004, a copy of such press release, which was attached as Exhibit 99.1.

3. On May 12, 2004, the Company filed a current report on Form 8-K reporting that the accounting firm of Deloitte and Touche LLP was ceasing its client-auditor relationship with the Company effective with completion of the review of the Company s interim financial statements for the quarter ended March 31, 2004.

4. On June 7, 2004, the Company filed a current report on Form 8-K announcing that the audit Committee of the Board of Directors approved, on June 2, 2004, the accounting firm of Rotenberg and Company LLP as independent accountants for the year ending December 31, 2004.

5. On August 13, 2004, the Company filed a current report on Form 8-K reporting that the Company issued a press release announcing the Company s financial results for the quarter ended June 30, 2004, a copy of such press release, which was attached as Exhibit 99.1.

6. On September 2, 2004, the Company filed a current report on Form 8-K reporting the election of Mr. Andrew W. Moylan to the Board of Directors.

7. On November 15, 2004, the Company filed a current report on Form 8-K reporting that the Company issued a press release announcing the Company s financial results for the quarter ended September 30, 2004, a copy of such press release, which was attached as Exhibit 99.1.

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(c) Exhibits required to be filed by Item 601 of Regulations S-K

(11.1) Calculation of earnings per share

(31.1) CEO Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as adopted to Section 302 of the Sarbanes-Oxley Act of 2002.

(31.2) Treasurer Certification Pursuant to Rule 13a-14(a) and 15d-14(a), as adopted to Section 302 of the Sarbanes-Oxley Act of 2002.

(32.1) Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Action of 2002.

(32.2) Treasurer Certification Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Action of 2002.

(99) Valuation and Qualifying Accounts

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

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SIGNATURES

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

VERAMARK TECHNOLOGIES, INC., Registrant

/s/ David G. Mazzella

David G. Mazzella, President and CEO
Dated: March 24, 2005

/s/ Ronald C. Lundy

Ronald C. Lundy, Treasurer, Principal Accounting Officer
Dated: March 24, 2005

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

Signature	Capacity	Date
/s/ David G. Mazzella	Chairman of the Board, Director	March 24, 2005
David G. Mazzella		
/s/ John E. Gould	Director	March 24, 2005
John E. Gould		
/s/ William J. Reilly	Director	March 24, 2005
William J. Reilly		
/s/ James R. Scielzo	Director	March 24, 2005
James R. Scielzo		
/s/ Charles A. Constantino	Director	March 24, 2005
Charles A. Constantino		
/s/ Andrew W. Moylan	Director	March 24, 2005
Andrew W. Moylan		

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