

WIDEPOINT CORP  
Form 10-Q  
May 15, 2009

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 001-33035

WIDEPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

52-2040275

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

18W100 22nd St., Oakbrook Terrace, IL

60181

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (630) 629-0003

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated  
filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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As of May 13, 2009, 58,305,514, shares of common stock, \$.001 par value per share, were outstanding.

WIDEPOINT CORPORATION

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>March 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
	(unaudited)	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 4,344,744	\$ 4,375,426
Accounts receivable	6,196,772	5,282,192
Unbilled accounts receivable	1,179,249	2,301,893
Prepaid expenses and other assets	214,633	267,666

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	<u>March 31,</u>	<u>December 31,</u>
Total current assets	11,935,398	12,227,177
Property and equipment, net	381,657	431,189
Goodwill	8,575,881	8,575,881
Intangibles, net	2,019,360	2,236,563
Other assets	106,959	110,808
Total assets	<u>\$ 23,019,255</u>	<u>\$ 23,581,618</u>
<i>Liabilities and stockholders' equity</i>		
Current liabilities:		
Related party note payable	\$ --	\$ 2,140,000
Short term note payable	53,052	97,158
Accounts payable	5,431,310	2,465,394
Accrued expenses	1,310,005	2,548,106
Deferred revenue	1,500,239	1,667,969
Short-term portion of long-term debt	495,006	486,707
Short-term portion of capital lease obligation	98,652	107,141
Total current liabilities	<u>8,888,264</u>	<u>9,512,475</u>
Deferred income tax liability	196,113	156,891
Long-term debt, net of current portion	992,156	1,117,230
Deferred rent, net of current portion	5,964	--
Capital lease obligation, net of current portion	73,579	95,248
Total liabilities	<u>\$ 10,156,076</u>	<u>\$ 10,881,844</u>
Stockholders' equity:		
Common stock, \$0.001 par value; 110,000,000 shares authorized; 58,305,514 and 58,275,514 shares issued and outstanding, respectively	58,306	58,276
Stock warrants	38,666	38,666
Additional paid-in capital	67,229,238	67,194,788
Accumulated deficit	(54,463,031)	(54,591,956)
Total stockholders' equity	<u>12,863,179</u>	<u>12,699,774</u>
Total liabilities and stockholders' equity	<u>\$ 23,019,255</u>	<u>\$ 23,581,618</u>

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
	<b>(unaudited)</b>	
Revenues, net	\$ 10,135,382	\$ 7,150,565
Cost of revenues (including amortization and depreciation)		

	<b>Three Months Ended March 31,</b>	
	8,092,280	6,046,302
of \$243,136 and \$213,906, respectively)		
Gross profit	2,043,102	1,104,263
Sales and marketing	229,466	165,703
General and administrative (including SFAS 123R stock compensation expense of \$30,730 and \$371,702, respectively)	1,536,271	1,680,274
Depreciation expense	43,007	37,315
Income (Loss) from operations	234,358	(779,029)
Interest income	14,088	15,942
Interest expense	(80,299)	(99,573)
Net income (loss) before income tax	\$ 168,147	\$ (862,660)
Deferred income tax expense	39,222	--
Net income (loss)	\$ 128,925	\$ (862,660)
Basic earnings (loss) per share	\$ 0.002	\$ (0.016)
Basic weighted average shares outstanding	58,294,514	54,033,687
Diluted earnings (loss) per share	\$ 0.002	\$ (0.016)
Diluted weighted average shares outstanding	59,302,205	54,033,687

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Three Months Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>(unaudited)</b>	
Cash flows from operating activities:		
Net income (loss)	\$ 128,925	\$ (862,660)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income tax expense	39,222	--
Depreciation expense	57,258	50,114
Amortization expense	228,885	201,107
Amortization of deferred financing costs	842	2,143
Stock options expense	30,730	371,702

	<b>Three Months Ended March 31,</b>	
Changes in assets and liabilities		
Accounts receivable and unbilled accounts receivable	208,064	1,554,121
Prepaid expenses and other current assets	53,033	(109,545)
Other assets	15,007	24,424
Accounts payable and accrued expenses	1,593,103	747,736
Deferred revenue	(167,730)	274,390
Net cash provided by operating activities	\$ 2,187,339	\$ 2,253,532
Cashflows from investing activities:		
Purchase of subsidiary, net of cash acquired	--	(4,901,745)
Purchase of property and equipment	(7,726)	(27,523)
Software development costs	(11,682)	--
Net cash used in investing activities	\$ (19,408)	\$ (4,929,268)
Cashflows from financing activities:		
Borrowings on notes payable	--	3,800,000
Principal payments on notes payable	(2,160,205)	(609,471)
Principal payments under capital lease obligation	(30,158)	(28,711)
Proceeds from exercise of stock options	3,750	14,400
Costs related to renewal fee for line of credit	(12,000)	--
Costs related to financing purchase of subsidiary	--	(13,713)
Net cash (used in) provided by financing activities	\$ (2,198,613)	\$ 3,162,505
Net (decrease) increase in cash	\$ (30,682)	\$ 486,769
Cash and cash equivalents, beginning of period	\$ 4,375,426	\$ 1,831,991
Cash and cash equivalents, end of period	\$ 4,344,744	\$ 2,318,760
Supplementary Information:		
Promissory Note issued for iSYS acquisition	\$ --	\$ 2,000,000
Value of 1.5 million common shares issued as consideration in the acquisition of iSYS	\$ --	\$ 1,800,000
Cash paid for interest	\$ 228,416	\$ 43,400

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

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WIDEPOINT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of Presentation, Organization and Nature of Operations**

WidePoint Corporation ( WidePoint or the Company ) is a technology-based provider of product and services to both the government sector and commercial markets. WidePoint was incorporated in Delaware on May 30, 1997. We have grown through the merger of highly specialized regional IT consulting companies.

Our expertise lies in three business segments. The three segments offer unique solutions in identity management services utilizing certificate-based security solutions; wireless telecommunication expense management systems; and other associated IT consulting services and products in which we provide specific subject matter expertise in IT Architecture and Planning, Software Implementation Services, IT Outsourcing, and Forensic Informatics.

WidePoint has three material operational entities, Operational Research Consultants, Inc. (ORC), iSYS, LLC (iSYS), and WidePoint IL, Inc., along with a development stage company, Protexx Acquisition Corporation doing business as Protexx. In January 2008, we completed the acquisition of iSYS. iSYS specializes in mobile telecommunications expense management services and forensic informatics, and information assurance services predominantly to the U.S. Government. In July 2008, we completed the purchase of the operating assets and proprietary intellectual property of Protexx, Inc. Protexx specializes in identity assurance and mobile and wireless data protection services. ORC specializes in IT integration and secure authentication processes and software, and providing services to the U.S. Government. ORC has been at the forefront of implementing Public Key Infrastructure (PKI) technologies. PKI technology uses a class of algorithms in which a user can receive two electronic keys, consisting of a public key and a private key, to encrypt any information and/or communication being transmitted to or from the user within a computer network and between different computer networks. PKI technology is rapidly becoming the technology of choice to enable security services within and between different computer systems utilized by various agencies and departments of the U.S. Government.

Our staff consists of business process and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today's rapidly changing technological environment in business. Our organization emphasizes an intense commitment to our people, our customers, and the quality of our solutions offerings. As a services organization, our customers are our primary focus.

The condensed consolidated balance sheet as of March 31, 2009, the condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008, and the condensed consolidated statements of cash flows for the three months ended March 31, 2009 and 2008 have been prepared by WidePoint Corporation ( WidePoint or the Company ) and are unaudited. The condensed consolidated balance sheet as of December 31, 2008 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The unaudited condensed consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC ). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is the opinion of management that all adjustments (which include normal recurring adjustments) necessary for a fair statement of financial results are reflected in the interim periods presented. The results of operations for the three months ended March 31, 2009 are not indicative of the operating results for the full year.

**2. Significant Accounting Policies**

*Principles of Consolidation*

The accompanying condensed consolidated financial statements include the accounts of acquired entities since their respective dates of acquisition. All significant inter-company amounts have been eliminated in consolidation.

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*Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and

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liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring use of estimates and judgment relate to revenue recognition, accounts receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

### *Reclassifications*

Certain amounts in prior year financial statements have been reclassified to conform with the current year presentation.

### *Concentrations of Credit Risk*

Financial instruments potentially subject the Company to credit risk, which consist of cash and cash equivalents and accounts receivable. As of March 31, 2009, three customers, the Transportation Security Administration ( TSA ), the Department of Homeland Security ( DHS ), and the Washington Headquarters Services ( WHS ), an agency of the Department of Defense ( DoD ) that provides services for many DoD agencies and organizations, accounted for approximately 26%, 17%, and 14%, respectively, of accounts receivable and unbilled accounts receivable. As of December 31, 2008, three clients, the DHS, the TSA, and the WHS, represented 24%, 17%, and 14%, respectively, of accounts receivable and unbilled accounts receivable.

### *Significant Customers*

Due to the nature of our business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer could have a material adverse effect on results. For the quarter ended March 31, 2009, three customers, the TSA, the DHS, and the WHS, represented approximately 24%, 21%, and 18% of revenues, respectively. For the quarter ended March 31, 2008, three customers, the TSA, the DHS, and the WHS, represented approximately 27%, 21%, and 16% of revenues, respectively.

### *Fair value of financial instruments*

The Company's financial instruments include cash equivalents, deferred revenue, accounts receivable, notes receivable, accounts payable, short-term debt and other financial instruments associated with the issuance of the common stock warrants attributable to the preferred stock capital investment in the Company in October of 2004. The carrying values of cash equivalents, accounts receivable, notes receivable, and accounts payable approximate their fair value because of the short maturity of these instruments. The carrying amounts of the Company's bank borrowings under its credit facility approximate fair value because the interest rates are reset periodically to reflect current market rates.

The Company adopted SFAS 157, Fair Value Measurements (SFAS 157) on January 1, 2008. SFAS 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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### *Cash and Cash Equivalents*

Investments purchased with original maturities of three months or less are considered cash equivalents for purposes of these consolidated financial statements. The Company maintains cash and cash equivalents with various major financial institutions.

### *Accounts Receivable*

## 2. Significant Accounting Policies

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The majority of the Company's accounts receivable is due from the federal government and established private sector companies in the following industries: manufacturing, customer product goods, direct marketing, healthcare, and financial services. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts if deemed necessary. Customer account balances outstanding longer than the contractual payment terms are reviewed for collectability and after 90 days are considered past due.

The Company determines its allowance by considering a number of factors, including the length of time trade accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

The Company has not historically maintained a bad debt reserve for our federal government or commercial customers as we have not witnessed any material or recurring bad debt charges and the nature and size of the contracts has not necessitated such bad debt reserve.

### *Unbilled Accounts Receivable*

Unbilled accounts receivable on time-and-materials contracts represent costs incurred and gross profit recognized near the period-end but not billed until the following period. Unbilled accounts receivable on fixed-price contracts consist of amounts incurred that are not yet billable under contract terms. At March 31, 2009 and December 31, 2008, unbilled accounts receivable totaled approximately \$1,179,000 and \$2,302,000, respectively.

### *Revenue Recognition*

Revenue from our mobile telecom expense management services ( MTEMS ) is recognized upon delivery of services as they are rendered. Arrangements with customers on MTEMS related contracts are recognized ratably over a period of performance.

Revenue from the sale of PKI credentials is recognized when delivery occurs. Arrangements with customers on PKI related contracts may involve multiple deliverable elements. In these cases, the Company applies the principles prescribed in Emerging Issues Task Force Abstract ( EITF ) 00-21 Revenue Arrangements with Multiple Deliverables. The Company analyzes various factors, including a review of the nature of the contract or product sold, the terms of each specific transaction, the relative fair values of the elements required by EITF 00-21, any contingencies that may be present, its historical experience with like transactions or with like products, the creditworthiness of the customer, and other current market and economic conditions.

Additionally, revenues are derived from the delivery of non-customized software. In such cases revenue is recognized when there is persuasive evidence that an arrangement exists (generally a purchase order has been received or contract signed), delivery has occurred, the charge for the software is fixed or determinable, and collectability is probable.

Should the sale of product or software involve an arrangement with multiple elements (for example, the sale of PKI Credential Seats along with the sale of maintenance, hosting and support to be delivered over the contract period), the Company allocates revenue to each component of the arrangement using the residual value method based on the fair value of the undelivered elements. The Company defers revenue from the arrangement equivalent to the fair value of the undelivered elements and recognizes the remaining amount at the time of the delivery of the product or when all other revenue recognition criteria have been met.

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A portion of our revenues are derived from cost-plus, or time-and-materials contracts. Under cost-plus contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For time-and-material contracts, revenues are computed by multiplying the number of direct labor-hours expended in the performance of the contract by the contract billing rates and adding other billable direct costs.

In the event of a termination of a contract, all billed and unbilled amounts associated with those task orders where work has been performed would be billed and collected. The termination provisions of the contract would be accounted for at the time of termination. Any deferred and/or amortization cost would either be billed or expensed depending upon the termination provisions of the contract. Further, the Company has had no material history of losses nor has it identified any material specific risk of loss at March 31, 2009 and December 31, 2008, respectively due to termination provisions and thus has not recorded provisions for such events.

### *Income Taxes*

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. Under SFAS No.109, deferred tax assets and liabilities are computed based on the difference between the financial statement and



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income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized.

### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Property and equipment consisted of the following:

	<b>March 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
Automobiles, computers, equipment and software	\$ 867,064	\$ 867,013
Less- Accumulated depreciation and amortization	(485,407)	(435,824)
	\$ 381,657	\$ 431,189

Depreciation expense is computed using the straight-line method over the estimated useful lives of between two and five years depending upon the classification of the property and/or equipment.

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes costs related to software and implementation in connection with its internal use software systems.

### *Software Development Costs*

WidePoint accounts for software development costs (or internally developed intangible assets) related to software products for sale, lease or otherwise marketed in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. For projects fully funded by the Company, significant development costs are capitalized from the point of demonstrated technological feasibility until the point in time that the product is available for general release to customers. Once the product is available for general release, capitalized costs are amortized based on units sold, or on a straight-line basis over a six-year period or other such shorter period as may be required. WidePoint recorded approximately \$67,000 of amortization expense for the three month period ended March 31, 2009, as compared to approximately \$45,000 for the three month period ended March 31, 2008. WidePoint capitalized approximately \$12,000 for the three month period ended March 31, 2009. There were no capitalized costs for the three month period ended March 31, 2008. Capitalized software development costs, net, included in Intangibles, net, at March 31, 2009 were approximately \$0.5 million, compared to approximately \$0.6 million at December 31, 2008. We estimate that we will capitalize approximately \$50,000 more prior to the issuance of the Authority to Operate (ATO) during the second quarter of 2009 at which time we will commence amortizing the ATO over an approximate three year life.

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### *Goodwill, Other Intangible Assets, and Long-Lived Assets*

Goodwill represents costs in excess of fair values assigned to the underlying net assets acquired. The Company has adopted the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. These standards require the use of the purchase method of accounting for business combinations, set forth the accounting for the initial recognition of acquired intangible assets and goodwill and describe the accounting for intangible assets and goodwill subsequent to initial recognition. Under the provisions of these standards, goodwill is not subject to amortization and annual review is required for impairment. The impairment test under SFAS No. 142 is based on a two-step process involving (i) comparing the estimated fair value of the related reporting unit to its net book value and (ii) comparing the estimated implied fair value of goodwill to its carrying value. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. The Company's annual impairment testing date is December 31.

The Company recognizes an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their useful lives. Impairment losses are recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

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The Company reviews its long-lived assets, including property and equipment, identifiable intangibles, and goodwill annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets.

### *Basic and Diluted Net Earnings (Loss) Per Share*

Basic earnings or loss per share includes no dilution and is computed by dividing net earnings or loss by the weighted-average number of common shares outstanding for the period. Diluted earnings or loss per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The treasury stock effect of the conversion of options and warrants to purchase 1,007,691 shares of common stock outstanding for the three months ended March 31, 2009, has been included in the calculation of the diluted net income per share. As of March 31, 2009, there were 7,389,453 options and warrants vested. Of those vested shares, 5,475,999 options and warrants were priced under the average price during the first quarter of 2009 of \$0.25 per common share. Outstanding options and warrants to purchase 8,014,257 shares, respectively, for the quarter ended March 31, 2008 have not been included in the calculation of the net loss per share as such effect would have been anti-dilutive. As a result of these items, the basic and diluted net loss per share for the three months ended March 31, 2008 are presented as identical. Earnings per common share was computed as follows for the quarters ended March 31, 2009 and March 31, 2008:

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	<b>Quarter Ended</b>	
	<b>March 31, 2009</b>	<b>March 31, 2008</b>
<b>Basic Earnings Per Common Share:</b>		
Net income (Loss)	\$ 128,925	\$ (862,660)
Weighted average number of common shares	58,294,514	54,033,687
Earnings (Loss) per common share	\$ 0.002	\$ (0.016)
<b>Diluted Earnings Per Common Share:</b>		
Net income (Loss)	\$ 128,925	\$ (862,660)
Weighted average number of common shares	58,294,514	54,033,687
Incremental shares from assumed conversions of stock options	1,007,691	0
Adjusted weighted average number of common shares	59,302,205	54,033,687
Earnings (Loss) per common share	\$ 0.002	\$ (0.016)

### *Stock-based compensation*

The Company previously adopted the provisions of SFAS No. 123R using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123, as originally issued. All new awards that are modified, repurchased, or cancelled after the adoption date are accounted for under provisions of SFAS No. 123R. Prior periods have not been restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur, which was the Company's practice prior to the adoption of SFAS 123R.

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The amount of compensation expense recognized under SFAS 123(R) during the three month periods ended March 31, 2009 and 2008, respectively, under our plans was comprised of the following:

	Three Months ended March	
	2009	2008
General and administrative expense	\$ 30,730	\$ 371,702
Share-based compensation before taxes	30,730	371,702
Share-based compensation expense	\$ 30,730	\$ 371,702
Net share-based compensation expenses per basic and diluted common share	nil	\$ 0.01

Since we have cumulative operating losses as of March 31, 2009 for which a valuation allowance has been established, we recorded no income tax benefits for share-based compensation arrangements. Additionally, no incremental tax benefits were recognized from stock options exercised during the quarter ended March 31, 2009, which would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

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The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model ( Black-Scholes model ) that uses the assumptions of no dividend yield, risk free interest rates of between 2.61% and 4.83%, volatility of between 156% to 57%, and expected life in years of approximately 3 years. The option awards are for the period from 1999 through 2008. For the first quarter of 2009 there were no grants made by the Company. Expected volatilities are based on the historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. The estimated forfeiture rates are based on analyses of historical data, taking into account patterns of involuntary termination and other factors. A summary of the option activity under our plans during the three month periods ended March 31, 2009 and 2008 is presented below:

### NON-VESTED

	# of Shares	Weighted average grant date fair value per share
Non-vested at January 1, 2009	1,314,000	\$ 0.57
Granted	--	--
Vested	119,996	\$ 0.80
Forfeited	--	--
Non-vested at March 31, 2009	1,194,004	\$ 0.55
Non-vested at January 1, 2008	457,044	\$ 0.73
Granted	870,000	\$ 0.77
Vested	57,044	\$ 0.49
Forfeited	--	--
Non-vested at March 31, 2008	1,270,000	\$ 0.77

### OUTSTANDING AND EXERCISABLE

	# of Shares	Weighted average grant date fair value per share
Total outstanding at January 1, 2009	8,523,411	\$ 0.45
Issued	--	--

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	# of Shares	Weighted average grant date fair value per share
	<u>                    </u>	<u>                    </u>
Cancelled	1,000	\$ 1.35
Exercised	30,000	\$ 0.13
	<u>                    </u>	
Total outstanding at March 31, 2009	8,492,411	\$ 0.45
	<u>                    </u>	
Total exercisable at March 31, 2009	7,298,407	\$ 0.38
	<u>                    </u>	
Total outstanding at January 1, 2008	7,085,211	\$ 0.37
Issued	870,000	\$ 0.90
Cancelled	--	--
Exercised	32,000	\$ 0.45
	<u>                    </u>	
Total outstanding at March 31, 2008	7,923,211	\$ 0.42
	<u>                    </u>	
Total exercisable at March 31, 2008	6,653,211	\$ 0.32
	<u>                    </u>	

The aggregate remaining contractual lives in years for the options outstanding and exercisable on March 31, 2009 were 3.01 and 2.28, respectively.

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Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on March 31, 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2009. The intrinsic value will change based on the fair market value of WidePoint's stock. The total intrinsic value of options outstanding and exercisable as of March 31, 2009 was \$1,103,100, respectively. The total intrinsic value of options exercised for the first quarter of fiscal 2009 was \$4,350. The Company issues new shares of common stock upon the exercise of stock options.

At March 31, 2009, 4,536,438 shares were available for future grants under the Company's 2008 Stock Incentive Plan. This does not include 3,999,999 warrants granted and vested to members of the senior management team that were not issued under the Company's Stock Incentive Plans.

At March 31, 2009, the Company had approximately \$520,000 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 3.01 years.

Non-employee stock-based compensation:

The Company accounts for stock-based non-employee compensation arrangements using the fair value recognition provisions of FASB Statement 123, *Accounting for Stock-Based Compensation* and Emerging Issues Task Force EITF 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*.

*Recent Accounting Pronouncements*

**Fair Value Pronouncements**

FASB Staff Position No. 107-1 and Accounting Principles Board (APB) 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, were issued to outline the required financial statement disclosures relating to fair value of financial instruments during interim reporting periods. FASB Staff Position No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, was issued to provide additional guidance in evaluating the fair value of a financial instrument when the volume and level of activity for the asset or liability has significantly decreased. FASB Staff Position No. 115-2 and FASB Staff Position No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, were issued to provide additional guidance on presenting impairment losses on securities.

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All of the above mentioned pronouncements will be effective for interim and annual reporting periods ending after June 15, 2009, and early adoption is permitted. The Company does not expect the adoption of these new pronouncements to have a material effect on its consolidated results of operations or financial condition.

### 3. Debt

The Company entered into a senior lending agreement with Cardinal Bank on August 16, 2007. In January of 2008, the Company modified this credit facility with Cardinal Bank to allow for up to \$7 million, which included a four-year term note for \$2 million that the Company had entered into with Cardinal Bank in January 2008. The Company borrowed approximately \$1.8 million under this credit facility to finance the acquisition of iSYS, LLC in January of 2008 and repaid the advance in full in May 2008 from the proceeds raised in a subsequent capital raise that occurred in April and May of 2008.

On March 17, 2009, the Company entered into a Debt Modification Agreement and Commercial Loan Agreement ( 2009 Commercial Loan Agreement ) with Cardinal Bank. This new revolving credit facility replaced the Company's prior \$5 million revolving credit facility with Cardinal Bank. The 2009 Commercial Loan Agreement allows for the Company to borrow up to \$5 million. The repayment date of the revolving credit facility was extended to June 1, 2010 and advances under the revolving credit facility will bear interest at a variable rate equal to the prime rate plus 0.5% with an interest rate floor of 5%. Borrowings under the agreement were collateralized by the Company's eligible contract receivables, inventory, all of its stock in certain of its subsidiaries and certain property and equipment. As part of the credit facility, the Company must comply with certain financial covenants that include tangible net worth and interest coverage ratios that the Company was in full compliance with on March 31, 2009.

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The Company also has a four-year term note with Cardinal Bank that we entered into January 2008 in the principal amount of \$2 million, which bears interest at the rate of 7.5% with 48 equal principal and interest payments. At March 31, 2009 we owed approximately \$1.5 million under the note.

The Company also had a subordinated seller financed note for \$2 million in favor of Jin Kang, a related party of the Company and the former owner and current officer of iSYS, LLC, which was due the earlier of April 1, 2009 or upon the filing of the Company's Form 10-K. The note bore interest at the simple rate of 7% through December 31, 2008, that increased to 10% on January 1 and remained in effect at 10% through the repayment of the note. On March 17, 2009, the Company entered into a Debt Modification Agreement and Commercial Loan Agreement with Cardinal Bank. The new agreement excluded the subordination agreement of Jin Kang from our prior credit facility which allowed for the repayment of the seller's note on March 27, 2009.

### 4. Goodwill and Intangible Assets

WidePoint previously adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. Under SFAS 142, goodwill is to be reviewed at least annually for impairment; the Company has elected to perform this review annually on December 31st of each calendar year. These reviews have resulted in no adjustments in goodwill.

The changes in the carrying amount of goodwill for the year ended December 31, 2008 and 2007 are as follows:

	<u>Total</u>
Balance as of December 31, 2007	\$ 2,526,110
iSYS acquisition	6,049,771
	<u>8,575,881</u>
Balance as of December 31, 2008	\$ 8,575,881

In 2008, \$6,049,771 in goodwill was acquired as a result of the acquisition of iSYS, LLC. Management believes that as of March 31, 2009 the carrying value of our goodwill was not impaired. There were no goodwill adjustments made in the three month period ended March 31, 2009.

### Purchased and Internally Developed Intangible Assets

The following table summarizes purchased and internally developed intangible assets subject to amortization:

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As of March 31, 2009

	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period (in years)
<i>Purchased Intangible Assets</i>			
ORC Intangible (Includes customer relationships and PKI business opportunity purchase accounting preliminary valuations)	\$1,145,523	(\$976,427)	5
iSYS (includes customer relationships, internal use software and trade name)	\$1,230,000	(\$322,083)	5
Protexx (Identity Security Software)	\$506,463	(\$112,548)	3
	<u>\$2,881,986</u>	<u>(\$1,411,058)</u>	<u>4</u>
<i>Internally Developed Intangible Assets</i>			
ORC PKI-I Intangible (Related to internally generated software)	\$334,672	(\$257,067)	6
ORC PKI-II Intangible (Related to internally generated software)	\$649,991	(\$448,446)	6
ORC PKI-III Intangible (Related to internally generated software)	\$211,680	(\$64,680)	3
ORC PKI-IV Intangible (Related to internally generated software)	\$42,182	(\$12,890)	3
ORC PKI-V Intangible (Related to internally generated software)	\$92,990	--	3
	<u>1,331,515</u>	<u>(\$783,083)</u>	<u>5</u>
Total	<u>\$4,213,501</u>	<u>(\$2,194,141)</u>	<u>5</u>
<b><u>Aggregate Amortization Expense:</u></b>			
For quarter ended 3/31/09	\$228,885		
<b><u>Estimated Amortization Expense:</u></b>			
For year ended 12/31/09	\$906,045		
For year ended 12/31/10	\$647,185		
For year ended 12/31/11	\$345,351		
For year ended 12/31/12	\$197,999		
For year ended 12/31/13	\$151,665		
<u>Total</u>	<u>\$ 2,248,245</u>		

The total weighted average life of all of the intangibles is approximately 3 years.

There were no amounts of research and development assets acquired during the three month period ended March 31, 2009 nor any written-off in the period.

## 5. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has further adopted the provisions of Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes An interpretation of FASB Statement No. 109. As required by FIN 48, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

As of March 31, 2009, the Company had net operating loss carry forwards of approximately \$21,000,000 to offset future taxable income. These carry forwards expire between 2010 and 2028. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the level of historical losses that may limit utilization of NOL carry forwards in future periods, management is unable to predict whether these net deferred tax assets will be utilized prior to expiration. Under the provision of the Tax Reform Act of 1986, when there has been a change in an entity's ownership of 50 percent or greater, utilization of net operating loss carry forwards may be limited. As a result of WidePoint's equity transactions, the Company's net operating losses will be subject to such limitations and may not be available to offset future income for tax purposes. To date the Company has not completed a Section 382 analysis.

No tax benefit has been realized associated with the exercise of stock options in the three months ended March 31, 2009 and 2008 because of the existence of net operating loss carryforwards. There will be no credit to additional paid in capital for such until the associated benefit is realized through a reduction of income taxes payable.

The Company has determined that its net deferred tax asset did not satisfy the recognition criteria set forth in SFAS No. 109 and, accordingly, established a valuation allowance for 100 percent of the net deferred tax asset.

The Company incurred a deferred income tax expense of approximately \$39,000 for the quarter ended March 31, 2009. This deferred income tax expense was originally established at December 31, 2008 at approximately \$157,000, and attributable to the differences in our treatment of the amortization of goodwill for tax purposes versus book purposes as it relates to our acquisition of iSYS in January 2008. Because the goodwill is not amortized for book purposes but is for tax purposes, the related deferred tax liability cannot be reversed until some indeterminate future period when the goodwill either becomes impaired, and/or is disposed of. The deferred tax liability can be offset by deferred income tax assets that may be recognized in the future and the deferred tax expense is a non-cash expense. SFAS No. 109 requires the expected timing of future reversals of deferred tax liabilities to be taken into account when evaluating the realizability of deferred tax assets. Therefore, the reversal of deferred tax liabilities related to the goodwill is not to be considered a source of future taxable income when assessing the realization of deferred tax assets. Because the Company has a valuation allowance for the full amount of the deferred income tax asset, the deferred income liability associated with the tax deductible goodwill has been recorded and not offset against existing deferred income tax assets.

In June 2006, the FASB issued FIN 48, which became effective for years beginning on January 1, 2007. FIN 48 addressed the determination of how tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The Company's assessments of its tax positions in accordance with FIN 48 did not result in changes that had a material impact on results of operations, financial condition or liquidity. As of December 31, 2008 and at March 31, 2009, the Company had no unrecognized tax benefits. While the Company does not have any interest and penalties in the periods presented, the Company's policy is to recognize such expenses as tax expense.

The Company files U.S. federal income tax returns with the Internal Revenue Service ( IRS ) as well as income tax returns in various states. The Company may be subject to examination by the IRS for tax years 2001 through 2008. Additionally, the Company may be subject to examinations by various state taxing jurisdictions for tax years 2001 through 2008. The Company is currently not under examination by the IRS

or any state tax jurisdiction.

## 6. Stockholders Equity

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. During the quarter ended March 31, 2009, 30,000 shares of common stock were issued as the result of the exercise of employee stock options. As of March 31, 2009 there were 58,305,514 shares of common stock outstanding.

### *Common Stock*

On January 8, 2008, pursuant to the terms of a Membership Interest Purchase Agreement between the Company, iSYS, LLC and Jin Kang, dated January 4, 2008, the Company issued 1,500,000 shares of Company common stock on January 8, 2008 at a stock price of \$1.20 per common share (based on the closing market price of the Company's common shares the issuance date) for a value of \$1,800,000. The Company also issued an additional 3,000,000 shares of Company common stock on January 8, 2008, which shares were delivered into escrow to be held subject to the satisfaction of certain earnout provisions under the Membership Interest Purchase Agreement, and which shares are subject to return to the Company in the event such earnout provisions are not achieved under the terms of the Membership Interest Purchase Agreement. Under the Membership Interest Purchase Agreement the initial \$1.4 million in earnings before interest, taxes, depreciation and amortization (EBITDA) from iSYS is excluded from the earnout for the initial 3 years, with 66% of the value in excess of such initial \$1.4 million being paid to the former owner of iSYS, with 50% of the amount being paid in cash and 50% being valued and released in escrow shares. In the fourth year the value in excess of 50% is used instead of 66%, with the total earnout capped at \$6 million, with \$3 million payable in cash and \$3 million payable in the release of earnout shares. Performance of the earnout is measured annually and awarded within 30 days following the end of the Company's fiscal year and filing of the Company's Form 10-K for that year. As of December 31, 2008 performance measures were attained allowing for the release of 184,817 common shares valued at \$1.00 per common share from the common shares placed into escrow at the time of the acquisition of iSYS by the Company.

On April 29, 2008, the Company entered into a Common Stock Purchase Agreement (Purchase Agreement) with Deutsche Bank AG, London Branch (Deutsche Bank), and related agreements, as part of a private equity financing to raise additional funds for working capital. Under the Purchase Agreement, Deutsche Bank agreed to purchase 2,500,000 shares of WidePoint common stock for a total purchase price of \$2,550,000, or \$1.02 per share. Pursuant to the Purchase Agreement, the Company issued 2,500,000 shares of its common stock to Deutsche Bank on May 2, 2008. The offer and sale of the shares were not registered under the Securities Act of 1933, as amended, in reliance on the private offering exemption provided under Section 4(2) thereof.

On May 16, 2008, the Company entered into two Common Stock Purchase Agreements (collectively, the Endurance Purchase Agreements) with Endurance Partners, L.P. and Endurance Partners (Q.P.), L.P., and related agreements, as part of a private equity financing to raise additional funds for working capital. Under the Endurance Purchase Agreements, Endurance Partners, L.P. agreed to purchase 428,954 shares of WidePoint common stock for a total purchase price of \$437,533, or \$1.02 per share, and Endurance Partners (Q.P.), L.P. agreed to purchase 1,071,046 shares of WidePoint common stock for a total purchase price of \$1,092,467, or \$1.02 per share. Pursuant to the Endurance Purchase Agreements, on May 19, 2008, the Company issued 428,954 shares of its common stock to Endurance Partners, L.P. and 1,071,046 shares of its common stock to Endurance Partners (Q.P.), L.P. The offer and sale of the shares were not registered under the Securities Act of 1933, as amended, in reliance on the private offering exemption provided under Section 4(2) thereof.

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As a result of the equity transactions to raise additional capital that we entered into during the second quarter of 2008, the Company issued a combined cumulative total of 4,000,000 common shares of the Company which provided gross proceeds of approximately \$4.1 million and net proceeds after various legal and other expenses of \$3.9 million.

On July 31, 2008, pursuant to the terms of the Asset Purchase Agreement between the Company, Protexx Acquisition Corporation, a Delaware corporation, Protexx Incorporated, a Delaware corporation (Protexx), and Peter Letizia, Charles B. Manuel, Jr. and William Tabor, the Company issued 2.5 million shares of its common stock in the name of Protexx and delivered such shares to the parties' escrow agent to be held in escrow pending the possible release of such shares as part of the potential earnout to which Protexx may be entitled under the Purchase Agreement for calendar year 2008. The 2008 earnout was not attained. For calendar year 2009, Protexx shall have the opportunity to earn an additional Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000) worth of privately issued shares of WidePoint common stock as part of the earnout for that calendar year. The maximum number of shares of WidePoint common stock that Protexx shall have the opportunity to earn for calendar year 2009 shall be equal to the number of shares of WidePoint common stock that results from Two Million Two Hundred Fifty Thousand Dollars (\$2,250,000) divided by the greater of (x) One Dollar and Twenty-Five Cents (\$1.25) or (y) the average closing sale price of the WidePoint common stock for the twenty (20) trading days immediately preceding December 31, 2009.

### *Stock Warrants*



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On November 1, 2005, the Company issued a warrant to purchase 54,878 shares of common stock at a price of \$0.80 per share to Hawk Associates as part of a consulting agreement in which Hawk Associates agreed to act as the Company's investor relations representative. The warrant has a term of 5 years. We are accounting for this award in accordance with EITF 96-18.

On October 27, 2004 and November 22, 2004, the Company issued two warrants to purchase 30,612 shares and 5,556 shares of common stock at a price of \$0.49 and \$0.45 per share, respectively, to Liberty Capitol as part of a consulting agreement in which Liberty Capitol assisted the Company in arranging its senior debt financing with RBC-Centura Bank. The warrants have a term of 5 years. The Company used a fair-value option pricing model to value these stock warrants at approximately \$14,291. This value has been reflected as part of stock warrants in the stockholders' equity section of the consolidated balance sheet.

### 7. Segment reporting

Segments are defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, as components of a company in which separate financial information is available and is evaluated by the chief operating decision maker, or a decision making group, in deciding how to allocate resources and in assessing performance.

Until December 31, 2005 the Company was comprised of a single segment, which was comprised of our consulting services segment within our Commercial and Federal Government Marketplaces. As of January 1, 2006, the Company added a second segment, which consists of PKI credentialing and managed services. As of January 4, 2008, the Company added a third segment upon the acquisition of iSYS, LLC for mobile telecom expense management.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, all office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology and company-wide business development functions, as well as costs related to overall corporate management.

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The following table presents information about reported segments along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements:

	Three Months Ended March 31,	
	2009	2008
<b>Mobile Telecom Managed Services:</b>		
Revenues, net	\$ 6,356,460	\$ 4,487,163
Income from operations	602,354	108,827
<b>Consulting Services:</b>		
Revenues	\$ 2,371,070	\$ 1,903,977
Income from operations	16,677	112,809
<b>PKI Credentialing and Managed Services:</b>		
Revenues	\$ 1,407,852	\$ 759,425
Income (loss) from operations (includes amortization expense of \$66,994 and 45,838, respectively)	225,429	(273,145)
<b>Total Company</b>		
Revenues	\$ 10,135,382	\$ 7,150,565
Operating income (loss) before depreciation expense	277,365 <sup>(1)</sup>	(741,714) <sup>(2)</sup>
Depreciation expense	(43,007)	(37,315)
Interest income (expense), net	(66,211)	(83,631)
Income tax expense	(39,222)	--
Net earnings (loss)	\$ 128,925	\$ (862,660)

(1) Includes \$55,269 in amortization expense in cost of sales associated with the purchase of ORC, \$64,416 in amortization expense in cost of sales associated with the purchase of iSYS and \$42,206 in amortization expense in cost of sales associated with internally developed intangibles, which are not allocated among the segments and includes \$448,211 in unallocated corporate costs in general and administrative expense of which \$30,730 is comprised of stock compensation expense.

(2) Includes \$55,269 in amortization expense in cost of sales associated with the purchase of ORC and \$100,000 in amortization expense in cost of sales associated with the purchase of iSYS, which are not allocated among the segments and includes \$572,251 in unallocated corporate costs in general and administrative expense, of which \$371,702 is comprised of stock compensation expense.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and the notes thereto which appear elsewhere in this quarterly report and the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The information set forth below includes forward-looking statements. Certain factors that could cause results to differ materially from those projected in the forward-looking statements are set forth below. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

**Overview**

WidePoint Corporation (WidePoint or the Company) is a technology-based provider of product and services to both the government sector and commercial markets. WidePoint was incorporated in Delaware on May 30, 1997. We have grown through the merger of highly specialized regional IT consulting companies.

Our expertise lies in three business segments. The three segments offer unique solutions in identity management services utilizing certificate-based security solutions; wireless telecommunication expense management systems; and other associated IT consulting services and products in which we provide specific subject matter expertise in IT Architecture and Planning, Software Implementation Services, IT Outsourcing, and Forensic Informatics.

WidePoint has three material operational entities, Operational Research Consultants, Inc. (ORC); iSYS, LLC (iSYS), which we acquired in January 2008; and WidePoint IL, Inc., operated together with Protexx Acquisition Corp., doing business as Protexx, which we acquired in July 2008:

ORC specializes in IT integration and secure authentication processes and software, and providing services to the U.S. Government. ORC has been at the forefront of implementing Public Key Infrastructure (PKI) technologies. PKI technology uses a class of algorithms in which a user can receive two electronic keys, consisting of a public key and a private key, to encrypt any information and/or communication being transmitted to or from the user within a computer network and between different computer networks. PKI technology is rapidly becoming the technology of choice to enable security services within and between different computer systems utilized by various agencies and departments of the U.S. Government.

iSYS specializes in mobile telecommunications expense management services, forensic informatics, and information assurance services, predominantly to various agencies and departments of the U.S. Government.

Protexx, which was a development stage company when we acquired it, specializes in identity assurance, and mobile and wireless data protection products and services.

See Note 7 to the Condensed Consolidated Financial Statements included in this report for a description of the operating results for each segment.

We intend to continue to market and sell our technical capabilities into the governmental and commercial marketplace. Further, we are continuing to actively search out new synergistic acquisitions that we believe may further enhance our present base of business and service offerings, which has already been augmented by our acquisitions of ORC and iSYS, our asset purchase of Protexx, and our internal growth initiatives.

With the addition of the customer base and the increase in revenues attributable to our iSYS acquisition, WidePoint's opportunity to leverage and expand further into the federal marketplace has improved substantially. iSYS's past client successes, top security clearances for their personnel, and additional breadth of management talent have expanded the Company's reach into markets that previously were not fully accessible to WidePoint. The Company intends to continue to leverage the synergies between its newly-acquired operating subsidiary, and cross sell its technical capabilities into each separate marketplace serviced by our respective subsidiaries.

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Our revenues and operating results may vary significantly from quarter-to-quarter, due to revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract that we have been awarded and general economic conditions. Because a significant portion of our expenses, such as personnel and facilities costs, are fixed in the short term, successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter.

As a result of our acquisitions, which predominantly operate in the U.S. federal marketplace, we rely upon a larger portion of our revenues from the federal government directly or as a subcontractor. The federal government's fiscal year ends September 30. If a budget for the next fiscal year has not been approved by that date, our clients may have to suspend engagements that we are working on until a budget has been approved. Such suspensions may cause us to realize lower revenues in the fourth calendar quarter and/or first quarter of the government's fiscal year. Further, a change in senior government officials may negatively affect the rate at which the federal government purchases the services that we offer.

As a result of the factors above, period-to-period comparisons of our revenues and operating results may not be meaningful. These comparisons are not indicators of future performance and no assurances can be given that quarterly results will not fluctuate, causing a possible material adverse effect on our operating results and financial condition.

In addition, most of WidePoint's current costs consist primarily of the salaries and benefits paid to WidePoint's technical, marketing and administrative personnel as well as vendor-related costs in connection with our Mobile Telecom Managed Services. As a result of our plan to expand WidePoint's operations through a combination of internal growth initiatives and merger and acquisition opportunities, WidePoint expects such costs to increase. WidePoint's profitability also depends upon both the volume of services performed and the Company's ability to manage costs. As a significant portion of the Company's cost is labor related, WidePoint must effectively manage these costs to achieve and grow its profitability. The Company must also manage our airtime plans and other vendor related offerings under our Mobile Telecom Managed Services provided to our customers as they also represent a significant portion of our costs. To date, the Company has attempted to maximize its operating margins through efficiencies achieved by the use of its proprietary methodologies, and by offsetting increases in consultant salaries with increases in consultant fees received from its clients. The uncertainties relating to the ability to achieve and maintain profitability, obtain additional funding to partially fund the Company's growth strategy and provide the necessary investment to continue to upgrade its management reporting systems to meet the continuing demands of the present regulatory changes affect the comparability of the information reflected in the financial information presented above.

Our staff consists of business process and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today's rapidly changing technological environment in business. Our organization emphasizes an intense commitment to our people, our customers, and the quality of our solutions offerings. As a services organization, our customers are our primary focus.

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## Results of Operations

### Three Months Ended March 31, 2009 as Compared to Three Months Ended March 31, 2008

*Revenues, net.* Revenues for the three month period ended March 31, 2009 were approximately \$10,135,000 as compared to approximately \$7,151,000 for the three month period ended March 31, 2008. The increase in revenues was primarily attributable to growth in our Mobile Telecom Managed Services segment and increases in our PKI managed services segment. We anticipate continued revenue growth across all three of our business segments as a result of new contracts that were awarded late in the first quarter and early in the second quarter of 2009.

*Our Mobile Telecom Managed Services segment* experienced revenue growth of approximately 42% from approximately \$4,487,000 for the quarter ended March 31, 2008 to approximately \$6,356,000 for the three months ended March 31, 2009. We anticipate that this segment should continue to increase as the federal agencies continue to adopt the Company's services under the recent contract award associated with the federal strategic savings initiative, or FSSI, by the General Services Administration.

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*Our PKI credentialing and managed services segment* experienced revenue growth of approximately 85% with revenues increasing approximately \$649,000 from \$759,000 for the three month period ended March 31, 2008, to \$1,408,000 for the three month period ended March 31, 2009, as a result of various mandates to roll out credential programs to various agencies and contractors.

Our consulting services segment experienced revenue growth of approximately 25% with revenues increasing approximately \$467,000 from \$1,904,000 for the three month period ended March 31, 2008 as compared to approximately \$2,371,000 for the three month period ended March 31, 2009, as a result of a leveling and slight rebound we witnessed within our consulting services segment. We believe this rebound may be erratic quarter to quarter as the economic environment stabilizes near term and resumes positive growth in the more distant future.

*Cost of revenues.* Cost of revenues increased from approximately \$6,046,000 (or 85% of revenues) for the three month period ended March 31, 2008 to approximately \$8,092,000 (or 80% of revenues) for the three month period ended March 31, 2009. The absolute increase in cost of revenues was primarily attributable to increasing revenues. The decrease in our costs of revenues as a percentage of revenues was primarily attributable to margin improvements within our PKI and MTEM segments. We anticipate that cost of sales may continue to decrease on a percentage basis in the near term as we move beyond the initial start-up phase of recent contract awards and our product mix of PKI services expands in relation to our other segments.

*Gross profit.* Gross profit increased from approximately \$1,104,000 (or 15% of revenues) for the three month period ended March 31, 2008 to approximately \$2,043,000 (or 20% of revenues) for the three month period ended March 31, 2009. The percentage of gross profit was higher in the first quarter 2009 as compared to the first quarter 2008 predominately as a result of improving margins that should continue to occur as our incremental fixed portion of costs level out as we realize a larger revenue base. We anticipate gross profit as a percentage of revenues may increase in the near term as cost of revenues as a percentage of revenues decreases due to a greater mix of higher margin services add to revenue growth and higher costs associated with initial start-up phase contract awards diminish. We believe as revenues expand in the future there will be periods of variability in margin growth associated with changes in our product mix.

*Sales and marketing.* Sales and marketing expense increased from approximately \$166,000 (or 2% of revenues) for the three month period ended March 31, 2008 to approximately \$229,000 (or 2% of revenues) for the three month period ended March 31, 2009. The increase was materially attributable to the hiring of additional resources in our sales and marketing department during the 2<sup>nd</sup> and 3<sup>rd</sup> quarters of 2008 as well as the licensing of sales and marketing tools that are part of an initiative to expand our sales and marketing infrastructure.

*General and administrative.* General and administrative expenses decreased from approximately \$1,680,000 (or 23% of revenues) for the three month period ended March 31, 2008 to approximately \$1,536,000 (or 15% of revenues) for the three month period ended March 31, 2009. The decrease in general and administrative expenses for the three months ended March 31, 2009, was primarily attributable to a decrease in stock compensation expense under SFAS 123R as a result of options issued to employees in connection with the iSYS acquisition in January 2008.

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*Depreciation.* Depreciation expense increased from approximately \$37,000 (or less than 1% of revenues) for the three month period ended March 31, 2008 to approximately \$43,000 (or less than 1% of revenues) for the three month period ended March 31, 2009. The increase in depreciation expense was primarily attributable to greater amounts of depreciable assets.

*Interest income.* Interest income decreased from approximately \$16,000 (or less than 1% of revenues) for the three month period ended March 31, 2008 to approximately \$14,000 (or less than 1% of revenues) for the three month period ended March 31, 2009. The decrease in interest income was primarily attributable to lower short-term interest rates that were available to the Company on investments in interest bearing accounts.

*Interest expense.* Interest expense decreased from approximately \$100,000 (or less than 1% of revenues) for the three month period ended March 31, 2008 to approximately \$80,000 (or less than 1% of revenues) for the three month period ended March 31, 2009. The decrease in interest expense was primarily attributable to lesser expenses associated with lower debt levels. We anticipate our interest expense may fall as a result of the March 2009 payoff of the subordinated debt of approximately \$2.1 million dollars which bore an interest rate of 10%.

*Income taxes.* Income taxes for the three month period ended March 31, 2009 were approximately \$39,000 as compared to no income taxes for the three month period ended March 31, 2008. The Company incurred a deferred income tax expense of approximately \$39,000 for the three month period ended March 31, 2009, as a result of the recognition of a deferred tax liability attributable to the differences in our treatment of the amortization of goodwill for tax purposes versus book purposes as it relates to our acquisition of iSYS in January 2008. Because the goodwill is not amortized for book purposes but is for tax purposes and goodwill is considered a permanent asset and not a temporary asset, the related deferred tax liability cannot be reversed until some indeterminate future period when the goodwill either becomes impaired, and/or is disposed of.

*Net income (loss).* As a result of the above, the net income for the three month period ended March 31, 2009, was approximately \$129,000 as compared to the net loss of approximately \$863,000 for the three months ended March 31, 2008.

## Liquidity and Capital Resources

The Company has, since inception, financed its operations and capital expenditures through the sale of preferred and common stock, seller notes, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. During 2008 and through the period ended March 31, 2009, operations were materially financed with working capital, borrowings against the Company's credit facilities with Cardinal Bank and through the private sale of securities. During the first quarter of 2009 the Company modified its senior lending facility with Cardinal Bank which now allows for the Company to borrow up to \$5 million at a rate of prime plus 50 basis points. This lending facility matures on June 1, 2010. The extended credit facility provides the Company with continuing liquidity to fund the operations of the business supporting additional contract awards and strategic opportunities to expand the Company's strategic goals and objectives. Further, on November 5, 2007, the Company entered into a series of agreements with Protexx, Inc., a company which WidePoint acquired substantially all of its assets and intellectual property in July of 2008. These agreements allowed for Protexx, Inc. with approval by WidePoint to borrow up to \$250,000 from WidePoint on an installment basis between November 5, 2007 and July 31, 2008. The short-term borrowing facility was converted by WidePoint at the time of the asset purchase of Protexx, Inc. assets and intellectual property.

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Net cash provided by operating activities for the quarter ended March 31, 2009, was approximately \$2.2 million, as compared to cash provided by operating activities of \$2.3 million for the quarter ended March 31, 2008. The decrease in cash generated from operating activities for the quarter ended March 31, 2009, was primarily a result of decreases in accounts receivable, which were materially due to increased collections as a result of greater billed revenues as compared to the quarter ended March 31, 2008, and partially offset by increases in accounts payable and accruals. Increases in revenue growth were contributing factors to these changes. Net cash used in investing activities for the quarter ended March 31, 2009, was approximately \$19,000, as compared to \$4.9 million used in investing activities in the quarter ended March 31, 2008. The decrease in net cash used in investing activities primarily reflects the prior year acquisition of iSYS in January 2008 whereas there were no acquisitions in the first quarter of 2009. Net cash used in financing activities amounted to approximately \$2.2 million in the quarter ended March 31, 2009, as compared to approximately \$3.2 million of net cash provided by financing activities in the quarter ended March 31, 2008. The decrease in net cash provided by financing activities primarily reflects the repayment of a note payable issued by the seller in connection with the acquisition of iSYS, LLC in January 2008. As a result of the Company's capital raise in 2008, the Company had excess liquidity to absorb this paydown of short-term debt while still maintaining sufficient levels of capital resources to fund the operations.

As of March 31, 2009, the Company had a net working capital of approximately \$3.0 million. The Company's primary source of liquidity consists of approximately \$4.3 million in cash and cash equivalents and approximately \$7.4 million of accounts receivable and unbilled accounts receivable. Current liabilities include approximately \$6.7 million in accounts payable and accrued expenses. The growth in current liabilities during the quarter was materially associated with timing delays in reconciling certain vendors payments that increased our accounts payable and accrued expenses.

The Company's business environment is characterized by rapid technological change, periods of high growth and contraction and is influenced by material events such as mergers and acquisitions that can substantially change the Company's outlook.

The Company has embarked upon several new initiatives to expand revenue growth which has included acquisitions and organic growth. The Company requires substantial working capital to fund the future growth of its business, particularly to finance accounts receivable, sales and marketing efforts, and capital expenditures.

Currently there are no material commitments for capital expenditures and software development costs. Future capital requirements will depend on many factors, including the rate of revenue growth, if any, the timing and extent of spending for new product and service development, technological changes and market acceptance of the Company's services.

Management believes that its current cash position is sufficient to meet capital expenditure and working capital requirements for the near term. However, the growth and technological change of the market make it difficult to predict future liquidity requirements with certainty. Over the longer term, the Company must successfully execute its plans to increase revenue and income streams that will generate significant positive cash flows if it is to sustain adequate liquidity without impairing growth or requiring the infusion of additional funds from external sources. Additionally, a major expansion, such as occurred with the acquisition of iSYS or any other potential new subsidiaries, might require external financing that could include additional debt or equity capital. The Company added to its working capital during the second quarter of 2008 by selling shares of its common stock in private transactions. The approximate \$4.1 million in proceeds has bolstered the Company's ability to finance working capital requirements. There can be no assurance that additional financing, if required, will be available on acceptable terms, if at all, for future acquisitions and/or growth initiatives.

## Off-Balance Sheet Arrangements

The Company has no existing off-balance sheet arrangements as defined under SEC regulations.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the existence of the material weaknesses discussed below under the heading Material Weaknesses our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this report.

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We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Material Weaknesses**

In our Management's Report on Internal Control Over Financial Reporting included in our Form 10-K for the year ended December 31, 2008, management concluded that our internal control over financial reporting was not effective due to the existence of the material weaknesses as of December 31, 2008, discussed below. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

*Inadequate segregation of duties within a significant account or process.* We did not have appropriate segregation of duties within our internal controls that would ensure the consistent application of procedures in our financial reporting process by existing personnel. This control deficiency could result in a misstatement to substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

*Inadequate documentation of the components of internal control.* We did not maintain documented policies and evidence of compliance with our internal controls that would ensure the consistent application of procedures in our financial reporting process by existing personnel. This control deficiency could result in a misstatement to substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

*Income Tax Accounting.* We engage outside parties to assist us in accounting for income taxes. We have not implemented an effective review process for accounting for income taxes which could lead to errors occurring in the amounts and disclosures for income taxes. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

### **Remediation Plan for Material Weaknesses**

The material weaknesses described above comprise control deficiencies that we discovered in the fourth quarter of fiscal year 2007 and during the financial close process for fiscal year 2008. Upon our acquisition of iSYS in January 2008, we further determined that the material weaknesses described above were also present in iSYS' internal controls. We specifically noted weaknesses associated with the process of recognizing a certain segment of the iSYS revenue and associated direct costs.

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Beginning and during the fourth quarter of fiscal 2007, we formulated a remediation plan and initiated remedial action to address those material weaknesses at WidePoint. During the first quarter of 2008, we expanded the scope of our remediation plan to address the material weaknesses related to the internal controls and procedures of iSYS. The elements of the remediation plan are as follows:

*Inadequate segregation of duties within a significant account or process.* We commenced a thorough review of our accounting staff's duties and where necessary we have begun segregating such duties with other personnel.

*Inadequate documentation of the components of internal control.* We commenced a thorough review of our documentation and where necessary we are putting into place policies and procedures to document such evidence to comply with our internal control requirements. We are specifically addressing policies to properly review and recognize a certain segment of the iSYS revenue and associated direct costs. We have also retained a financial consultant to assist us in further reviewing and improving our internal control processes.

*Inadequate income tax accounting review process.* We commenced a search and review of outside experts to assist us in developing an effective review process for accounting for income taxes.

We believe that these measures, if effectively implemented and maintained, will remediate the material weaknesses discussed above.

### **Changes in Internal Control Over Financial Reporting**

During the first quarter of fiscal year 2009, we undertook a number of measures to remediate the material weaknesses discussed above. Those measures, described under Remediation Plan for Material Weaknesses, undertaken during the first quarter of fiscal year 2009, have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other than as described above, there have been no changes in our internal control over financial reporting during the first quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 5. OTHER INFORMATION**

Effective May 11, 2009, fully-vested options to purchase 315,000 shares of WidePoint common stock previously issued to Jin Kang on January 4, 2008 with an exercise price of \$0.85 per share were cancelled and new options were issued to Mr. Kang entitling Mr. Kang to purchase 315,000 shares of WidePoint common stock at a price of \$0.54 per share. All of the newly issued options vested fully as of the date of grant.

Effective May 11, 2009, fully-vested options to purchase 50,000 shares of WidePoint common stock previously issued to Ron Oxley on August 16, 2006 with an exercise price of \$2.80 per share were cancelled and new options were issued to Mr. Oxley entitling Mr. Oxley to purchase 50,000 shares of WidePoint common stock at a price of \$0.54 per share. All of the newly issued options vested fully as of the date of grant.

Effective May 11, 2009, unvested options to purchase 250,000 shares of WidePoint common stock previously issued to Mr. Oxley on July 25, 2008 with an exercise price of \$0.81 per share were cancelled and new options were issued to Mr. Oxley entitling Mr. Oxley to purchase 250,000 shares of WidePoint common stock at a price of \$0.83 per share. Such options shall vest fully on July 25, 2015; provided that the vesting of such options may be accelerated based on the achievement of certain performance objectives.

### **ITEM 6. EXHIBITS.**

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

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**SIGNATURES**

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

WIDEPOINT CORPORATION

Date: May 15, 2009

/s/ STEVE L. KOMAR

Steve L. Komar  
President and Chief Executive Officer

Date: May 15, 2009

/s/ JAMES T. MCCUBBIN

James T. McCubbin  
Vice President - Principal Financial  
and Accounting Officer

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