

WIDEPOINT CORP  
Form 10-Q  
May 11, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarterly period ended March 31, 2015**

**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)* *(I.R.S. employer  
identification no.)*

**7926 Jones Branch Drive, Suite 520, McLean, Virginia 22102**

*(Address of principal executive offices)*

*(Zip Code)*

**(703) 349-2577**

*(Registrant's telephone number, including area code)*

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of May 11, 2015, there were 82,135,803 shares of the registrant’s Common Stock issued and 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****(Unaudited)**

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 11,524,390	\$ 13,154,699
Accounts receivable, net of allowance for doubtful accounts of \$82,202 and \$88,719 in 2015 and 2014, respectively	9,916,843	8,543,050
Unbilled accounts receivable	5,772,408	5,547,416
Inventories	26,221	37,025
Prepaid expenses and other assets	561,900	426,736
Income taxes receivable	-	25,984
Deferred income taxes	30,553	18,584
Total current assets	27,832,315	27,753,494
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	1,556,251	1,614,182
Intangibles, net	5,724,650	5,992,992
Goodwill	18,555,578	18,555,578
Deposits and other assets	142,373	161,994
<b>TOTAL ASSETS</b>	<b>\$53,811,167</b>	<b>\$ 54,078,240</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term note payable	\$80,966	\$ 137,025
Accounts payable	7,209,545	6,165,477
Accrued expenses	5,926,326	5,980,110
Deferred revenue	857,578	710,275
Income taxes payable	4,280	12,574

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Current portion of long-term debt	2,192,854	2,184,016
Current portion of deferred rent	8,444	9,274
Current portion of capital lease obligations	66,828	76,597
Total current liabilities	16,346,821	15,275,348
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	1,109,033	1,327,800
Capital lease obligation, net of current portion	30,778	36,669
Deferred rent, net of current portion	150,212	152,815
Deferred revenue	50,115	56,977
Deferred income taxes	447,811	447,811
Deposits and other liabilities	6,164	1,964
Total liabilities	18,140,934	17,299,384
STOCKHOLDERS' EQUITY		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 2,045,714 shares issued and none outstanding	-	-
Common stock, \$0.001 par value; 110,000,000 shares authorized; 81,873,923 and 81,656,763 shares issued and outstanding, respectively	81,874	81,657
Additional paid-in capital	92,824,426	92,661,000
Accumulated other comprehensive (loss)	(262,022 )	(147,515 )
Accumulated deficit	(56,974,045 )	(55,816,286 )
Total stockholders' equity	35,670,233	36,778,856
Total liabilities and stockholders' equity	\$53,811,167	\$ 54,078,240

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
REVENUES	<b>\$ 17,695,568</b>	\$ 9,602,779
COST OF REVENUES (including amortization and depreciation of \$295,436 and \$331,867, respectively)	<b>14,125,600</b>	7,135,541
GROSS PROFIT	<b>3,569,968</b>	2,467,238
OPERATING EXPENSES		
Sales and Marketing	<b>770,511</b>	845,112
General and Administrative Expenses (including share-based compensation of \$37,551 and \$82,716, respectively)	<b>3,795,897</b>	3,055,838
Depreciation and Amortization	<b>98,297</b>	69,510
Total Operating Expenses	<b>4,664,705</b>	3,970,460
LOSS FROM OPERATIONS	<b>(1,094,737 )</b>	(1,503,222 )
OTHER INCOME (EXPENSE)		
Interest Income	<b>5,926</b>	730
Interest (Expense)	<b>(44,240 )</b>	(46,226 )
Other Income (Expense)	<b>7,433</b>	5,875
Total Other Income (Expense)	<b>(30,881 )</b>	(39,621 )
LOSS BEFORE PROVISION FOR INCOME TAXES	<b>(1,125,618 )</b>	(1,542,843 )
INCOME TAX PROVISION (BENEFIT)	<b>32,141</b>	(616,145 )
NET LOSS	<b>\$ (1,157,759 )</b>	\$ (926,698 )
BASIC EARNINGS PER SHARE	<b>\$ (0.014 )</b>	\$ (0.014 )
BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	<b>81,743,812</b>	66,826,037
DILUTED EARNINGS PER SHARE	<b>\$ (0.014 )</b>	\$ (0.014 )
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	<b>81,743,812</b>	66,826,037

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

**(Unaudited)**

	THREE MONTHS ENDED MARCH 31,	
	<b>2015</b>	2014
	(Unaudited)	
Net Loss	<b>\$ (1,157,759 )</b>	\$ (926,698 )
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of tax	<b>(114,507 )</b>	-
Other comprehensive loss	<b>(114,507 )</b>	-
Comprehensive (loss) income	<b>\$ (1,272,266 )</b>	\$ (926,698 )



**WIDEPOINT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	<b>\$(1,157,759 )</b>	<b>\$(926,698 )</b>
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax benefit	<b>(14,521 )</b>	-
Depreciation expense	<b>125,391</b>	98,969
Provision for doubtful accounts	<b>(1,640 )</b>	-
Amortization of intangibles	<b>268,342</b>	302,408
Amortization of deferred financing costs	-	3,819
Share-based compensation expense	<b>37,551</b>	82,716
Loss on disposal of equipment	<b>1,101</b>	-
Changes in assets and liabilities:		
Accounts receivable and unbilled receivables	<b>(1,464,099 )</b>	2,623,179
Inventories	<b>10,804</b>	17,525
Prepaid expenses and other current assets	<b>(143,149 )</b>	(32,530 )
Other assets excluding deferred financing costs	<b>23,821</b>	(2,910 )
Accounts payable and accrued expenses	<b>785,850</b>	(1,592,238 )
Income tax (payable) receivable	<b>16,178</b>	(616,601 )
Deferred revenue and other liabilities	<b>221,693</b>	(10,191 )
Net cash used in operating activities	<b>(1,290,437 )</b>	<b>(52,552 )</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	<b>(93,030 )</b>	(19,076 )
Software development costs	-	(138,781 )
Net cash used in investing activities	<b>(93,030 )</b>	<b>(157,857 )</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on bank line of credit	<b>3,926,571</b>	3,445,647
Repayments of bank line of credit advances	<b>(3,926,571 )</b>	(4,362,310 )
Principal repayments of long term debt	<b>(209,929 )</b>	(200,684 )
Principal repayments under capital lease obligations	<b>(15,190 )</b>	(8,832 )
Proceeds from public stock offering, net of offering costs	-	11,470,117
Proceeds from exercise of stock options	<b>126,092</b>	-
Net cash (used in) provided by financing activities	<b>(99,027 )</b>	<b>10,343,938</b>

Net effect of exchange rate on cash and equivalents	(147,815 )	-
NET DECREASE IN CASH	(1,630,309 )	10,133,529
CASH, beginning of period	13,154,699	-
CASH, end of period	\$ 11,524,390	\$ 10,133,529

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

THREE MONTHS ENDED  
MARCH 31,  
**2015**                      2014

**SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest	<b>\$ 31,061</b>	\$ 41,831
Cash paid for income taxes	<b>\$ 24,225</b>	\$ -

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

## WIDEPOINT CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

#### 1. Organization and Nature of Operations

##### *Organization*

WidePoint Corporation (“WidePoint” or the “Company”) was incorporated in Delaware on May 30, 1997. The Company is a global provider of information technology (IT) based products, services, and solutions. The Company offers secure, cloud-based, enterprise-wide information technology-based solutions that enable commercial markets, and federal and state government organizations, to deploy fully compliant IT services in accordance with government-mandated regulations and advanced system requirements. The Company has sales and operational offices strategically located throughout the continental United States, Ireland, the Netherlands and the United Kingdom. The Company’s principal executive and administrative headquarters is located in McLean, Virginia.

##### *Nature of Operations*

The Company has grown through the targeted acquisition of specialized IT companies that now provide a complementary suite of products and services for its Managed Mobility Solutions (MMS) offering. The Company’s MMS offers a portfolio of information technology based services and products with a set of streamlined mobile communications management, identity management, telecommunications data intelligence and consulting solutions that provide its customers with the ability to manage and protect their valuable communications assets and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments. Many of the Company’s solutions are accessible on-demand through cloud computing and provide customers with the ability to remotely manage their workforce mobility and identity management requirements in accordance with internal policies, the marketplace and the demands of its customers. The Company may authorize the use of discretionary operating capital to fund the development of MMS offerings, functionality and/or streamline the operation of its proprietary applications.

The Company’s 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 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 awarded and general economic conditions. A significant portion of the Company's 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.

2. Basis of Presentation and Accounting Policies

*Basis of Presentation*

The unaudited condensed consolidated financial statements as of March 31, 2015 and for each of the three month periods ended March 31, 2015 and 2014, respectively, 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 ("GAAP") 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 financial statements for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2014 was derived from the audited condensed consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three month period ended March 31, 2015 are not indicative of the operating results for the full year.

### *Principles of Consolidation*

The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and acquired entities since their respective dates of acquisition. All significant inter-company amounts were eliminated in consolidation.

### *Foreign Currency*

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of each reporting period. The resulting translation adjustments, along with any related tax effects, are included in accumulated other comprehensive (loss) income, a component of stockholders' equity. Translation adjustments are reclassified to earnings upon the sale or substantial liquidation of investments in foreign operations. Revenues and expenses are translated at the average month-end exchange rates during the year. Gains and losses related to transactions in a currency other than the functional currency, including operations outside the U.S. where the functional currency is the U.S. dollar, are reported net in the Company's Consolidated Statements of Operations, depending on the nature of the activity.

### *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 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 the timing of revenue recognition, accounts receivable valuation reserves, ability to realize intangible assets and goodwill, ability to realize deferred income tax assets, fair value of assets and liabilities acquired in connection with a business combination, fair value of certain financial instruments 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.

### *Significant Accounting Policies*

There have been no significant changes in the Company's significant accounting policies during the first three months of 2015 from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014

filed with the SEC on March 16, 2015.

### *Segment Reporting*

The Company's MMS offering is a portfolio of enterprise-wide information technology-based services that comprise a single MMS business from which the Company earns revenues and incurs costs. The Company's MMS offerings are centrally managed and reported on that basis to its Chief Operating Decision Maker who evaluates its MMS business as a single segment. See Note 14 for detailed information regarding the composition of MMS services.

### *Accounting Standards Update*

In April 2015, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2015-03, Interest—Imputation of Interest, which require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this Update. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The standard should be applied on a retrospective basis and accounted for as a change in accounting principle. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company is evaluating the effect that ASU 2015-03 may have on its consolidated financial statements and related disclosures.

## 3.

## Business Combinations

There were no business combinations during the three month period ended March 31, 2015.

*Soft-ex Communications Limited*

On May 1, 2014, WidePoint Global Solutions, Inc. ("WGS"), a wholly-owned subsidiary of the Company entered into a Share Sale and Purchase Agreement (the "Agreement"), with Gutteridge Limited ("Gutteridge"), a wholly-owned subsidiary of Soft-Ex Holdings Limited ("SHL"), and the shareholders of Soft-Ex Holdings Limited, pursuant to which WGS purchased all of the outstanding equity of Soft-ex Communications Limited ("SCL"). As a result of this transaction, SCL became a wholly-owned subsidiary of WidePoint. WidePoint acquired all of the outstanding equity of SCL for \$6.0 million. The purchase price for the outstanding equity of SCL consisted of (i) the payment at closing of cash in the amount of \$5 million, subject to a post-closing net working capital adjustment, and (ii) the delivery of a contingent subordinated unsecured loan note in the principal amount of \$1.0 million (the "Note"). See Note 4 for additional information regarding the fair value of this contingent consideration.

Supplemental Unaudited Pro Forma Information

The following unaudited pro forma condensed consolidated statements of operations of WidePoint for the three month periods ended March 31, 2014 have been prepared as if the acquisition of SCL had occurred at January 1, 2014:

	THREE MONTHS ENDED MARCH 31, 2014	
	(a) (Unaudited)	
Revenues, net	\$ 10,802,000	
Net (loss) income	\$ (822,000	)(b)
Basic (loss) earnings per share	\$ (0.012	)
Diluted (loss) earnings per share	\$ (0.012	)

(a) To reflect on a pro forma basis unaudited consolidated financial information for the three month period ended March 31, 2014 for WidePoint. The unaudited financial information presented herein were derived from historical internally prepared financial statements for SCL and WidePoint's Form 10-Q quarterly unaudited financial statements. SCL's financial statements are prepared in accordance with Irish GAAP, as such additional adjustments were made to



convert SCL Irish GAAP presentation to a US GAAP presentation to align with WidePoint's accounting policies. SCL's reporting currency unit is the Euro. SCL's US GAAP unaudited historical statement of operations for the three month period ended March 31, 2014 were translated into WidePoint's reporting currency using an average USD/EURO rate of \$1.1283.

(b) As more fully described above under "purchase consideration", in conjunction with the share sale and purchase agreement with SCL, WidePoint issued a subordinated unsecured loan Note in the principal amount of \$1.0 million. Pro forma interest expense was calculated for this Note under the assumption that the probability of failing to generate adequate gross revenues is considered remote at this time based on projection available at the time of the transaction. Pro forma interest expense adjustments included for each of the three month period ended March 31, 2014 was approximately \$7,500, respectively.

#### 4. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in the absence of a principal, most advantageous market for the specific asset or liability. GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

Level 1 - Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:

§ Quoted prices for similar assets or liabilities in active markets,

§ Quoted prices for identical or similar assets or liabilities in markets that are not active,

§ Inputs other than quoted prices that are observable for the asset or liability, and

§ Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would likely use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows).

The Company monitors applicable market conditions and evaluates the fair value hierarchy levels as they pertain to the Company at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred. There were no transfers into or out of Level 3 for the three month periods ended March 31, 2015 or 2014.

The Company measured the fair value of contingent seller financed promissory notes (“contingent obligation”) presented on the condensed consolidated balance sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the three months ended March 31, 2015 and during the year ended December 31, 2014. There were no changes in the fair value of contingent consideration at March 31, 2015.

At March 31, 2015, except for the contingent obligation, all of the Company’s assets and liabilities are classified as Level 1.

## 5. Accounts Receivable and Unbilled Accounts Receivable

Accounts receivable consist of the following for each of the periods presented below:

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
	(Unaudited)	
Commercial	<b>\$4,793,718</b>	\$ 5,328,988
Government	<b>5,205,327</b>	3,302,781
Gross accounts receivable	<b>9,999,045</b>	8,631,769
Less: allowances for doubtful accounts	<b>(82,202 )</b>	(88,719 )
Accounts receivable, net	<b>\$9,916,843</b>	\$ 8,543,050

Unbilled accounts receivable consist of the following for each of the periods presented below:

	<b>MARCH 31, 2015</b>	<b>DECEMBER 31, 2014</b>
	(Unaudited)	
Commercial	<b>\$509,439</b>	\$ 550,590
Government	<b>5,262,969</b>	4,996,826
Unbilled accounts receivable	<b>\$5,772,408</b>	\$ 5,547,416

Customers representing ten percent or more of consolidated revenues are set forth in the table below for each of the periods presented:

	<b>THREE MONTHS ENDED MARCH 31,</b>	
	<b>2015</b>	<b>2014</b>
Customer Name	<b>As a % of Revenues</b>	<b>As a % of Revenues</b>
	(Unaudited)	
Department of Homeland Security (DHS)	<b>49%</b>	37%

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Customers representing ten percent or more of consolidated trade accounts receivable are set forth in the table below for each of the periods presented:

Customer Name	<b>MARCH 31, 2015</b> As a % of <b>Receivables</b> (Unaudited)	<b>DECEMBER 31, 2014</b> As a % of Receivables
Department of Homeland Security ("DHS")	23%	20%
Science Applications International Corporation	—	21%
US Airforce	14%	—
AbbVie, Inc.	10%	7%

6. Property and Equipment

Major classes of property and equipment consisted of the following for each of the periods presented below:

	<b>MARCH 31, 2015</b> (Unaudited)	<b>DECEMBER 31, 2014</b>
Land and building	<b>\$ 677,054</b>	\$ 677,054
Computer hardware and software	<b>2,848,204</b>	2,824,340
Furniture and fixtures	<b>289,989</b>	295,485
Leasehold improvements	<b>527,924</b>	547,087
Automobile	<b>273,077</b>	295,844
Gross property and equipment	<b>4,616,248</b>	4,639,810
Less: accumulated depreciation and amortization	<b>(3,059,997 )</b>	(3,025,628 )
Property and equipment, net	<b>\$ 1,556,251</b>	\$ 1,614,182

There were no changes in the estimated useful life used to depreciate property and equipment during the three month periods ended March 31, 2015 and 2014. For each of the three month periods ended March 31, 2015 and 2014, property and equipment depreciation expense recorded was approximately \$125,400 and \$99,000, respectively. For each of the three month periods ended March 31, 2015 and 2014, there were no material sales or disposals of owned property and equipment.

Included in property and equipment are certain equipment purchases acquired under capital lease arrangements. See Note 8 for additional information about historical capital lease obligations. Total capitalized cost of equipment under capital leases at March 31, 2015 and December 31, 2014 was approximately \$518,200 (including reductions in gross cost due to cumulative translation adjustments of approximately \$29,800) and \$536,100 (including reductions in gross cost due to cumulative translation adjustments of approximately \$11,900), respectively. For each of the three month periods ended March 31, 2015 and 2014, the Company did not enter into any capital lease arrangements.

For the three month periods ended March 31, 2015 and 2014 depreciation expense for leased equipment was approximately \$19,700 (including reductions in accumulated amortization due to translation adjustments of approximately \$3,300) and \$14,700, respectively. Accumulated depreciation for leased equipment at March 31, 2015 and December 31, 2014 was approximately \$496,700 (including reductions in accumulated amortization due to cumulative translation adjustments of approximately \$3,300) and \$481,000 (including reductions in accumulated amortization due to cumulative translation adjustments of approximately \$500), respectively. For the three month periods ended March 31, 2015 and 2014, there were no disposals of leased equipment. Total net book value of assets under capital leases (including cumulative translation adjustments) at March 31, 2015 and December 31, 2014 was approximately \$21,500 and \$55,800, respectively.

7.

Goodwill and Intangible Assets

The Company has recorded goodwill of \$18,555,578 as of March 31, 2015. There were no changes in the carrying amount of goodwill for the three month period ended March 31, 2015. The Company considered whether there were indicators of impairment during the three month period ended March 31, 2015.

The Company also has material intangible assets consisting of purchased intangibles and internally developed software used in the conduct of business. For the three months ended March 31, 2015, the Company did not complete any business combinations or capitalize internally developed software. There were no disposals of intangible assets for the three month period ended March 31, 2015. There were no additions or dispositions of intangible assets for the three month period ended March 31, 2015. The aggregate amortization expense recorded for the three month periods ended March 31, 2015 and 2014 was approximately \$268,300 and \$302,400, respectively. The total weighted average life of purchased and internally developed intangible assets is approximately 6.2 years at March 31, 2015.

8. Line of Credit and Long Term Debt

*Commercial Loan Agreement Facility*

The Company has an \$8,000,000 working capital line of credit facility with Cardinal Bank that matures on October 31, 2015. The amount available varies from month to month depending upon the amount of qualified customer accounts receivable which currently consists of up to 90% of qualified United States Federal Government receivables and up to 80% of United States domestic commercial and other non-federal government receivables, less any amounts outstanding on the Cardinal Bank term note. The credit facility with Cardinal Bank requires the Company to maintain (i) a tangible net worth of at least \$4.5 million and (ii) a current ratio of at least 1.1:1.0. As of March 31, 2015, the Company was in compliance with its tangible net worth and current ratio financial covenants.

The Company was advanced approximately \$3.9 million and repaid approximately \$3.9 million during the three month period ended March 31, 2015. There was no outstanding balance on the credit facility at March 31, 2015.

*Long-Term Debt*

Long-term debt consisted of the following:

	<b>MARCH 31, 2015</b> (Unaudited)	<b>DECEMBER 31, 2014</b>
Cardinal Bank mortgage dated December 17, 2010 (1)	<b>\$463,818</b>	\$ 468,163
Cardinal Bank term note dated December 31, 2011 (2)	<b>1,504,735</b>	1,710,319
Non-contingent subordinated unsecured promissory note dated December 31, 2011 (3)	<b>333,334</b>	333,334
Contingent subordinated unsecured loan note payable dated May 31, 2014 (4)	<b>1,000,000</b>	1,000,000
Total	<b>3,301,887</b>	3,511,816
Less: current portion	<b>(2,192,854)</b>	(2,184,016 )
Long-term debt, net of current portion	<b>\$1,109,033</b>	\$ 1,327,800

(1) On December 17, 2010, the Company entered into a real estate purchase agreement to acquire an operations and call center facility in Columbus, Ohio for approximately \$677,000. In connection with the real estate purchase agreement, the Company entered into a \$528,000 ten-year mortgage with Cardinal Bank to fund the unpaid portion of the purchase price. The mortgage loan bears interest at 6.0% with monthly principal and interest payments of approximately \$3,800, and matures on December 17, 2020. The mortgage loan principal and interest payments are based on a twenty-year amortization with the unpaid balance due at maturity. The mortgage loan is secured by the real estate.

(2) On December 31, 2011, the Company entered into a \$4.0 million 5-year term note with Cardinal Bank (“Cardinal Bank Term Note”) to fund a portion of the purchase price paid in connection with the asset purchase agreement with Avalon Global Solutions, Inc. (“AGS”) dated December 30, 2011. The term note bears interest at 4.5% with monthly principal and interest payments of approximately \$74,694, and matures on December 30, 2016. The term note is secured under a corporate security agreement.

(3) On December 31, 2011, the Company entered into a \$1.0 million subordinated 3-year term non-contingent note (“term note”) with AGS to fund a portion of the purchase price paid in connection with the asset purchase agreement with AGS dated December 30, 2011. The note matured on April 15, 2015. The Company paid the third and final installment of \$343,333 (including accrued interest of \$10,000) on April 15, 2015.

(4) On May 1, 2014, the Company entered into a \$1.0 million subordinated 1-year term contingent unsecured loan note with SCL to fund a portion of the purchase price paid in connection with the Share Sale and Purchase Agreement with SHL dated May 1, 2014. The note matures on May 31, 2015.

#### *Capital Lease Obligations*

The Company has leased certain equipment and automobiles under capital lease arrangements that expire in 2017. Except for the assumption of certain capital lease arrangements in connection with the acquisition of SCL, there were no changes to existing lease arrangements during the three month period ended March 31, 2015.

### 9.

#### Income Taxes

The Company files U.S. federal income tax returns with the Internal Revenue Service (“IRS”) as well as income tax returns in various states and certain foreign countries. The Company may be subject to examination by the IRS for tax years 2003 and forward. The Company may be subject to examinations by various state taxing jurisdictions for tax years 2003 and forward. The Company may be subject to examination by various foreign countries for tax years 2014 forward. As of March 31, 2015, the Company was not under examination by the IRS, any state or foreign tax jurisdiction. The Company did not have any unrecognized tax benefits at either March 31, 2015 or December 31, 2014. In the future, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.

As of March 31, 2015, the Company had recorded a deferred tax asset of approximately \$5.0 million reflecting the benefit of approximately \$21.5 million in net operating loss (NOL) carry forwards available to offset future taxable income for federal income tax purposes, net of the potential Section 382 limitations. These federal NOL carry



forwards expire between 2017 and 2032. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$18.5 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2032. Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our domestic NOL may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. Under existing income tax accounting standards such objective evidence is more heavily weighted in comparison to other subjective evidence such as our projections for future growth, tax planning and other tax strategies. A significant piece of objective negative evidence considered in management's evaluation of the realizability of its deferred tax assets was the existence of cumulative losses over the latest three-year period. Management forecast future taxable income, but concluded that there may not be enough of a recovery before the end of the fiscal year to overcome the negative objective evidence of three years of cumulative losses. On the basis of this evaluation, management recorded a valuation allowance of \$5.0 million against all deferred tax assets during the three month period ended March 31, 2015. If management's assumptions change and we determine we will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be accounted for as a reduction of income tax expense.

## 10. Stockholders' Equity

### *Preferred Stock*

There were no issuances of preferred stock during the three month periods ended March 31, 2015 and 2014.

### *Common Stock*

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. As of March 31, 2015, there were 81,873,923 shares of common stock outstanding.

### *Employee Stock Option Exercises*

Shares of common stock issued as a result of stock option exercises during the three month period ended March 31, 2015 were 217,160 and the Company realized gross proceeds of approximately \$126,100 from the exercise of such stock options. See Note 11 for additional information regarding stock option plans.

## 11. Stock Options and Award Programs

The Company's stock incentive plan is administered by the Compensation Committee and authorizes the grant or award of incentive stock options, non-qualified stock options, restricted stock awards, stock appreciation rights, dividend equivalent rights, performance unit awards and phantom shares. The Company issues new shares of common stock upon the exercise of stock options. Any shares associated with forfeited awards are added back to the number of shares to be granted under the stock incentive plan. The Company has issued restricted stock awards and non-qualified stock option awards as described below.

### *Restricted Stock Awards*

On November 18, 2010, the Company's Compensation Committee granted Steve L. Komar and James T. McCubbin each an award of 250,000 shares of restricted stock of the Company, the vesting of which is based upon the earlier to

occur of (a) the seventh anniversary date of the grant, or (b) an acceleration event as determined on the date of grant by the Compensation Committee and set forth in the award agreement with respect to such grant. There were no changes in vesting requirements or activity related to restricted stock awards (RSA) during the three month period ended March 31, 2015. At March 31, 2015, the Company had approximately \$229,500 of total unamortized RSA compensation expense.

### *Stock Option Awards*

The Company did not grant any stock options during the three month period ended March 31, 2015. Stock option awards reflected in the tables below cover the period from 1999 through March 31, 2015. A summary of stock option and RSA activity as of March 31, 2015, and changes during three month period ended March 31, 2015 is set forth below:

NON-VESTED AWARDS	Shares	Restricted Stock		Stock Options	
		Weighted Average Exercise Price (Unaudited)	Shares	Weighted Average Exercise Price (Unaudited)	
Non-vested balances, January 1, 2015	205,952	\$ 1.22	1,340,838	\$ 0.57	
Cancelled	-	--	(250,000 )	\$ 0.39	
Vested	(17,857 )	\$ 1.22	(416,666 )	\$ 0.27	
Non-vested balances, March 31, 2015	188,095	\$ 1.22	674,172	\$ 0.83	

  

OUTSTANDING AND EXERCISABLE AWARDS	Shares	Restricted Stock		Stock Options	
		Weighted Average Exercise Price (Unaudited)	Shares	Weighted Average Exercise Price (Unaudited)	
Awards outstanding, January 1, 2015	294,048	\$ 1.22	2,791,601	\$ 0.83	
Canceled	-	--	(250,000 )	\$ 0.74	
Exercised	-	--	(217,160 )	\$ 0.58	
Vested	17,857	\$ 1.22	-	--	
Awards outstanding, March 31, 2015	311,905	\$ 1.22	2,324,441	\$ 0.86	
Awards vested and expected to vest, March 31, 2015	311,905	\$ 1.22	2,324,441	\$ 0.86	
Awards outstanding and exercisable, March 31, 2015	-	--	1,650,269	\$ 0.76	



A summary of stock option and RSA activity as of March 31, 2014, and changes during three month period ended March 31, 2014 is set forth below:

NON-VESTED AWARDS	Shares	Restricted Stock		Stock Options	
		Weighted Average Exercise Price (Unaudited)	Shares	Weighted Average Exercise Price (Unaudited)	Shares
Non-vested balances, January 1, 2004	277,381	\$ 1.22	1,900,000	\$ 0.37	
Cancelled		--	50,000	\$ 0.59	
Vested	(17,857 )	\$ 1.22	(422,912 )	\$ 0.25	
Non-vested balances, March 31, 2014	259,524	\$ 1.22	1,527,088	\$ 0.41	

  

OUTSTANDING AND EXERCISABLE AWARDS	Shares	Restricted Stock		Stock Options	
		Weighted Average Exercise Price (Unaudited)	Shares	Weighted Average Exercise Price (Unaudited)	Shares
Awards outstanding, January 1, 2004	222,619	\$ 1.22	3,336,500	\$ 0.72	
Granted	-	--	50,000	\$ 1.48	
Vested	17,857	\$ 1.22	-	--	
Awards outstanding, March 31, 2014	240,476	\$ 1.22	3,386,500	\$ 0.73	
Awards vested and expected to vest, March 31, 2014	240,476	\$ 1.22	3,386,500	\$ 0.73	
Awards outstanding and exercisable, March 31, 2014	-	--	1,859,412	\$ 0.71	

The weighted-average remaining contractual life and the aggregate intrinsic value (the amount by which the fair value of the Company's stock exceeds the exercise price of the option) of the stock options outstanding, exercisable, and vested and expected to vest as of March 31, 2015 are as follows:

	Outstanding	Vested and Expected to Vest (Unaudited)	Outstanding and Exercisable
Weighted-average remaining contractual life (in years)	3.3	3.3	2.7

Aggregate intrinsic value	\$ 1,115,978	\$ 1,115,978	\$ 952,185
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Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on March 31, 2015 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, 2015. The intrinsic value will change based on the fair market value of WidePoint's stock. The total intrinsic value of options exercised were approximately \$178,200 during the three months ended March 31, 2015. There were no exercises of options during the three months ended March 31, 2014.

Share-based compensation (including restricted stock awards) represents both stock options based expense and stock grant expense. For the three month periods ended March 31, 2015 and 2014, the Company recognized share-based compensation expense of approximately \$37,500 and \$82,700, respectively. During the three month period ended March 31, 2015, there were stock options of 250,000 that expired unexercised that were cancelled as a result of employment terminations.

At March 31, 2015, the Company had approximately \$336,900 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average remaining period of 2.0 years.

**12. Accumulated Other Comprehensive Income (Loss) (AOCI)**

AOCI is a balance sheet item in the stockholders' equity section of the Company's condensed consolidated balance sheets. The Company's acquisition of SCL on May 1, 2014 resulted in the recognition of net foreign currency translation adjustments due to translation of SCL's Euro-currency financial statements into the Company's reporting currency. Changes in AOCI were as follows during the three month period ended March 31, 2015 (unaudited):

Balances, January 1, 2015	\$(147,515)
Net foreign currency translation (loss)	(114,507)
Balances, March 31, 2015	\$(262,022)

**13. Earnings Per Common Share (EPS)**

The computations of basic and diluted EPS were as follows for the periods presented below:

	THREE MONTHS ENDED MARCH 31,	
	2015	2014
	(Unaudited)	
<b>Basic EPS Computation:</b>		
Net (loss) income	\$(1,157,759)	\$(926,698)
Weighted average number of common shares	81,743,812	66,826,037
Basic EPS	\$(0.014)	\$(0.014)
<b>Basic EPS Computation:</b>		
Net (loss) income	\$(1,157,759)	\$(926,698)
Weighted average number of common shares	81,743,812	66,826,037
Incremental shares from assumed conversions of stock options <sup>(1)</sup>	-	-
Adjusted weighted average number of common shares	81,743,812	66,826,037
Diluted EPS	\$(0.014)	\$(0.014)

<sup>(1)</sup> The dilutive effect of unexercised stock options excludes 204,562 and 582,012 of options from the computation of EPS for the three months ended March 31, 2015 and 2014, respectively.

**14. Details of Consolidated Revenue and Revenue by Geographic Region**

As further described in Note 2 above, the Company's principal business is MMS. The following table was prepared to provide additional information about the composition of revenues based on broad service descriptions:

	THREE MONTHS ENDED MARCH 31,	
<b>MMS Service Mix</b>	<b>2015</b>	2014
	(Unaudited)	
Carrier Services	<b>\$ 8,678,856</b>	\$ 3,932,711
Managed Services	<b>9,016,712</b>	5,670,068
	<b>\$ 17,695,568</b>	\$ 9,602,779

The following table presents our domestic and foreign revenue mix for the periods presented:

	THREE MONTHS ENDED MARCH 31,	
<b>Geographic Region</b>	<b>2015</b>	2014
	(Unaudited)	
North America	<b>\$ 16,262,863</b>	\$ 9,602,779
Europe	<b>1,240,226</b>	-
Middle East	<b>192,479</b>	-
	<b>\$ 17,695,568</b>	\$ 9,602,779



**15. Commitments and Contingencies**

*Operating Lease Commitments*

There were no other leases entered into or modifications of existing leases during the three month period ended March 31, 2015.

*Employment Agreements*

The Company has employment agreements with certain executives that set forth compensation levels and provide for severance payments in certain instances. Subsequent to March 31, 2015, the Company entered into amendments with certain executives as set forth below:

On April 9, 2015, the Company entered into an amendment to the Company's employment agreement with Steve L. § Komar, to change the term of his original employment agreement to expire on December 31, 2015 at an increased salary of \$270,000, and no change to the benefit levels then in effect.

On April 9, 2015, the Company entered into an amendment to the Company's employment agreement with James T. § McCubbin, Executive Vice President and Chief Financial Officer, to change the term of his original employment agreement to expire on March 31, 2017 at an increased salary of \$265,000, respectively, and no change to the benefit levels then in effect.

On April 9, 2015, the Company entered into an amendment to the Company's employment agreement with Jin H. § Kang, Chief Operating Officer, to change the term of his original employment agreement to expire on December 31, 2016 at an increased salary of \$265,000, respectively, and no change to the benefit levels then in effect.

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

**"Forward-Looking" Information**

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 on Form 10-Q as well as the financial statements and the notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

The information set forth below contains statements that the Company believes to be "forward-looking statements" within the meaning of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that is not a statement of historical fact, including, without limitation, statements regarding the our business strategy and plans and objectives of management for future operations or that may predict, forecast, indicate or imply future results, performance or achievements. The words "estimate," "project," "intend," "forecast," "anticipate," "plan," "planning," "expect," "believe," "will," "will likely," "s," "would," "may" or the negative of such words or words or expressions of similar meaning are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance, and all such forward-looking statements involve risks and uncertainties, many of which are beyond the company's ability to control. Actual results may differ materially from those expressed or implied by such forward-looking statements as a result of various factors. All forward-looking statements and other information in this Quarterly Report on Form 10-Q speak only as of the date of this report. We do not undertake, and we disclaim, any obligation to update any forward-looking statements or to announce revisions to any of the forward-looking statements. Certain factors that could cause results to differ materially from those projected in the forward-looking statements, including, among other things: (i) the Company's financing plans; (ii) trends affecting the Company's financial condition or results of operations; (iii) the Company's growth strategy and operating strategy; (iv) the ability to successfully integrate the operations Soft-ex Communications Ltd. (SCL); (v) decreased government spending, (vi) changes in government regulations, (vii) our focus on selling higher margin services, and (viii) the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 31, 2015. Readers are cautioned not to put undue reliance on forward-looking statements.

**Business Overview**

We are a provider of information technology (IT) based products, services, and solutions. We offer secure, cloud-based, enterprise-wide information technology-based solutions that enable commercial markets, and federal and state government organizations, to deploy fully compliant IT services in accordance with government-mandated regulations and advanced system requirements. Our Managed Mobility Solutions (MMS) offer a portfolio of IT based services and products with a set of streamlined mobile communications management, identity management, and

consulting solutions that provide our customers with the ability to manage and protect their valuable communications assets and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments. Many of our solutions are accessible on-demand through cloud computing and provide customers with the ability to remotely manage their workforce mobility and identity management requirements in accordance with internal policies, the marketplace and the demands of our customers.

For additional information related to our business operations see the description of our business set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 16, 2015.

### **Sources of Significant Operational and Administrative Expense**

A significant source of operational costs consist of salaries and benefits paid to our technical, marketing and administrative personnel. These costs are largely fixed and may not be adjusted as quickly in the event there is a rapid expansion or reduction of the scope of work associated with a customer contract. Another significant source of operational costs are payments to technical subcontractor labor and vendor-related costs in connection with the delivery of our IT based services. These costs are tied to contracts and may be adjusted more quickly in the event there is a rapid expansion or reduction of the scope of work associated with a customer contract. Expansion of our internal growth initiatives and merger and acquisition opportunities will increase our operational costs and may require additional investments in technology infrastructure and personnel. Our profitability also depends upon both the volume of services performed and the Company's ability to manage costs.

To date, the Company has attempted to maximize its operating margins through efficiencies achieved by the use of its proprietary technologies and methodologies, and by offsetting increases in consultant salaries with increases in consultant fees received from its clients.

## Results of Operations

### Three Months Ended March 31, 2015 as Compared to Three Months Ended March 31, 2014

**Revenues.** Revenues for the three month period ended March 31, 2015 were approximately \$17.7 million, an increase of approximately \$8.1 million as compared to approximately \$9.6 million in the same period last year. Our mix of MMS revenues for the periods presented is set forth below:

	THREE MONTHS ENDED MARCH 31,		Dollar
<b>MMS Service Mix</b>	<b>2015</b>	2014	Variance
	(Unaudited)		
Carrier Services	<b>\$8,678,856</b>	\$3,932,711	\$4,746,145
Managed Services	<b>9,016,712</b>	5,670,068	3,346,644
	<b>\$17,695,568</b>	\$9,602,779	\$8,092,789

We believe the following factors contributed to higher revenues:

Our carrier services were higher compared to the same quarter last year as a result of the recognition of task orders implemented and related to our U.S Department Homeland Security (“DHS”) blanket purchase agreement (“BPA”) contract award. Carrier services revenues are only recognized under our DHS BPA contract. There presently are three major components agencies remaining under our DHS BPA contract that have not yet issued initial task orders: the U.S. Coast Guard, Federal Emergency Management Agency (FEMA), and U.S. Secret Service. Our carrier services revenues could continue to expand if any of these remaining agencies issue task order awards. Carrier services could increase or decrease as a result of the number of mobile devices under management and the extent of usage of those mobile devices. We believe that carrier services in the second quarter of 2015 may increase further as we recognize the impact of a full quarter of such services for component agencies within DHS that we initiated work on during the first quarter of 2015.

Our managed services were higher due to additional revenues from our acquisition of SCL of approximately \$1.4 million and an increase in our revenues for our managed services fees partially as a result of DHS BPA task order awards issued to us during the second half of 2014 and January 2015, along with increased professional services and software reselling activities. Our managed services may experience continued growth as a result of several factors including additional task order awards issued to us by the three remaining major component agencies under our DHS BPA contract, continued future commercial awards in our sales pipeline, additional new federal and state awards in our sales pipeline, and potential new revenues associated with the introduction of our new identity management offerings that includes “Certificate on Device”, “machine to machine” credentials, and “derived credentials” through both our new and existing channel partners.

**Cost of Revenues.** Cost of revenues for the three month period ended March 31, 2015 was approximately \$14.1 million (or 80% of revenues), as compared to approximately \$7.1 million (or 74% of revenues) in the same period last year. The absolute dollar increase was materially attributable to increased costs incurred to support increased revenues. The increase in cost of revenues as a percentage of revenues was largely due to a greater percentage of lower margin carrier services attributable to the ramp up of task orders issued to us under our 2014 awarded DHS BPA contract. On a percentage basis our cost of revenues may vary depending materially upon the ratio of our carrier services to our managed services. We believe that as the ratio of managed services to carrier services increases, over time our cost of revenues on a percentage basis will generally decrease.

**Gross Profit.** Gross profit for the three month period ended March 31, 2015 was approximately \$3.6 million (or 20% of revenues), as compared to approximately \$2.5 million (or 26% of revenues) in the same period last year. The dollar basis increase in gross profit was the result of additional revenues realized. The percentage decrease in gross profit was largely related to the higher ratio of lower margin carrier services as related to higher margin managed services.

**Sales and Marketing.** Sales and marketing expense for the three month period ended March 31, 2015 was approximately \$0.8 million (or 4% of revenues), as compared to approximately \$0.8 million (or 9% of revenues) in the same period last year. The decline in sales and marketing as a percentage of revenues percentage change was due to increased revenue realization. We have made changes designed to optimize our sales labor and channel commissions, as well as made other infrastructure improvements in the evolution of our business model. We may experience increases in sales and marketing expenses as we continue to prepare for the support of our new channel partners and as we see the potential for new revenue streams from our existing and evolving internal sales resources.

**General and Administrative.** General and administrative expenses for the three month period ended March 31, 2015 were approximately \$3.8 million (or 21% of revenues), as compared to approximately \$3.0 million (or 32% of revenues) in the same period last year. The absolute dollar increase in general and administrative expense was attributable to the inclusion of SCL. The percentage decrease was attributable to greater revenue realization.

**Depreciation and Amortization.** Overhead and administrative related depreciation and amortization expense for the three month period ended March 31, 2015 was approximately \$98,300 as compared to approximately \$69,500 in the same period last year. The increase in depreciation expense is primarily due to the inclusion of SCL's pool of depreciable and amortizable assets.

**Interest Income.** Interest income for the three month period ended March 31, 2015 was approximately \$5,900, as compared to approximately \$700 in the same period last year. This increase was due to higher amounts of cash and cash equivalents being held in interest bearing accounts and the length of time those deposits were earning interest throughout the quarter compared the same period last year.

**Interest Expense.** Interest expense for the three months ended March 31, 2015 was approximately \$44,000 as compared to approximately \$46,200 in the same period last year. There were no significant changes in interest paid on interest bearing debt during the three months ended March 31, 2015.

**Income Taxes.** Income tax expense for the three month period ended March 31, 2015 was approximately \$32,100, as compared to an income tax benefit of approximately \$616,100 in the same period last year. The increase in income tax expense reflects minimum U.S. state income taxes and Republic of Ireland foreign tax expense. U.S. deferred tax assets are fully valued due to net operating losses incurred.

**Net (Loss) Income.** As a result of the cumulative factors annotated above, the net loss for the three month period ended March 31, 2015 was approximately \$1.2 million, as compared to approximately \$926,700 in the same period last year.

## **Liquidity and Capital Resources**

### Net Working Capital

The Company has, since inception, financed its operations and capital expenditures through cash generated from operations, access to a credit facility, the sale of stock, seller notes in connection with acquisitions, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. The Company's immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Cardinal Bank for up to \$8.0 million.

At March 31, 2015, the Company's net working capital was approximately \$11.5 million as compared to approximately \$12.5 million at December 31, 2014. The decrease in net working capital was primarily due to net losses incurred while continuing to fund sales and development investments in our new Certificate-on-Device identity management offerings and other platforms while maintaining critical staffing infrastructure to support implementation of future DHS BPA task orders and other next generation identity management services. We believe that as we increase our revenues from the sale of additional services, continue to evolve and improve our software platforms, infrastructure, and offerings, and realize greater efficiencies from our operations, we will realize improvements to our operating profitability and therefore to our working capital as well.

#### Cash Flows from Operating Activities

Cash provided by operating activities provides an indication of our ability to generate sufficient cash flow from our recurring business activities. Fixed costs such as labor, direct materials, network and data charges, software and subscription costs and office rent represent a significant portion of the Company's continuing operating costs. Any changes in the Company's fixed operating cost structure may not be immediately reflected in financial performance, depending upon the nature of the change made, and the required time to implement.

For the three months ended March 31, 2015, net cash used in operations was approximately \$1.3 million driven by our decision to fund sales and development investments and maintaining critical staffing infrastructure to support implementation of DHS BPA task orders and next generation identity management solutions.

For the three months ended March 31, 2014, net cash used in operations was approximately \$52,500 due to longer timing differences between billing and collection and lower billable revenues.

#### Cash Flows from Investing Activities

Cash used in investing activities provides an indication of our long term infrastructure investments. We make recurring purchases of property and equipment to replace or enhance our hardware and software applications that support customer operations.

For the three months ended March 31, 2015, cash used in investing activities was approximately \$93,000 due to continuing property and equipment expenditures aimed at enhancing our internal infrastructure to support Certificate-on-Device growth.



For the three months ended March 31, 2014, cash used in investing activities was approximately \$157,800 due to continuing property and equipment expenditures aimed at enhancing our internal infrastructure to support growth.

#### Cash Flows from Financing Activities

Cash provided by (used in) financing activities provides an indication of our debt financing and proceeds from capital raise transactions and stock option exercises.

For the three months ended March 31, 2015, cash used in financing activities was approximately \$99,000 primarily reflecting scheduled term debt repayments of approximately \$225,000, partially offset by net proceeds of approximately \$126,100 from the exercise of stock options. The Company advanced and fully repaid line of credit advances of approximately \$3.9 million during the quarter.

For the three months ended March 31, 2014, cash provided by financing activities was approximately \$10.3 million due to a successful public offering of 9,057,972 shares of the Company's common stock that was completed on March 3, 2014. The Company realized net proceeds from this offering of approximately \$11.5 million, before deducting seller offering expenses of approximately \$229,500. We repaid our line of credit advances in full with available cash balances and made our scheduled payments for current maturities of term debt.

#### Net Effect of Exchange Rate on Cash and Equivalents

For the three months ended March 31, 2015, the net effect of exchange rate changes decreased the translated value of our foreign cash balances due to the decline in the Euro relative to the US dollar. There was no impact on cash balances during the three months ended March 31, 2014 as there were no foreign operations.

### Future Capital Requirements

Our business environment is characterized by rapid technological change with periods of high growth and contraction, and is influenced by material events such as mergers and acquisitions that can substantially change our performance and outlook. Constant growth and technological change in our market makes it difficult to predict future liquidity requirements with certainty. We believe 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, strategic acquisition funding and availability of suitable acquisition targets, technological changes in our proprietary software solutions and market acceptance of the Company's branded products and service solutions.

Over the long term, the Company must successfully execute its growth plans to increase profitable revenue and income streams that should generate positive cash flows to sustain adequate liquidity without impairing growth initiatives or requiring the infusion of additional funds from external sources to meet minimum operating requirements, including debt service. 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.

We believe after considering our recent public offering that our current cash position and our working capital credit facility are sufficient to meet our minimum requirements for our current business operations (including sales and marketing initiatives), although any expansion of our operational needs, including as a result of any new contracts, could require additional working capital.

### **Off-Balance Sheet Arrangements**

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

### **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, as amended, 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 March 31, 2015. Based on the existence of the material weaknesses discussed below in "Material Weakness in Internal Control Over Financial Reporting," our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of March 31, 2015 to provide such reasonable assurances.

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 is also 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 Weakness in Internal Control Over Financial Reporting**

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on management's assessment and those criteria, we conclude that, as of December 31, 2014, our internal control over financial reporting was not effective due to the existence of the material weaknesses as of December 31, 2014, discussed below. Management has identified material weaknesses in controls related to inadequate controls over revenue recognition and inadequate entity level controls, including inadequate policies and procedures and inadequate segregation of duties within an account or process.

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

The material weaknesses described above in "Management's Report on Internal Control Over Financial Reporting" (ICOFR) comprise control deficiencies that we discovered during our first assessment of ICOFR and were not remediated during the financial close process for the three month period ended March 31, 2015. The material weaknesses described above comprise control deficiencies that we discovered during our assessment of ICOFR and were not remediated during the financial close process for the December 31, 2014 fiscal year. Management is developing a plan to respond to identified material weaknesses described above and such plan may include investing in accounting workflow technologies that can minimize manual reporting processes, capture and store relevant documentation to support operating effectiveness and strengthen internal controls over financial reporting.

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

Other than as described above, there have been no changes in our internal control over financial reporting during the three month period ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Because of its inherent limitations, a system of internal control over financial reporting can provide only reasonable assurance and may not prevent or detect misstatements. Further, because of changes in conditions, effectiveness of internal controls over financial reporting may vary over time. Our system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

## **PART II – OTHER INFORMATION**

### **ITEM 1 LEGAL PROCEEDINGS**

Neither the Company nor its subsidiaries are involved in any material legal proceeding.

### **ITEM 1A RISK FACTORS**

Our risk factors have not changed materially from those disclosed in our annual report on Form 10-K for the year ended December 31, 2014.

### **ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

### **ITEM 3 DEFAULTLT UPON SENIOR SECURITIES**

None

**ITEM 4 MINE SAFETY DISCLOSURES**

None

**ITEM 5 OTHER INFORMATION**

None

**ITEM 6. EXHIBITS.**

EXHIBIT NO.	DESCRIPTION
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).
101.	Interactive Data Files
101.INS**+	XBRL Instance Document
101.SCH**+	XBRL Taxonomy Extension Schema Document
101.CAL**+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**+	XBRL Taxonomy Definition Linkbase Document
101.LAB**+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**+	XBRL Taxonomy Extension Presentation Linkbase Document



## **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 11, 2015 /s/ STEVE L. KOMAR  
Steve L. Komar  
President and Chief Executive Officer

Date: May 11, 2015 /s/ JAMES T. MCCUBBIN  
James T. McCubbin  
Chief Financial Officer