

WIDEPOINT CORP
Form 10-Q
November 09, 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 September 30, 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)

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(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 November 9, 2015, there were 82,520,696 shares of the registrant’s Common Stock issued and outstanding.

WIDEPOINT CORPORATION

INDEX

	Page No.
<u>Part I. FINANCIAL INFORMATION</u>	2
Item 1. <u>Condensed Consolidated Financial Statements</u>	2
<u>Condensed Consolidated Balance Sheets as of September 30, 2015 and December 31, 2014 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2015 and 2014 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the three and nine month periods ended September 30, 2015 and 2014 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2015 and 2014 (unaudited)</u>	5
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	24
<u>Part II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 3. <u>Default Upon Senior Securities</u>	25
Item 4. <u>Mine Safety Disclosures</u>	25
Item 5. <u>Other Information</u>	25
Item 6. <u>Exhibits</u>	25
<u>SIGNATURES</u>	27
CERTIFICATIONS	

PART I. FINANCIAL INFORMATIONITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	SEPTEMBER 30, 2015	DECEMBER 31, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 10,443,065	\$ 13,154,699
Accounts receivable, net of allowance for doubtful accounts of \$147,331 and \$88,719 in 2015 and 2014, respectively	9,546,162	8,543,050
Unbilled accounts receivable	6,517,707	5,547,416
Inventories	26,716	37,025
Prepaid expenses and other assets	417,907	426,736
Income taxes receivable	-	25,984
Deferred income taxes	-	18,584
Total current assets	26,951,557	27,753,494
NONCURRENT ASSETS		
Property and equipment, net	1,544,090	1,614,182
Intangibles, net	5,375,798	5,992,992
Goodwill	18,555,578	18,555,578
Deferred income tax asset, net of current	14,272	-
Deposits and other assets	136,554	161,994
TOTAL ASSETS	\$ 52,577,849	\$ 54,078,240
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Line of credit advance	\$ 2,013,665	\$ -
Short term note payable	48,738	137,025
Accounts payable	6,448,509	6,165,477
Accrued expenses	6,490,586	5,980,110
Deferred revenue	1,953,168	710,275

Edgar Filing: WIDEPOINT CORP - Form 10-Q

Income taxes payable	94,236	12,574
Current portion of long-term debt	879,181	2,184,016
Current portion of deferred rent	-	9,274
Current portion of capital lease obligations	47,935	76,597
Total current liabilities	17,976,018	15,275,348
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	663,267	1,327,800
Capital lease obligation, net of current portion	11,682	36,669
Deferred rent, net of current portion	159,266	152,815
Deferred revenue	36,816	56,977
Deferred income taxes	447,811	447,811
Deposits and other liabilities	-	1,964
Total liabilities	19,294,860	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; 82,520,696 and 81,656,763 shares issued and outstanding, respectively	82,521	81,657
Additional paid-in capital	93,569,933	92,661,000
Accumulated other comprehensive (loss)	(222,512)	(147,515)
Accumulated deficit	(60,146,953)	(55,816,286)
Total stockholders' equity	33,282,989	36,778,856
Total liabilities and stockholders' equity	\$ 52,577,849	\$ 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		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2015	2014	2015	2014
REVENUES	\$ 16,994,858	\$ 14,555,908	\$ 52,123,171	\$ 36,552,708
COST OF REVENUES (including amortization and depreciation of \$290,011, \$309,276, \$873,724, and \$976,116, respectively)	13,875,473	10,571,518	42,127,589	26,487,285
GROSS PROFIT	3,119,385	3,984,390	9,995,582	10,065,423
OPERATING EXPENSES				
Sales and Marketing	764,845	868,152	2,333,039	2,751,323
General and Administrative Expenses (including share-based compensation of \$89,229, \$70,397, \$208,091 and \$237,101, respectively)	3,893,348	3,816,100	11,507,309	10,538,220
Depreciation and Amortization	92,968	179,977	283,211	392,706
Total Operating Expenses	4,751,161	4,864,229	14,123,559	13,682,249
LOSS FROM OPERATIONS	(1,631,776)	(879,839)	(4,127,977)	(3,616,826)
OTHER INCOME (EXPENSE)				
Interest Income	7,020	6,290	17,924	11,614
Interest (Expense)	(30,868)	(47,020)	(111,253)	(139,578)
Other Income (Expense)	(37,814)	(5,159)	37,826	6,640
Total Other Income (Expense)	(61,662)	(45,889)	(55,503)	(121,324)
LOSS BEFORE PROVISION FOR INCOME TAXES	(1,693,438)	(925,728)	(4,183,480)	(3,738,150)
INCOME TAX PROVISION	69,842	4,975,968	147,187	3,759,483
NET LOSS	\$(1,763,280)	\$(5,901,696)	\$(4,330,667)	\$(7,497,633)
BASIC EARNINGS PER SHARE	\$(0.021)	\$(0.081)	\$(0.053)	\$(0.106)
BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	82,515,103	73,195,464	82,130,665	71,029,985
DILUTED EARNINGS PER SHARE	\$(0.021)	\$(0.081)	\$(0.053)	\$(0.106)
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	82,515,103	73,195,464	82,130,665	71,029,985

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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
Net loss	\$ (1,763,280)	\$ (5,901,696)	\$ (4,330,667)	\$ (7,497,633)
Other comprehensive (loss) income:				
Foreign currency translation adjustments, net of tax	21,940	(72,716)	(74,997)	(107,572)
Other comprehensive income (loss)	21,940	(72,716)	(74,997)	(107,572)
Comprehensive loss	\$ (1,741,340)	\$ (5,974,412)	\$ (4,405,664)	\$ (7,605,205)

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

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$(4,330,667)	\$(7,497,633)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred income tax expense	2,894	3,710,002
Depreciation expense	353,387	360,390
Provision for doubtful accounts	36,783	24,047
Amortization of intangibles	803,548	1,008,432
Amortization of deferred financing costs	8,728	4,728
Share-based compensation expense	208,091	237,101
Loss on disposal of equipment	9,716	4,511
Changes in assets and liabilities:		
Accounts receivable and unbilled receivables	(1,807,139)	(1,919,646)
Inventories	10,362	71,268
Prepaid expenses and other current assets	6,241	267,591
Other assets excluding deferred financing costs	14,747	(7,632)
Accounts payable and accrued expenses	509,939	1,356,266
Income tax (payable) receivable	78,705	(97,837)
Deferred revenue and other liabilities	1,269,533	(127,440)
Net cash used in operating activities	(2,825,132)	(2,605,852)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(309,024)	(216,758)
Software development costs	(186,354)	(138,781)
Business combination, net of cash acquired	-	(4,106,510)
Net cash used in investing activities	(495,378)	(4,462,049)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on bank line of credit	15,778,090	8,630,155
Repayments of bank line of credit advances	(13,764,425)	(9,154,596)
Principal repayments of long term debt	(1,969,368)	(940,849)
Principal repayments under capital lease obligations	(50,509)	(37,728)
Proceeds from public stock offering, net of offering costs	-	11,425,118
Proceeds from exercise of stock options	701,706	280,425
Net cash provided by financing activities	695,494	10,202,525

Net effect of exchange rate on cash and equivalents	(86,618)	(55,139)
NET (DECREASE) INCREASE IN CASH	(2,711,634)	3,079,485
CASH, beginning of period	13,154,699	-
CASH, end of period	\$10,443,065	\$3,079,485

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

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

NINE MONTHS
 ENDED
 SEPTEMBER 30,
 2015 2014

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$ 128,118	\$ 134,368
Cash paid for income taxes	\$ 11,042	\$ 125,794

NON-CASH INVESTING AND FINANCING ACTIVITIES

Insurance policies financed by short term notes payable	\$-	\$ 58,118
---	-----	-----------

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 September 30, 2015 and for each of the three and nine month periods ended September 30, 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 and nine month periods ended September 30, 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 nine 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 13 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 requires 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.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, or ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard allows for either full retrospective or modified retrospective adoption method. In July 2015, the FASB deferred the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company is currently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, adoption date, or determined the effect of the standard on its ongoing financial reporting.

3. Business Combinations

There were no business combinations during the nine month period ended September 30, 2015.

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 “Contingent Note”). The Company’s outstanding Contingent Note was paid in full on May 30, 2015 as further described in Note 8. See Note 4 for additional information regarding the fair value of the Contingent Note.

Supplemental Unaudited Pro Forma Information

The following unaudited pro forma condensed consolidated statements of operations of WidePoint for the three and nine month periods ended September 30, 2014 have been prepared as if the acquisition of SCL had occurred at January 1, 2014:

	THREE MONTHS ENDED SEPTEMBER 30, 2014 (a) (Unaudited)	NINE MONTHS ENDED SEPTEMBER 30, 2014 (a)	
Revenues, net	\$ 14,556,000	\$ 38,487,000	
Net loss	\$(5,901,000)	\$ (7,627,000))
Basic (loss) earnings per share	\$(0.081)	\$ (0.107))
Diluted (loss) earnings per share	\$(0.081)	\$ (0.107))

(a) To reflect on a pro forma basis unaudited consolidated financial information for the three and nine month periods ended September 30, 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 and nine month period ended June 30, 2014 were translated into WidePoint's reporting currency using an average USD/EURO rate of \$1.3266 and \$1.3560, 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 or nine month periods ended September 30, 2015 or 2014.

The Company measured the fair value of contingent seller financed promissory notes presented on the condensed consolidated balance sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the three and nine month periods ended September 30, 2015 and during the year ended December 31, 2014. The Company's outstanding obligations under the contingent seller financed promissory note were paid in full on May 30, 2015 as further described in Note 8.

5. Accounts Receivable and Unbilled Accounts Receivable

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

	SEPTEMBER 30, 2015 (Unaudited)	DECEMBER 31, 2014
Commercial	\$3,879,248	\$ 5,328,988
Government	5,814,245	3,302,781
Gross accounts receivable	9,693,493	8,631,769
Less: allowances for doubtful accounts	(147,331)	(88,719)
Accounts receivable, net	\$9,546,162	\$ 8,543,050

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

	SEPTEMBER 30, 2015 (Unaudited)	DECEMBER 31, 2014
Commercial	\$385,183	\$ 550,590
Government	6,132,524	4,996,826
Unbilled accounts receivable	\$6,517,707	\$ 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:

Customer Name	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
	As a % of Revenues (Unaudited)	As a % of Revenues	As a % of Revenues (Unaudited)	As a % of Revenues
Department of Homeland Security (DHS)	56 %	36 %	52 %	37 %

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	SEPTEMBER 30, 2015 As a % of		DECEMBER 31, 2014 As a % of	
	Receivables (Unaudited)	Receivables	Receivables	Receivables
Department of Homeland Security ("DHS")	33 %	20 %		
Science Applications International Corporation	—	21 %		

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

	SEPTEMBER 30, 2015 (Unaudited)	DECEMBER 31, 2014
Land and building	\$677,054	\$ 677,054
Computer hardware and software	3,007,323	2,824,340
Furniture and fixtures	298,266	295,485
Leasehold improvements	550,116	547,087
Automobile	280,029	295,844
Gross property and equipment	4,812,788	4,639,810
Less: accumulated depreciation and amortization	(3,268,698)	(3,025,628)
Property and equipment, net	\$1,544,090	\$ 1,614,182

There were no changes in the estimated useful life used to depreciate property and equipment during the three and nine month periods ended September 30, 2015 and 2014. For each of the three month periods ended September 30, 2015 and 2014, property and equipment depreciation expense recorded was approximately \$110,200 and \$134,700, respectively. For each of the nine month periods ended September 30, 2015 and 2014, property and equipment depreciation expense recorded was approximately \$353,400 and \$360,400, respectively. For each of the three and nine month periods ended September 30, 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 September 30, 2015 and December 31, 2014 was approximately \$529,200 (including reductions in gross cost due to cumulative translation adjustments of approximately \$6,900) and \$536,100 (including reductions in gross cost due to cumulative translation adjustments of approximately \$11,900), respectively. For each of the three and nine month periods ended September 30, 2015 and 2014, the Company did not enter into any capital lease arrangements.

For the three month periods ended September 30, 2015 and 2014, depreciation expense for leased equipment was approximately \$4,200 (including reductions in accumulated amortization due to translation adjustments of approximately \$1,300) and \$19,400, respectively. For the nine month periods ended September 30, 2015 and 2014, depreciation expense for leased equipment was approximately \$21,900 (including reductions in accumulated depreciation due to translation adjustments of approximately \$3,800) and \$52,100, respectively. Accumulated depreciation for leased equipment at September 30, 2015 and December 31, 2014 was approximately \$498,400 (including reductions in accumulated amortization due to cumulative translation adjustments of approximately \$4,300) and \$481,000 (including reductions in accumulated amortization due to cumulative translation adjustments of approximately \$500), respectively. For the three and nine month periods ended September 30, 2015 and 2014, there were no disposals of leased equipment. Total net book value of assets under capital leases (including cumulative translation adjustments) at September 30, 2015 and December 31, 2014 was approximately \$30,700 and \$55,800, respectively.

7. Goodwill and Intangible Assets

The Company has recorded goodwill of \$18,555,578 as of September 30, 2015. There were no changes in the carrying amount of goodwill for the nine month period ended September 30, 2015. The Company considered whether there were indicators of impairment during the nine month period ended September 30, 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 and nine month periods ended September 30, 2015, the Company did not complete any business combinations.

For the three and nine month periods ended September 30, 2015 and 2014 there were no additions of internally developed (cybersecurity software) intangible assets. There were disposals of fully amortized intangible assets of approximately \$1.2 million for the three and nine month periods ended September 30, 2015. There were no disposals of intangible assets for the three or nine month periods ended September 2014.

The aggregate amortization expense recorded for the three month periods ended September 30, 2015 and 2014 was approximately \$272,700 and \$353,000, respectively. The aggregate amortization expense recorded for the nine month periods ended September 30, 2015 and 2014 was approximately \$803,500 and \$1,008,400, respectively. The total weighted average life of purchased and internally developed intangible assets is approximately 5.6 years at September 30, 2015.

8. Line of Credit and Long Term Debt

Commercial Loan Agreement Facility

The Company has an \$8.0 million working capital line of credit facility with Cardinal Bank that matures on January 31, 2016. On October 23, 2015, Cardinal Bank extended the maturity date of the Company's \$8.0 million working line of credit through January 31, 2016. 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 September 30, 2015, the Company was in compliance with all financial covenants.

The Company was advanced approximately \$15.8 million and repaid approximately \$13.8 million during the nine month period ended September 30, 2015. There was approximately \$2.0 million outstanding against the Company's credit facility at September 30, 2015.

Long-Term Debt

Long-term debt consisted of the following:

	SEPTEMBER 30, 2015 (Unaudited)	DECEMBER 31, 2014
Cardinal Bank mortgage dated December 17, 2010 (1)	\$455,236	\$ 468,163
Cardinal Bank term note dated December 31, 2011 (2)	1,087,212	1,710,319
Non-contingent subordinated unsecured promissory note dated December 31, 2011 (3)	-	333,334
Contingent subordinated unsecured loan note payable dated May 31, 2014 (4)	-	1,000,000
Total	1,542,448	3,511,816
Less: current portion	(879,181)	(2,184,016)
Long-term debt, net of current portion	\$663,267	\$ 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 unsecured Contingent 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 Contingent Note was scheduled to mature on May 31, 2015. The Company paid the outstanding balance of \$1,032,500 (including accrued interest of \$32,500) on May 30, 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 nine month period ended September 30, 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 or 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 September 30, 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 September 30, 2015 or December 31, 2014. In the future if applicable, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.

As of September 30, 2015, the Company had recorded a deferred tax asset of approximately \$6.1 million reflecting the benefit of approximately \$21.2 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 2034. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$18.3 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2034. 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 \$6.1 million against all deferred tax assets during the nine month period ended September 30, 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 nine month periods ended September 30, 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 September 30, 2015, there were 82,520,696 shares of common stock outstanding.

Employee Stock Option Exercises

Shares of common stock issued as a result of stock option exercises during the three and nine month periods ended September 30, 2015 were 38,904 and 863,933, respectively, and the Company realized gross proceeds of approximately \$31,206 and \$701,706, respectively, from the exercise of such stock options. Shares of common stock issued as a result of stock option exercises during the three and nine month periods ended September 30, 2014 were 385,000 and 460,000, respectively, and the Company realized gross proceeds of approximately \$246,400 and \$280,400, respectively, 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 nine month period ended September 30, 2015. At September 30, 2015, the Company had approximately \$185,900 of total unamortized RSA compensation expense, related to RSA plans that will be recognized over the weighted average remaining period of 2.2 years.

Stock Option Awards

There were no stock options granted during the three month period ended September 30, 2015. The Company granted 180,000 stock options during the nine month period ended September 30, 2015. A summary of stock option and RSA activity as of September 30, 2015, and changes during nine month period ended September 30, 2015 is set forth below:

NON-VESTED AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
	(Unaudited)			
Non-vested balances, January 1, 2015	500,000	\$ 1.22	1,340,838	\$ 0.57
Granted	-	—	180,000	\$ 0.70
Cancelled	-	—	(250,000)	\$ 0.39
Vested	-	—	(416,666)	\$ 0.27
Non-vested balances, September 30, 2015	500,000	\$ 1.22	854,172	\$ 0.80

OUTSTANDING AND EXERCISABLE AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
	(Unaudited)			
Awards outstanding, January 1, 2015	-	—	2,791,601	\$ 0.83
Granted	-	—	180,000	\$ 1.45
Canceled	-	—	(250,000)	\$ 0.74

Edgar Filing: WIDEPOINT CORP - Form 10-Q

Exercised	-	—	(863,933)	\$	0.81
Awards outstanding, September 30, 2015	-	—	1,857,668	\$	0.91
Awards vested and expected to vest, September 30, 2015	-	—	1,857,668	\$	0.91
Awards outstanding and exercisable, September 30, 2015	-	—	1,003,496	\$	0.67

A summary of stock option and RSA activity as of September 30, 2014, and changes during nine month period ended September 30, 2014 is set forth below:

NON-VESTED AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
(Unaudited)				
Non-vested balances, January 1, 2014	500,000	\$ 1.22	1,900,000	\$ 0.36
Granted	-	—	360,000	\$ 1.03
Vested	-	—	(900,412)	\$ 0.32
Non-vested balances, September 30, 2014	500,000	\$ 1.22	1,359,588	\$ 0.57

OUTSTANDING AND EXERCISABLE AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
(Unaudited)				
Awards outstanding, January 1, 2014	-	—	3,336,500	\$ 0.72
Granted	-	—	360,000	\$ 1.45
Canceled	-	—	(122,500)	\$ 0.79
Exercised	-	—	(459,999)	\$ 0.61
Awards outstanding, September 30, 2014	-	—	3,114,001	\$ 0.82
Awards vested and expected to vest, September 30, 2014	-	—	3,114,001	\$ 0.82
Awards outstanding and exercisable, September 30, 2014	-	—	1,754,413	\$ 0.76

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 September 30, 2015 are as follows:

	Outstanding	Vested and Expected to Vest	Outstanding and Exercisable
Weighted-average remaining contractual life (in years)	3.6	3.6	3.3
Aggregate intrinsic value	\$ 350,267	\$ 350,267	\$ 283,099

Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on September 30, 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 September 30, 2015. The

intrinsic value will change based on the fair market value of WidePoint's stock. The total intrinsic value of options exercised during the nine months ended September 30, 2015 and 2014 were approximately \$713,400 and \$2.8 million, respectively.

Share-based compensation (including restricted stock awards) represents both stock options based expense and stock grant expense. For the three and nine month periods ended September 30, 2015 and 2014, the Company recognized share-based compensation expense of approximately \$89,200, \$70,400, \$208,100 and \$237,100, respectively. During the three month period ended September 30, 2015, there were no fully vested stock options that expired unexercised and/or were cancelled as a result of employment terminations. During the nine month period ended September 30, 2015, there were stock options of 250,000 that expired unexercised that were cancelled as a result of employment terminations.

At September 30, 2015, the Company had approximately \$335,900 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 1.4 years.

12. Earnings Per Common Share (EPS)

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2015	2014	2015	2014
	(Unaudited)		(Unaudited)	
Basic EPS Computation:				
Net (loss) income	\$(1,763,280)	\$(5,901,696)	\$(4,330,667)	\$(7,497,633)
Weighted average number of common shares	82,515,103	73,195,464	82,130,665	71,029,985
Basic EPS	\$(0.021)	\$(0.081)	\$(0.053)	\$(0.106)
Diluted EPS Computation:				
Net (loss) income	\$(1,763,280)	\$(5,901,696)	\$(4,330,667)	\$(7,497,633)
Weighted average number of common shares	82,515,103	73,195,464	82,130,665	71,029,985
Incremental shares from assumed conversions of stock options	-	-	-	-
Adjusted weighted average number of common shares	82,515,103	73,195,464	82,130,665	71,029,985
Diluted EPS	\$(0.021)	\$(0.081)	\$(0.053)	\$(0.106)

The dilutive effect of unexercised stock options excludes 1,857,668 and 3,114,001 of options from the computation of EPS for the three and nine month periods ended September 30, 2015 and 2014, respectively, because inclusion of the options would have been anti-dilutive.

13. 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 SEPTEMBER 30,		NINE MONTHS ENDED	
	2015	2014	JUNE 30, 2015	2014
MMS Service Mix	(Unaudited)			
Carrier Services	\$9,126,605	\$4,443,283	\$27,422,307	\$12,696,353
Managed Services	7,868,253	10,112,625	24,700,864	23,856,355
	\$16,994,858	\$14,555,908	\$52,123,171	\$36,552,708

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

Geographic Region	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED	
	2015	2014	JUNE 30, 2015	2014
	(Unaudited)			
North America	\$15,641,683	\$12,927,785	\$47,798,246	\$33,971,377
Europe	1,330,846	1,573,026	4,018,561	2,487,287
Middle East	22,329	55,097	306,364	94,044
	\$16,994,858	\$14,555,908	\$52,123,171	\$36,552,708

14. Commitments and Contingencies

Operating Lease Commitments

There were no leases entered into or modifications of existing leases during the nine month period ended September 30, 2015.

Employment Agreements

The Company has employment agreements with certain executives that set forth compensation levels and provide for severance payments in certain instances. During the nine month period ended September 30, 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 November 6, 2015, the Company entered into an amendment to extend the term of the employment agreement to June 30, 2016.

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 a new employment agreement with Jin H. Kang, Chief Operating Officer, with a term that expires on December 31, 2016 at an increased salary of \$265,000.

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) decreased government spending, (v) changes in government regulations, (vi) our focus on selling higher margin services, and (vii) 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 16, 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 consists 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 September 30, 2015 as Compared to Three Months Ended September 30, 2014

Revenues. Revenues for the three month period ended September 30, 2015 were approximately \$17.0 million, an increase of approximately \$2.5 million as compared to approximately \$14.5 million in the same period last year. Our mix of MMS revenues for the periods presented is set forth below:

MMS Service Mix	THREE MONTHS ENDED		Dollar Variance
	SEPTEMBER 30, 2015 (Unaudited)	2014	
Carrier Services	\$9,126,605	\$4,443,283	\$4,683,322
Managed Services	7,868,253	10,112,625	(2,244,372)
	\$16,994,858	\$14,555,908	\$2,438,950

We believe the following factors contributed to higher revenues:

Our carrier services were higher 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 award. There presently are two major components agencies remaining under our DHS BPA award that have not yet issued initial task orders: the U.S. Coast Guard and Federal Emergency Management Agency (FEMA). The U.S. Secret Service has recently issued initial task orders. 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.

§ Our managed services were predominantly lower due to a decrease in software reselling activities. Software reselling activities vary from quarter to quarter and may not be predictable due to external factors outside of our control. Excluding software reselling sales, our managed services grew as a result of task order awards associated with our DHS BPA award and strong client retention. Our managed services may vary as a result of several factors including additional task order awards issued to us by the two remaining major component agencies under our DHS BPA award, 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 September 30, 2015 was approximately \$13.9 million (or 82% of revenues), as compared to approximately \$10.6 million (or 73% of revenues) in the same period last year. The increase was materially attributable to a greater percentage of lower margin carrier services attributable to the ramp up of task orders issued to us under our DHS BPA award. Cost of revenues could fluctuate given the timing and potential awards of the remaining two agencies within the DHS BPA and the effect it could have on our sales mix between carrier services and managed services. We believe that as we level off the amount of carrier services in support of agencies our DHS BPA award and grow our mix of higher margin services that cost of revenues will fall over time.

Gross Profit. Gross profit for the three month period ended September 30, 2015 was approximately \$3.1 million (or 18% of revenues), as compared to approximately \$4.0 million (or 27% of revenues) in the same period last year. The decrease in gross profit was largely related to the higher ratio of lower margin carrier services as related to higher margin managed services. The ratio of managed services to carrier services in any period may result in variability in our gross margin. We believe that the introduction of higher margin next generation identity management services and leveling off of carrier services may increase our gross margin.

Sales and Marketing. Sales and marketing expense for the three month period ended September 30, 2015 was approximately \$0.8 million (or 5% of revenues), as compared to approximately \$0.9 million (or 6% of revenues) in the same period last year. The decline in sales and marketing reflects changes made to optimize our sales labor resources and sales commission agreements in a manner that incentives our salesforce to pursue and close recurring higher margin business. Short term, we may realize a continued decline and then leveling of sales and marketing expenses as we optimize our sales environment in support of our new channel partners and as we see new awards from potential for new revenue streams from our existing and evolving internal sales resources and channels. Longer-term we may realize an increase in sales and marketing expenses as a result of the successful introduction of our recent channel partner strategy coupled with the introduction of our next generation identity management services.

General and Administrative. General and administrative expenses for the three month period ended September 30, 2015 were approximately \$3.9 million (or 23% of revenues), as compared to approximately \$3.8 million (or 26% of revenues) in the same period last year. The increase in general and administrative expense was attributable to the technology investments in our software platforms and next generation identity management services. The percentage decrease was attributable to greater revenue volume offsetting fixed costs. We may realize an absolute decline in general and administrative expenses as a result of technology improvements that will allow us to reduce overhead costs as we optimize our operating environment.

Depreciation and Amortization. Overhead and administrative related depreciation and amortization expense for the three month period ended September 30, 2015 was approximately \$93,000 as compared to approximately \$180,000 in the same period last year. The decrease reflects a lower depreciable base due to fully depreciated assets.

Interest Income. Interest income for the three month period ended September 30, 2015 was approximately \$7,000, as compared to approximately \$6,300 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 September 30, 2015 was approximately \$30,900 as compared to approximately \$47,000 in the same period last year. The decrease in interest expense is due to repayment of over \$2.0 million in principal payments during 2015. There were no significant changes in the interest rate

associated with debt during the three months ended September 30, 2015.

Income Taxes. Income tax expense for the three month period ended September 30, 2015 was approximately \$69,800, as compared to \$5.0 million in the same period last year. Income tax expense for the three month period ended September 30, 2015 reflects Republic of Ireland foreign tax expense. Income tax expense in the same period last year included a discrete income tax expense of \$5.0 million to establish a valuation allowance against the Company's deferred tax assets.

Net (Loss) Income. As a result of the cumulative factors annotated above, the net loss for the three month period ended September 30, 2015 was approximately \$1.8 million, as compared to approximately \$5.9 million in the same period last year.

Results of Operations

Nine Months Ended September 30, 2015 as Compared to Nine Months Ended September 30, 2014

Revenues. Revenues for the nine month period ended September 30, 2015 were approximately \$52.1 million, an increase of approximately \$15.6 million as compared to approximately \$36.5 million in the same period last year. Our mix of MMS revenues for the periods presented is set forth below:

MMS Service Mix	NINE MONTHS ENDED		Dollar Variance
	SEPTEMBER 30, 2015 (Unaudited)	2014	
Carrier Services	\$27,422,307	\$12,696,353	\$14,725,954
Managed Services	24,700,864	23,856,355	844,509
	\$52,123,171	\$36,552,708	\$15,570,463

We believe the following factors contributed to higher revenues:

Our carrier services were higher compared to the same period last year as a result of the recognition of task orders implemented and related to our DHS BPA award. There presently are two major components agencies remaining under our DHS BPA award that have not yet issued initial task orders: the U.S. Coast Guard and Federal Emergency Management Agency (FEMA). Our carrier services revenues could continue to expand if any of these remaining § agencies issue task order awards. Carrier services could also 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 may increase further as we recognize additional awards from any or all of the three remaining agencies that have yet to award task orders.

Our managed services were higher due to increased analytics and support activities, software reselling activities, credentialing and DHS BPA task order awards issued to us. Our managed services may experience growth as a result of several factors including additional task order awards issued to us by the two remaining major component § agencies under our DHS BPA award, additional task orders issued to us by current supported agencies under our DHS BPA award, 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 nine month period ended September 30, 2015 was approximately \$42.1 million (or 81% of revenues), as compared to approximately \$26.5 million (or 73% of revenues) in the same period last year. The increase was due to higher carrier services as a result of task orders issued to us under our 2014 awarded DHS BPA award. 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 nine month period ended September 30, 2015 was approximately \$10.0 million (or 19% of revenues), as compared to approximately \$10.1 million (or 27% of revenues) in the same period last year. 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 nine month period ended September 30, 2015 was approximately \$2.3 million (or 4% of revenues), as compared to approximately \$2.7 million (or 9% of revenues) in the same period last year. The decline in sales and marketing was due to changes designed to optimize our sales labor resources and sales commission agreements in manner that incentives our sales force to pursue and close recurring higher gross margin business. As we introduce new sales channels we may experience increases in sales and marketing expenses in the long run to pay sales commissions on new business and prepare for new revenue streams to come online in the future.

General and Administrative. General and administrative expenses for the nine month period ended September 30, 2015 were approximately \$11.5 million (or 22% of revenues), as compared to approximately \$10.5 million (or 29% of revenues) in the same period last year. The absolute dollar increase in general and administrative expense was attributable to Certificate on Device infrastructure investments and other platform technology investments. The percentage decrease was attributable to greater revenue volume offsetting fixed costs.

Depreciation and Amortization. Overhead and administrative related depreciation and amortization expense for the nine month period ended September 30, 2015 was approximately \$283,200 as compared to approximately \$392,700 in the same period last year. The decrease reflects a lower depreciable base due to fully depreciated assets.

Interest Income. Interest income for the nine month period ended September 30, 2015 was approximately \$17,900, as compared to approximately \$11,600 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 nine months ended September 30, 2015 was approximately \$111,200 as compared to approximately \$139,600 in the same period last year. The decrease in interest expense is due to repayment of over \$2.0 million in principal payments during 2015. There were no significant changes in the interest rate associated with debt during the nine months ended September 30, 2015.

Income Taxes. Income tax expense for the nine month period ended September 30, 2015 was approximately \$147,200, as compared to \$3.8 million in the same period last year. Income tax expense for the nine month period ended September 30, 2015 reflects Republic of Ireland foreign tax expense. Income tax expense in the same period last year included a discrete income tax expense of \$5.0 million to establish a valuation allowance against the Company's deferred tax assets.

Net (Loss) Income. As a result of the cumulative factors annotated above, the net loss for the nine month period ended September 30, 2015 was approximately \$4.3 million, as compared to approximately \$7.5 million in the same period last year.

Liquidity and Capital Resources

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 September 30, 2015, the Company's net working capital was approximately \$9.0 million as compared to approximately \$12.5 million at December 31, 2014. In addition, at September 30, 2015, the Company had approximately \$2.9 million available under its credit facility. 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.

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.

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 nine months ended September 30, 2015, net cash used in operations was approximately \$2.8 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 nine months ended September 30, 2014, net cash used in operations was approximately \$2.6 million 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 nine months ended September 30, 2015, cash used in investing activities was approximately \$0.5 million consisting of software development related to our Public Key Infrastructure software certificate credentialing tools and applications and continuing property and equipment expenditures aimed at enhancing our internal infrastructure to support Certificate-on-Device growth.

For the nine months ended September 30, 2014, cash used in investing activities was approximately \$4.5 million, of which approximately \$4.1 million related to the acquisition of SCL and continuing property and equipment expenditures aimed at enhancing our Public Key Infrastructure software certificate credentialing tools and applications.

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 nine months ended September 30, 2015, cash provided by financing activities was approximately \$0.7 million primarily reflecting scheduled term debt repayments of approximately \$2.0 million, partially offset by net proceeds of approximately \$0.7 million from the exercise of stock options. The Company was advanced approximately \$15.8 million and repaid approximately \$13.8 million in line of credit advances during the quarter.

For the nine months ended September 30, 2014, cash provided by financing activities was approximately \$10.2 million. Also, 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 nine months ended September 30, 2015 and 2014, 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.

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 September 30, 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 September 30, 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 concluded 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 nine month period ended September 30, 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 nine month period ended September 30, 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 DEFAULT UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

None

ITEM 5 OTHER INFORMATION

On November 6, 2015, we entered into an amendment to the Employment Agreement with Steve L. Komar, our Chief Executive Officer, in order to extend the term of the agreement to June 30, 2016. A copy of the amendment is filed as Exhibit 10.1 to this Form 10-Q and is incorporated herein by reference.

ITEM 6. EXHIBITS

EXHIBIT

NO.	DESCRIPTION
10.1	Amendment to Employment Agreement with Steve L. Komar.
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).

25

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

26

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: November 9, 2015 /s/ STEVE L. KOMAR
Steve L. Komar
President and Chief Executive Officer

Date: November 9, 2015 /s/ JAMES T. MCCUBBIN
James T. McCubbin
Chief Financial Officer