

WIDEPOINT CORP  
Form 10-Q  
November 09, 2016

**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, 2016**

**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

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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 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 November 9, 2016, there were 82,730,134 shares of the registrant’s Common Stock issued and outstanding.

**WIDEPOINT CORPORATION**

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PART I. FINANCIAL INFORMATIONITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**WIDEPOINT CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

	SEPTEMBER 30, 2016	DECEMBER 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 5,585,559	\$ 7,930,303
Accounts receivable, net of allowance for doubtful accounts of \$76,235 and \$73,378 in 2016 and 2015, respectively	12,039,247	10,565,113
Unbilled accounts receivable	6,344,989	6,637,587
Inventories	370,887	28,400
Prepaid expenses and other assets	398,031	435,300
Deferred income taxes	44,019	30,889
<b>Total current assets</b>	<b>24,782,732</b>	<b>25,627,592</b>
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	1,321,763	1,513,307
Intangibles, net	4,761,199	5,101,523
Goodwill	18,555,578	18,555,578
Deposits and other assets	53,956	60,471
<b>TOTAL ASSETS</b>	<b>\$ 49,475,228</b>	<b>\$ 50,858,471</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY****CURRENT LIABILITIES**

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Line of credit advance	\$ 126,007	\$ -
Short term note payable	48,787	131,953
Accounts payable	9,026,925	7,812,226
Accrued expenses	7,101,830	6,687,054
Deferred revenue	1,182,313	2,007,970
Income taxes payable	48,663	37,684
Current portion of long-term debt	242,536	893,706
Current portion of capital lease obligations	10,030	28,752
Total current liabilities	17,787,091	17,599,345
NONCURRENT LIABILITIES		
Long-term debt, net of current portion	417,222	431,756
Capital lease obligation, net of current portion	-	11,962
Deferred rent, net of current portion	137,851	151,994
Deferred revenue	-	24,937
Deferred income taxes	447,811	447,811
Total liabilities	18,789,975	18,667,805
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; 82,730,134 and 82,520,696 shares issued and outstanding, respectively	82,730	82,521
Additional paid-in capital	93,813,519	93,661,178
Accumulated other comprehensive loss	(223,623	) (270,140
Accumulated deficit	(62,987,373	) (61,282,893
Total stockholders' equity	30,685,253	32,190,666
Total liabilities and stockholders' equity	\$ 49,475,228	\$ 50,858,471

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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2016	2015	2016	2015
REVENUES	\$22,114,839	\$16,994,858	\$60,163,145	\$52,123,171
COST OF REVENUES (including amortization and depreciation of \$307,235, \$290,011, \$887,870, and \$873,724, respectively)	18,076,810	13,875,473	48,559,591	42,127,589
GROSS PROFIT	4,038,029	3,119,385	11,603,554	9,995,582
OPERATING EXPENSES				
Sales and Marketing	625,481	764,845	2,066,995	2,333,039
General and Administrative Expenses (including share-based compensation of \$68,088, \$89,229, \$204,414 and \$208,091, respectively)	3,450,767	3,624,495	10,650,697	11,027,431
Product Development	2,648	268,853	261,031	479,878
Depreciation and Amortization	84,759	92,968	268,956	283,211
Total Operating Expenses	4,163,655	4,751,161	13,247,679	14,123,559
LOSS FROM OPERATIONS	(125,626 )	(1,631,776 )	(1,644,125 )	(4,127,977 )
OTHER INCOME (EXPENSE)				
Interest Income	3,012	7,020	10,618	17,924
Interest Expense	(20,910 )	(30,868 )	(61,068 )	(111,253 )
Other Income	3,779	(37,814 )	11,124	37,826
Total Other Expense	(14,119 )	(61,662 )	(39,326 )	(55,503 )
LOSS BEFORE PROVISION FOR INCOME TAXES	(139,745 )	(1,693,438 )	(1,683,451 )	(4,183,480 )
INCOME TAX PROVISION	8,295	69,842	21,029	147,187
NET LOSS	\$(148,040 )	\$(1,763,280 )	\$(1,704,480 )	\$(4,330,667 )
BASIC EARNINGS PER SHARE	\$(0.00 )	\$(0.02 )	\$(0.02 )	\$(0.05 )

BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	82,730,134	82,515,103	82,673,570	82,130,665
DILUTED EARNINGS PER SHARE	\$(0.00	) \$(0.02	) \$(0.02	) \$(0.05
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	82,730,134	82,515,103	82,673,570	82,130,665

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,	
	2016	2015	2016	2015
Net Loss	\$ (148,040 )	\$ (1,763,280 )	\$ (1,704,480)	\$ (4,330,667)
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	15,366	21,940	46,517	(74,997 )
Other comprehensive income (loss)	15,366	21,940	46,517	(74,997 )
Comprehensive loss	\$ (132,674 )	\$ (1,741,340 )	\$ (1,657,963)	\$ (4,405,664)

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,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(1,704,480 )	\$(4,330,667 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Deferred income tax (benefit) expense	(12,213 )	2,894
Depreciation expense	336,147	353,387
Provision for doubtful accounts	(7,932 )	36,783
Amortization of intangibles	820,679	803,548
Amortization of deferred financing costs	-	8,728
Share-based compensation expense	204,414	208,091
Loss on disposal of equipment	-	9,716
Changes in assets and liabilities:		
Accounts receivable and unbilled receivables	(946,390 )	(1,807,139 )
Inventories	(342,292 )	10,362
Prepaid expenses and other current assets	19,293	6,241
Other assets	6,515	14,747
Accounts payable and accrued expenses	1,309,782	509,939
Income tax (payable) receivable	(11,183 )	78,705
Deferred revenue and other liabilities	(880,982 )	1,269,533
Net cash used in operating activities	(1,208,642 )	(2,825,132 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(145,246 )	(309,024 )
Software development costs	(480,355 )	(186,354 )
Net cash used in investing activities	(625,601 )	(495,378 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on bank line of credit	18,254,362	15,778,090
Repayments of bank line of credit advances	(18,128,355)	(13,764,425)
Principal repayments of long term debt	(665,704 )	(1,969,368 )

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Principal repayments under capital lease obligations	(26,396 )	(50,509 )
Restricted stock award tax liability payment	(32,332 )	-
Proceeds from exercise of stock options	-	701,706
Net cash (used in) provided by financing activities	(598,425 )	695,494
Net effect of exchange rate on cash and equivalents	87,924	(86,618 )
NET DECREASE IN CASH	(2,344,744 )	(2,711,634 )
CASH, beginning of period	7,930,303	13,154,699
CASH, end of period	\$5,585,559	\$10,443,065

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,	
	2016	2015
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$ 58,125	\$ 128,118
Cash paid for income taxes	\$ 4,031	\$ 11,042
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Insurance policies financed by short term notes payable	\$ 62,352	\$ -

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*

We provide secure, cloud-based, enterprise-wide information technology (IT) solutions to commercial enterprises, federal state and foreign governments in many different industry sectors. Our IT solutions are accessible on-demand through cloud computing and provide our customers with a set of streamlined mobile communications management, identity management, and consulting solutions that provide our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments. We use proprietary software, analytical tools and reporting solutions that enable our customers to actively manage their fixed and mobile communications assets and expenses and identity management requirements in an efficient and cost-effective manner in a safe and secure environment anywhere in the world.

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 other direct costs, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract 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, 2016 and for each of the three and nine month periods ended September 30, 2016 and 2015, 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, 2015 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, 2015. The results of operations for the three and nine month periods ended September 30, 2016 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.

### *Reclassifications*

The Company reclassified amounts representing product development previously included in the caption “general and administrative expenses” in the comparative statement of operations presentation as a separate line item to conform to the current year presentation.

### *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 condensed 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 revenue recognition, accounts receivable valuation reserves, ability to realize intangible assets and goodwill, ability to realize deferred income tax assets, 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 2016 from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016.

### *Segment Reporting*

Our customers and the industry view our market as a singular business and demand an integrated and scalable suite of information technology-based enterprise-wide solutions. Our information technology service offerings comprise a single business from which the Company earns revenues and incurs costs. The Company's information technology service offerings are centrally managed and reported on that basis to its Chief Operating Decision Maker who evaluates its business as a single segment. See Note 13 for detailed information regarding the composition of information technology services.



*Accounting Standards Update*

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amended certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance on principal versus agent considerations. The effective date and transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the effect that ASU 2016-08 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.

In August 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (Part 1), which included amendments to: 1) remove the requirement to defer recognition of excess tax benefits until such deduction results in a reduction in tax expense, 2) exclude excess tax benefits when applying the treasury stock method to compute diluted earnings per share, 3) clarify that excess tax benefits should be classified within the operating section of the statement of cash flows, and 4) estimation of forfeitures when calculating compensation cost. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016, 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 as of the beginning of the earliest comparative period presented and presented as a change in accounting principle with the cumulative effect on retained earnings and other components of equity disclosed. The Company is currently evaluating the effect that ASU 2016-09 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.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The new guidance is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The core principle of the ASU requires the classification of eight specific cash flow issues identified under ASC 230 to be presented as either financing, investing or operating, or some combination thereof, depending upon the nature of the issue. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. However, early adoption is permitted. Entities are required to use a retrospective transition approach for all of the issues identified to each period presented. We are currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (Part 2), which included amendments to clarify statutory tax

withholding requirements, classification of such taxes when paid by the employer and simplification of certain disclosures for privately-held companies. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016, 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 as of the beginning of the earliest comparative period presented and presented as a change in accounting principle with the cumulative effect on retained earnings and other components of equity disclosed. The Company has elected to adopt this ASU ahead of the effective date as permitted. The early adoption of this ASU will not have a material effect on the consolidated financial statements and disclosures as the Company's existing practices are similar to those included in this ASU.

### 3. Business Combinations

There were no business combinations during the nine month periods ended September 30, 2016 and 2015.

### 4. Accounts Receivable and Significant Concentrations

Accounts receivable consist of the following by customer type as of the periods presented below:

	SEPTEMBER 30, 2016 (Unaudited)	DECEMBER 31, 2015
Commercial	\$3,655,046	\$ 2,616,702
Government	8,460,436	8,021,789
Gross accounts receivable	12,115,482	10,638,491
Less: allowances for doubtful accounts	(76,235 )	(73,378 )
Accounts receivable, net	\$12,039,247	\$ 10,565,113

For the three and nine month periods ended September 30, 2016 and 2015, respectively, the Company had no material recoveries of accounts receivable for which an allowance had been previously established.

*Significant Concentrations*

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

Customer Name	SEPTEMBER 30, 2016		DECEMBER 31, 2015	
	As a % of	Receivables (Unaudited)	As a % of	Receivables (Unaudited)
Department of Homeland Security (“DHS”)	49%		51%	
US Airforce	—		14%	

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, 2016		NINE MONTHS ENDED SEPTEMBER 30, 2015	
	As a % of	Revenues (Unaudited)	As a % of	Revenues (Unaudited)
Department of Homeland Security (DHS)	62%	56%	63%	52%

5. Unbilled Accounts Receivable

Unbilled accounts receivable represents amount not yet billed for services delivered. Unbilled receivables consist of the following by customer type as of the periods presented below:

DECEMBER 31,

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	SEPTEMBER	
	30,	
	2016	2015
	(Unaudited)	
Commercial	\$409,597	\$ 422,138
Government	5,935,392	6,215,449
Unbilled accounts receivable	\$6,344,989	\$ 6,637,587

6. Property and Equipment

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

	SEPTEMBER	DECEMBER
	30,	31,
	2016	2015
	(Unaudited)	
Land and building	\$ <b>677,054</b>	\$677,054
Computer hardware and software	<b>2,826,376</b>	2,698,577
Furniture and fixtures	<b>326,124</b>	303,691
Leasehold improvements	<b>583,415</b>	568,642
Automobile	<b>229,051</b>	247,405
Gross property and equipment	<b>4,642,020</b>	4,495,369
Less: accumulated depreciation and amortization	<b>(3,320,257 )</b>	(2,982,062 )
Property and equipment, net	<b>\$1,321,763</b>	\$1,513,307

Included in property and equipment are certain equipment purchases acquired under capital lease arrangements. Total capitalized cost of equipment under capital leases at September 30, 2016 and December 31, 2015 was approximately \$63,500 and \$372,600, respectively. For each of the three and nine month periods ended September 30, 2016 and 2015, the Company did not enter into any capital lease arrangements. For each of the three and nine month periods ended September 30, 2016 and 2015, there were no material sales or disposals of owned property and equipment.

Property and equipment depreciation expense (including amortization of capital lease property) was approximately as follows for the periods presented below:

	THREE MONTHS ENDED SEPTEMBER 30, 2016		NINE MONTHS ENDED SEPTEMBER 30, 2015	
	2016	2015	2016	2015
Property and equipment depreciation expense	\$105,200	\$110,200	\$336,100	\$353,400
Capital lease amortization (included in property and equipment depreciation expense)	\$3,400	\$4,200	\$10,900	\$21,900

There were no changes in the estimated useful lives used to depreciate property and equipment during the three and nine month periods ended September 30, 2016 and 2015.

Accumulated depreciation for leased equipment at September 30, 2016 and December 31, 2015 was approximately \$33,500 and \$351,400, respectively. For the three and nine month periods ended September 30, 2016 there were disposals of fully amortized leased equipment of approximately \$309,100. For the three and nine month periods ended September 30, 2015 there were no disposals of leased equipment. Total net book value of assets under capital leases at September 30, 2016 and December 31, 2015 was approximately \$30,100 and \$21,200, respectively.

## 7.

## Goodwill and Intangible Assets

The Company has recorded goodwill of \$18,555,578 as of September 30, 2016. There were no changes in the carrying amount of goodwill during the nine month period ended September 30, 2016. The Company considered whether there were indicators of impairment during the nine month period ended September 30, 2016.

The Company has recorded intangible assets of \$4,761,199, consisting of purchased intangibles and internally developed software used in the conduct of business. For the three month period ended September 30, 2016, the Company capitalized internally developed software costs of approximately \$246,900, of which \$127,300 related to Certificate-on-Device (CoD) credentialing tools and applications and \$119,600 related to costs associated with certification of our Public Key Infrastructure (PKI) authority to operate and issue identity credentials. For the nine month period ended September 30, 2016, the Company capitalized internally developed software costs of approximately \$480,300, of which \$343,900 related to CoD credentialing tools and applications, \$119,600 related to costs associated with our PKI authority to operate and issue identity credentials and the remainder related to other software applications. There were no disposals of intangible assets for the three and nine month periods ended September 30, 2016 and 2015.

The aggregate amortization expense recorded for the three month periods ended September 30, 2016 and 2015 were approximately \$286,800 and \$272,700, respectively. The aggregate amortization expense recorded for the nine month periods ended September 30, 2016 and 2015 were approximately \$820,700 and \$803,500, respectively. The total weighted remaining average life of purchased and internally developed intangible assets is approximately 5.8 years at September 30, 2016.

#### 8. Line of Credit and Long Term Debt

##### *Commercial Loan Agreement Facility*

On April 28, 2016, the Company entered into a Business Loan Agreement with Cardinal Bank (the "Loan Agreement"). On November 4, 2016, the Company entered into a modification of its Loan Agreement that: 1) decreased the Company's borrowing base as a percentage of qualified government and commercial receivables from 75% to 65% and 2) decreased the minimum after-tax net income requirement from \$200,000 to \$1.00 for the fourth quarter of 2016.

The Loan Agreement is for \$6.0 million and extended the maturity date of the credit facility is April 30, 2017. The available amount under the revolving line of credit is subject to a borrowing base, which is equal to the lesser of (i) \$6.0 million or (ii) 65% of qualified government and commercial accounts receivables, less any amounts outstanding on the Company's \$4.0 million term loan with Cardinal Bank. The interest rate for the revolving line of credit is the Wall Street Journal prime rate plus 0.75%, with a floor of 4.25%.

The Loan Agreement requires that the Company (i) maintain a minimum tangible net worth of at least \$6.5 million at December 31, 2016; (ii) generate a minimum after-tax net income of at least \$1.00 for the third and for the fourth quarter of 2016 and (iii) maintain a current ratio of 1.1:1 tested quarterly.

Under the credit facility the Company was advanced approximately \$18.2 million and repaid approximately \$18.1 million during the nine month period ended September 30, 2016. There was approximately \$0.1 million outstanding against the Company's credit facility at September 30, 2016. As of September 30, 2016, the Company was not in compliance with its minimum after tax net income requirement of at least \$1.00 for the third quarter; however, the Company obtained a waiver for such non-compliance from Cardinal Bank. As of September 30, 2016, the Company was eligible to borrow up to \$5.6 million under the borrowing base formula.

### *Long-Term Debt*

Long-term debt consisted of the following:

	SEPTEMBER 30, 2016	DECEMBER 31, 2015
	(Unaudited)	
Cardinal Bank mortgage dated December 17, 2010 (1)	\$437,109	\$ 450,770
Cardinal Bank term note dated December 31, 2011 (2)	222,649	874,692
Total	659,758	1,325,462
Less: current portion	242,536	893,706
Long-term debt, net of current portion	\$417,222	\$ 431,756

(1) On December 17, 2010, the Company entered into a real estate purchase agreement to acquire 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.

#### *Capital Lease Obligations*

The Company has leased certain equipment and automobiles under capital lease arrangements that expire in 2017. There were no changes to existing lease arrangements during the nine month period ended September 30, 2016.



## 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, 2016, 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, 2016 or December 31, 2015. 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, 2016, the Company had recorded a deferred tax asset of approximately \$29.8 million reflecting the benefit of approximately \$26.8 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 \$29.8 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 against all deferred tax assets. 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 and nine month periods ended September 30, 2016 and 2015.

*Common Stock*

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. As of September 30, 2016, there were 82,730,134 shares of common stock outstanding.

*Employee Stock Issuances*

The Company issued 209,438 shares of common stock as a result of the vesting of Restricted Stock Awards (RSA) during the nine month period ended September 30, 2016. See Note 11 for additional information regarding RSA activity. There was no vesting of RSAs during the nine month period ended September 30, 2015.

There were no exercises of non-qualified stock options during the nine month period ended September 30, 2016. Shares of common stock issued as a result of stock option exercises and realized gross proceeds during the nine month period ended September 30, 2015 were 863,933 and \$701,706, respectively, from the exercise of such stock options. See Note 11 for additional information regarding the stock incentive plans.

## 11. Stock Award Programs

### *Stock Incentive Plan*

The Company adopted the 2008 Stock Incentive Plan (the “2008 Plan”) on December 18, 2008. The 2008 Plan was amended and restated on December 15, 2009. The 2008 Plan will terminate on December 17, 2017. The 2008 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.

Under the 2008 Plan, 6,578,049 shares were reserved for issuance under equity incentive awards to be issued pursuant to the 2008 Plan. As of September 30, 2016, there were 3,402,211 shares available to be issued under the 2008 Plan. A summary of restricted stock and non-qualified stock option award activity during the three and nine months ended September 30, 2016 and 2015 is described in more detail 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 set forth in the award agreement with respect to such grant.

A summary of RSA activity as of September 30, 2016, and changes during nine month period ended September 30, 2016 is set forth below:

	2016	2015
NON-VESTED AWARDS	Shares	Shares
	(Unaudited)	
Non-vested balances, January 1	500,000	500,000
Less: vested shares	250,000 <sup>(1)</sup>	—
Non-vested balances, September 30	250,000	500,000

The Company issued 209,438 shares of the Company's common stock in connection with this accelerated vesting event, of which Mr. Komar received 125,000 shares and Mr. McCubbin received 84,438 shares. Mr. McCubbin (1) received less than 125,000 shares because he elected to have 40,562 of such shares withheld in satisfaction of the corresponding tax liability of approximately \$32,300. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the Condensed Consolidated Statements of Cashflows.

At September 30, 2016, the Company had approximately \$50,800 of total unamortized RSA compensation expense, related to the remaining 250,000 unvested RSAs that will be recognized over the weighted average remaining period of 1.2 years. The total intrinsic value of RSAs vested during the nine month period ended September 30, 2016 was approximately \$185,000. The intrinsic value of outstanding RSAs as of September 30, 2016 was approximately \$107,500.

#### *Stock Option Awards*

The Company granted 650,000 stock options during the nine month period ended September 30, 2016. The Company granted 180,000 stock options during the nine month period ended September 30, 2015. A summary of stock option activity as of September 30, 2016 and 2015, and changes during nine month periods ended September 30, 2016 and 2015 is set forth below:

	2016		2015	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
<b>NON-VESTED AWARDS</b>				
	(Unaudited)			
Non-vested balances, January 1,	841,672	\$ 0.80	1,340,838	\$ 0.57
Granted (+)	650,000	\$ 0.40	180,000	\$ 0.70
Cancelled (-)	25,000	\$ 0.72	250,000	\$ 0.39
Vested (-)	534,172	\$ 0.69	416,666	\$ 0.27
Non-vested balances, September 30,	932,500	\$ 0.59	854,172	\$ 0.80

	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<b>OUTSTANDING AND EXERCISABLE AWARDS</b>				
	(Unaudited)			
Awards outstanding, January 1,	1,857,668	\$ 0.91	2,791,601	\$ 0.83
Granted (+)	650,000	\$ 0.70	180,000	\$ 1.45
Cancelled (-)	392,000	\$ 0.62	250,000	\$ 0.74
Exercised (-)	-	-	863,933	\$ 0.81
Awards outstanding, September 30,	2,115,668	\$ 0.87	1,857,668	\$ 0.91
Awards vested and expected to vest, September 30,	1,989,739	\$ 0.88	1,857,668	\$ 0.91
Awards outstanding and exercisable, September 30,	1,183,168	\$ 0.82	1,003,496	\$ 0.67

During the nine month period ended September 30, 2016, there were stock options of 392,000 that were cancelled, of which 205,000 were cancelled due to termination of employment and the remainder expired unexercised at the end of the option term.

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, 2016 are as follows:

	Vested and Expected to Vest	Outstanding and Exercisable
Outstanding		

	(Unaudited)		
Weighted-average remaining contractual life (in years)	3.4	2.6	2.6
Aggregate intrinsic value	\$-	\$ -	\$ -

Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on September 30, 2016 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, 2016. There was no intrinsic value associated with options outstanding, exercisable and expected to vest as of September 30, 2016 as the stock price was below the lowest option exercise price. 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 was approximately \$713,400.

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, 2016 and 2015, the Company recognized share-based compensation expense of approximately \$68,100 and \$89,200, \$204,400 and \$208,100, respectively. At September 30, 2016, the Company had approximately \$320,700 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 2.2 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, 2016		NINE MONTHS ENDED SEPTEMBER 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			
Basic EPS Computation:				
Net (loss) income	\$ (148,040 )	\$ (1,763,280 )	\$ (1,704,480 )	\$ (4,330,667 )
Weighted average number of common shares	82,730,134	82,515,103	82,673,570	82,130,665
Basic EPS	\$ (0.00 )	\$ (0.02 )	\$ (0.02 )	\$ (0.05 )
Diluted EPS Computation:				
Net (loss) income	\$ (148,040 )	\$ (1,763,280 )	\$ (1,704,480 )	\$ (4,330,667 )
Weighted average number of common shares	82,730,134	82,515,103	82,673,570	82,130,665
Incremental shares from assumed conversions of stock options	-	-	-	-
Adjusted weighted average number of common shares	<b>82,730,134</b>	82,515,103	<b>82,673,570</b>	82,130,665
Diluted EPS	\$ (0.00 )	\$ (0.02 )	\$ (0.02 )	\$ (0.05 )

The dilutive effect of unexercised stock options and restricted stock awards excludes 2,115,668 and 1,857,668 of options from the computation of EPS for the three and nine month periods ended September 30, 2016 and 2015, respectively, because inclusion of the options would have been anti-dilutive.

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

The following table was prepared to provide additional information about the composition of revenues based on broad service descriptions:

Service Mix	THREE MONTHS ENDED SEPTEMBER 30, 2016		NINE MONTHS ENDED SEPTEMBER 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			

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Carrier Services	\$ 13,532,617	\$ 9,126,605	\$ 35,721,245	\$ 27,422,307
Managed Services	8,582,222	7,868,253	24,441,900	24,700,864
	\$22,114,839	\$ 16,994,858	\$ 60,163,145	\$ 52,123,171

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

Geographic Region	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2016	2015	2016	2015
	(Unaudited)			
North America	\$20,867,324	\$15,641,683	\$56,360,870	\$47,798,246
Europe	1,247,515	1,330,846	3,802,275	4,018,561
Middle East	-	22,329	-	306,364
	\$22,114,839	\$ 16,994,858	\$ 60,163,145	\$ 52,123,171



## **14. Commitments and Contingencies**

### *Operating Lease Commitments*

There were no leases entered into or modifications of existing leases during the nine month periods ended September 30, 2016 and 2015.

### *Employment Agreements*

The Company has employment agreements with certain executives that set forth compensation levels and provide for severance payments in certain instances.

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

Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements concerning our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Form 10-Q are forward-looking statements. You can identify these statements by words such as "aim," "anticipate," "assume," "believe," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "positioned," "predict," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- Our ability to achieve profitability and positive cash flows;
- Our ability to raise additional capital on favorable terms or at all;
- Our ability to gain market acceptance for our products;
- Our ability to compete with companies that have greater resources than us;
- Our ability to penetrate the commercial sector to expand our business;
- Our ability to successfully implement our strategic plan;
- Our ability to sell higher margin services;
- Our ability to retain key personnel; and

The risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC on March 15, 2016.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Readers are cautioned not to put undue reliance on forward-looking statements.

Business Overview

We are a leading provider of federally certified secure identity management and communications solutions to the government and commercial sectors. Our on-demand solutions offer a suite of advanced and federally certified proprietary cloud-based software solutions designed to enable secure identity management and manage the complex processes and expenses associated with complex communication assets and services of any enterprise. 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, 2015 filed with the SEC on March 15, 2016.

#### Strategic Re-Focus

Our objective is to grow our business profitably as a premier technology-based provider of both product and service enterprise solutions to both the public and private sectors. We are continuing to work to re-focus our strategy in order to improve cash flows by focusing our efforts on selling our higher margin services and de-emphasizing some of our lower margin services. We are also working to develop a more streamlined sales process in order to increase our market penetration.

We believe our portfolio of solutions, including Cert-on-Device, Derived Credentialing and other mobile credentialing solutions, address access to multi-level secure resources and message traffic based on entity identity, roles and privileges that can be validated by any logical and/or physical access point on a multitude of devices.

Our challenge is reaching potential customers and in order to gain market penetration as an organization capable of meeting an organization's technology asset and risk management objectives without significantly increasing their operating costs and allowing these organizations to focus on running their business. Generating positive cash flow and net income in the future will depend on our ability to successfully execute our on our strategy of growing of business through sales of higher margin services. As a challenge to our re-focus, a significant source of our operating revenue is derived from fixed price contracts that may range from two (2) to five (5) years that in many instances include certain volume pricing discounts.

Our profitability depends upon the type and volume of services performed, our ability to properly price our services, our ability to manage client service deliverables and expectations, and our ability cost effectively delivery our solutions without manually intensive labor requirements. To date, we have attempted to maximize our operating margins through efficiencies achieved by the use of our proprietary technologies and methodologies, and by offsetting increases in consultant salaries with increases in consultant fees received from our clients.

There is no guarantee that we will be able to achieve or sustain profitability in the future and an inability to successfully achieve profitability will decrease our long-term viability.

Expansion of customer contracts, our internal growth initiatives and merger and acquisition opportunities will increase our operational costs and may require additional investments in technology infrastructure and personnel. In May 2016, we hired Mr. Jason Holloway as our Chief Sales and Marketing Officer to assist us in delivering high-level revenue-building strategies and team leadership to drive new business and expand our current work with existing client.

## Results of Operations

### Three Months Ended September 30, 2016 as Compared to Three Months Ended September 30, 2015

**Revenues.** Revenues for the three month period ended September 30, 2016 were approximately \$22.1 million, an increase of approximately \$5.1 million (or 30% of revenues), as compared to approximately \$17.0 million in 2015. This improvement in revenues was driven by increases in both carrier services and managed services. Our mix of revenues for the periods presented is set forth below:

	THREE MONTHS ENDED SEPTEMBER 30,			Dollar
Service Mix	2016	2015		Variance
	(Unaudited)			
Carrier Services	\$13,532,617	\$9,126,605		\$4,406,012
Managed Services	8,582,222	7,868,253		713,969
	\$22,114,839	\$16,994,858		\$5,119,981

We believe the following factors contributed to higher revenues:

Our carrier services were higher due to an increase in carrier service task orders issued and delivered during the quarter under our U.S. Department of Homeland Security (“DHS”) blanket purchase agreement (“BPA”). There presently are two major component agencies remaining under our DHS BPA contract 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 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 higher as a result of increases in identity credentialing and services, mobile device and accessory services, partially offset by the negative impact of the decline in Pound Sterling currency denominated contracts. There were a number of new revenue generating contracts that were delayed due to the decision of the United Kingdom (U.K.) to exit the European Union common community (Brexit) and other regulatory matters.

We believe the expansion of our revenues is tied to several factors including winning additional task order awards from the two remaining major component agencies under DHS BPA contract, continued expansion and emphasis of selling high margin services to our large enterprise and federal customers, and the successful delivery of our new identity management offering that include “Certificate on Device”, “machine to machine” credentials, and “derived credentials” to our target markets through both our new and existing channel partners.

**Cost of Revenues.** Cost of revenues for the three month period ended September 30, 2016 was approximately \$18.1 million (or 82% of revenues), as compared to approximately \$13.9 million (or 82% of revenues) in 2015. Cost of revenue on a dollar and percentage basis did not vary materially quarter over quarter because our cost of revenues mix shifted on a dollar basis from reselling purchases in 2015 to carrier services purchases in 2016. Cost of revenues could fluctuate depending on our sales mix between carrier services and managed services.

**Gross Profit.** Gross profit for the three month period ended September 30, 2016 was approximately \$4.0 million (or 18% of revenues), as compared to approximately \$3.1 million (or 18% of revenues) in 2015. The increase in gross profit was largely related to increases in credentialing and mobile services, partially offset by decreases in consulting services and foreign currency fluctuations.

**Sales and Marketing.** Sales and marketing expense for the three month period ended September 30, 2016 was approximately \$0.6 million (or 3% of revenues), as compared to approximately \$0.8 million (or 5% of revenues) in 2015. The decline in sales and marketing reflects continued changes made during the first and second quarter of 2016 to streamline our sales labor resources and sales commission agreements in a manner that incentivizes our salesforce to pursue and close recurring higher margin business. 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, 2016 were approximately \$3.4 million (or 16% of revenues), as compared to approximately \$3.6 million (or 21% of revenues) in 2015. General and administrative expense decreased due to changes made during the second quarter of 2016 to lower the rates charged by our outside consultants and other discretionary advisors. In the short term we may experience an increase in audit and tax related costs as we approach our year end. In the long run we may realize a 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 and streamline our processes.

**Product Development.** Product development costs for the three month period ended September 30, 2016 were approximately \$2,600 (or less than 1% of revenues), as compared to approximately \$268,800 (or 2% of revenues) in 2015. We capitalized approximately \$246,900 in internally developed software costs, of which \$127,300 related to Certificate-on-Device (CoD) credentialing tools and applications and \$119,600 related to costs associated with certification of our Public Key Infrastructure (PKI) authority to operate and issue identity credentials. We anticipate additional capitalization of software costs during the fourth quarter of 2016. The costs associated with maintaining and developing new products and services is vital to our ability to compete in our market place and deliver solutions that our customers believe meet or exceed their requirements. These costs over time may rise and fall as we continue to support the go to market efforts for new product solutions.

**Depreciation and Amortization.** Overhead and administrative related depreciation and amortization expense for the three month period ended September 30, 2016 was approximately \$84,800 as compared to approximately \$93,000 in 2015. There were no material increases in our depreciable asset base during the quarter.

**Interest Income.** Interest income for the three month period ended September 30, 2016 was approximately \$3,000, as compared to approximately \$7,000 in 2015. The decrease was due to lower 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 to 2015.

**Interest Expense.** Interest expense for the three months ended September 30, 2016 was approximately \$20,900 as compared to approximately \$30,900 in 2015. The decrease in interest expense is due to repayment of over \$2.0 million in principal payments during the third quarter of 2015. There were no significant changes in the interest rate associated with debt repaid during the three months ended September 30, 2016.

**Income Taxes.** Income tax expense for the three month period ended September 30, 2016 was approximately \$8,300, as compared to approximately \$69,800 in 2015. Income tax expense for the three month period ended September 30, 2016 predominantly consist of current taxes payable on foreign earnings in the Republic of Ireland, largely offset by tax benefits realized due to vesting of restricted stock awards during the quarter.

**Net (Loss) Income.** As a result of the cumulative factors annotated above, the net loss for the three month period ended September 30, 2016 was approximately \$148,000, as compared to approximately \$1.8 million in the same period last year.

## Results of Operations

### Nine Months Ended September 30, 2016 as Compared to Nine Months Ended September 30, 2015

**Revenues.** Revenues for the nine month period ended September 30, 2016 were approximately \$60.2 million, an increase of approximately \$8.0 million (or 15% of revenues) as compared to approximately \$52.1 million in 2015. Our mix of revenues for the periods presented is set forth below:

	NINE MONTHS ENDED		Dollar
	SEPTEMBER 30,		Variance
Service Mix	2016	2015	
	(Unaudited)		
Carrier Services	\$35,721,245	\$27,422,307	\$8,298,938
Managed Services	24,441,900	24,700,864	(258,964 )



\$60,163,145 \$52,123,171 \$8,039,974

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 contract.

Our managed services were lower due to a decrease of approximately \$2.6 million in software reselling activities (approximately \$3.1 million in 2016 as compared to approximately \$5.7 million in 2015), partially offset by an increase in mobile device accessory sales (approximately \$2.0 million in 2016 as compared to approximately \$0.6 million in 2015) and expansion of managed services for existing customers. Additionally, our revenues were lower due to the negative impact of approximately \$203,000 in currency fluctuations related to Brexit.

**Cost of Revenues.** Cost of revenues for the nine month period ended September 30, 2016 was approximately \$48.6 million (or 81% of revenues), as compared to approximately \$42.1 million (or 81% of revenues) in 2015. The dollar basis increase was due to higher carrier services cost and higher labor costs required to manually fulfill a large number of task orders issued by federal customers with decentralized operations, partially offset by lower reselling costs. We are proactively working with our federal customers that have highly decentralized operational centers to consolidate and streamline their service delivery requirements.

**Gross Profit.** Gross profit for the nine month period ended September 30, 2016 was approximately \$11.6 million (or 19% of revenues), as compared to approximately \$10.0 million (or 19% of revenues) in 2015. The dollar basis increase in gross profit was the result of higher margin device and accessory sales and to a lesser extent a higher ratio of high margin managed services as compared to 2015. Our gross profit may fluctuate depending on the ratio of managed services to carrier services.

**Sales and Marketing.** Sales and marketing expense for the nine month period ended September 30, 2016 was approximately \$2.1 million (or 3% of revenues), as compared to approximately \$2.3 million (or 4% of revenues) in 2015. The decline in sales and marketing reflects continued changes made during the first and second quarter of 2016 to streamline our sales labor resources and sales commission agreements in a manner that incentivizes our salesforce to pursue and close recurring higher margin business.

**General and Administrative.** General and administrative expenses for the nine month period ended September 30, 2016 were approximately \$10.6 million (or 18% of revenues), as compared to approximately \$11.0 million (or 21% of revenues) in 2015. General and administrative expense decreased due to changes made during the first and second quarter of 2016 to lower office rent and the rates charged by our outside consultants and other discretionary advisors.

**Product Development.** Product development costs for the nine month period ended September 30, 2016 were approximately \$261,000 (or 1% of revenues), as compared to approximately \$228,000 (or 1% of revenues) in 2015. We capitalized approximately \$480,300 in internally developed software costs of which \$343,900 related to CoD credentialing tools and applications, \$119,600 related to costs associated with our PKI authority to operate and issue identity credentials and the remainder related to other software applications. The costs associated with maintaining and developing new products and services is vital to our ability to compete in our market place and deliver solutions that our customers believe meet or exceed their requirements. These costs over time may rise and fall as we continue to support the development and go to market efforts for new product solutions.

**Depreciation and Amortization.** Overhead and administrative related depreciation and amortization expense for the nine month period ended September 30, 2016 was approximately \$269,000 as compared to approximately \$283,200 in 2015. The decrease reflects a lower depreciable base due to fully depreciated assets.

**Interest Income.** Interest income for the nine month period ended September 30, 2016 was approximately \$10,600, as compared to approximately \$17,900 in 2015. The decrease was due to lower 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 to 2015.

**Interest Expense.** Interest expense for the nine months ended September 30, 2016 was approximately \$61,100 as compared to approximately \$111,250 in 2015. The decrease in interest expense is due to repayment of over \$2.0 million in principal payments during the nine months ended September 30, 2015. There were no significant changes in the interest rate associated with long term debt during the nine months ended September 30, 2016.

**Income Taxes.** Income tax expense for the nine month period ended September 30, 2016 was approximately \$21,000, as compared to approximately \$147,200 in 2015. Income tax expense predominantly consists of current taxes payable on foreign earnings in the Republic of Ireland; however, these taxes have been largely offset by tax benefits realized due to vesting of restricted stock awards during the first quarter of 2016.

**Net (Loss) Income.** As a result of the cumulative factors annotated above, the net loss for the nine month period ended September 30, 2016 was approximately \$1.7 million, as compared to approximately \$4.3 million in 2015.

### **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 (see Note 8 to our condensed consolidated financial statements included herein for a description of our credit facility with Cardinal Bank).

At September 30, 2016, the Company's net working capital was approximately \$7.0 million as compared to approximately \$8.0 million at December 31, 2015. The decrease in net working capital was primarily due to net losses incurred while continuing to fund business development efforts and additional product development and promotion costs to bring our Certificate-on-Device solution to market. We utilized available cash and our line of credit to manage through short term collection timing differences during the nine month period ended September 30, 2016.

We must successfully execute our business plan to increase profitability in order to achieve positive cash flows to sustain adequate liquidity without requiring additional funds from external sources to meet minimum operating requirements. We may need to raise additional capital or seek alternative debt financing to fund our operations and there can be no assurance that additional capital will be available on acceptable terms or at all.

#### 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, 2016, net cash used in operations was approximately \$1.2 million driven by current year operating losses, foreign currency transaction losses and temporary collection timing differences.

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 maintain critical staffing infrastructure to support implementation of DHS BPA task orders and product development efforts for our next generation identity management solutions.

#### 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, 2016, cash used in investing activities was approximately \$0.6 million and consisted of capitalized internally developed software costs substantially related to our Certificate-on-Device credentialing tools and applications; and to a lesser extent normal replacements of computers and peripheral equipment used in operating and administrative functions.

For the nine months ended September 30, 2015, cash used in investing activities was approximately \$0.5 million and consisted of capitalized internally development software costs 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.

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, 2016, cash provided by financing activities was approximately \$0.6 million primarily reflecting scheduled term debt repayments of approximately \$0.7 million, partially offset by net line of credit advances. The Company was advanced approximately \$18.2 million and repaid approximately \$18.1 million in line of credit advances.

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.

Net Effect of Exchange Rate on Cash and Equivalents

For the nine months ended September 30, 2016, the net effect of exchange rate changes increased the translated value of our foreign cash balances due to appreciation of the Euro relative to the US dollar.

For the nine months ended September 30, 2015, the net effect of exchange rate changes decreased the translated value of our foreign cash balances due to depreciation of 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**

There has been no material change in the Company's exposure to market risk from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

**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, 2016. 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, 2016 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, 2015. 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 this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2015 due to the existence of the material weaknesses as of December 31, 2015, discussed below. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified material weaknesses in controls over financial reporting related to inadequate transactional level controls over contract management and billing and inadequate entity level controls. Management has determined that we lack adequate documentation to provide evidence of operating effectiveness related to contract management and billing and entity level controls.

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

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 three month period ended September 30, 2016. Management started to implement its remediation plan during the third quarter of 2016 and such efforts were focused on: 1) evaluating contract and billing solutions that are capable of managing internal workflow and changes and delivering invoices to customers; 2) evaluating electronic payroll solutions that are capable of replacing largely manual human resources, timekeeping and payroll processing functions currently used throughout the Company; and 3) retaining documentation to evidence effectiveness of entity level controls. Management is also evaluating certain workflow technologies that may be capable of further streamlining largely manual financial reporting processes. Management believes that as its plan is implemented it will remediate identified material weaknesses identified.

### **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 September 30, 2016 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 at varying management levels throughout the Company, 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, 2015.

**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 4, 2016, we entered into a modification of our Business Loan Agreement with Cardinal Bank that: 1) decreased the our borrowing base as a percentage of qualified government and commercial receivables from 75% to 65% and 2) decreased the minimum after-tax net income requirement from \$200,000 to \$1.00 for the fourth quarter of 2016. In addition, on November 4, 2016, we obtained a waiver from Cardinal Bank for our non-compliance under the Business Loan Agreement with the minimum after tax net income requirement of at least \$1.00 for the third quarter.

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**ITEM 6. EXHIBITS**

EXHIBIT NO	DESCRIPTION
10.1	Waiver from Cardinal Bank dated November 4, 2016
10.2	Change in Terms Agreement with Cardinal Bank dated November 4, 2016
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: November 9, 2016 /s/ STEVE L. KOMAR  
Steve L. Komar  
President and Chief Executive Officer

Date: November 9, 2016 /s/ JAMES T. MCCUBBIN  
James T. McCubbin  
Chief Financial Officer