

WIDEPOINT CORP  
Form 10-Q  
November 14, 2018

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, 2018

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 (I.R.S. employer  
incorporation or organization) 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer  
Non-accelerated filer Smaller reporting company

Edgar Filing: WIDEPOINT CORP - Form 10-Q

(Do not check if a smaller reporting company)  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes  No

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 14, 2018, there were 84,062,446 shares of the registrant's Common Stock issued and 83,762,448 shares outstanding.



WIDEPOINT CORPORATION

INDEX

	Page No.
Part I. FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017 (unaudited)	2
Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2018 and 2017 (unaudited)	3
Condensed Consolidated Statements of Comprehensive Loss for the three and nine month periods ended September 30, 2018 and 2017 (unaudited)	4
Condensed Consolidated Statements of Cash Flows for the nine month periods ended September 30, 2018 and 2017 (unaudited)	5
Notes to Condensed Consolidated Financial Statements (unaudited)	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3. Quantitative and Qualitative Disclosures About Market Risk	27
Item 4. Controls and Procedures	28
Part II. OTHER INFORMATION	
Item 1. Legal Proceedings	28
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 3. Default Upon Senior Securities	28
Item 4. Mine Safety Disclosures	28
Item 5. Other Information	28
Item 6. Exhibits	28
SIGNATURES	29
CERTIFICATIONS	



## PART I. FINANCIAL INFORMATION

## ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$3,950,106	\$5,272,457
Accounts receivable, net of allowance for doubtful accounts of \$96,846 and \$107,618 in 2018 and 2017, respectively	8,022,377	8,131,025
Unbilled accounts receivable	7,803,572	8,131,448
Other current assets	963,649	767,944
Total current assets	20,739,704	22,302,874
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	1,058,786	1,318,420
Intangibles, net	3,284,626	3,671,506
Goodwill	18,555,578	18,555,578
Other long-term assets	145,477	44,553
Total assets	\$43,784,171	\$45,892,931
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$6,080,686	\$7,266,212
Accrued expenses	9,064,369	9,796,350
Deferred revenue	2,689,038	2,348,578
Current portion of capital leases	105,712	101,591
Current portion of other term obligations	107,109	203,271

Edgar Filing: WIDEPOINT CORP - Form 10-Q

Total current liabilities	18,046,914	19,716,002
<b>NONCURRENT LIABILITIES</b>		
Capital leases, net of current portion	151,037	232,109
Other term obligations, net of current portion	64,006	78,336
Deferred revenue	410,310	264,189
Deferred tax liability	393,975	392,229
Total liabilities	19,066,242	20,682,865
<b>STOCKHOLDERS' EQUITY</b>		
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; 84,062,446 and 83,031,595 shares issued; 83,762,446 and 83,031,595 shares outstanding, respectively	83,763	83,032
Additional paid-in capital	94,814,580	94,200,237
Accumulated other comprehensive loss	(185,317)	(122,461)
Accumulated deficit	(69,995,097)	(68,950,742)
Total stockholders' equity	24,717,929	25,210,066
Total liabilities and stockholders' equity	\$43,784,171	\$45,892,931

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





WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	(Unaudited)			
REVENUES	\$21,294,360	\$18,463,872	\$58,918,317	\$55,956,617
COST OF REVENUES (including amortization and depreciation of \$248,009, \$318,461, \$802,174, and \$895,088, respectively)	17,609,287	15,087,567	48,134,084	45,859,532
GROSS PROFIT	3,685,073	3,376,305	10,784,233	10,097,085
OPERATING EXPENSES				
Sales and marketing	387,407	532,714	1,366,989	1,709,892
General and administrative expenses (including share-based compensation of \$272,737, (\$81,043), \$593,075 and \$138,036, respectively)	3,257,262	3,046,148	10,037,904	10,668,368
Product development	-	11,342	-	219,141
Depreciation and amortization	104,914	69,935	312,763	212,874
Total operating expenses	3,749,583	3,660,139	11,717,656	12,810,275
LOSS FROM OPERATIONS	(64,510)	(283,834)	(933,423)	(2,713,190)
OTHER (EXPENSE) INCOME				
Interest income	936	1,971	6,339	11,564
Interest expense	(21,644)	(13,985)	(71,531)	(36,402)
Other income (expense)	2	(1,541)	3	1,758
Total other expense	(20,706)	(13,555)	(65,189)	(23,080)
LOSS BEFORE INCOME TAX PROVISION	(85,216)	(297,389)	(998,612)	(2,736,270)
INCOME TAX PROVISION	24,795	17,212	45,743	32,723
NET LOSS	\$(110,011)	\$(314,601)	\$(1,044,355)	\$(2,768,993)
BASIC LOSS PER SHARE	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.03)

Edgar Filing: WIDEPOINT CORP - Form 10-Q

BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	83,177,804	82,946,847	83,100,832	82,878,287
DILUTED LOSS PER SHARE	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.03)
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	83,177,804	82,946,847	83,100,832	82,878,287

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



WIDEPOINT CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	(Unaudited)			
NET LOSS	\$ (110,011)	\$ (314,601)	\$ (1,044,355)	\$ (2,768,993)
Other comprehensive income:				
Foreign currency translation adjustments, net of tax	(27,459)	45,673	(62,856)	173,705
Other comprehensive (loss) income	(27,459)	45,673	(62,856)	173,705
COMPREHENSIVE LOSS	\$ (137,470)	\$ (268,928)	\$ (1,107,211)	\$ (2,595,288)

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



WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	NINE MONTHS ENDED	
	SEPTEMBER 30,	
	2018	2017
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(1,044,355)	\$(2,768,993)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income tax benefit	-	(10,173)
Depreciation expense	414,507	295,798
(Recovery of) provision for doubtful accounts	(6,149)	31,187
Amortization of intangibles	700,430	812,164
Amortization of deferred financing costs	16,054	9,485
Share-based compensation expense	593,075	138,036
Gain on sale of assets held for sale	-	(66,683)
Loss on disposal of fixed assets	-	172,472
Changes in assets and liabilities:		
Accounts receivable and unbilled receivables	390,672	(612,010)
Inventories	(61,778)	(189,607)
Prepaid expenses and other current assets	(236,532)	(245,637)
Other assets	(108,742)	(10,849)
Accounts payable and accrued expenses	(1,890,395)	(552,531)
Income tax payable	16,289	85,891
Deferred revenue and other liabilities	505,619	281,168
Net cash used in operating activities	(711,305)	(2,630,282)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(164,573)	(573,400)
Software development costs	(230,101)	(360,685)
Proceeds from sale of assets held for sale	-	236,451
Proceeds from the sale of property and equipment	-	53,861
Net cash used in investing activities	(394,674)	(643,773)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		

Edgar Filing: WIDEPOINT CORP - Form 10-Q

Advances on bank line of credit	14,048,741	11,599,343
Repayments of bank line of credit advances	(14,048,741)	(11,046,604)
Principal repayments of long-term debt	-	(82,440)
Principal repayments under capital lease obligations	(75,785)	(25,562)
Contingent consideration payment	(100,000)	-
Restricted stock award tax liability payment	-	(60,614)
Proceeds from exercise of stock options	22,000	17,100
Net cash (used in) provided by financing activities	(153,785)	401,223
Net effect of exchange rate on cash and equivalents	(62,587)	173,308
NET DECREASE IN CASH	(1,322,351)	(2,699,524)
CASH AND CASH EQUIVALENTS, beginning of period	5,272,457	9,123,498
CASH AND CASH EQUIVALENTS, end of period	\$3,950,106	\$6,423,974

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





WIDEPOINT CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS  
 ENDED

SEPTEMBER 30,

2018      2017

(Unaudited)

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest	\$51,032	\$23,656
Cash paid for income taxes	\$14,418	\$8,787
Cash received from income tax refund	\$-	\$2,674

NONCASH INVESTING AND FINANCING ACTIVITIES

Fair value of contingent consideration paid in connection with software asset purchase (Note 3)	\$-	\$50,000
Insurance policies financed by short term notes payable	\$76,979	\$68,488
Acquisition of assets under capital lease obligation (Notes 7 and 9)	\$-	\$93,301

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 and conducts operations through its wholly-owned operating subsidiaries 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 is a leading provider of trusted mobility management (TM2) solutions to the government and commercial sectors. The Company’s TM2 solutions are internally hosted and are accessible on-demand through a secure portal that provides its customers with a set of streamlined mobile communications management, identity management, and consulting solutions. The Company’s TM2 framework is a set of state-of-the-art integrated workflow solution that meets Federal Information Security Management Act requirements for data security and other recognized industry compliance certifications related to system processing controls and privacy which enables its customers to focus its valuable resources on managing, analyzing and protecting access to and use of their valuable communication assets. Additionally, the Company’s TM2 platform received an Authorization to Operate by the U.S. Department of Homeland Security (DHS) and the General Service Administration (GSA).

The Company derives a significant amount of its revenues from contracts funded by federal government agencies for which WidePoint’s subsidiaries act in the capacity as the prime contractor, or as a subcontractor. The Company believes that contracts with federal government agencies, will be the primary source of revenues for the foreseeable future. External factors outside of the Company’s control such as delays and/or a changes in government administrations, budgets and other political matters that may impact the timing and commencement of such work and could result in variations in operating results and directly affect the Company’s financial performance. 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.

A significant portion of the Company’s expenses, such as personnel and facilities costs, are fixed in the short term and may be not be easily modified to manage through changes in the Company’s market place that may create pressure on pricing and/or costs to deliver its services.

The Company has periodic capital expense requirements to maintain and upgrade its internal technology infrastructure tied to its hosted solutions and other such costs may be significant when incurred in any given quarter.

2.  
Basis of Presentation and Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements as of September 30, 2018 and for each of the three and nine month periods ended September 30, 2018 and 2017, 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 accounting principles generally accepted in the United States ("U.S. 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, 2017 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. The results of operations for the three and nine month periods ended September 30, 2018 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 condensed 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. There were no significant changes in accounting estimates used by management during the quarter.

## Significant Accounting Policies

There have been no significant changes in the Company's significant accounting policies during the first nine months of 2018 from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 21, 2018, except as further described below under Recently Adopted Accounting Standards.

## Segment Reporting

Our TM2 solution offerings comprise an overall single business from which the Company earns revenues and incurs costs. The Company's TM2 solution 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 14 for detailed information regarding the composition of revenues.

## Accounting Standards Update

### Recently Adopted Accounting Standards

Accounting Standards Codification 606 "Revenue from Contracts with Customers". In May 2014, ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)" was issued. This ASU requires the use of a five-step

methodology to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the ASU requires enhanced disclosure regarding revenue recognition.

The standard permits the use of either the retrospective or cumulative effect transition method (modified retrospective method). The Company adopted the ASU on a modified retrospective transition method on January 1, 2018 and will apply the guidance to the most current period presented in the financial statements issued subsequent to the adoption date. The Company did not record a cumulative adjustment to retained earnings as of January 1, 2018 since the Company was recognizing revenue consistent with the provisions of ASC 606 and any adjustment would have been deemed immaterial. In preparation for adoption of the standard, the Company has implemented internal controls to enable the preparation of financial information and have reached conclusions on key accounting assessments related to the standard, including that accounting for variable consideration is immaterial.





The Company adopted the standard through the application of the portfolio approach and selected a sample of customer contracts to assess under the guidance of the new standard that are characteristically representative of each revenue stream. The Company has completed its review of the sample contracts, and the Company does not anticipate a significant change to the pattern or timing of revenue recognition as a result of adopting the new standard. The Company revised its revenue recognition policy as follows to incorporate the requirements of the new standard.

#### Revenue from Contracts with Customers

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of allowances for returns and any taxes collected from customers, which are subsequently remitted to governmental authorities.

#### Nature of Products and Services

The Company's TM2 solution consists of three broad services as described below:

**Telecom Lifecycle Management Services.** The Company delivers managed services under firm fixed price contracts that include multiple performance obligations. Revenue for managed services are billed on a monthly basis to the end customer by multiplying the contractual fixed price times the base output (e.g. number of units managed, percentage of supplier spend and/or savings, units delivered, certificates issued and/or billable hours). Revenue is accrued based on what the Company expects will be ultimately invoiced. Differences between accrued revenues and actual billed revenues are adjusted in the period that billings are prepared and such differences have not historically been material. Revenue on contingent-fee arrangements are recognized upon customer acceptance of proposed billing. Managed services are not interdependent and there are no undelivered performance obligations in these arrangements.

**Identity Management.** The Company issues digital identity credentialing software certificates to individuals and devices using its own Public Key Infrastructure (PKI) enabled environment. The Company also assists large enterprises with their own certificate programs by PKI-enabling an enterprises environment which allows an enterprise to issue and utilize individual certificates to its employees and contractors in accordance with similar PKI issuance policies and procedures. Certificates issued have a fixed life and cannot be modified or reissued. There are nominal post contract services to maintain issued public and private certificate key pairs issued to individuals and devices. Revenue is recognized from the sales of credentials to an individual or as an enterprise solution upon issuance; provided there are no other additional performance obligations. Revenue from this service does not require significant accounting estimates. Cost of Revenues includes general infrastructure support costs to maintain the continued issuance of credentials.

**Telecom Bill Presentation and Analytics.** The Company offers a proprietary online bill consolidation, bill presentment and data intelligence software solution under a perpetual and Software-as-a-Service license model. Revenue from software licenses that are sold as a perpetual license and do not involve the significant production, modification or customization of the software are recognized when the software is delivered. Where an arrangement to deliver software involves significant production, modification or customization, the software revenue is not recognized until such time as the software has been accepted by the customer. Revenue from software licenses which are sold as term licenses, which do not involve the significant production, modification or customization of the software are recognized evenly over the license term once the software has been delivered. Where an arrangement to deliver

software involves significant production, modification or customization, software sold as a term license is recognized ratably over the license term from the date the software is accepted by the customer. Implementation fees are recognized over the term of the license agreement once the software has been delivered. Maintenance services, if contracted, are recognized ratably over the term of the maintenance agreement, generally twelve months. Revenue from this service does not require significant accounting estimates.



## Significant Judgments

The Company's contracts with customers often include promises to transfer multiple products and services to a customer under a fixed rate or fixed fee arrangement. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Components of our managed service solution are generally distinct performance obligations that are not interdependent and can be completed within a month. The Company's products are generally sold with a right of return and the Company may provide other event driven credits or disincentives for not meeting performance obligations which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available and only to the extent that it is probable that a significant reversal of any incremental revenue will not occur.

## Contract Balances

A significant portion of contract balances represent revenues earned on federal government contracts. Timing of revenue recognition may differ materially from the timing of invoicing to customers due a long-standing practice of issuing a consolidated managed service invoice. A consolidated invoice usually requires data such as billable hours, units managed, credentials issued, accessories sold and usage data from telecommunications providers and other suppliers. As a result it could take between thirty (30) to sixty (60) days after all performance obligations have been met to deliver a complete customer invoice. As a result, the Company may have both accounts receivables (invoiced revenue) and unbilled receivables (revenue recognize but not yet invoiced) that could represent one or more months of revenue. Additionally, the Company may be required under contractual terms to bill for services in advance and deferred recognition of revenue until all performance obligations have been met.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within thirty (30) to ninety (90) days. Government contract billings are generally due within thirty (30) days of the invoice date. Government accounts receivable payments could be delayed due to administrative processing delays by the government agency, continuing budget resolutions that may delay availability of contract funding, and/or administrative only invoice correction requests by contracting officers that may delay payment processing by our government customer. Commercial accounts receivables are billed based on the underlying contract terms and conditions which generally have repayment terms that range from thirty (30) to ninety (90) days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers.

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in uncollected accounts receivable. Customer accounts receivable balances that remain uncollected for more than 45 days are reviewed for collectability and are considered past due after 90 days unless different contractual repayment terms were extended under a contract with a customer. The Company determines its allowance for doubtful accounts after considering factors that could affect collectability of past due accounts receivable and such factors regularly include the customers' financial condition and credit worthiness, recent payment history, type of customer and the length of time accounts receivable are past due. Upon specific review and its determination that a bad debt reserve may be required, the Company will reserve such amount if it views the account as potentially uncollectable. Customer accounts receivable balances that remain uncollected for more than 120 days and/or that have not been settled in accordance with contractual repayment terms and for which no firm payment commitments exist are placed with a third party collection agency and a reserve is established for the entire uncollected balance. The Company writes off accounts receivable after 180 days or earlier when they become uncollectible. Payments subsequently received on

such receivables are credited to the allowance for doubtful accounts. If the accounts receivable has been written off and no allowance for doubtful accounts exist subsequent payments received are credited to bad debt expense as a recovery.



### Costs to Obtain a Contract with a Customer

The Company does not recognize assets from the costs to obtain a contract with a customer and generally expenses these costs as incurred. The Company primarily uses internal labor to manage and oversee the customer acquisition process and to finalize contract terms and conditions and commence customer start-up activities, if any. Internal labor costs would be incurred regardless of the outcome of a contract with a customer and as such those costs are not considered incremental to the cost to obtain a contract with a customer. The Company does not typically incur significant incremental costs to obtain a contract with a customer after such contract has been awarded. Incremental costs to obtain a contract with a customer may include payment of commissions to certain internal and/or external sales agents upon collection of invoiced sales from the customer. The Company does not typically prepay sales commissions in advance of being paid for services delivered.

### Accounting Standards under Evaluation

In February 2016, the FASB issued new accounting guidance on leases. The guidance, effective January 1, 2019, with early adoption permitted, requires virtually all leases to be recognized on the Company's condensed consolidated balance sheets. The Company will adopt the standard effective January 1, 2019. The new guidance currently requires a modified retrospective transition approach, which would cause us to record existing operating leases on the condensed consolidated balance sheets upon adoption and in the comparative period. In January 2018, the FASB released an exposure draft that, if issued in its current form, would provide the Company with the option to adopt the provisions of the new guidance prospectively, without adjusting the comparative periods presented. The Company is currently reviewing its property and equipment leases and evaluating and interpreting the requirements under the guidance, including the available accounting policy elections, in order to determine the impacts on the consolidated financial position, results of operations and cash flows upon adoption.

In January 2017, ASU No. 2017-04, "Simplifying the Test for Goodwill Impairment" was issued. Under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity should apply this ASU on a prospective basis and for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is continuing to evaluate the effect this guidance will have on the consolidated financial statements and related disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718); Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 simplifies the accounting for share-based payments made to nonemployees so the accounting for such payments is substantially the same as those made to employees. Under this ASU, share-based awards to non employees will be measured at fair value on the grant date of the awards, entities will need to assess the probability of satisfying performance conditions if any are present, and awards will continue to be classified according to ASC 718 upon vesting, which eliminates the need to reassess classification upon vesting, consistent with awards granted to employees. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. We do not anticipate this update will have a material effect on our consolidated financial statements.

### 3. Contingent Consideration

On April 30, 2017, the Company entered into an Asset Purchase Agreement with Probaris Technologies, Inc. (“Seller”) and paid approximately \$304,300 to purchase certain commercial identity and authentication software assets (the “Software Assets”). Under the terms of the Asset Purchase Agreement, the Company agreed to pay contingent consideration of \$100,000 to the Seller if the Seller’s sole government customer renewed its license agreement in 2018. The Company principally purchased the Software Assets to ensure that a key component in the delivery of the Company’s identify management solution offering was neither acquired by a competitor nor no longer made available to license. During the nine month period ended September 30, 2018 the Company settled its contingent consideration and paid \$100,000 to the Seller upon renewal of the customer’s annual contract in April 2018.





4.

## Accounts Receivable and Significant Concentrations

A significant portion of the Company's receivables are billed under firm fixed price contracts with agencies of the U.S. federal government and similar pricing structures with several large multinational publicly traded and private corporations. Accounts receivable consist of the following by customer type in the table below as of the periods presented:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
Government	\$5,738,189	\$6,055,397
Commercial	2,381,034	2,183,246
Gross accounts receivable	8,119,223	8,238,643
Less: allowances for doubtful accounts	96,846	107,618
Accounts receivable, net	\$8,022,377	\$8,131,025

## Provision for Doubtful Accounts

For the three and nine month periods ended September 30, 2018, the Company did not recognize any material provisions for bad debt or write-offs of existing provisions for bad debt. For the nine month period ended September 30, 2017, the Company recorded a provision for bad debt of approximately \$31,200 related to a billing dispute with a commercial customer and wrote-off a previously reserved uncollectible customer account of approximately \$274,500.

The Company has not historically maintained a bad debt reserve for its government customers as it has not experienced material or recurring bad debt charges and the nature and size of the contracts has not necessitated the Company's establishment of such a bad debt reserve.

## Significant Concentrations

The following table presents customers that represent ten (10) percent or more of consolidated trade accounts receivable in the current and/or comparative period:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	As a % of	As a % of

Customer Name	Receivables	Receivables
	(Unaudited)	
U.S. Customs Border Patrol	8%	12%
U.S. Immigration and Customs Enforcement	14%	13%
U.S. Federal Air Marshall Service	4%	10%

The following table presents customers that represent ten (10) percent or more of consolidated revenues in the current and/or comparative period:

Customer Name	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	As a % of	As a % of	As a % of	As a % of
	Revenues	Revenues	Revenues	Revenues
	(Unaudited)			
U.S. Immigration and Customs Enforcement	16%	18%	18%	17%
U.S. Customs Border Patrol	15%	9%	11%	11%
U.S. Citizenship and Immigration Services	15%	5%	5%	5%



5.

## Unbilled Accounts Receivable

Unbilled accounts receivable represent revenues earned but not invoiced to the customer at the balance sheet date due to either timing of invoice processing or delays due to fixed contractual billing schedules. A significant portion of our unbilled accounts receivable consist of carrier services and hardware and software products delivered but not invoiced at the end of the reporting period.

The following table presents customers that represent ten (10) percent or more of consolidated unbilled accounts receivable in the current and/or comparative period:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	As a % of	As a % of
Customer Name	Receivables	Receivables
	(Unaudited)	
U.S. Department of Homeland Security Headquarters	13%	11%
U.S. Immigration and Customs Enforcement	30%	27%
U.S. Transportation Safety Administration	12%	12%

6.

## Other Current Assets and Accrued Expenses

Other current assets consisted of the following as of the periods presented below:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
Inventories	\$218,703	\$157,058
Prepaid rent, insurance and other assets	744,946	610,886
Total other current assets	\$963,649	\$767,944

Accrued expenses consisted of the following as of the periods presented below:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
Carrier service costs	\$6,798,020	\$7,339,150
Salaries and payroll taxes	1,229,736	1,259,331
Inventory purchases, consultants and other costs	1,012,029	762,770
Severance costs	1,634	328,109
U.S. income tax payable	11,350	8,850
Foreign income tax payable (receivable)	11,600	(1,860)
Contingent consideration (Note 3)	-	100,000
Total accrued expenses	\$9,064,369	\$9,796,350

7.

#### Property and Equipment

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

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
Computer hardware and software	\$2,042,522	\$1,943,180
Furniture and fixtures	334,984	296,316
Leasehold improvements	253,759	260,748
Automobiles	182,314	188,238
Gross property and equipment	2,813,579	2,688,482
Less: accumulated depreciation and amortization	1,754,793	1,370,062
Property and equipment, net	\$1,058,786	\$1,318,420

During the three and nine month periods ended September 30, 2018 there were other disposals of fully depreciated owned property and equipment with related cost and accumulated depreciation of approximately \$129,000.



During the nine month period ended September 30, 2017, the Company relocated from the Lewis Center Facility to a larger facility in Columbus and abandoned undepreciated building and leasehold improvements with a gross cost and accumulated depreciation of approximately \$282,200 and \$105,500, respectively. The Company recorded within general and administrative expenses a loss on disposal of approximately \$176,700 as a result of the move.

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, 2018 and 2017.

Assets under capital lease included in the table above consisted of the following as of the periods presented below:

	SEPTEMBER 30,	DECEMBER 31,
	2018	2017
	(Unaudited)	
Automobiles	\$97,706	\$100,882
Computer hardware and software	290,223	290,223
Gross leased property and equipment	\$387,929	\$391,105
Less: accumulated amortization	110,539	20,890
Capital lease assets, net	\$277,390	\$370,215

During the nine month period ended September 30, 2018, the Company did not enter into any capital lease arrangements and there were no material sales or disposals of assets under capital leases. During the nine month period ended September 30, 2017, the Company acquired two automobiles under capital lease arrangements and recognized a gross asset of \$93,301. For the nine month period ended September 30, 2017, the Company disposed of two leased automobiles with a net book value of \$47,800 and received gross proceeds of approximately \$51,800. The Company recognized a net gain on disposal of approximately \$4,100.

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

	THREE MONTHS	NINE MONTHS
	ENDED	ENDED
	SEPTEMBER 30,	SEPTEMBER 30,
	2018	2017
	2018	2017

(Unaudited)



Edgar Filing: WIDEPOINT CORP - Form 10-Q

Owned property and equipment depreciation	\$108,600	\$94,200	\$323,200	\$282,000
Leased property and equipment amortization	30,500	6,000	91,300	13,800
Total property and equipment depreciation and amortization	\$139,100	\$100,200	\$414,500	\$295,800

8.

Goodwill and Intangible Assets

The Company has recorded goodwill of \$18,555,578 as of September 30, 2018. There were no changes in the carrying amount of goodwill during the three and nine month periods ended September 30, 2018. There were no indicators of impairment during the three and nine month periods ended September 30, 2018.

The Company has recorded net intangible assets of \$3,284,626, consisting of purchased intangibles and internally developed software used to deliver managed service solutions offered by the Company. For the three and nine month periods ended September 30, 2018, the Company capitalized internally developed software costs of approximately \$78,500 and \$230,100, respectively, related to costs associated with our next generation TDI Optimiser™ application. There were no disposals of intangible assets during the three month period ended September 30, 2018. For the nine month period ended September 30, 2018 there were disposals of fully amortized intangible assets of approximately \$2,374,700. There were no material disposals of intangible assets during the three and nine month periods ended September 30, 2017.

The aggregate amortization expense recorded for the three month periods ended September 30, 2018 and 2017 were approximately \$213,800 and \$276,400, respectively. The aggregate amortization expense recorded for the nine month periods ended September 30, 2018 and 2017 were approximately \$700,400 and \$812,200, respectively. The total weighted remaining average life of all purchased intangible assets and internally developed software costs was approximately 5.8 years and 1.8 years, respectively, at September 30, 2018.



9.

## Line of Credit and Term Debt

## Commercial Loan Agreement Facility

On June 15, 2017, the Company entered into a Loan and Security Agreement with Access National Bank (the “Loan Agreement”). The Loan Agreement provides for a \$5.0 million working capital revolving line of credit. Effective April 30, 2018, the Company entered into a second modification agreement (“Modification Agreement”) with Access National Bank to amend the existing Loan Agreement. The Modification Agreement extended the maturity date of the facility through April 30, 2019 and added an additional financial covenant requiring the Company to maintain consolidated minimum adjusted earnings before interest, taxes, depreciation and amortization, plus share-based compensation, plus non-cash charges (EBITDA) (as defined in the Modification Agreement) of at least two times interest expense to be measured as of the last day of each quarterly period.

The Loan Agreement requires that the Company meet the following financial covenants on a quarterly basis: (i) maintain a minimum adjusted tangible net worth of at least \$2.0 million, (ii) maintain minimum consolidated adjusted EBITDA of at least two times interest expense and (iii) maintain a current ratio of 1.10:1.

The available amount under the working capital line of credit is subject to a borrowing base, which is equal to the lesser of (i) \$5.0 million or (ii) 70% of the net unpaid balance of the Company’s eligible accounts receivable. The interest rate for the working capital line of credit is the Wall Street Journal prime rate plus 1.0%. The facility is secured by a first lien security interest on all of the Company’s personal property, including its accounts receivable, general intangibles, inventory and equipment maintained in the United States. As of September 30, 2018, the Company was eligible to borrow up to \$4.8 million under the borrowing base formula.

## Capital Leases and Other Term Obligations

Capital leases and other term obligations consisted of the following:

	SEPTEMBER 30, 2018			DECEMBER 31, 2017		
	Current	Non-Current	Total	Current	Non-Current	Total
	Portion	Portion		Portion	Portion	
	(Unaudited)			(Unaudited)		
Capital Lease Obligations (1)	\$105,712	\$151,037	\$256,749	\$101,591	\$232,109	\$333,700
Deferred Rent Liability (2)	45,043	64,006	109,049	70,021	78,336	148,357
Short term installment borrowings (3)	62,066	-	62,066	133,250	-	133,250
Total Other Term Obligations	\$107,109	\$64,006	\$171,115	\$203,271	\$78,336	\$281,607
Total Capital Leases and Other Term Obligations	\$212,821	\$215,043		\$304,862	\$310,445	

(1) As more fully described in Note 7, the Company entered into capital leases to acquire computer hardware and software for its client facing infrastructure and two automobiles that expire between 2020 and 2021.

(2) The Company has two long term building lease obligations that contain fixed rent escalations and rent abatements. The Company has recognized a deferred rent liability related to the difference between actual cash rent paid and rent recognized for financial reporting purposes.

(3) The Company annually finances the cost of its commercial liability insurance premiums for a period of less than 12 months.



## Capital Lease Obligations

Minimum lease payments required under capital leases range from \$695 to \$8,900, respectively, and these leases expire in March 2020. The following sets forth the Company's future minimum payment obligations under these capital lease agreements for fiscal years ending September 30 (unaudited):

2018	\$121,951
2019	121,951
2020	36,432
Total principal and interest payments	280,334
Less: portion representing interest	23,585
Present value of minimum lease payments under capital leases	256,749
Less: current portion	105,712
Capital leases, net of current portion	\$151,037

10.  
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, 2018, 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, 2018 or December 31, 2017. 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, 2018, the Company had approximately \$36.7 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 2020 and 2037. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$44.0 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2036. 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.

11.  
Stockholders' Equity

Preferred Stock

There were no issuances of preferred stock during the nine month periods ended September 30, 2018 and 2017.

Common Stock

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. As of September 30, 2018, there were 84,062,446 shares issued (including 980,851 restricted stock awards issued, of which 300,000 were unvested) and 83,762,446 shares of common stock outstanding. There were no shares of common stock issued as a result of the vesting of restricted stock awards (RSA) or stock option exercises during the three month period ended September 30, 2018. The Company issued 102,525 shares of common stock, as a result of the vesting of a portion of RSAs during the three month period ended September 30, 2017. See Note 12 for additional information regarding RSA activity.





There were no shares of common stock issued as a result of stock option exercises during the three month periods ended September 30, 2018 and 2017. Shares of common stock issued as a result of stock option exercises and realized gross proceeds during the nine month period ended September 30, 2018 were 50,000 and \$22,000, respectively. Shares of common stock issued as a result of stock option exercises and realized gross proceeds during the nine month period ended September 30, 2017 were 30,000 and \$17,100, respectively. See Note 12 for additional information regarding the stock incentive plans.

12.

#### Stock Award Programs

The Company's stock incentive plan is administered by the Compensation Committee and authorizes the grant or award of incentive stock options, nonqualified 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 issuance of restricted stock or exercise of stock options. Any shares associated with unvested restricted stock and non-qualified stock options forfeited are added back to the number of shares that underlie stock options to be granted under the stock incentive plan. The Company has issued restricted stock awards and non-qualified stock option awards as described below.

#### Valuation of Stock Awards

The Company estimates the fair value of nonqualified stock awards using a Black-Scholes Option Pricing model ("Black-Scholes model"). The fair value of each stock award is estimated on the date of grant using a Black-Scholes model, which requires an assumption of dividend yield, risk free interest rates, volatility, forfeiture rates and expected option life. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Expected volatilities are based on the historical volatility of our common stock over the expected option term. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. There were 125,000 non-qualified stock option awards granted during the three and nine month periods ended September 30, 2018.

The Company records the fair value of all restricted stock awards based on the grant date fair value and amortizes stock compensation on a straight-line basis over the vesting period. Restricted stock award shares are issued when granted and included in the total number of common shares issued but not included in total common shares outstanding until the vesting requirements have been met. As of September 30, 2018, there were 980,851 shares of restricted stock included in shares issued, of which 300,000 were unvested as of September 30, 2018.

#### Restricted Stock Award Activity

A summary of RSA activity as of September 30, 2018 and 2017, and changes during the nine month periods ended September 30, 2018 and 2017 are set forth below:

	2018	2017
NON-VESTED AWARDS	(Unaudited)	

Non-vested awards outstanding, January 1,	-	250,000
Granted (+)	980,851	(1) 300,000
Cancelled (-)	-	150,000
Vested (-)	680,851	(1) 275,000
Non-vested awards outstanding, September 30,	300,000	125,000
Weighted-average remaining contractual life (in years)	0.8	0.2
Unamortized RSA compensation expense	\$153,418	\$1,090
Aggregate intrinsic value of RSAs non-vested, September 30	\$138,000	\$81,250
Aggregate intrinsic value of RSAs vested, September 30	\$320,000	\$177,750

(1) During the nine month period ended September 30, 2018, the Company granted 980,851 RSAs, of which i) 300,000 of RSAs were awarded as part of additional compensation plan to align key employees with the Company's long term financial goals, and ii) 680,851 were awarded to members of the Company's board of directors as part of their annual board retainer fee and vested during the period.



(2) During the nine month period ended September 30, 2017, the Company granted 300,000 RSAs to its former Chief Executive Officer that had a grant date fair value of approximately \$246,000. The vesting of these RSAs were tied to attainment of certain financial goals as outlined by the Company's Compensation Committee of the Board of Directors. On June 30, 2017, in connection with resignation of our former Chief Executive Officer, the Board of Directors accelerated vesting of 150,000 RSAs and cancelled the remaining unvested RSAs.

(3) During the nine month period ended September 30, 2017, 125,000 RSAs vested upon expiration of the employment agreement between Steve L. Komar and the Company. On January 3, 2017, the Company issued 84,188 shares of the Company's common stock. Mr. Komar received less than 125,000 shares vested because he elected to have 40,812 of such shares withheld in satisfaction of the corresponding tax liability of approximately \$46,000. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the Condensed Consolidated Statements of Cash Flows.

#### Non-Qualified Stock Option Award Activity

A summary of stock option activity as of September 30, 2018 and 2017, and changes during the nine month periods ended September 30, 2018 and 2017 are set forth below:

	2018		2017	
		Weighted		Weighted
		Average		Average
		Grant Date		Grant Date
NON-VESTED AWARDS	Shares	Fair Value	Shares	Fair Value
	(Unaudited)			
Non-vested balances, January 1,	2,685,004	\$0.35	920,000	\$0.59
Granted (+)	125,000	(1) \$0.25	3,440,000	(2) \$0.30
Cancelled (-)	50,000	(3) \$0.32	860,000	(3) \$0.68
Vested/Excercised (-)	312,500	\$0.26	110,000	\$0.69
Non-vested balances, September 30,	2,447,504	\$0.35	3,390,000	\$0.27

2018

2017

OUTSTANDING AND EXERCISABLE AWARDS	Shares	Weighted		Weighted	
		Average		Average	
		Exercise Price	Shares	Exercise Price	Shares
	(Unaudited)				
Awards outstanding, January 1,	4,173,334	\$0.60	2,090,668	\$0.86	
Granted (+)	125,000	(1) \$0.50	3,440,000	(2) \$0.59	
Cancelled (-)	110,000	(3) \$1.11	1,402,334	(3) \$0.97	
Exercised (-)	50,000	(4) \$0.44	30,000	(4) \$0.57	
Awards outstanding, September 30,	4,138,334	\$0.58	4,098,334	\$0.60	
Awards vested and expected to vest, September 30,	3,547,472	\$0.58	3,614,538	\$0.59	
Awards outstanding and exercisable, September 30,	1,690,830	\$0.56	708,334	\$0.73	

(1) During the nine month period ended September 30, 2018, there were NQSO grants of 125,000, as further described below:

Employees. During the nine month period ended September 30, 2018, the Company granted 75,000 non-qualified stock options as part of an additional compensation to align a key employee with the Company's long term financial goals. This stock award grant was valued using a Black-Scholes model that assumed a 3-year vesting period, 5-year option term, a risk free rate of 2.7%, volatility of 66.7%, no assumed dividend yield, and a forfeiture rate estimate of 4.8%.

Non-Employees. During the nine month period ended September 30, 2018, the Company granted 50,000 non-qualified stock options as payment for a portion of the annual retainer paid to its public investor relations firm. This stock award grant was valued using a Black-Scholes model that assumed a 1-year vesting period, 2-year option term, a risk free rate of 2.6%, volatility of 69.5%, no assumed dividend yield, and a forfeiture rate estimate of 10.3%.



(2) During the nine month period ended September 30, 2017, there were NQSO grants of 3,440,000, as further described below:

**Director Grants.** During the nine month period ended September 30, 2017, the Company granted a total of 250,000 non-qualified stock options, of which 50,000 options were granted to each director as part of their annual board retainer fee. This stock award grant was valued using a Black-Scholes model that assumed a 6-month vesting period, 7-year option term, a risk free rate of 2.0%, volatility of 69.6%, no assumed dividend yield, and a forfeiture rate estimate of 4.2%.

**Non-Director Grants.** During the nine month period ended September 30, 2017, the Company granted 3,190,000 non-qualified stock options, of which i) 600,000 non-qualified stock options were granted to its former Chief Executive Officer and valued the award using a Black-Scholes model that assumed a 3-year vesting period, 7-year option term, a risk free rate of 2.1%, volatility of 68.2%, no assumed dividend yield, and a forfeiture rate estimate of 4.6%, and ii) 2,590,000 were granted as part of an additional compensation to align key employees with the Company's long term financial goals and valued the awards using a Black-Scholes model that assumed a 3-year vesting period, 7-year option term, a risk free rate of 2.1%, volatility of 68.2%, no assumed dividend yield, and a forfeiture rate estimate of 4.6%.

(3) During the nine month period ended September 30, 2018, there 110,000 were non-qualified stock options that were cancelled, of which 50,000 were cancelled due to termination of employment and the remainder expired unexercised at the end of the option term. During the nine month period ended September 30, 2017, there were 1,402,334 non-qualified stock options that were cancelled, of which 993,334 were cancelled due to termination of employment, 225,000 were cancelled by the board of directors as part of a compensation plan change, and the remainder expired unexercised at the end of the option term.

(4) The total intrinsic value of stock options exercised during the nine months ended September 30, 2018 and 2017 was approximately \$5,500 and \$9,000, respectively.

The weighted-average remaining contractual life of the non-qualified stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2018 were 3.38 years, 3.38 years and 3.12 years, respectively.

The aggregate intrinsic value associated with options outstanding, vested and expected to vest, and exercisable as of September 30, 2018 was approximately \$15,500, \$13,443 and \$10,250, respectively. Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on September 30, 2018 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, 2018. The intrinsic value will change based on the fair market value of WidePoint's stock.

#### Share-Based Compensation Expense

Share-based compensation (including restricted stock awards) represents both stock options based expense and stock grant expense. The following table sets forth the composition of stock compensation expense included in general and administrative expense for the periods then ended:

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	THREE MONTHS ENDED		NINE MONTHS ENDED	
--	--------------------	--	-------------------	--

	SEPTEMBER 30,		SEPTEMBER 30,	
--	---------------	--	---------------	--

	2018	2017	2018	2017
--	------	------	------	------

(Unaudited)

Restricted stock compensation expense	\$202,664	\$5,447	\$370,582	\$156,768
Non-qualified option stock compensation expense	70,073	(86,490)	222,493	(18,732)
Total share-based compensation before taxes	\$272,737	\$(81,043)	\$593,075	\$138,036





At September 30, 2018, the Company had approximately \$564,777 of total unamortized share-based compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average remaining period of 1.04 years.

13.  
Loss Per Common Share (EPS)

The computations of basic and diluted loss per share were as follows for the periods presented below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	(Unaudited)			

Basic Loss Per Share Computation:

Net loss	\$(110,011)	\$(314,601)	\$(1,044,355)	\$(2,768,993)
Weighted average number of common shares	83,177,804	82,946,847	83,100,832	82,878,287
Basic Loss Per Share	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.03)

Diluted Loss Per Share Computation:

Net loss	\$(110,011)	\$(314,601)	\$(1,044,355)	\$(2,768,993)
Weighted average number of common shares	83,177,804	82,946,847	83,100,832	82,878,287
Incremental shares from assumed conversions of stock options	-	-	-	-
Adjusted weighted average number of common shares	83,177,804	82,946,847	83,100,832	82,878,287
Diluted Loss Per Share	\$(0.00)	\$(0.00)	\$(0.01)	\$(0.03)

The dilutive effect of unexercised stock options and restricted stock awards excludes 4,438,334 and 4,223,334 of options from the computation of loss per share for the three and nine month periods ended September 30, 2018 and 2017, respectively, because inclusion of the options would have been anti-dilutive.



14.

## Revenue from Contracts with Customers

The following table was prepared to provide additional information about the composition of revenues from contracts with customers for the periods presented:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	(Unaudited)			
Carrier Services	\$13,104,865	\$11,245,395	\$36,199,890	\$33,522,669
Managed Services:				
Managed Service Fees	5,729,620	5,295,743	16,709,827	16,859,799
Billable Service Fees	423,858	796,727	1,553,750	2,556,304
Reselling and Other Services	2,036,017	1,126,007	4,454,850	3,017,845
	\$21,294,360	\$18,463,872	\$58,918,317	\$55,956,617

The Company recognized revenues from contracts with customers for the following customer types as set forth below:

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	SEPTEMBER 30,		SEPTEMBER 30,	
	2018	2017	2018	2017
	(Unaudited)			
U.S. Federal Government	\$16,947,681	\$14,379,567	\$45,132,500	\$43,098,730
U.S. State and Local Governments	112,273	134,904	331,801	293,216
Foreign Governments	28,933	48,563	133,855	145,015
Commercial Enterprises	4,205,473	3,900,838	13,320,161	12,419,656
	\$21,294,360	\$18,463,872	\$58,918,317	\$55,956,617

The Company recognized revenues from contracts with customers in the following geographic regions:

## THREE MONTHS ENDED NINE MONTHS ENDED

SEPTEMBER 30, SEPTEMBER 30,

2018 2017 2018 2017

(Unaudited)

North America	\$20,033,557	\$17,342,443	\$55,074,640	\$52,664,719
Europe	1,260,803	1,121,429	3,843,677	3,291,898
	\$21,294,360	\$18,463,872	\$58,918,317	\$55,956,617

15.

## Commitments and Contingencies

## Operating Lease Commitments

In January 2018, the Company entered into a fourth modification (“Modification”) of its Fairfax, VA office lease. The Modification included: i) ten (10) year lease extension through March 31, 2029, ii) leasehold improvement allowances of up to \$535,000 between 2018 and 2021 and iii) an early termination provision in March 2023 with payment of an early termination fee consisting of the landlord's unamortized costs of tenant improvements, real estate brokerage commissions, and six months base rent.

Except as described above, there were no other significant leases amendments or modifications of existing leases during the nine month period ended September 30, 2018.

## Employment Agreements

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

21



## 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 gain market acceptance for our products;
- Our ability to win new contracts and renewals of existing contracts;
- 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 continue to deliver contracted services and products to our existing customers;
- Our ability to sell higher margin services;
- Our ability to borrow funds against our credit facility;
- Our ability to raise additional capital on favorable terms or at all;
- 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, 2017 filed with the SEC on March 21, 2018.

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 trusted mobility solutions (TM2) to the government and commercial sectors. We offer our TM2 solutions through a flexible managed services model which includes both a scalable and comprehensive set of functional capabilities that can be used by any customer to meet most of the common functional, technical and security requirements for mobility management. Our TM2 solutions were designed and implemented with flexibility in mind such that it can accommodate a large variety of customer requirements through simple configuration settings rather than through costly software development. The flexibility of our TM2 solutions enables our customers to be able to quickly expand their mobility capabilities and contract for their mobility management requirements. Our TM2 solutions are hosted and accessible on-demand through a secure proprietary portal that provides our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy federal government compliant identity management solutions that provide secured virtual and physical access to restricted environments.

#### Revenue Mix

Our revenue mix fluctuates due to customer driven factors including: i) timing of technology and accessory refresh requirements from our customers; ii) onboarding of new customers that require carrier services; iii) subsequent decreases in carrier services as we optimize their data and voice usage; iv) delays in delivering products or services; and v) changes in control or leadership of our customers that lengthens our sales cycle, changes in laws or funding, among other circumstances that may unexpectedly change the revenue earned and/or duration of our services. As a result our revenue will vary by quarter.





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, 2017 filed with the SEC on March 21, 2018.

### Strategic Focus and Goals

Our primary strategic focus and goals are centered on developing a steady pipeline of profitable federal and commercial enterprise TM2 sales opportunities to fuel future revenue growth. Our ability to develop a steady pipeline of enterprise level sales opportunities in our industry is heavily dependent upon the relationships we build with key decision makers. We are using a variety of business development strategies to grow our sales pipeline and reach key decision makers such as warm referrals from our customers and business partners, teaming with large system integrators on large enterprise opportunities and seeking out preferred provider status with our customers and partners that can offer our solution to their customer and supplier base. Our ability to successfully close a large enterprise sales opportunity is often heavily influenced by the strength of our relationship with decision makers and others that can influence key decision makers, our ability to ease concerns regarding the perceived switching costs and effort required to replace the incumbent service providers solution, our prospects internal political environment, and potentially our small size despite our strong past performance with large enterprise TM2 solutions.

A secondary strategic focus is centered on our ability to automate and scale our solution to deliver better economies of scale. We are actively evaluating additional workflow automation processes to speed up our service delivery and enable us to better scale our solution delivery without adding a significant amount of additional labor with each new business opportunity. Additionally, acquisitions of competitors, suppliers and/or software assets, coupled with our longer term initiatives to further consolidate, streamline, and focus enhancing core TM2 driven solutions may allow us to further differentiate our capabilities to our customers. We are looking for acquisition targets that will provide vertical integration of our solutions and capabilities, and horizontal integration of our customer base.

The execution of our strategy could require a significant amount of time, expertise and expense by key subject matter experts within our organization. There is also no guarantee that we will be able to successfully execute our strategy or return to profitability in a timely fashion or at all. There may also be a requirement to raise additional capital to fund our strategic plans, which may be on unfavorable terms to us. However, management firmly believes that a focused execution of our short and longer term strategies will put us on the path towards returning to generating positive earnings and cash flow, while also allowing the Company to build critical mass in the future with a more sustainable and improved competitive market position.

### Results of Operations

Three Months Ended September 30, 2018 as Compared to Three Months Ended September 30, 2017

Revenues. Revenues for the three month period ended September 30, 2018 were approximately \$21.3 million, an increase of approximately \$2.8 million (or 15%), as compared to approximately \$18.5 million in 2017. Our mix of revenues for the periods presented is set forth below:

THREE MONTHS ENDED

SEPTEMBER 30,

Dollar

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	2018	2017	Variance
--	------	------	----------

(Unaudited)

Carrier Services	\$13,104,865	\$11,245,395	\$1,859,470
Managed Services:			
Managed Service Fees	5,729,620	5,295,743	433,877
Billable Service Fees	423,858	796,727	(372,869)
Reselling and Other Services	2,036,017	1,126,007	910,010
	\$21,294,360	\$18,463,872	\$2,830,488

Carrier services increased due to additional task orders issued under our U.S. Department of Homeland Security (“DHS”) blanket purchase agreement (“BPA”) for carrier services, including new task orders issued by the U.S. Coast Guard and other existing agencies as compared to the same period last year.



Our managed services revenue increased as compared to last year primarily due to increased purchases of accessories by government agencies ahead of the federal government fiscal year end (which is September 30th), partially offset by our decision to exit unprofitable customer contracts during the fourth quarter of 2017 and to a lesser extent acquisition-related customer attrition that occurred during the fourth quarter of 2017. We expect our managed services fee revenue to expand during the fourth quarter as we fully on board the U.S. Coast Guard, ramp up services delivered through our partnerships with large systems integrators and further expand our services under existing U.S. federal government contracts.

Billable service fee revenue decreased as compared to last year due to our decision during the fourth quarter of 2017 to exit low margin legacy commercial consulting projects. We were able to partially offset the impact of lower commercial billable service fee revenue with the ramp up of services delivered through our partnerships with large systems integrators. We are focusing our subject matter experts on higher margin billable service fee revenue arrangements that extend more than one year at a time.

Reselling and other services increased as compared to last year due to a few large product resales to agencies of the U.S. federal government. Reselling and other services are transactional in nature and as a result the amount and timing of revenue will vary significantly from quarter to quarter.

Cost of Revenues. Cost of revenues for the three month period ended September 30, 2018 was approximately \$17.6 million (or 83% of revenues), as compared to approximately \$15.1 million (or 82% of revenues) in 2017. The dollar and percentage increases were driven by an increase in reselling transactions and higher labor costs to support the U.S. Coast Guard implementation and other billable service fee contracts implemented during the third quarter of 2018. We expect an increase in our cost of revenues as compared prior periods as subject matter experts and support personnel transition from internal administrative projects to support new customer implementations.

Gross Profit. Gross profit for the three month period ended September 30, 2018 was approximately \$3.7 million (or 17% of revenues), as compared to approximately \$3.4 million (or 18% of revenues) in 2017. The dollar increase in gross profit dollars reflects higher margin managed services and to a lesser extent reselling transactions as compared to last year. The decrease in gross profit percentage was due to the size of reselling transactions as compared to last year. Our gross profit percentage will vary from quarter to quarter due to recognition of low margin reselling transactions and expansion of carrier services with our U.S. federal government customers.

Sales and Marketing. Sales and marketing expense for the three month period ended September 30, 2018 was approximately \$0.4 million (or 2% of revenues), as compared to approximately \$0.5 million (or 3% of revenues) in 2017. In 2017, we eliminated ineffective sales and marketing assets and did not rehire additional resources right away and as a result our 2018 sales and marketing costs declined as compared to last year. Since last year we have focused our attention retaining and upselling our current customers, pursuing teaming agreements with large systems integrators on larger opportunities, and partnering with our suppliers to cross sell our services to their existing customers. We are also leveraging sales and marketing resources of our larger partners to jointly market our solutions within their enterprise solution offerings. We may consider a strategic hire or well-connected lead generation firm to strengthen our sales pipeline as we enter fiscal 2019.

General and Administrative. General and administrative expenses for the three month period ended September 30, 2018 were approximately \$3.2 million (or 15% of revenues), as compared to approximately \$3.0 million (or 16% of revenues) in 2017. The dollar increase in general and administrative expense reflects higher than normal stock compensation expense of approximately \$84,400 due to an acceleration of vesting of shares of restricted stock that occurred when the annual shareholder meeting was held in September instead of December.

Product Development. The Company incurred product development activities related to its next generation TDI Optimiser™ application during the three months ended September 30, 2018 and 2017. The Company capitalized product development costs of approximately \$78,500 and \$128,000 during the three month periods ended September 30, 2018 and 2017, respectively. The Company has a mature set of products and services that do not include significant ongoing development activities and as such there could be periods of time where our level of internal and external spending on product development may not be significant. We concluded significant development activities of our TDI Optimiser™ application that qualify for capitalization during the third quarter of 2018.

Depreciation and Amortization. Depreciation and amortization expense for the three month period ended September 30, 2018 was approximately \$104,900 as compared to approximately \$69,900 in 2017. The increase in depreciation and amortization reflects significant increases in our depreciable asset base related to capital leases of approximately \$360,000 recognized during the last quarter of fiscal 2017.



**Interest Income.** Interest income for the three month period ended September 30, 2018 was approximately \$1,000, as compared to approximately \$2,000 in 2017. 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 2017.

**Interest Expense.** Interest expense for the three months ended September 30, 2018 was approximately \$21,600 as compared to approximately \$14,000 in 2017. The increase in interest expense was due to higher debt related to capital leases and line of credit advances and the length of time such advances were outstanding.

**Income Taxes.** Income tax expense for the three month period ended September 30, 2018 was approximately \$24,800, as compared to \$17,200 in 2017. The increase in income tax expense for the three month period ended September 30, 2018 is due to anticipated higher taxable foreign earnings in the Republic of Ireland.

**Net Loss.** As a result of the cumulative factors annotated above, the net loss for the three month period ended September 30, 2018 was approximately \$110,000, as compared to approximately \$314,600 in the same period last year.

**Nine Months Ended September 30, 2018 as Compared to Nine Months Ended September 30, 2017**

**Revenues.** Revenues for the nine month period ended September 30, 2018 were approximately \$58.9 million, an increase of approximately \$2.9 million, as compared to approximately \$56.0 million in 2017. Our mix of revenues for the periods presented is set forth below:

	NINE MONTHS ENDED		
	SEPTEMBER 30,		Dollar
	2018	2017	Variance
	(Unaudited)		
Carrier Services	\$36,199,890	\$33,522,669	\$2,677,221
Managed Services:			
Managed Service Fees	16,709,827	16,859,799	(149,972)
Billable Service Fees	1,553,750	2,556,304	(1,002,554)
Reselling and Other Services	4,454,850	3,017,845	1,437,005
	\$58,918,317	\$55,956,617	\$2,961,700

Carrier services increased due to additional task orders issued under our U.S. Department of Homeland Security (“DHS”) blanket purchase agreement (“BPA”) for carrier services, including new task orders issued by the U.S. Coast Guard and other existing agencies as compared to the same period last year.

Our managed services revenue decreased as compared to last year primarily due to accessories order fulfillment timing differences related to the federal government fiscal year end (which is September 30th), our decision to exit



unprofitable customer contracts during the fourth quarter of 2017 and to a lesser extent acquisition-related customer attrition that occurred during the fourth quarter of 2017.

Billable service fee revenue decreased as compared to last year due to our decision during the fourth quarter of 2017 to exit low margin legacy commercial consulting projects. We were able to partially offset the impact of lower commercial billable service fee revenue with the ramp up of services delivered through our partnerships with large systems integrators.

Reselling and other services increased as compared to last year due to a few large product resales to agencies of the U.S. federal government.



**Cost of Revenues.** Cost of revenues for the nine month period ended September 30, 2018 was approximately \$48.1 million (or 82% of revenues), as compared to approximately \$45.9 million (or 82% of revenues) in 2017. The dollar increase was driven by an increase in reselling transactions and higher labor costs to support the U.S. Coast Guard implementation and other billable service fee contracts implemented during the third quarter of 2018.

**Gross Profit.** Gross profit for the nine month period ended September 30, 2018 was approximately \$10.8 million (or 18% of revenues), as compared to approximately \$10.1 million (or 18% of revenues) in 2017. The increase in gross profit dollars reflects higher margin managed services; and to a lesser extent margins related to reselling transactions as compared to last year.

**Sales and Marketing.** Sales and marketing expense for the nine month period ended September 30, 2018 was approximately \$1.4 million (or 2% of revenues), as compared to approximately \$1.7 million (or 3% of revenues) in 2017. In 2017, we eliminated ineffective sales and marketing assets and did not rehire additional resources right away and as a result our 2018 sales and marketing costs declined as compared to last year.

**General and Administrative.** General and administrative expenses for the nine month period ended September 30, 2018 were approximately \$10.0 million (or 17% of revenues), as compared to approximately \$10.7 million (or 19% of revenues) in 2017. Included in general and administrative expense for the nine month period ended September 30, 2017 were non-recurring expenses of approximately \$0.6 million, which included a \$0.2 million loss on disposal that occurred when the Company relocated its operating facility to Columbus and \$0.4 million in severance paid to our former Chief Executive Officer. Excluding these non-recurring costs our general and administrative expense were slightly lower as compared to last year.

**Product Development.** Product development costs for the nine month period ended September 30, 2018 were approximately \$230,100 which was capitalized. Product development costs for the nine month period ended June 30, 2017 were approximately \$579,800, of which we capitalized approximately \$360,700 in costs associated with our next generation TDI Optimiser™ application.

**Depreciation and Amortization.** Depreciation and amortization expense for the nine month period ended September 30, 2018 was approximately \$312,800 as compared to approximately \$212,700 in 2017. There was an increase in our depreciable asset base during the fourth quarter of 2017 when we entered into a large hardware and software capital lease to efficiently expand the capacity of our TM2 platform infrastructure.

**Interest Income.** Interest income for the nine month period ended September 30, 2018 was approximately \$6,300, as compared to approximately \$11,600 in 2017. Our investable cash balances were lower as compared to last year.

**Interest Expense.** Interest expense for the nine month period ended September 30, 2018 was approximately \$71,500 as compared to approximately \$36,400 in 2017. The increase in interest expense was due to higher debt related to capital leases and line of credit advances and the length of time such advances were outstanding and the interest rate paid. Our line of credit advances were higher than last year due to the way in which our current bank processes line advances.

**Income Taxes.** Income tax expense for the nine month period ended September 30, 2018 was approximately \$45,800 as compared to approximately \$32,700 in 2017. The increase in income tax expense reflects higher taxable foreign earnings in the Republic of Ireland as compared to the same period last year.

**Net Loss.** As a result of the cumulative factors annotated above, the net loss for the nine month period ended September 30, 2018 was approximately \$1.0 million as compared to approximately \$2.8 million in the same period last year.

## Liquidity and Capital Resources

We have, since inception, financed operations and capital expenditures through 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. Our immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Access National Bank for up to \$5.0 million.



At September 30, 2018, our net working capital was approximately \$2.7 million as compared to \$2.5 million at December 31, 2017. The increase in net working capital was primarily due to increased billings to customers during 2018. We must successfully execute our strategic goals and tactically execute our cost savings and new revenue initiatives as described above in order to generate positive cash flows, improve our liquidity position and meet our minimum operating requirements. We will continue to identify additional opportunities for cost savings that can further reduce our fixed operating costs and/or provide us better flexibility to match our cost structure with our revenue streams. We may need to raise additional capital to fund major growth initiatives and/or acquisitions 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. We are actively renegotiating our contracts with customers to improve our cash flow by billing more than once a month, including tiered price increases and charging more for labor intensive services that were previously billed under firm fixed price contracts. Our single largest cash operating expense is the cost of labor and company sponsored healthcare benefit programs. Our second largest cash operating expense is our facility costs and related technology communication costs to support delivery of our services to our customers. We lease most of our facilities under non-cancellable long term contracts that may limit our ability to reduce fixed infrastructure costs in the short term. Any changes to our fixed labor and/or infrastructure costs may require a significant amount of time to take effect depending on the nature of the change made and cash payments to terminate any agreements that have not yet expired. We experience temporary collection timing differences from time to time due to customer invoice processing delays that are often beyond our control.

For the nine months ended September 30, 2018, net cash used in operations was approximately \$0.7 million driven by inventory purchases in September 2018 from international and specialty suppliers that require advance payment for large equipment and accessory orders. We anticipate billing for all equipment and accessory sales when these products are delivered in the fourth quarter of 2018.

For the nine months ended September 30, 2017, net cash used in operations was approximately \$2.6 million driven by current year operating losses and temporary collection timing differences as a result of complicated invoice submission requirements for certain government customers that were ultimately resolved during the third quarter of 2017.

#### Cash Flows from Investing Activities

Cash used in investing activities provides an indication of our long term infrastructure investments. We maintain our own technology infrastructure and may need to make additional purchases of computer hardware, software and other fixed infrastructure assets to ensure our environment is properly maintained and can support our customer obligations. We typically fund purchases of long term infrastructure assets with available cash or capital lease financing agreements.

For the nine months ended September 30, 2018, cash used in investing activities was approximately \$0.4 million and consisted computer hardware and software purchases and capitalized internally developed software costs related to our TDI Optimiser™ solutions.

For the nine months ended September 30, 2017, cash used in investing activities was approximately \$0.6 million and consisted of the purchase of software assets from Probaris Technologies, Inc., computer hardware and software purchases and capitalized internally developed software costs related to our TDI Optimiser™ solutions, partially offset by proceeds receive from the disposal of leased automobiles and proceeds from the sale of real estate assets held for

sale.

#### Cash Flows from Financing Activities

Cash 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, 2018, cash used in financing activities was approximately \$0.2 million and reflects line of credit advances and payments of approximately \$14.0 million, contingent consideration of approximately \$100,000 paid related to our intellectual property acquisition of Probaris ID™ and capital lease principal repayments of approximately \$75,700.

For the nine months ended September 30, 2017, cash provided by financing activities was approximately \$0.4 million and reflects scheduled term debt repayments of approximately \$108,000, restricted stock award tax liability payment of approximately \$60,600, partially offset by proceeds of approximately \$17,100 from the exercise of stock options. The Company was advanced approximately \$11.6 million and repaid approximately \$11.1 million in line of credit advances.

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

For the nine months ended September 30, 2018, the gradual depreciation of the Euro relative to the US dollar decreased the translated value of our foreign cash balances by approximately \$62,600 as compared to last year. For the nine months ended September 30, 2017, the net effect of exchange rate changes increased the translated value of our foreign cash balances by approximately \$173,300 due to appreciation 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, 2017.





#### ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures Under the supervision and with the participation of our management, including our interim chief executive officer and chief financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report on Form 10-Q to ensure information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit is accumulated and communicated to management, including our chief executive officer and interim chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the three month period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II – OTHER INFORMATION

##### ITEM 1 LEGAL PROCEEDINGS

The Company is not currently 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, 2017.

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

None

##### ITEM 3 DEFAULTLT UPON SENIOR SECURITIES

None

##### ITEM 4 MINE SAFETY DISCLOSURES

None

##### ITEM 5 OTHER INFORMATION

None

##### ITEM 6. EXHIBITS

EXHIBIT

NO. DESCRIPTION

31.1

Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

31.2

Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

32

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).

101. Interactive Data Files

101.INS+ XBRL Instance Document

101.SCH+ XBRL Taxonomy Extension Schema Document

101.CAL+ XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF+ XBRL Taxonomy Definition Linkbase Document

101.LAB+ XBRL Taxonomy Extension Label Linkbase Document

101.PRE+ XBRL Taxonomy Extension Presentation Linkbase Document



SIGNATURES

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

WIDEPOINT CORPORATION

Date: November 14, 2018 /s/ JIN H. KANG

Jin H. Kang  
President and Chief Executive Officer

Date: November 14, 2018 /s/ KITO A. MUSSA

Kito A. Mussa  
Chief Financial Officer