

WIDEPOINT CORP
Form 10-Q
November 14, 2008

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

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 000-23967

WIDEPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

52-2040275

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

18W100 22nd Street, Suite 104, Oakbrook Terrace, Ill

60181

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

As of November 12, 2008, 58,090,697 shares of common stock, \$.001 par value per share, were outstanding.

WIDEPOINT CORPORATION

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PART I. FINANCIAL INFORMATION**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.****WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2008	December 31, 2007
	<u> </u>	<u> </u>
<i>Consolidated Balance Sheets</i>		
<i>Assets</i>		
	(unaudited)	
Current assets:		
Cash and cash equivalents	\$ 6,995,762	\$ 1,831,991
Accounts receivable	5,758,662	4,808,832
Prepaid expenses and other assets	223,715	328,539
	<u> </u>	<u> </u>
Total current assets	12,978,139	6,969,362
	<u> </u>	<u> </u>
Property and equipment, net	433,471	435,859
Goodwill	7,357,252	2,526,110
Intangibles, net	3,011,067	1,165,461
Other assets	141,688	167,164
	<u> </u>	<u> </u>
Total assets	\$ 23,921,617	\$ 11,263,956
	<u> </u>	<u> </u>
<i>Liabilities and stockholders' equity</i>		
Current liabilities:		
Short-term borrowings	\$ 2,583,561	\$ --

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	September 30, 2008	December 31, 2007
<i>Consolidated Balance Sheets</i>		
Accounts payable	4,234,056	2,715,180
Accrued expenses	1,443,164	707,886
Deferred revenue	1,887,939	96,674
Short-term portion of capital lease obligation	104,598	118,246
Total current liabilities	10,253,318	3,637,986
Long-term debt, net of current portion	1,239,326	--
Capital lease obligation, net of current portion	88,801	162,976
Total liabilities	11,581,445	3,800,962
Stockholders' equity:		
Common stock, \$0.001 par value; 110,000,000 shares authorized; 58,090,697 and 52,558,697 shares issued and outstanding, respectively	58,091	52,559
Stock warrants	38,666	38,666
Additional paid-in capital	67,120,386	60,873,273
Accumulated deficit	(54,876,971)	(53,501,504)
Total stockholders' equity	12,340,172	7,462,994
Total liabilities and stockholders' equity	\$ 23,921,617	\$ 11,263,956

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(unaudited)			
Revenues, net	\$ 8,878,431	\$ 4,005,463	\$ 25,293,069	\$ 10,146,942
Cost of sales (including amortization and depreciation of \$261,134, \$112,749, \$701,739, and \$332,867, respectively)	7,381,674	2,815,538	21,075,234	7,077,085
Gross profit	1,496,757	1,189,925	4,217,835	3,069,857
Sales and marketing	262,970	208,480	675,501	608,662
General & administrative (including SFAS123 (R) stock compensation expense of \$51,253, \$31,090, \$527,333, and \$117,753, respectively)	1,484,878	799,829	4,642,526	2,675,403
Depreciation expense	41,171	22,599	117,204	59,773
	(292,262)	159,017	(1,217,396)	(273,981)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(Loss) Income from operations				
Interest income	33,713	21,944	105,773	83,942
Interest expense	(76,019)	(2,704)	(262,146)	(8,576)
Other expense	--	--	(1,698)	--
Net (loss) income before income tax	\$ (334,568)	\$ 178,257	\$ (1,375,467)	\$ (198,615)
Income tax benefit, net	--	--	--	--
Net (loss) income	\$ (334,568)	\$ 178,257	\$ (1,375,467)	\$ (198,615)
Basic net (loss) income per share	\$ (0.006)	\$ 0.003	\$ (0.024)	\$ (0.004)
Basic weighted average shares outstanding	58,090,697	52,558,699	56,197,675	52,348,799
Diluted net (loss) income per share	\$ (0.006)	\$ 0.003	\$ (0.024)	\$ (0.004)
Diluted weighted average shares outstanding	58,090,697	57,470,064	56,197,675	52,348,799

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(unaudited)			
Cash flows from operating activities:				
Net (loss) income	\$ (334,568)	\$ 178,257	\$ (1,375,467)	\$ (198,615)
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:				
Depreciation expense	55,421	34,241	158,085	89,318
Amortization expense	246,884	101,107	660,859	303,322
Amortization of deferred financing costs	2,143	--	6,429	--
Stock options expense	51,253	31,090	527,333	117,753
Gain on disposal of equipment	--	--	(2,378)	--
Changes in assets and liabilities				
Accounts receivable	1,198,275	(869,338)	3,262,334	2,537,735
Prepaid expenses and other current assets	259,656	136,795	36,803	139,778
Other assets	6,885	(49,536)	(43,838)	(50,755)
Accounts payable and accrued expenses	870,636	24,488	1,392,750	(2,618,947)

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	Three Months Ended September 30,		Nine Months Ended September 30,	
Net cash provided by (used in) operating activities	\$ 2,356,585	\$ (412,896)	\$ 4,622,910	\$ 319,589
Cashflows from investing activities:				
Purchase of asset/subsidiary, net of cash acquired	(5,878)	--	(4,907,623)	--
Purchase of property and equipment	(9,948)	(6,799)	(73,534)	(135,429)
Software development costs	--	--	--	(63,809)
Net cash used in investing activities	\$ (15,826)	\$ (6,799)	\$ (4,981,157)	\$ (199,238)
Cashflows from financing activities:				
Borrowings on notes payable	--	--	3,837,750	--
Principal payments on notes payable	(123,358)	--	(2,168,298)	--
Principal payments under capital lease obligation	(29,842)	(13,019)	(87,823)	(38,172)
Costs related to registration statement	--	--	--	(29,720)
Proceeds from exercise of stock options	--	--	14,400	34,710
Proceeds from issuance of stock	--	--	4,080,000	--
Costs related to issuance of stock	--	--	(140,298)	--
Costs related to financing purchase of subsidiary	--	--	(13,713)	--
Net cash (used in) provided by financing activities	\$ (153,200)	\$ (13,019)	\$ 5,522,018	\$ (33,182)
Net increase (decrease) in cash	\$ 2,187,559	\$ (432,714)	\$ 5,163,771	\$ 87,169
Cash and cash equivalents, beginning of period	\$ 4,808,203	\$ 3,294,696	\$ 1,831,991	\$ 2,774,813
Cash and cash equivalents, end of period	\$ 6,995,762	\$ 2,861,982	\$ 6,995,762	\$ 2,861,982
Supplementary Information:				
Promissory Note issued for iSYS acquisition	\$ --	\$ --	\$ 2,000,000	\$ --
Noncash investing and financing activity - capital leases for acquisition of property and equipment	--	--	--	16,386
Cash paid for interest	\$ 28,529	\$ 2,704	\$ 110,322	\$ 8,576

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

1. Basis of Presentation, Organization and Nature of Operations

The condensed consolidated balance sheet as of September 30, 2008, the condensed consolidated statements of operations for the three and nine months ended September 30, 2008 and 2007, and the condensed consolidated statements of cash flows for the three and nine months ended September 30, 2008 and 2007 have been prepared by WidePoint Corporation (WidePoint or the Company) and are unaudited. The condensed consolidated balance sheet as of December 31, 2007 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, 2007.

The unaudited condensed consolidated financial statements included herein have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is the opinion of management that all adjustments (which include normal recurring adjustments) necessary for a fair statement of financial results are reflected in the interim periods presented. Accordingly, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007. The results of operations for the three and nine months ended September 30, 2008 are not indicative of the operating results for the full year.

WidePoint is a leading provider of advanced information technology products and services, including identity assurance and information protection management services, forensic informatics and wireless technology services. WidePoint has four operational entities: Operational Research Consultants, Inc. (ORC), iSYS, LLC (iSYS), Protexx Acquisition Corp., and WidePoint IL, Inc. WidePoint enables organizations to deploy fully compliant IT services in accordance with government-mandated regulations and advanced system requirements. In January 2008, we completed the acquisition of iSYS. iSYS specializes in mobile telecommunications expense management services, forensic informatics, and information assurance services predominately to the United States Government. ORC specializes in IT integration and secure authentication processes and software, and providing services to the United States Government. ORC has been at the forefront of implementing Public Key Infrastructure (PKI) technologies. PKI technology uses a class of algorithms in which a user can receive two electronic keys, consisting of a public key and a private key, to encrypt any information and/or communication being transmitted to or from the user within a computer network and between different computer networks. PKI technology is rapidly becoming the technology of choice to enable security services within and between different computer systems utilized by various agencies and departments of the U.S. Government. In July 2008, our wholly-owned subsidiary Protexx Acquisition Corp. acquired the assets and certain liabilities of Protexx, Incorporated, a Delaware corporation (Protexx). Protexx provides identity assurance and data encryption services.

WidePoint was incorporated in Delaware on May 30, 1997. Our staff consists of business and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today s rapidly changing technological environment in business.

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

The Company has physical locations in Oakbrook Terrace, Illinois; Fairfax, Virginia; McLean, Virginia; Chesapeake, Virginia; Deerfield Beach, Florida and Columbus, Ohio. The Company s employees work at various client locations throughout the Mid Atlantic and upper Midwest areas of the United States.

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2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. Actual results could differ from those estimates.

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Reclassifications

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

Cash and Cash Equivalents

Investments purchased with original maturities of three months or less are considered cash equivalents for purposes of these consolidated financial statements. The Company maintains cash and cash equivalents with various major financial institutions. Included in the September 30, 2008 cash balances was approximately \$7.0 million in interest bearing balances in one bank, mostly in excess of federally insured amounts, as compared to approximately \$1.6 million in interest bearing balances in one bank at December 31, 2007.

Accounts Receivable

The majority of the Company's accounts receivable are due from either United States governmental agencies or established companies in the following industries: healthcare, financial services and U.S. Federal government contractors. Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts if deemed necessary. Accounts outstanding longer than the contractual payment terms are reviewed for collectability and after 90 days are considered past due.

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

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

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
For the quarter ended September 30, 2007, Allowance for doubtful accounts	\$ --	\$ 14,400	\$ --	\$ 14,400
For the quarter ended September 30, 2008, Allowance for doubtful accounts	\$ --	\$ 44	\$ 44	\$ --
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Unbilled accounts receivable on time-and-materials contracts represent costs incurred and gross profit recognized near the period-end but not billed until the following period. Unbilled accounts receivable on fixed-price contracts consist of amounts incurred that are not yet billable under contract terms. At September 30, 2008 and December 31, 2007, unbilled accounts receivable totaled \$1,234,895 and \$371,435, respectively.

Revenue Recognition

A portion of the Company's revenues are derived from cost-plus, or time-and-materials contracts. Under cost-plus contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For time-and-material contracts, revenues are computed by multiplying the number of direct labor-hours expended in the performance of the contract by the contract billing rates and adding other billable direct costs. In the event of a termination of a contract, all billed and unbilled amounts associated with those task orders where work has been performed would be billed and collected. The termination provisions of the contract would be accounted for at the time of termination. Any deferred and/or amortization cost would either be billed or expensed depending upon the termination provisions of the contract. Further, the Company has had no material history of losses nor has it identified any material specific risk of loss at September 30, 2008 or on December 31, 2007 due to termination provisions and thus has not recorded provisions for such events.

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

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

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

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

Significant Customers

For the quarter ended September 30, 2008, three customers, the Transportation Security Administration (TSA), the U.S. Department of Homeland Security (DHS), and the Washington Headquarters Services (WHS), an agency of the U.S. Department of Defense (DoD) that provides services for many DoD agencies and organizations, represented approximately 27%, 21%, and 12% of revenues, respectively. Due to the nature of our business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer could have a material adverse effect on results. For the quarter ended September 30, 2007, two customers, the U.S. Government Services Administration (GSA) Aces eOffers Program and Lockheed Martin represented approximately 12% and 11% of revenues, respectively. For the nine-month period ended September 30, 2008, three customers, the TSA, DHS, and WHS represented approximately 26%, 19%, and 12% of revenues, respectively. For the nine-month period ended September 30, 2007, no customers represented over 10% of revenues.

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Fair value of financial instruments

The Company's financial instruments include cash equivalents, accounts receivable, accounts payable, short-term debt, and capital leases. The carrying values of cash equivalents, accounts receivable and accounts payable approximate their fair value because of the short maturity of these instruments. The carrying amounts of the Company's capital leases and bank borrowings under its credit facility approximate fair value because the interest rates are reset periodically to reflect current market rates.

Concentrations of Credit Risk

Financial instruments potentially subject the Company to credit risk, which consist of cash and cash equivalents and accounts receivable. As of September 30, 2008, two customers, the TSA and the DHS, accounted for approximately 21% and 17% of accounts receivable, respectively. As of December 31, 2007, two clients, Headquarters Cryptologic Systems Group (HQ CPSG) and United Space Alliance, represented 24% and 14% of accounts receivable, respectively.