

WIDEPOINT CORP  
Form 10-Q  
November 09, 2007

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, 2007

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.)

One Lincoln Centre, 18W140 Butterfield Road, Suite 1100, 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 X

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 under the Securities Exchange Act of 1934).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of November 6, 2007, 52,558,699 shares of common stock, \$.001 par value per share, were outstanding.

WIDEPOINT CORPORATION

## INDEX

	<u>Page No.</u>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of September 30, 2007 (unaudited) and December 31, 2006 (unaudited)	1
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2007 and 2006 (unaudited)	2
Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2007 and 2006 (unaudited)	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	24
Item 4. Controls and Procedures	25
<b><u>Part II. OTHER INFORMATION</u></b>	
Item 1A. Risk Factors	25
Item 6. Exhibits	26
<b><u>SIGNATURES</u></b>	28
<b><u>CERTIFICATIONS</u></b>	

---

**PART I. FINANCIAL INFORMATION**
**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.**

**WIDEPOINT CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

<i>Consolidated Balance Sheets</i>	September 30,	December 31,
	<b>2007</b>	<b>2006</b>
		(unaudited)
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 2,861,982	\$ 2,774,813
Accounts receivable	3,682,709	6,220,444
Prepaid expenses and other assets	323,591	463,369
	<hr/>	<hr/>
Total current assets	6,868,282	9,458,626
	<hr/>	<hr/>
Property and equipment, net	267,728	205,231
Goodwill	2,526,110	2,526,110
Intangibles, net	1,118,699	1,358,212
Other assets	106,947	56,192
	<hr/>	<hr/>

Edgar Filing: WIDEPOINT CORP - Form 10-Q

Total assets	\$ 10,887,766	\$ 13,604,371
<i>Liabilities and stockholders' equity</i>		
Current liabilities:		
Accounts payable	\$ 1,987,008	\$ 4,364,747
Accrued expenses	909,348	786,842
Deferred revenue	175,730	564,594
Short-term portion of deferred rent	--	3,057
Short-term portion of capital lease obligation	52,725	45,020
Total current liabilities	3,124,811	5,764,260
Capital lease obligation, net of current portion	38,360	67,851
Total liabilities	3,163,171	5,832,111
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 0 and 195,214 shares issued and outstanding, respectively,	--	195
Common stock, \$0.001 par value; 110,000,000 shares authorized; 52,558,699 and 50,494,759 shares issued and outstanding, respectively	52,559	50,495
Stock warrants	38,666	38,666
Additional paid-in capital	60,816,310	60,667,229
Accumulated deficit	(53,182,940)	(52,984,325)
Total stockholders' equity	7,724,595	7,772,260
Total liabilities and stockholders' equity	\$ 10,887,766	\$ 13,604,371

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,	
	2007	2006	2007	2006
	(unaudited)			
Revenues, net	\$ 4,005,463	\$ 3,208,261	\$ 10,146,942	\$ 10,734,027
Cost of sales (including amortization and depreciation of \$112,749, \$102,127, \$332,867, and \$306,090, respectively)	2,873,643	2,327,930	7,262,276	8,322,886
Gross profit	1,131,820	880,331	2,884,666	2,411,141
Sales and marketing	239,248	248,730	685,857	662,121
General & administrative	710,956	845,311	2,413,017	2,473,663
Depreciation expense	22,599	7,202	59,773	20,927

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
Income (Loss) from operations	159,017	(220,912)	(273,981)	(745,570)
Interest income	21,944	29,122	83,942	67,887
Interest expense	(2,704)	(573)	(8,576)	(2,544)
Net income (loss) before income tax	\$ 178,257	\$ (192,363)	\$ (198,615)	\$ (680,227)
Income tax benefit, net	--	--	--	83
Net income (loss)	\$ 178,257	\$ (192,363)	\$ (198,615)	\$ (680,144)
Basic net income (loss) per share	\$ 0.003	\$ (0.004)	\$ (0.004)	\$ (0.015)
Basic weighted average shares outstanding	52,558,699	47,442,123	52,348,799	44,089,874
Diluted net income (loss) per share	\$ 0.003	\$ (0.004)	\$ (0.004)	\$ (0.015)
Diluted weighted average shares outstanding	57,470,064	47,442,123	52,348,799	44,089,874

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
(unaudited)				
Cash flows from operating activities:				
Net income (loss)	\$ 178,257	\$ (192,363)	\$ (198,615)	\$ (680,144)
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:				
Depreciation expense	34,241	8,221	89,318	23,695
Amortization expense	101,107	101,108	303,322	303,322
Stock compensation expense	--	5,625	--	29,094
Stock options expense	31,090	112,236	117,753	265,628
Changes in assets and liabilities				
Accounts receivable	(869,338)	1,732,571	2,537,735	1,016,516

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
Prepaid expenses and other current assets	136,795	67,966	139,778	(10,467)
Other assets	(49,536)	2,274	(50,755)	38,027
Accounts payable and accrued expenses	24,488	(1,649,235)	(2,618,947)	(667,464)
Net cash (used in) provided by operating activities	\$ (412,896)	\$ 188,403	\$ 319,589	\$ 318,207
Cashflows from investing activities:				
Purchase of property and equipment	(6,799)	(20,665)	(135,429)	(35,862)
Software development costs	--	--	(63,809)	--
Net cash used in investing activities	\$ (6,799)	\$ (20,665)	\$ (199,238)	\$ (35,862)
Cashflows from financing activities:				
Principal payments under capital lease obligation	(13,019)	--	(38,172)	--
Costs related to registration statement	--	(40,786)	(29,720)	(372,533)
Proceeds from exercise of stock options	--	36,288	34,710	180,331
Proceeds from exercise of warrants	--	160,000	--	204,571
Costs related to warrant exercise	--	--	--	(166,600)
Net cash (used in) provided by financing activities	\$ (13,019)	\$ 155,502	\$ (33,182)	\$ (154,231)
Net increase (decrease) in cash	\$ (432,714)	\$ 323,240	\$ 87,169	\$ 128,114
Cash and cash equivalents, beginning of period	\$ 3,294,696	\$ 2,331,509	\$ 2,774,813	\$ 2,526,635
Cash and cash equivalents, end of period	\$ 2,861,982	\$ 2,654,749	\$ 2,861,982	\$ 2,654,749
Supplementary Information:				
Liabilities incurred but not yet paid relating to Registration statement	\$ --	\$ 15,570	\$ --	\$ 59,222
Noncash investing and financing activity - capital leases for acquisition of property and equipment	--	--	16,386	--
Cash paid for interest	\$ 2,704	\$ --	\$ 8,576	\$ --

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

WIDEPOINT CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation, Organization and Nature of Operations

The consolidated balance sheet as of September 30, 2007, the consolidated statements of operations for the three and nine months ended September 30, 2007 and September 30, 2006, and the consolidated statements of cash flows for the nine months ended September 30, 2007 and September 30, 2006 have been prepared by the Company and are unaudited. The consolidated balance sheet as of December 31, 2006 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, 2006.

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 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, 2006. The results of operations for the three and nine months ended September 30, 2007 are not indicative of the operating results for the full year.

WidePoint Corporation ( "WidePoint" or the "Company" ) is a technology-based provider of products and services to both the government sector and commercial markets. We specialize in providing systems engineering, information technology services and information assurance in the form of identity management services. Our subsidiary, Operational Research Consultants, Inc. (ORC), is a leading provider of E-Authentication federal credential and federal compliant Public Key Infrastructure (PKI) managed services to the federal government. We intend to grow over the next few years through a combination of organic growth, the acquiring of selective strategic assets or acquisitions, and by operational efficiencies among our subsidiaries.

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. Our organization emphasizes an intense commitment to our people, our customers, and the quality of our solutions offerings. As a services organization, our customers are our primary focus. We have developed thorough, comprehensive policies, procedures and controls to mitigate the threat, or potential threat, of intentional, unintentional, physical, natural or electronic compromise or disruption of any portion of our systems or services. The talent and technology are available, and the resident expertise is well-versed in working together, to ensure goals are achieved quickly and seamlessly. Contract agreements are already in place and a substantive reference base with an assortment of federal agencies is available.

On October 25, 2004, we completed the acquisition of ORC. 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 PKI technologies. 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. Based on asymmetric key cryptography, 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. The user provides his or her public key to any and all desired persons or entities. The user does not share the private key with anyone else. The public key will encrypt all information and/or communication from any sender and the private key will allow only the holder of the private key to unlock and decrypt such information and/or communication. Thus, the algorithms used in PKI technologies help to achieve authentication of users and information, integrity of all data and communications, non-repudiation or rejection of data and communications, and support confidentiality of data and communications. PKI also speeds up and simplifies the delivery of products and services by providing electronic approaches to processes that historically have been paper based. These electronic solutions depend on PKI for identification and authentication; data integrity; confidentiality of information and transactions; and non-repudiation to facilitate mission-related transactions internal to an organization and with external organizations. ORC is authorized to issue all permissible certificate types and services in accordance with Defense Information Systems Agency and National Security Agency standards, necessary for the interoperable, secure exchange of information between U.S. Governmental agencies, contractors, and international allies such as members of NATO.

4

---

In 2005 and 2006, WidePoint focused on the consolidation of its recent acquisition of ORC, accelerating the rollout of the ORC E-Authentication and PKI identity management initiatives, and continuing to implement our project based enterprise strategy, emphasizing our industry-wide best practices disciplines. With the addition of the customer base and the increase in revenues attributable to the ORC acquisition, WidePoint's opportunity to leverage and expand further into the federal marketplace has improved dramatically. ORC's past client successes, top facility security clearances, security personnel expertise, and additional breadth of management talent have expanded our reach into markets that previously were not accessible to WidePoint. We intend to continue to market and sell our technical capabilities into the governmental and commercial marketplace. 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 and our internal growth initiatives.

The Company has physical locations in Oakbrook Terrace, Illinois; Fairfax, Virginia; Alexandria, Virginia; and Chesapeake, Virginia. The Company's employees work at various client locations throughout the upper Midwest, Texas, and Mid Atlantic areas of the United States.

## 2. Significant Accounting Policies

### *Principles of Consolidation*

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

### *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.

### *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, 2007 cash balances was \$1,917,458 in interest bearing balances in one bank, mostly in excess of federally insured amounts, as compared to \$1,924,324 in interest bearing balances in one bank for December 31, 2006. The Company places its temporary cash investments with high credit-quality financial institutions, and as a result, the Company believes that no significant credit risk exists with respect to these cash investments.

### *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: manufacturing, healthcare, financial services and United States 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.

5

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.

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
For the quarter ended September 30, 2006,				
Allowance for doubtful accounts	\$ --	\$ 20,000	\$ 20,000	\$ --
For the quarter ended September 30, 2007,				
Allowance for doubtful accounts	\$ --	\$ 14,400	\$ --	\$ 14,400

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, 2007 and December 31, 2006, unbilled accounts receivable totaled \$529,848 and \$354,123, respectively.

### *Revenue Recognition*

The majority 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

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

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, 2007 or on December 31, 2006 due to termination provisions and thus has not recorded provisions for such events.

The Company's other 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 collectibility is probable.

### *Significant Customers*

For the quarter ended September 30, 2007, two customers, the GSA Aces eOffers Program and Lockheed Martin represented approximately 12% and 11% 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, 2006, no customer represented over 10% of revenues. For the nine-month period ended September 30, 2007 no customers represented over 10% of revenues. For the nine-month period ended September 30, 2006, one customer, the FSS HQ CPSG represented approximately 18% of revenues.

### *Fair value of financial instruments*

The Company's financial instruments include cash equivalents, accounts receivable, accounts payable, and short-term debt, capital leases and other financial instruments associated with the issuance of the common stock warrants attributable to the preferred stock capital investment in the Company in October of 2004. 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.

6

---

### *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, 2007, two customers, Lockheed Martin and GSA/FEDERAL ACQUISITION, accounted for approximately 17% and 10% of accounts receivable, respectively. As of December 31, 2006, one customer, Headquarters Cryptologic Systems Group (HQ CPSG), represented 54% of accounts receivable.

### *Income Taxes*

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 109, Accounting for Income Taxes. Under SFAS No.109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has also adopted the provisions of Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. An interpretation of FASB Statement No. 109.

### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Property and equipment consisted of the following:

	<u>September 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
Automobiles, computers, equipment and software	\$ 453,655	\$ 301,840
Less- Accumulated depreciation and amortization	(185,927)	\$ (96,609)
	<u>\$ 267,728</u>	<u>\$ 205,231</u>



## Edgar Filing: WIDEPOINT CORP - Form 10-Q

Depreciation expense is computed using the straight-line method over the estimated useful lives of between two and five years depending upon the classification of the property and/or equipment.

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes costs related to software and implementation in connection with its internal use software systems.

### *Software Development Costs*

WidePoint accounts for software development costs related to software products for sale, lease or otherwise marketed in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. For projects fully funded by the Company, significant development costs are capitalized from the point of demonstrated technological feasibility until the point in time that the product is available for general release to customers. Once the product is available for general release, capitalized costs are amortized based on units sold, or on a straight-line basis over a six-year period or other such shorter period as may be required. WidePoint recorded approximately \$14,000 of amortization expense for PKI-I and \$31,000 for PKI-II for the three month period ended September 30, 2007. WidePoint recorded approximately \$183,000 of amortization expense for PKI-I and PKI-II for the year ended December 31, 2006. Capitalized software costs included in Other Intangibles at September 30, 2007 and December 31, 2006 were approximately \$0.7 million and \$0.7 million, respectively. The Company also initiated PKI-III to attain an Authority to Operate ( ATO ) under the guidelines associated with our ACES certificates. WidePoint recorded no accumulated costs for the three month period ended September 30, 2007, and approximately \$64,000 in the nine month period ended September 30, 2007. We estimate that we will record another approximately \$45,000 prior to issuance of the ATO during the first quarter of 2008 at which time we will commence amortizing the ATO over an approximate three year life.

7

---

### *Goodwill, Other Intangible Assets, and Long-Lived Assets*

Goodwill represents costs in excess of fair values assigned to the underlying net assets acquired. The Company has adopted the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. These standards require the use of the purchase method of accounting for business combinations, set forth the accounting for the initial recognition of acquired intangible assets and goodwill and describe the accounting for intangible assets and goodwill subsequent to initial recognition. Under the provisions of these standards, goodwill is not subject to amortization and annual review is required for impairment. The impairment test under SFAS No. 142 is based on a two-step process involving (i) comparing the estimated fair value of the related reporting unit to its net book value and (ii) comparing the estimated implied fair value of goodwill to its carrying value. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. The Company's annual impairment testing date is December 31.

The Company recognizes an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their useful lives. Impairment losses are recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

The Company reviews its long-lived assets, including property and equipment, identifiable intangibles, and goodwill annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets.

### *Basic and Diluted Net Earnings (Loss) Per Share*

Basic earnings or loss per share includes no dilution and is computed by dividing net earnings or loss by the weighted-average number of common shares outstanding for the period. Diluted earnings or loss per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The treasury stock effect of the conversion of options and warrants to purchase 4,911,366 shares of common stock outstanding for the three months ended September 30, 2007, has been included in the calculation of the diluted net income per share. This excludes 183,000 options which option exercise price exceeds the average price per share during the period. The inclusion of the conversion of preferred stock, outstanding options and warrants to purchase 5,726,519 and 13,987,482 shares, respectively, for the nine months ended September 30, 2007 and 2006 has not been included in the calculation of the net loss per share as such effect would have been anti-dilutive. The inclusion of the conversion of preferred stock, outstanding options and warrants to purchase 10,696,100 shares for the three month period ending September 30, 2006 has not been included in the calculation of the net loss per share as such effect would have been anti-dilutive. As a result of these items, the basic and diluted net loss per share for the three month period ending September 30, 2006 and the nine month periods ended September 30, 2007 and 2006, respectively, are presented as identical.

## 2. Significant Accounting Policies

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

### Stock-based compensation

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), Share-Based Payment, ( SFAS No. 123R ). This statement requires that the costs of employee share-based payments be measured at fair value on the awards grant date and recognized in the financial statements over the requisite service period.

8

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123, as originally issued. All new awards that are modified, repurchased, or cancelled after the adoption date are accounted for under provisions of SFAS No. 123R. Prior periods have not been restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur, which was the Company's practice prior to the adoption of SFAS 123R. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not material.

The amount of compensation expense recognized under SFAS 123(R) during the three and nine month periods ended September 30, 2007 and 2006, respectively, under our plans was comprised of the following:

	Three Months ended September 30		Nine Months ended September 30	
	2007	2006	2007	2006
General and administrative expense	\$ 31,090	\$ 112,236	\$ 117,753	\$ 265,628
Share-based compensation before taxes	31,090	112,236	117,753	265,628
Share-based compensation expense	\$ 31,090	\$ 112,236	\$ 117,753	\$ 265,628
Net share-based compensation expenses per basic and diluted common share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.01

Since we have cumulative operating losses as of September 30, 2007 for which a valuation allowance has been established, we recorded no income tax benefits for share-based compensation arrangements. Additionally, no incremental tax benefits were recognized from stock options exercised during the quarter ended September 30, 2007, which would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model ( Black-Scholes model ) that uses the assumptions of no dividend yield, risk free interest rates of between 2.70% and 4.83%, volatility of between 156% to 57%, and expected life in years of approximately 4 years. Expected volatilities are based on the historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. 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. Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. The estimated forfeiture rates are based on analyses of historical data, taking into account patterns of involuntary termination and other factors. A summary of the option activity under our plans during the three and nine month period ended September 30, 2007 and September 30, 2006 is presented below:

9

	# of Shares	Weighted average Grant date fair value per share
<u>OUTSTANDING AND NON -VESTED</u>	753,477	\$0.67

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	# of Shares	Weighted average Grant date fair value per share
Non-vested at January 1, 2007		
Granted	--	--
Vested	323,183	\$0.58
Forfeited	29,250	\$0.43
Non-vested at March 31, 2007		
Granted	--	--
Vested	--	--
Non-vested at June 30, 2007		
Granted	124,000	\$0.58
Vested	68,000	\$0.63
Non-vested at September 30, 2007		
	457,044	\$0.73
<b><u>OUTSTANDING AND EXERCISABLE</u></b>		
Total outstanding at January 1, 2007		
	7,103,261	\$0.36
Issued	--	--
Cancelled	30,250	\$0.48
Exercised	75,800	\$0.34
Total outstanding at March 31, 2007		
	6,997,211	\$0.36
Total exercisable at March 31, 2007		
	6,596,167	\$0.32
Issued	--	--
Cancelled	--	--
Exercised	36,000	\$0.24
Total outstanding at June 30, 2007		
	6,961,211	\$0.36
Total exercisable at June 30, 2007		
	6,560,167	\$0.32
Issued	124,000	\$0.58
Cancelled	--	--
Exercised	--	--
Total outstanding at September 30, 2007		
	7,085,211	\$0.37
Total exercisable at September 30, 2007		
	6,628,167	\$0.32

The aggregate remaining contractual lives in years for the options outstanding and exercisable on September 30, 2007 were 3.64 and 3.32, respectively.

Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on September 30, 2007 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, 2007. This amount changes based on the fair market value of WidePoint's stock. The total intrinsic value of options outstanding as of September 30, 2007 was \$3,309,160. The total intrinsic value of options exercisable on September 30, 2007 was \$3,290,995. The total intrinsic value of options exercised for the third quarter of fiscal 2007 was \$0. The Company issues new shares of common stock upon the exercise of stock options.

At September 30, 2007, 4,884,738 shares were available for future grants under the Company's 1997 Stock Compensation Plans. This includes options for 1,012,150 shares previously issued and cancelled under the Company's 1997 Stock Compensation Plans. This does not include 3,999,999 warrants granted and vested to members of the senior management team that were not issued under the Company's 1997 Stock Compensation Plans.

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

At September 30, 2007, the Company had approximately \$318,000 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 3.64 years.

10

---

### Recent Accounting Pronouncements

In June 2006, the Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue No. 06-03 ( EITF 06-03 ), How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation). EITF 06-03 provides that the presentation of taxes assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer on either a gross basis (included in revenues and costs) or on a net basis (excluded from revenues) is an accounting policy decision that should be disclosed. The provisions of EITF 06-03 became effective as of December 31, 2006. Our adoption of EITF 06-03 has not and is not expected to have a material effect on our consolidated financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to any new circumstances. This standard also will require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for fiscal 2009. We are currently evaluating the potential impact this standard may have on its financial position and results of operations.

On February 15, 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). Under this Standard, we may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex provisions of SFAS No. 133 hedge accounting are not met. SFAS No. 159 is effective for years beginning after November 15, 2007. Early adoption within 120 days of the beginning of the company's 2008 fiscal year is permissible, provided the company has not yet issued interim financial statement for 2008 and has adopted SFAS No. 157. Management is currently evaluating the potential impact of adopting this Standard.

### 3. Debt

The Company entered into a senior lending agreement with Cardinal Bank on August 16, 2007. The senior lending agreement has a maturity date of September 1, 2008. The Agreement provides for a \$2 million revolving credit facility. Borrowings under the Agreement are collateralized by the Company's eligible contract receivables, inventory, all of its stock in certain of its subsidiaries and certain property and equipment, and bear interest at the prime rate minus .25%. The credit facility contains specific financial covenants related to working capital levels and consolidated net worth.

### 4. Goodwill and Intangible Assets

Effective January 1, 2002, WidePoint adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. Under SFAS 142, goodwill is to be reviewed at least annually for impairment; the Company has elected to perform this review annually on December 31<sup>st</sup> of each calendar year. These reviews have resulted in no adjustments in goodwill.

During 2004, WidePoint completed the acquisition of Operational Research Consultants, Inc. ( ORC ). The Company has also capitalized software development costs associated with its PKI initiative, established the purchase price allocation of the assets acquired and allocated the purchase price of the components and software capitalization of goodwill and other intangibles as follows:

11

---

Amortized Intangible Assets	As of September 30, 2007	
	Gross Carrying Amount	Accumulated Amortization

---

(1) ORC Intangible (Includes customer relationships and PKI business)

### 4. Goodwill and Intangible Assets

12

Edgar Filing: WIDEPOINT CORP - Form 10-Q

	opportunity purchase accounting preliminary valuations)	\$ 1,145,523	\$ (644,811)
(2)	PKI-I Intangible (Related to internally generated software)	\$ 334,672	\$ (169,761)
(3)	PKI-II Intangible (Related to internally generated software)	\$ 649,991	\$ (260,724)
(4)	PKI-III Intangible (Related to internally generated software)	\$ 63,809	--
	Total	\$ 2,193,995	\$(1,075,296)
<b>Aggregate Amortization Expense:</b>			
	For quarter ended 9/30/07	\$ 101,107	
<b>Estimated Amortization Expense:</b>			
	For year ended 12/31/07	\$ 415,763	
	For year ended 12/31/08	\$ 438,430	
	For year ended 12/31/09	\$ 408,272	
	For year ended 12/31/10	\$ 197,747	

- (1) The ORC intangible is made up of the estimated preliminary purchase accounting associated with the valuation assigned by the Company to ORC's customer relationships and PKI business opportunity. The PKI business opportunity intangible has an estimated life of 6 years and ORC's customer relationships have an estimated life of 5 years. The PKI business opportunity was estimated based upon the contractual life assigned to the authority to issue PKI certificates by the federal government. The fair value of the PKI business opportunity was estimated using the expected present value of future cash flows estimated by the Company for ORC's PKI business opportunity. ORC's customer relationship intangible was estimated based upon an analysis of the historic life of ORC's present customer relationships and their present contract opportunities. A fair value was estimated using the expected present value of the estimated future cash flows generated from those relationships. The weighted average life of this intangible asset class is 3.5 years.
- (2) The PKI-I intangible is related to internally generated software that was associated with ORC's PKI-I development of its phase 1 software offerings. ORC commenced sales of its PKI-I service in August of 2004. It has a weighted average life of 3.5 years and is based upon the contractual life assigned to the authority to issue PKI certificates by the federal government.
- (3) The PKI-II intangible is related to a secondary PKI software development effort by ORC. ORC commenced sales of its PKI-II service in August of 2005. It has a weighted average life of 3.5 years and is based upon the contractual life assigned to the authority to issue PKI certificates by the federal government.

12

- (4) The PKI-III intangible is related to an additional PKI software development by ORC to attain an Authority To Operate (ATO) under the guidelines associated with ACES certificates that will be issued under a General Service Administration (GSA) credential program. It is estimated that we will accumulate approximately \$110,000 in cost through the 1<sup>st</sup> quarter of 2008 prior to the issuance by the GSA of an ATO to ORC allowing them to issue ACES certificates for a 3 year period. Upon issuance of the ATO, ORC will amortize the accumulated costs over a weighted average life of 3 years to operate under the new ATO to issue ACES Certificates.

The total weighted average life of all of the intangibles is approximately 3.5 years.

#### 4. Goodwill and Intangible Assets

13

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

There were no amounts of research and development assets acquired during the quarter ended September 30, 2007 nor any written-off in the period.

There were no changes in the carrying amount of goodwill for the quarter ended September 30, 2007.

The goodwill acquired is associated with the acquisition of ORC in October of 2004. No impairment was required as of September 30, 2007.

### 5. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No.109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has further adopted the provisions of Interpretation No. 48 ( FIN 48 ), Accounting for Uncertainty in Income Taxes. An interpretation of FASB Statement No. 109. As required by FIN 48, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company has determined that its net deferred tax asset did not satisfy the recognition criteria set forth in SFAS No. 109 and, accordingly, established a valuation allowance for 100 percent of the net deferred tax asset, less the deferred liability related to the Section 481(a) adjustment.

As of September 30, 2007, the Company had net operating loss carry forwards of approximately \$21 million to offset future taxable income. These carry forwards expire between 2010 and 2026. Under the provisions of the Tax Reform Act of 1986, when there has been a change in an entity's ownership of 50 percent or greater, utilization of net operating loss carry forwards may be limited. As a result of WidePoint's equity transactions, the Company's net operating losses will be subject to such limitations and may not be available to offset future income for tax purposes. Upon review and analysis by the Company, we have concluded that no FIN 48 effects are present as of September 30, 2007 and our tax position has not materially changed since December 31, 2006.

### 6. Stockholders' Equity

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. During the quarter ended September 30, 2007, no shares of common stock were issued as the result of the exercise of employee stock options. As of September 30, 2007, there were 52,558,699 shares of common stock outstanding.

#### *Preferred Stock*

Our certificate of incorporation authorizes the Company to issue up to 10,000,000 shares of preferred stock, \$0.001 par value per share, of which no shares and 195,214 shares were outstanding at September 30, 2007 and December 31, 2006, respectively. Preferred stock of 195,214 shares was converted during the quarter ended March 31, 2007 into 1,952,140 shares of Common Stock.

13

---

#### *Common Stock*

On October 25, 2004, WidePoint completed the acquisition of Operational Research Consultants, Inc., or ORC, a privately held IT and engineering firm providing mission-critical sensitive and strategic information security solutions to the United States Government. Pursuant to the terms of a Purchase Agreement entered into on October 25, 2004, between the Company and the ORC shareholders, the Company issued 5,555,556 common shares of the Company's stock and placed it into an escrow to be released to the ORC shareholders in the event they attained certain performance parameters in 2004 and 2005. As of December 31, 2005, no common shares were earned and the 5,555,556 shares were returned to the Company and cancelled during the second quarter of 2006.

On April 30, 2004, the Company closed upon the acquisition of all the issued and outstanding shares of Chesapeake Government Technologies, Inc. ( Chesapeake ), pursuant to the terms of an Agreement and Plan of Merger, dated as of March 24, 2004. This transaction was accounted for as a consulting arrangement because Chesapeake did not meet the definition of a business under FAS 141. WidePoint issued 4,082,980 shares of its common stock to stockholders of Chesapeake in consideration for all of the issued and outstanding shares of Chesapeake owned by them. In conjunction with this closing, the Chesapeake stockholders also entered into an escrow agreement and deposited 3,266,384 shares of the 4,082,980 newly issued shares of WidePoint common stock into escrow. The 3,266,384 shares of common stock placed into escrow were not recorded in equity at the time of the acquisition and were only to be released to the Chesapeake shareholders in the event of the satisfaction of

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

certain conditions set forth in the merger agreement, which provided that during the period commencing after the closing of the merger and ending on December 31, 2005, the 3,266,384 shares of common stock would be released to the Chesapeake shareholders in a ratio based on the amount of revenues actually received by the Company from the business acquired as a result of activities originated and consummated by Chesapeake. The December 31, 2005 escrow expiration date could have been extended for one additional year in the event that it was determined that Chesapeake had achieved certain performance levels in the latter part of 2005, which did not occur. All shares earned were charged to expense through December 31, 2006. Of the 3,266,384 shares of common stock held in escrow, 816,596 and 1,905,390 were released in 2005 and 2006, respectively, with the 544,398 remaining shares cancelled in 2006.

### *Stock Warrants*

On November 1, 2005, the Company issued a warrant to purchase 54,878 shares of common stock at a price of \$0.80 per share to Hawk Associates as part of a consulting agreement in which Hawk Associates agreed to act as the Company's investor relations representative. The warrant has a term of 5 years. We are accounting for this award in accordance with EITF 96-18.

On October 27, 2004 and November 22, 2004, the Company issued two warrants to purchase 30,612 shares and 5,556 shares of common stock at a price of \$0.49 and \$0.45 per share, respectively, to Liberty Capitol as part of a consulting agreement in which Liberty Capitol assisted the Company in arranging its senior debt financing with RBC-Centura Bank. The warrants have a term of 5 years. The Company used a fair-value option pricing model to value these stock warrants at approximately \$14,291. This value has been reflected as part of stock warrants in the stockholders' equity section of the consolidated balance sheet.

### **7. Segment reporting**

Segments are defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*, as components of a company in which separate financial information is available and is evaluated by the chief operating decision maker, or a decision making group, in deciding how to allocate resources and in assessing performance.

During 1998, the Company adopted SFAS No. 131 and until December 31, 2005 the Company was comprised of a single segment, which was comprised of our consulting services segment within our Commercial and Federal Government Marketplaces. As of January 1, 2006, the Company added a second segment, which consists of PKI credentialing and managed services. The PKI credentialing and managed services segment provides PKI credentialing and managed services to United States federal agencies and federal contractors as a result of regulatory compliance requirements.

14

---

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, all office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology and company-wide business development functions, as well as costs related to overall corporate management.

The following table presents information about reported segments along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements:

	<b>Three Months Ended September 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Consulting services:</b>		
Revenues	\$ 2,690,653	\$ 2,963,423
Operating income	138,932	213,219
Total assets	4,213,943	2,498,462
<b>PKI Credentialing and Managed Services</b>		
Revenues	\$ 1,314,810	\$ 244,838
Operating income (loss) (includes amortization expense of \$45,838 and \$45,838, respectively)	293,882	(31,155)
Total assets	1,409,408	1,164,745

	<b>Three Months Ended September 30</b>	
	<hr/>	
<b>Total Company</b>		
Revenues	\$ 4,005,463	\$ 3,208,261
Operating income (loss)	181,616 <sup>(1)</sup>	(213,710) <sup>(2)</sup>
Depreciation expense	22,599	7,202
Interest income (expense), net	19,240	28,549
Income tax benefit	--	--
Net income (loss)	\$ 178,257	\$ (192,363)
Total Corporate assets	\$ 5,264,415	\$ 5,802,968
Total assets	\$ 10,887,766	\$ 9,466,175

(1) Includes \$55,269 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$195,929 in unallocated corporate costs in general and administrative expense.

(2) Includes \$55,270 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$340,504 in unallocated corporate costs in general and administrative expense.

	<b>Nine Months Ended September 30</b>	
	<hr/>	
	<b>2007</b>	<b>2006</b>
	<hr/>	<hr/>
<b>Consulting services:</b>		
Revenues	\$ 7,336,466	\$ 10,064,850
Operating income	120,226	421,834
Total assets	4,213,943	2,498,462
<b>PKI Credentialing and Managed Services</b>		
Revenues	\$ 2,810,476	\$ 669,177
Operating income (loss) (includes amortization expense of \$137,514 and \$137,514, respectively)	563,717	(168,763)
Total assets	1,409,408	1,164,745
<b>Total Company</b>		
Revenues	\$ 10,146,942	\$ 10,734,027
Operating loss	214,208 <sup>(1)</sup>	724,643 <sup>(2)</sup>
Depreciation expense	59,773	20,927
Interest income, net	75,366	65,343
Income tax benefit	--	83
Net loss	\$ 198,615	\$ 680,144
Total Corporate assets	\$ 5,264,415	\$ 5,802,968
Total assets	\$ 10,887,766	\$ 9,466,175

(1) Includes \$165,808 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$732,343 in unallocated corporate costs in general and administrative expense.



(2) Includes \$165,809 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$811,905 in unallocated corporate costs in general and administrative expense.

## 8. Litigation

The Company is not involved in any material legal proceedings.

## 9. Subsequent Events

On November 5, 2007 the Company entered into several agreements with Protexx, Inc. allowing for a short-term borrowing facility of up to \$100,000 between November 5, 2007 and January 2, 2008. The borrowing facility is fully collateralized against all of the assets of Protexx, Inc. As of November 5, 2007 Protexx had drawn down \$30,000 against the credit facility.

---

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

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and the notes thereto which appear elsewhere in this quarterly report and the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The information set forth below includes forward-looking statements. Certain factors that could cause results to differ materially from those projected in the forward-looking statements are set forth below. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

### Overview

WidePoint Corporation ( WidePoint or the Company ) is a technology-based provider of products and services to both the government sector and commercial markets. We specialize in providing systems engineering, information technology services and information assurance in the form of identity management services. Our subsidiary, Operational Research Consultants, Inc. ( ORC ), is the leading provider of E-Authentication federal credentialing and federal compliant Public Key Infrastructure ( PKI ) managed services to the federal government. We intend to grow over the next few years through a combination of organic growth, the acquiring of selective strategic assets and by operational efficiencies among our subsidiaries.

On October 25, 2004, we completed the acquisition of ORC. 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 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. Based on asymmetric key cryptography, 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. The user provides his or her public key to any and all desired persons or entities. The user does not share the private key with anyone else. The public key will encrypt all information and/or communication from any sender and the private key will allow only the holder of the private key to unlock and decrypt such information and/or communication. Thus, the algorithms used in PKI technologies help to achieve authentication of users and information, integrity of all data and communications, non-repudiation or rejection of data and communications, and support confidentiality of data and communications. PKI also speeds up and simplifies the delivery of products and services by providing electronic approaches to processes that historically have been paper based. These electronic solutions depend on PKI for identification and authentication; data integrity; confidentiality of information and transactions; and non-repudiation to facilitate mission-related transactions internal to an organization and with external organizations. ORC is currently one of only a few organizations that has been designated by the United States Government as fully compliant to issue certificates for the U.S. Government. As such, ORC is authorized to issue all permissible certificate types and services in accordance with Defense Information Systems Agency and National Security Agency standards, necessary for the interoperable, secure exchange of information between U.S. Governmental agencies, contractors, and international allies such as members of NATO.

With the addition of the customer base and the increase in revenues attributable from the ORC acquisition, WidePoint's opportunity to leverage and expand further into the federal marketplace has improved dramatically. ORC's past client successes, top security clearances in their facilities and with their personnel, and additional breadth of management talent have expanded the Company's reach into markets that previously were not accessible to WidePoint. WidePoint intends to continue to leverage the synergies between the newly acquired operating subsidiaries and cross sell those technical capabilities into each separate marketplace serviced by its respective subsidiaries. Further, WidePoint is continuing to actively search out new synergistic acquisitions that we believe will further enhance the present base of business, which has already been augmented by our recent acquisitions activity and internal growth initiatives.

17

---

WidePoint's total revenues increased by approximately \$0.8 million from \$3.2 million for the three months ended September 30, 2006 to \$4.0 million for the three months ended September 30, 2007. WidePoint's total revenues decreased by approximately \$0.6 million from \$10.7 million for the nine months ended September 30, 2006 to \$10.1 million for the nine months ended September 30, 2007. The increase in revenues during the three month period ending September 30, 2007 as compared to the same three month period ending September 30, 2006 was primarily a result of increased growth in our PKI managed services segment, partially offset by a reduction in our consulting services segment. The reduction in revenues during the nine month period ending September 30, 2007 as compared to the same nine month period ending September 30, 2006 was a result of the non-recurrence of a one time software resale of approximately \$1.5 million that occurred during the 2<sup>nd</sup> quarter of 2006, along with a reduction in consulting services driven by difficulties in sourcing appropriately skilled candidates for open positions within our consulting services segment, all partially offset by increased growth within our PKI managed services segment.

For the three months ended September 30, 2007, our PKI credentialing and managed services segment experienced revenue growth of approximately 536% with revenues increasing approximately \$1,070,000 from approximately \$245,000 for the quarter ended September 30, 2006, to approximately \$1,315,000 for the quarter ended September 30, 2007. Our PKI credentialing and managed services segment experienced revenue growth of approximately 420% with revenues increasing approximately \$2,141,000 from approximately \$669,000 for the nine months ended September 30, 2006, to approximately \$2,810,000 for the nine months ended September 30, 2007, as a result of continuing adoption of the Federal Government's various mandates to roll out credential programs to various agencies and contractors. We anticipate that credential sales and managed services sales should continue to increase in the medium to long-term time horizons as we continue to fulfill contract wins and we witness the adoption of the External Certificate Authority (ECA) program by the Department of Defense, the HSPD-12 program is increasingly adopted by the Federal Government agencies and departments, and other groups commence the pilot programs and rollout associated with the expansion of various programs which are being mandated by the Federal Government. During the short-term time horizon we believe that sales associated with our PKI managed services segment could be erratic as they may be driven by delivery timeframes controlled by external Company partners and clients which may be outside of the control of the Company.

Our consulting services segment experienced decreasing revenues of approximately \$273,000 from approximately \$2,963,000 for the quarter ended September 30, 2006 as compared to approximately \$2,691,000 for the quarter ended September 30, 2007. Our consulting services segment experienced decreasing revenues of approximately \$2,728,000 from approximately \$10,065,000 for the nine months ended September 30, 2006 as compared to approximately \$7,336,000 for the nine months ended September 30, 2007. The decrease in revenues for the quarter ended September 30, 2007 as compared to the quarter ended September 30, 2006 was materially the result of difficulties in sourcing appropriately skilled candidates for open positions. The decrease in revenues for the nine months ended September 30, 2007 as compared to the nine months ended September 30, 2006 was materially the result of the non-recurrence and replacement associated with the resale of software in support of the Department of Defense's (DOD) preparation for their widescale launch of the ECA program during the third quarter of 2006 along with a reduction in consulting services driven by difficulties in sourcing appropriately skilled candidates for open positions.

Based upon estimates provided by independent analyst and U.S. government estimates, management believes there is a base of 5 million to 15 million users for the Company's PKI credentials that is comprised of U.S. Federal Government agencies employees and their contractors. The Company further believes that there is a developing market place for PKI credentials within the state and local governments and other national programs that extend beyond the U.S. Federal Government agencies employees and their contractors. These other opportunities relate to the requirements underlying the mandates for the HSPD-12 program that effect state and local governments as well as other national programs. The Company's PKI credentials are currently priced from approximately \$27.50 to \$150.00 per user on government pricing schedules depending upon the quantity purchased and the level of managed services and support selected by the customer. Pricing of the Company's PKI credentials by user are driven by a competitive marketplace and may change at any time. The Company believes it is well-positioned to effectively compete within this market segment as a result of its past successes and experience within the PKI field.

18

---

A number of factors, including the progress of contracts, revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract that we have been awarded and general economic conditions may subject our revenues and operating results to significant variation from quarter to quarter. Because a significant portion of our expenses, such as personnel and facilities costs, are fixed in the short term, successful contract performance and variation in the volume of activity as well as in the number of

contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter.

With our acquisition of ORC we rely upon a larger portion of our revenues from the Federal Government directly or as a subcontractor. The Federal Government's fiscal year ends September 30. If a budget for the next fiscal year has not been approved by that date, our clients may have to suspend engagements that we are working on until a budget has been approved. Such suspensions may cause us to realize lower revenues in the fourth quarter and/or first quarter of the year. Further, a change in presidential administrations and in senior government officials may negatively affect the rate at which the Federal Government purchases the services that we offer.

As a result of the factors above, period-to-period comparisons of our revenues and operating results may not be meaningful. You should not rely on these comparisons as indicators of future performance as no assurances can be given that quarterly results will not fluctuate, causing a possible material adverse effect on our operating results and financial condition.

In addition, most of WidePoint's current costs consist primarily of the salaries and benefits paid to WidePoint's technical, marketing and administrative personnel. As a result of our plan to expand WidePoint's operations through a combination of internal growth initiatives and merger and acquisition opportunities, WidePoint expects such costs to increase. WidePoint's profitability also depends upon both the volume of services performed and the Company's ability to manage costs. As a significant portion of the Company's cost is labor related, WidePoint must effectively manage these costs to achieve and grow its profitability. To date, the Company has attempted to maximize its operating margins through efficiencies achieved by the use of its proprietary methodologies, and by offsetting increases in consultant salaries with increases in consultant fees received from its clients. The uncertainties relating to the ability to achieve and maintain profitability, obtain additional funding to partially fund the Company's growth strategy and provide the necessary investment to continue to upgrade its management reporting systems to meet the continuing demands of the present regulatory changes affect the comparability of the information reflected in the financial information presented above.

## Results of Operations

### Three Months Ended September 30, 2007 as Compared to Three Months Ended September 30, 2006

*Revenues, net.* Revenues for the three month period ended September 30, 2007 were approximately \$4,005,000 as compared to approximately \$3,208,000 for the three month period ended September 30, 2006. The increase in revenues was primarily attributable to increases in our PKI managed services segment partially offset by declines within our consulting services segment. We have experienced difficulties recently in sourcing appropriately skilled candidates for open positions within our consulting services segment for which we have just recently seen an improvement. Our PKI credentialing and managed services segment experienced revenue growth of approximately 536% with revenues increasing approximately \$1,070,000 from \$245,000 for the three month period ended September 30, 2006, to \$1,315,000 for the three month period ended September 30, 2007, as a result of various mandates to roll out credential programs to various agencies and contractors. Our consulting services segment experienced decreasing revenue of approximately 10% with revenues decreasing approximately \$272,000 from \$2,963,000 for the three month period ended September 30, 2006 as compared to \$2,691,000 for the three month period ended September 30, 2007, as a result of difficulties associated with sourcing candidates for open positions which led to decreases in providing contracting services.

*Cost of sales.* Cost of sales for the three month period ended September 30, 2007, was approximately \$2,874,000, or 72% of revenues, an increase of approximately \$546,000 from cost of sales of approximately \$2,328,000, or 73% of revenues, for the three month period ended September 30, 2006. The absolute increase in cost of sales was primarily attributable to an increase in revenues with the improvement in the percentage of cost of sales primarily attributable to greater profit margins associated with the Company's PKI managed services segment.

*Gross profit.* As a result of the higher sales mix for PKI, gross profit for the three month period ended September 30, 2007, was approximately \$1,132,000, or 28% of revenues, an increase of approximately \$252,000 over gross profit of approximately \$880,000, or 27% of revenues, for the three month period ended September 30, 2006.

---

*Sales and marketing.* Sales and marketing expense for the three month period ended September 30, 2007, was approximately \$239,000, or 6% of revenues, a decrease of approximately \$10,000, as compared to approximately \$249,000, or 8% of revenues, for the three month period ended September 30, 2006. The slight decrease was materially attributable to slightly lesser costs in our bid and proposal expenses.

*General and administrative.* General and administrative expenses for the three month period ended September 30, 2007, were approximately \$711,000, or 18% of revenues, a decrease of approximately \$134,000, as compared to approximately \$845,000, or 26% of revenues, recorded by the Company for the three month period ended September 30, 2006. The decrease in general and administrative expenses for the three months ended September 30, 2007, was primarily attributable to a decrease in legal expenses and by a decrease in our costs associated with our stock compensation expense for FAS 123R.

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

*Depreciation.* Depreciation expense for the three month period ended September 30, 2007, was approximately \$22,600, or less than 1% of revenues, an increase of approximately \$15,400, as compared to approximately \$7,200 of such expenses, or less than 1% of revenues, recorded by the Company for the three month period ended September 30, 2006. The increase in depreciation expense for the three month period ended September 30, 2007, was primarily attributable to greater amounts of depreciable assets.

*Interest income.* Interest income for the three month period ended September 30, 2007, was \$21,944, or less than 1% of revenues, a decrease of \$7,178 as compared to \$29,122, or less than 1% of revenues, for the three month period ended September 30, 2006. The decrease in interest income for the three month period ended September 30, 2006, was primarily attributable to lesser amounts of invested cash and cash equivalents partially offset by higher short-term interest rates that were available to the Company on investments in money market accounts.

*Interest expense.* Interest expense for the three month period ended September 30, 2007, was \$2,704, or less than 1% of revenues, an increase of \$2,131, as compared to \$573, or less than 1% of revenues, for the three month period ended September 30, 2006. The increase in interest expense for the three month period ended September 30, 2007 was primarily attributable to greater expenses associated with the increase in capital leases held by the Company.

*Net income (loss).* As a result of the above, the net income for the three month period ended September 30, 2007, was approximately \$178,000 as compared to the net loss of approximately \$192,000 for the three months ended September 30, 2006.

### Nine Months Ended September 30, 2007 as Compared to Nine Months Ended September 30, 2006

*Revenues, net.* Revenues for the nine month period ended September 30, 2007 were approximately \$10,147,000 as compared to approximately \$10,734,000 for the nine month period ended September 30, 2006. The decrease in revenues was primarily attributable to the non-recurrence of a one time software resale of approximately \$1.5 million that occurred during the 2<sup>nd</sup> quarter of 2006, along with a reduction in consulting services driven by difficulties in sourcing appropriately skilled candidates for open positions within our consulting services segment. Our PKI credentialing and managed services segment experienced revenue growth of approximately 420% with revenues increasing approximately \$2,141,000 from \$669,000 for the nine month period ended September 30, 2006 to \$2,810,000 for the nine month period ended September 30, 2007, as a result of various mandates to roll out credential programs to various agencies and contractors. Our consulting services segment experienced decreasing revenue of approximately \$2,728,000 from \$10,065,000 for the nine month period ended September 30, 2006, as compared to \$7,336,000 for the nine month period ended September 30, 2007, as a result of difficulties associated with sourcing candidates for open positions which led to decreases in providing contracting services and the non-recurrence of software reselling in support of the DOD's widescale launch of its ECA program.

20

---

*Cost of sales.* Cost of sales for the nine month period ended September 30, 2007, was approximately \$7,262,000, or 72% of revenues, a decrease of approximately \$1,061,000 from cost of sales of approximately \$8,323,000, or 78% of revenues, for the nine month period ended September 30, 2006. The decrease in cost of sales was materially attributable to greater margins generated from the Company's PKI managed services segment.

*Gross profit.* As a result of the higher sales mix in PKI, gross profit for the nine month period ended September 30, 2007, was approximately \$2,885,000, or 28% of revenues, an increase of approximately \$474,000 over gross profit of approximately \$2,411,000, or 22% of revenues, for the nine month period ended September 30, 2006.

*Sales and marketing.* Sales and marketing expense for the nine month period ended September 30, 2007, was approximately \$686,000, or 7% of revenues, an increase of approximately \$24,000, as compared to approximately \$662,000, or 6% of revenues, for the nine month period ended September 30, 2006. The increase was materially attributable to our expansion of our sales efforts.

*General and administrative.* General and administrative expenses for the nine month period ended September 30, 2007, were approximately \$2,413,000, or 24% of revenues, a decrease of approximately \$61,000, as compared to approximately \$2,474,000, or 23% of revenues, recorded by the Company for the nine month period ended September 30, 2006. The decrease in general and administrative expenses for the nine months ended September 30, 2007, was primarily attributable to a decrease in legal expenses and lesser stock compensation expense associated with FAS 123R.

*Depreciation expense.* Depreciation expense for the nine month period ended September 30, 2007, was approximately \$60,000, or less than 1% of revenues, an increase of \$39,000, as compared to approximately \$21,000 of such expenses, or less than 1% of revenues, recorded by the Company for the nine month period ended September 30, 2006. The increase in depreciation expenses for the nine month period ended September 30, 2007, was primarily attributable to the increased pool of depreciable assets.

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

*Interest income.* Interest income for the nine month period ended September 30, 2007, was \$83,942, or less than 1% of revenues, an increase of \$16,055, as compared to \$67,887, or less than 1% of revenues, for the nine month period ended September 30, 2006. The increase in interest income for the nine month period ended September 30, 2007, was primarily attributable to greater amounts of cash and cash equivalents available to the company over this time period.

*Interest expense.* Interest expense for the nine month period ended September 30, 2007, was \$8,576, or less than 1% of revenues, an increase of \$6,032 as compared to \$2,544, or less than 1% of revenues, for the nine month period ended September 30, 2006. The increase in interest expense for the nine month period ended September 30, 2007 was primarily attributable to increased interest expenses associated with greater costs associated with an increase in capital leases by the Company.

*Net loss.* As a result of the above, the net loss for the nine month period ended September 30, 2007, was approximately \$199,000 as compared to the net loss of approximately \$680,000 for the nine months ended September 30, 2006.

The following table sets forth selected segment and consolidated operating results and other operating data for the periods indicated. Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment.

21

	<b>Three Months Ended September 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Consulting services:</b>		
Revenues	\$ 2,690,653	\$ 2,963,423
Operating income	138,932	213,219
Total assets	4,213,943	2,498,462
<b>PKI Credentialing and Managed Services</b>		
Revenues	\$ 1,314,810	\$ 244,838
Operating income (loss) (includes amortization expense of \$45,838 and \$45,838, respectively)	293,882	(31,155)
Total assets	1,409,408	1,164,745
<b>Total Company</b>		
Revenues	\$ 4,005,463	\$ 3,208,261
Operating income (loss)	181,616 <sup>(1)</sup>	(213,710) <sup>(2)</sup>
Depreciation expense	22,599	7,202
Interest income (expense), net	19,240	28,549
Income tax benefit	--	--
Net income (loss)	\$ 178,257	\$ (192,363)
Total Corporate assets	\$ 5,264,415	\$ 5,802,968
Total assets	\$ 10,887,766	\$ 9,466,175

(1) Includes \$55,269 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$195,929 in unallocated corporate costs in general and administrative expense.

(2) Includes \$55,270 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$340,504 in unallocated corporate costs in general and administrative expense.

	<b>Nine Months Ended September 30</b>	
	<b>2007</b>	<b>2006</b>
<b>Consulting services:</b>		

**Consulting services:**

	<u>Nine Months Ended September 30</u>	
Revenues	\$ 7,336,466	\$ 10,064,850
Operating income	120,226	421,834
Total assets	4,213,943	2,498,462
<b>PKI Credentialing and Managed Services</b>		
Revenues	\$ 2,810,476	\$ 669,177
Operating income (loss) (includes amortization expense of \$137,514 and \$137,514, respectively)	563,717	(168,763)
Total assets	1,409,408	1,164,745
<b>Total Company</b>		
Revenues	\$ 10,146,942	\$ 10,734,027
Operating loss	214,208 <sup>(1)</sup>	724,643 <sup>(2)</sup>
Depreciation expense	59,773	20,927
Interest income, net	75,366	65,343
Income tax benefit	--	83
Net loss	\$ 198,615	\$ 680,144
Total Corporate assets	\$ 5,264,415	\$ 5,802,968
Total assets	\$ 10,887,766	\$ 9,466,175

(1) Includes \$165,808 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$732,343 in unallocated corporate costs in general and administrative expense.

(2) Includes \$165,809 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$811,905 in unallocated corporate costs in general and administrative expense.

### Liquidity and Capital Resources

The Company has, since inception, financed its operations and capital expenditures through the sale of preferred and common stock, seller notes, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. During 2006 and through the period ended September 30, 2007, operations were materially financed with working capital, and the proceeds from a convertible preferred stock issuance which occurred in October 2004. During the third quarter of 2007 the Company entered into a senior lending facility with Cardinal Bank for up to \$2,000,000 through September 1, 2008 at a rate of prime less 25 basis points. The senior lending facility at this time has not been drawn against. Further, on November 5, 2007 the company entered into a series of agreements with Protexx, Inc. that allows for Protexx, Inc. with approval by WidePoint to borrow up to \$100,000 on an installment basis between November 5, 2007, and January 2, 2008. The short-term borrowing facility is fully collateralized against all of the assets of Protexx, Inc. As of November 5, 2007 Protexx, Inc. had drawn down \$30,000 against the credit facility.

Net cash used in operating activities for the quarter ended September 30, 2007, was approximately \$413,000, as compared to cash provided by operating activities of approximately \$188,000 for the quarter ended September 30, 2006. The decrease in cash generated from operating activities for the quarter ended September 30, 2007, was primarily a result of increases in accounts receivable and other assets, partially offset by decreases in accounts payable. Net cash used in investing activities for the quarter ended September 30, 2007, was approximately \$7,000, as compared to \$21,000 used in investing activities in the quarter ended September 30, 2006. The increase in net cash used in investing activities resulted from increased expenditures in property and equipment. Capital expenditures for property and equipment were approximately \$7,000 for the quarter ended September 30, 2007, as compared to approximately \$21,000 for the quarter ended September 30, 2006. Net cash used in financing activities amounted to approximately \$13,000 in the quarter ended September 30, 2007, as compared to approximately \$156,000 of net cash provided by financing activities in the quarter ended September 30, 2006. The change primarily resulted from a decrease in costs related to our registration statement on Form S-1 and a warrant exercise, partially offset by a decrease in proceeds related to the exercise of stock options and an increase in principal payments made under our capital lease obligations during the quarter ended September 30, 2007.

## Edgar Filing: WIDEPOINT CORP - Form 10-Q

As of September 30, 2007, the Company had a net working capital of approximately \$3.7 million. WidePoint's primary source of liquidity consists of approximately \$2.9 million in cash and cash equivalents and approximately \$3.7 million of accounts receivable. Current liabilities include approximately \$2.9 million in accounts payable and accrued expenses.

The Company's business environment is characterized by rapid technological change, experiences times of high growth and contraction and is influenced by material events such as mergers and acquisitions that can substantially change the Company's outlook.

Since 2002, WidePoint has embarked upon several new initiatives to counter the current negative business environment within our industry and expand our capacity to restore revenue growth. The Company requires substantial working capital to fund the future growth of its business, particularly to finance accounts receivable, sales and marketing efforts, and capital expenditures.

There is currently approximately \$108,000 in commitments for capital expenditures and software development costs. Future capital requirements will depend on many factors, including the rate of revenue growth, if any, the timing and extent of spending for new product and service development, technological changes and market acceptance of the Company's services.

23

---

On October 25 and 29, 2004, WidePoint completed financings with Barron Partners LP ( Barron ), a private equity fund that engages in investing primarily in private investments in publicly traded entities, for an aggregate amount of \$3,580,000, under a preferred stock purchase agreement and related agreements. Net proceeds from the financing after costs and expenses, including fees of finders and agents, were approximately \$3,030,000. WidePoint issued an aggregate of 2,045,714 shares of its Series A Convertible Preferred Stock that were convertible into an aggregate of 20,457,143 shares of its Common Stock at a conversion rate equal to \$0.175 per share. In addition, WidePoint issued to Barron a warrant to purchase up to an additional 10,228,571 shares of its Common Stock at an exercise price of \$0.40 per common share. As of September 30, 2007, all of the Barron Series A Convertible Preferred Stock had been converted into common stock and its warrant had been fully exercised. Barron's conversion of its Series A Convertible Preferred Stock and its warrant exercises were subject to contractual restrictions which restrict the ability of Barron and its affiliates to acquire shares of Common Stock which equal no more than 4.99% of the outstanding shares of WidePoint's Common Stock at any time. This contractual restriction could have been removed upon 61 days notice to WidePoint from Barron, but in the event Barron elects to remove this restriction, then Barron and its affiliates agreed that Barron and its affiliates could only vote the shares of Common Stock held by Barron and its affiliates which result in Barron and its affiliates having no more than 22% of the total voting power of all outstanding shares of WidePoint's Common Stock at any time. As a result of the Barron financing transaction, WidePoint issued warrants to Westcap Securities, Inc., a registered broker-dealer ( Westcap ) and WidePoint's placement agent in such transaction, to purchase 511,428 shares of Common Stock at an exercise price of \$0.40 per share. As of September 30, 2007 all of the Westcap warrants had been exercised.

Pursuant to the registration rights agreement between Barron and WidePoint related to the stock issuances described in the preceding paragraph, WidePoint filed a registration statement on January 5, 2005, covering the resale of the shares of Common Stock issuable upon conversion and/or exercise of the Series A Convertible Preferred Stock and the warrants issued to Barron. Under the agreement, if the registration statement was not declared effective by April 23, 2005 and thereafter kept effective through October 20, 2007, subject to permissible blackout periods and registration maintenance periods, then WidePoint would be required to pay Barron a maximum penalty of up to \$20,000 for each month the registration statement was not effective. Barron waived this penalty provision through February 9, 2006, when the registration statement was declared effective by the SEC.

WidePoint believes that its current cash position is sufficient to meet capital expenditure and working capital requirements for the near term. However, the growth and technological change of the market make it difficult to predict future liquidity requirements with certainty. Over the longer term, the Company must successfully execute its plans to increase revenue and income streams that will generate significant positive cash flows if it is to sustain adequate liquidity without impairing growth or requiring the infusion of additional funds from external sources. Additionally, a major expansion, such as occurred with the acquisition of ORC or any other potential new subsidiaries, might require external financing that could include additional debt or equity capital. The Company raised approximately \$3.6 million dollars in connection with the aforementioned equity investments by Barron Partners LP, that were used in the acquisition of ORC. Further, the Company raised approximately \$4.1 million dollars in connection with the attached warrants associated with the aforementioned equity investments by Barron Partners LP during the year ended 2005. There can be no assurance that additional financing, if required, will be available on acceptable terms, if at all, for future acquisitions and/or growth initiatives.

### **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**

We are not exposed to market risks related to changes in interest rates and changes in the market value of our investments as we have no borrowings outstanding under our bank credit agreement as of September 30, 2007, and we only invest our excess cash in marketable securities in a money market account which due to the short maturity and our availability to withdraw those securities at any time does not present any material market exposure.

24

---

**ITEM 4. CONTROLS AND PROCEDURES**

**Conclusions regarding disclosure controls and procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by it in its periodic reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report, concluded that, based on the evaluation of these controls and procedures required by paragraph (b) of Securities Exchange Act Rule 13a-15, our disclosure controls and procedures were effective.

**Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Company's Registered Public Accounting Firm**

SEC rules require that a company that is an accelerated filer, as defined by Rule 12b-2 under the Securities Exchange Act, must set forth in its annual report on Form 10-K a management's annual report on internal control over financial reporting pursuant to Rule 13a-15(f). The Company did not become an accelerated filer until December 31, 2006, based on the calculation called for by paragraph (i) of the definition of that term under Rule 12b-2. During 2006, prior to the Company's becoming an accelerated filer, the SEC extended the deadline date for compliance with that requirement for non-accelerated filers until the first fiscal year ending on or after December 15, 2007. At the time that the Company filed its Annual Report on Form 10-K for the year ended December 31, 2006, the Company believed that since it was a non-accelerated filer at the time of the SEC's granting of that extended compliance deadline, the Company was not required to set forth its management's annual report on internal control over financial reporting and the attestation report of the Company's registered public accounting firm in its Form 10-K for the year ended December 31, 2006. As a result of subsequent discussions with the SEC, the Company now understands that it was not entitled to rely on the extended compliance deadline as a result of the Company becoming an accelerated filer on December 31, 2006 and that the Company should have filed its management's annual report on internal control over financial reporting and the attestation report of the Company's registered public accounting firm in its Form 10-K for the year ended December 31, 2006. In accordance with the Company's discussions with the SEC, the Company will set forth such reports in its Form 10-K for the year ended December 31, 2007.

**Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Subsequent to December 31, 2006, the Company became aware of its obligation to file its annual report on internal control over financial reporting and related auditor attestation report in the Form 10-K for the year ended December 31, 2006, and the Company will include such reports in its Form 10-K for the year ended December 31, 2007.

**PART II.**

**OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

Item 1A ( Risk Factors ) of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 sets forth information relating to important risks and uncertainties that could materially adversely affect the Company's business, financial condition or operating results. Those risk factors continue to be relevant to an understanding of the Company's business, financial condition and operating results. Certain of those risk factors have been revised below to provide updated information. References to we, our and us in these risk factors refer to the Company.

25



**We could issue additional shares of common stock, which might dilute the book value of our common stock.**

We have a total of 110,000,000 authorized shares of common stock, of which 52,558,699 shares were issued and outstanding as of September 30, 2007. In addition, we had warrants and options outstanding as of that date with respect to which 7,176,257 shares of common stock were reserved for issuance. Our board of directors has the authority, without action or vote of our stockholders in most cases, to issue all or a part of any authorized but unissued shares of our common stock. Such stock issuances may be made at a price that reflects a discount from the then-current trading price of our common stock. In addition, in order to raise capital for acquisitions or other general corporate purposes that we may need at today's stock prices, we would likely need to issue securities that are convertible into or exercisable for a significant number of shares of our common stock. These issuances would dilute our stockholders percentage ownership interest, which would have the effect of reducing our stockholders' influence on matters on which our stockholders vote, and might dilute the book value of our common stock. You may incur additional dilution of net tangible book value if holders of stock options or warrants, whether currently outstanding or subsequently granted, exercise their options or warrants to purchase shares of our common stock.

**The sale of a large number of shares of our common stock could depress our stock price.**

As of September 30, 2007, we had reserved 7,176,257 shares of common stock for issuance upon exercise of stock options and warrants. As of September 30, 2007, holders of warrants and options to purchase an aggregate of 6,719,213 shares of our common stock may exercise those securities and transfer the underlying common stock at any time subject, in some cases, to Rule 144 of the Securities Act of 1933. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to issue equity securities in the future at a price that we think is appropriate, or at all.

**ITEM 6. EXHIBITS.**

(a) Exhibits

- 10.1 Promissory Note, dated November 5, 2007, between Protexx, Inc. and its subsidiaries, including but not limited to 22THEN LLC, as borrower, WidePoint Corporation, as lender, and Peter Letizia, as guarantor.
- 10.2 Revolving Line of Credit Agreement, dated as of November 5, 2007, by and among Protexx, Inc. and its subsidiaries, including but not limited to 22THEN LLC, as borrower, Peter Letizia, as guarantor, and WidePoint Corporation, as lender.
- 10.3 Security Agreement, dated as of November 5, 2007, given by Protexx, Inc. and each of its subsidiaries and 22THEN LLC, collectively, as debtors, to and in favor of WidePoint Corporation, as secured party.
- 10.4 Software Escrow Agreement, dated as of November 5, 2007, between 22THEN LLC and Protexx Incorporated, collectively, as supplier, WidePoint Corporation, as user, and Foley & Lardner LLP, as escrow agent.
- 10.5 Commercial Loan Agreement, dated August 16, 2007, between the Registrant and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 21, 2007).
- 10.6 Security Agreement, dated August 16, 2007, between the Registrant and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed August 21, 2007).
- 10.7 Promissory Note, dated August 16, 2007, issued by the Registrant in favor of Cardinal Bank. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed August 21, 2007).
- 10.8 Addendum to Employment and Non-Compete Agreement between the Registrant and Daniel E. Turissini, effective as of July 25, 2007. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed July 30, 2007).

- 
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

**SIGNATURES**

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

WIDEPOINT CORPORATION

Date: November 9, 2007

/s/ STEVE L. KOMAR

Steve L. Komar  
President and Chief Executive Officer

/s/ JAMES T. MCCUBBIN

James T. McCubbin  
Vice President - Principal Financial  
and Accounting Officer