WIDEPOINT CORP
Form 10-Q
May 15, 2009

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 March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______________________ to ______________________

Commission file number 001-33035

WIDEPOINT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	52-2040275
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
18W100 22nd St., Oakbrook Terrace, IL	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 X No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ___ No ___

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

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

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 May 13, 2009, 58,305,514, shares of common stock, $.001 par value per share, were outstanding.

WIDEPOINT CORPORATION

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2009	December 31, 2008
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 4,344,744	$ 4,375,426
Accounts receivable	6,196,772	5,282,192
Unbilled accounts receivable	1,179,249	2,301,893
Prepaid expenses and other assets	214,633	267,666

	March 31,	December 31,
Total current assets	11,935,398	12,227,177
Property and equipment, net	381,657	431,189
Goodwill	8,575,881	8,575,881
Intangibles, net	2,019,360	2,236,563
Other assets	106,959	110,808
Total assets	$ 23,019,255	$ 23,581,618
Liabilities and stockholders equity		
Current liabilities:		
Related party note payable	$ --	$ 2,140,000
Short term note payable	53,052	97,158
Accounts payable	5,431,310	2,465,394
Accrued expenses	1,310,005	2,548,106
Deferred revenue	1,500,239	1,667,969
Short-term portion of long-term debt	495,006	486,707
Short-term portion of capital lease obligation	98,652	107,141
Total current liabilities	8,888,264	9,512,475
Deferred income tax liability	196,113	156,891
Long-term debt, net of current portion	992,156	1,117,230
Deferred rent, net of current portion	5,964	--
Capital lease obligation, net of current portion	73,579	95,248
Total liabilities	$ 10,156,076	$ 10,881,844
Stockholders equity:		
Common stock, $0.001 par value; 110,000,000 shares authorized; 58,305,514 and 58,275,514 shares issued and outstanding, respectively	58,306	58,276
Stock warrants	38,666	38,666
Additional paid-in capital	67,229,238	67,194,788
Accumulated deficit	(54,463,031)	(54,591,956)
Total stockholders equity	12,863,179	12,699,774
Total liabilities and stockholders equity	$ 23,019,255	$ 23,581,618

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

WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31,	
	2009	2008
	(unaudited)	
Revenues, net	$ 10,135,382	$ 7,150,565
Cost of revenues (including amortization and depreciation		

	Three Months Ended March 31,	
of $243,136 and $213,906, respectively)	8,092,280	6,046,302
Gross profit	2,043,102	1,104,263
Sales and marketing	229,466	165,703
General and administrative (including SFAS 123R stock compensation expense of $30,730 and $371,702, respectively)	1,536,271	1,680,274
Depreciation expense	43,007	37,315
Income (Loss) from operations	234,358	(779,029)
Interest income	14,088	15,942
Interest expense	(80,299)	(99,573)
Net income (loss) before income tax	$ 168,147	$ (862,660)
Deferred income tax expense	39,222	--
Net income (loss)	$ 128,925	$ (862,660)
Basic earnings (loss) per share	$ 0.002	$ (0.016)
Basic weighted average shares outstanding	58,294,514	54,033,687
Diluted earnings (loss) per share	$ 0.002	$ (0.016)
Diluted weighted average shares outstanding	59,302,205	54,033,687

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

WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2009	**2008**
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 128,925	$ (862,660)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Deferred income tax expense	39,222	--
Depreciation expense	57,258	50,114
Amortization expense	228,885	201,107
Amortization of deferred financing costs	842	2,143
Stock options expense	30,730	371,702

	Three Months Ended March 31,	
Changes in assets and liabilities		
Accounts receivable and unbilled accounts receivable	208,064	1,554,121
Prepaid expenses and other current assets	53,033	(109,545)
Other assets	15,007	24,424
Accounts payable and accrued expenses	1,593,103	747,736
Deferred revenue	(167,730)	274,390
Net cash provided by operating activities	$ 2,187,339	$ 2,253,532
Cashflows from investing activities:		
Purchase of subsidiary, net of cash acquired	--	(4,901,745)
Purchase of property and equipment	(7,726)	(27,523)
Software development costs	(11,682)	--
Net cash used in investing activities	$ (19,408)	$ (4,929,268)
Cashflows from financing activities:		
Borrowings on notes payable	--	3,800,000
Principal payments on notes payable	(2,160,205)	(609,471)
Principal payments under capital lease obligation	(30,158)	(28,711)
Proceeds from exercise of stock options	3,750	14,400
Costs related to renewal fee for line of credit	(12,000)	--
Costs related to financing purchase of subsidiary	--	(13,713)
Net cash (used in) provided by financing activities	$ (2,198,613)	$ 3,162,505
Net (decrease) increase in cash	$ (30,682)	$ 486,769
Cash and cash equivalents, beginning of period	$ 4,375,426	$ 1,831,991
Cash and cash equivalents, end of period	$ 4,344,744	$ 2,318,760
Supplementary Information:		
Promissory Note issued for iSYS acquisition	$ --	$ 2,000,000
Value of 1.5 million common shares issued as consideration in the acquisition of iSYS	$ --	$ 1,800,000
Cash paid for interest	$ 228,416	$ 43,400

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

WidePoint Corporation (WidePoint or the Company) is a technology-based provider of product and services to both the government sector and commercial markets. WidePoint was incorporated in Delaware on May 30, 1997. We have grown through the merger of highly specialized regional IT consulting companies.

Our expertise lies in three business segments. The three segments offer unique solutions in identity management services utilizing certificate-based security solutions; wireless telecommunication expense management systems; and other associated IT consulting services and products in which we provide specific subject matter expertise in IT Architecture and Planning, Software Implementation Services, IT Outsourcing, and Forensic Informatics.

WidePoint has three material operational entities, Operational Research Consultants, Inc. (ORC), iSYS, LLC (iSYS), and WidePoint IL, Inc., along with a development stage company, Protexx Acquisition Corporation doing business as Protexx. In January 2008, we completed the acquisition of iSYS. iSYS specializes in mobile telecommunications expense management services and forensic informatics, and information assurance services predominantly to the U.S. Government. In July 2008, we completed the purchase of the operating assets and proprietary intellectual property of Protexx, Inc. Protexx specializes in identity assurance and mobile and wireless data protection services. ORC specializes in IT integration and secure authentication processes and software, and providing services to the U.S. Government. ORC has been at the forefront of implementing Public Key Infrastructure (PKI) technologies. PKI technology uses a class of algorithms in which a user can receive two electronic keys, consisting of a public key and a private key, to encrypt any information and/or communication being transmitted to or from the user within a computer network and between different computer networks. PKI technology is rapidly becoming the technology of choice to enable security services within and between different computer systems utilized by various agencies and departments of the U.S. Government.

Our staff consists of business process 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.

The condensed consolidated balance sheet as of March 31, 2009, the condensed consolidated statements of operations for the three months ended March 31, 2009 and 2008, and the condensed consolidated statements of cash flows for the three months ended March 31, 2009 and 2008 have been prepared by WidePoint Corporation (WidePoint or the Company) and are unaudited. The condensed consolidated balance sheet as of December 31, 2008 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, 2008.

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. The results of operations for the three months ended March 31, 2009 are not indicative of the operating results for the full year.

2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring use of estimates and judgment relate to revenue recognition, accounts receivable valuation reserves, realizability of intangible assets, realizability of deferred income tax assets and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Reclassifications

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

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 March 31, 2009, three customers, the Transportation Security Administration (TSA), the Department of Homeland Security (DHS), and the Washington Headquarters Services (WHS), an agency of the Department of Defense (DoD) that provides services for many DoD agencies and organizations, accounted for approximately 26%, 17%, and 14%, respectively, of accounts receivable and unbilled accounts receivable. As of December 31, 2008, three clients, the DHS, the TSA, and the WHS, represented 24%, 17%, and 14%, respectively, of accounts receivable and unbilled accounts receivable.

Significant Customers

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 March 31, 2009, three customers, the TSA, the DHS, and the WHS, represented approximately 24%, 21%, and 18% of revenues, respectively. For the quarter ended March 31, 2008, three customers, the TSA, the DHS, and the WHS, represented approximately 27%, 21%, and 16% of revenues, respectively.

Fair value of financial instruments

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

The Company adopted SFAS 157, Fair Value Measurements (SFAS 157) on January 1, 2008. SFAS 157, among other things, defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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.

Accounts Receivable

The majority of the Company s accounts receivable is due from the federal government and established private sector companies in the following industries: manufacturing, customer product goods, direct marketing, healthcare, and financial services. 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. Customer account balances outstanding longer than the contractual payment terms are reviewed for collectability and after 90 days are considered past due.

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

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

Unbilled Accounts Receivable

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 March 31, 2009 and December 31, 2008, unbilled accounts receivable totaled approximately $1,179,000 and $2,302,000, respectively.

Revenue Recognition

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

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

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

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

A portion of our revenues are derived from cost-plus, or time-and-materials contracts. Under cost-plus contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For time-and-material contracts, revenues are computed by multiplying the number of direct labor-hours expended in the performance of the contract by the contract billing rates and adding other billable direct costs.

In the event of a termination of a contract, all billed and unbilled amounts associated with those task orders where work has been performed would be billed and collected. The termination provisions of the contract would be accounted for at the time of termination. Any deferred and/or amortization cost would either be billed or expensed depending upon the termination provisions of the contract. Further, the Company has had no material history of losses nor has it identified any material specific risk of loss at March 31, 2009 and December 31, 2008, respectively due to termination provisions and thus has not recorded provisions for such events.

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.

Property and Equipment

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

	March 31, 2009	December 31, 2008
Automobiles, computers, equipment and software	$ 867,064	$ 867,013
Less- Accumulated depreciation and amortization	(485,407)	(435,824)
	$ 381,657	$ 431,189

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 (or internally developed intangible assets) 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 $67,000 of amortization expense for the three month period ended March 31, 2009, as compared to approximately $45,000 for the three month period ended March 31, 2008. WidePoint capitalized approximately $12,000 for the three month period ended March 31, 2009. There were no capitalized costs for the three month period ended March 31, 2008. Capitalized software development costs, net, included in Intangibles, net, at March 31, 2009 were approximately $0.5 million, compared to approximately $0.6 million at December 31, 2008. We estimate that we will capitalize approximately $50,000 more prior to the issuance of the Authority to Operate (ATO) during the second quarter of 2009 at which time we will commence amortizing the ATO over an approximate three year life.

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 1,007,691 shares of common stock outstanding for the three months ended March 31, 2009, has been included in the calculation of the diluted net income per share. As of March 31, 2009, there were 7,389,453 options and warrants vested. Of those vested shares, 5,475,999 options and warrants were priced under the average price during the first quarter of 2009 of $0.25 per common share. Outstanding options and warrants to purchase 8,014,257 shares, respectively, for the quarter ended March 31, 2008 have 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 months ended March 31, 2008 are presented as identical. Earnings per common share was computed as follows for the quarters ended March 31, 2009 and March 31, 2008:

	Quarter Ended	
	March 31, 2009	**March 31, 2008**
Basic Earnings Per Common Share:		
Net income (Loss)	$ 128,925	$ (862,660)
Weighted average number of common shares	58,294,514	54,033,687
Earnings (Loss) per common share	$ 0.002	$ (0.016)
Diluted Earnings Per Common Share:		
Net income (Loss)	$ 128,925	$ (862,660)
Weighted average number of common shares	58,294,514	54,033,687
Incremental shares from assumed conversions of stock options	1,007,691	0
Adjusted weighted average number of common shares	59,302,205	54,033,687
Earnings (Loss) per common share	$ 0.002	$ (0.016)

Stock-based compensation

The Company previously 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 ser