

WIDEPOINT CORP  
Form 10-K  
March 15, 2016

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2015**

**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**

*(State or other jurisdiction of  
incorporation or organization)*

**52-2040275**

*(I.R.S. Employer  
Identification No.)*

**7926 Jones Branch Drive, Suite 520, McLean, Virginia**

*(Address of principal executive offices)*

**22102**

*(Zip Code)*

**(703) 349-2577**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the act:**

	<b>Name of each exchange</b>
<b>Title of each class</b>	<b>on which registered</b>
Common Stock, \$0.001 par value per share	NYSE MKT

**Securities registered pursuant to Section 12(g) of the act:**

*None*

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of the Common Stock on the NYSE MKT on the last business day of the registrant's most recently completed second fiscal quarter, of \$1.67, was approximately \$125,623,000.

As of March 15, 2016, there were 82,520,696 shares of the registrant's Common Stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Not Applicable

## Cautionary Note Regarding Forward Looking Statements

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

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

For the discussion of these risks and uncertainties and others that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to “Risk Factors” in this Annual Report on Form 10-K. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

In this Annual Report on Form 10-K, unless the context indicates otherwise, the terms “Company” and “WidePoint,” as well as the words “we,” “our,” “ours” and “us,” refer collectively to WidePoint Corporation and its consolidated subsidiaries.

## PART I

### ITEM 1. BUSINESS

## **Company Overview**

We provide secure, cloud-based, enterprise-wide information technology (IT) solutions to commercial enterprises, federal, state and foreign governments in many different industry sectors. Our IT solutions can be customized to meet most enterprise and/or government mandated regulations and advanced system requirements. Our portfolio of solutions allow our clients to select a single source solution that enables them to establish a viable standard process that focuses on the goals of the client's entire organization. We also build solutions that ensure the privacy of both corporate and personal information.

Our IT solutions are accessible on-demand through cloud computing and provide our customers with a set of streamlined mobile communications management, identity management, and consulting solutions that provide our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments.

We use proprietary software, analytical tools and reporting solutions that enable our customers to actively manage their fixed and mobile communications assets and expenses and identity management requirements in an efficient and cost-effective manner in a safe and secure environment anywhere in the world. Our customers can access our IT solutions through our proprietary cloud-based portal anywhere in the world using a web browser. These portals provide our clients with on-demand access to manage and control deployment of their communications assets and expenses associated with supporting the functional requirements of their mobile workforce. In addition, these portals identify issues that impact our clients' workflow and business models.

## **Our Solutions**

Our IT solutions offer our client's the ability to securely manage access to their mobile workforces while efficiently managing the total life cycle of their valuable communications assets. Our core set of offerings are set forth below:

Expense Management – Utilizing our proprietary cloud-based portals, we provide a core set of dash boards and standard reports to evaluate communications carrier compliance against a contract, manage communication assets and expenses and ensure users are on the most cost-effective plans, monitor for potential misuses and threats to the overall communications environment. These standard reports provide users with data for ongoing periodic reviews and strategic decision-making. We also offer customized functionality and dash board reports to satisfy the unique business requirements of our customers' end users. We also offer a custom analysis of our clients mobile environment, types of devices, spend, communication requirements, usage among other considerations and provide a customized selection and delivery of all available voice, data, and message plans offered by the carriers that best fit the users of the devices so that our customers only pay for the services they utilize on a monthly basis.

§ Security – We provide a full range of identity management and identity assurance services to protect and defend information and information systems by ensuring confidentiality, integrity, authentication, availability, and non-repudiation. Our solutions address access to multi-level secure resources and message traffic based on entity identity, roles, and privileges. Our federated solutions support various strong electronic identity credentials that can be readily electronically validated by any logical/physical access point. These services include strategic risk analysis and management support that includes physical security, reliability, continuity of operations planning, and support for other enterprise governance issues such as privacy, compliance, audits and disaster recovery. We have been certified by the federal government to facilitate public access to the services offered by government agencies, including on-line access to computers for purposes of reviewing, retrieving, providing, and exchanging information. Our digital certificate credentials are authorized to provide trusted individual or business identity information for use

by the Department of Defense (“DoD”), FirstGov, General Services Administration (“GSA”) and participating federal government agencies. Our digital certificate credential services include the DoD External Certificate Authority, Access Certificates for Electronic Services, and the General Services Administration Shared Service Provider.

Cert-on-Device - Our Cert-on-Device solution is a robust cloud-based internally developed service that provides secure digital certificates to all types of mobile devices in order to enhance the information security assurance level of mobile transactions and access to corporation networks, databases and other IT assets. Cert-on-Device enables an enterprise to attain a greater level of network security than user authentication alone by ensuring that only authorized § devices connect to an organization's IT infrastructure. We believe that Cert-on-Device presents us with a unique opportunity to expand our business as we transition into the sales and implementation stage of the opportunity following delays in product development. We are currently working with leading suppliers and manufacturers of mobile devices to develop and demonstrate mobile devices with this capability built-in as a ready feature and to accommodate other device operating systems and working to generate sales.

Managing Devices – We provide an authenticated order management portal to place, track, and manage devices and § services requests, and other services to enable rapid deployment and management of communication assets across an enterprise.

Mobile Applications – We provide services designed to test, monitor, configure and manage mobile applications for § both business and personal use.

Bring Your Own Device (BYOD) – We provide BYOD solutions to mitigate risks related to vulnerabilities within an § internal information technology infrastructure such as unauthorized access, protection of privacy information, data integrity, and more.

User Support – We provide call centers with 24x7 emergency support and expert technical support to ensure a user's § calls are answered and a timely resolution identified.

Policies – We provide assistance with defining, executing, and measuring effective telecommunications and information technologies architecture planning, policies and best practices that are consistent with an organization's § goal and objectives. Also, we create customized security policies and procedures that ensure that the most cost-effective and secure remote access solutions. We also provide secure asset disposal services and can disable lost or stolen devices.

Consulting – We provide consulting services on an individual basis or as part of our total offerings. These services § may include telecommunications audit and optimization, telecommunications carrier contract negotiation, value added resale of third party products and services, telecommunications and/or security assessments, technical subject matter expertise, training and other related MMS services.

## **Strategic Vision**



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

Recent advances in communications technology have significantly improved the storage, speed and frequency of communications and the complexity of these devices and enabled rapid proliferation of mobile computing and communications devices. These technological advances increased the speed of business transactions across the globe, but it also introduced many security threats to an organizations critical data and communications infrastructure. The number of security incidents across the globe are affecting small and large organizations and these incidents are growing in frequency and causing financial and reputational harm for many companies. This presents a significant opportunity for us to provide a solution.

We believe our portfolio of solutions including Cert-on-Device, Derived Credentialing and other mobile credentialing solutions address access to multi-level secure resources and message traffic based on entity identity, roles and privileges that can be validated by any logical and/or physical access point on a multitude of devices. We have partnered with several key communications equipment manufacturers, telecommunications carriers and other IT based partners to improve our reach into our target markets and to provide a more integrated market-ready solution that is accessible by our end users and compliant with our customers security and information requirements.

Our challenge is reaching potential customers and in order to gain market penetration as an organization capable of meeting commercial and government clients technology asset and risk management objectives without significantly increasing their operating costs and allowing these organizations to focus on running their business.

Our strategies for achieving our objective to grow our business profitably include the following:

Focus on Selling Higher Margin Services. While we have been successful in the past of growing our revenues and increasing our market penetration, our growth has largely been driven by low margin services. We intend to re-focus our business efforts to pursue and focus our organization on driving sales of higher margin services.

Gain Market Acceptance of Cert-on-Device. We are working to gain market acceptance of our Cert-on-Device product, which we believe is a significant opportunity for us. We have been working to establish key partnerships with device manufacturers, telecommunication carriers and other IT solution providers in order to have such as Cert-on-Device and our other products included in product offerings.

Retain and Cross-Sell Existing Customer Base. Many of our professional staff work on-site or work in close proximity with our customers and we develop close customer relationships and are often able to enhance our customers' operations by rapidly identifying and developing solutions for customer-specific requirements. We intend to continue to deliver product and service solutions to meet or exceed customer expectations and recommend complementary product and service solutions that will meet the business objectives of our customers.

Attract New Customers by Referral and Expertise. We intend to leverage our long-term relationships with our existing customers to reach new customers in our target markets. We also intend to use our past performance reputation within the federal, state and local government agencies and corporate customers to attract new customers. We also are working to grow our distribution channels and reach through alliances with telecommunications carriers and organizations that feature national or transnational sales and marketing networks and resources that can feature our unique offerings as part of their respective products and services portfolios.

Improving Our Sales Process. We are working to improve our sales process in order to generate additional sales leads and efficiently pursue opportunities in order to focus our efforts on genuine sales opportunities. We have been working to train our staff on the technical aspects of our product offerings in order to penetrate the IT departments

of organizations.

4

6. **Attracting, Training and Retaining Highly Skilled Professionals.** We continue to attract, train and retain highly skilled professionals, including engineers, scientists, analysts, technicians and support specialists, to ensure that we have the capabilities to fulfill our customers' requirements. We target candidates who have served in the military or as civilian experts, as well as those who are leading specialists in their technology disciplines. We believe we can continue to retain our employees by offering competitive compensation and benefit plans, opportunities for career growth through company-supported education programs and diverse and challenging assignments.

7. **Pursuing Strategic Acquisitions.** We may strategically acquire businesses that provide value-added solutions for our present service offerings and customer base. We will also selectively pursue strategic acquisitions of businesses that can cost-effectively further broaden our domain expertise and service solutions to our customers and allow us to establish relationships with new customers or enter new target markets.

## **Competition**

Our competitive market is highly fragmented and subject to rapid technological change driven in part by periodic introductions of new technologies and devices. We compete with companies from a variety of market sectors, including publicly and privately held firms, large accounting and consulting firms, systems consulting and implementation firms, application software firms, service groups of computer equipment companies and other general management consulting firms. We also compete regularly with offshore outsourcing companies, and we expect competition from these companies to increase in the future, especially on development, application management services and outsourcing engagements. In addition, we and other technology and outsourced service providers compete with internally developed communications management solutions. We believe that the major competitive factors in our marketplace are distinctive technical competencies, governmental certifications and approvals to operate within this space, successful past contract performance, price of services, reputation for quality, and key management personnel with domain expertise.

Our key competitors currently include Tangoe, Inc., Calero, KEYW Holding Corporation, Verisign, Identrust, SureID, DigiCert, Entrust, and other organizations; all of which have varying specialties within the telecommunications market place. Due to our significant federal government contract concentrations we also experience competition from a variety of both large and small companies, including divisions of large federal government integrators such as Lockheed Martin Corporation, Northrop Grumman Corporation, and other large and mid-sized federal contractors, as well as a limited number of small to mid-sized subject matter expert organizations offering specialized capabilities within the identity management space. The same companies that are our competitors will, at times, team with us or subcontract with us in the pursuit of new business.

Many of our competitors have greater resources than us and are often able to offer more scale, which in some instances has enabled them to significantly discount their services in exchange for revenues in other areas or at later dates. Many of our competitors are heavily discounting their services to unprofitable levels in an effort to maintain market share and push other competitors out of the market and then turn around and raise prices for its captive customer base. This type of pricing behavior affects the entire market, creates a commodity pricing environment that

directly affects the level of services that can be delivered to meet the customers' requirements and ensure a reasonable return for the service provider. If we are unable to keep pace with the intense competition in our marketplace, deliver cost-effective and relevant solutions to our target market, our business, financial condition and results of operations will suffer.

## **Marketing and Sales**

We engage in a wide variety of marketing activities designed to broaden market awareness of our solutions, including e-mail and direct mail campaigns, co-marketing strategies designed to leverage existing strategic relationships, website marketing, topical webcasts, public relations campaigns, speaking engagements and forums and industry analyst visibility initiatives. We participate in and sponsor conferences that cater to our target market and demonstrate and promote our software and services at trade shows targeted to information technology and finance executives. We also publish white papers relating to communications life cycle management issues and develop customer reference programs, such as customer case studies, in an effort to promote better awareness of industry issues and demonstrate that our solutions can address many of these risks to an organization.

In the U.S. market we market and sell our solutions primarily through our direct sales force and through indirect distribution channel partners. Outside of the U.S. we market and sell our solutions through indirect distribution channel partners. We market our solutions through our direct sales force and alliances with several strategic partners in specific industries. The direct sales force, in concert with our operations managers, is responsible for providing highly responsive, quality service and ensuring client satisfaction. Strategic partnerships and alliances provide us with additional access to potential clients. Our marketing strategy is to build our brand and increase market awareness of our solutions in our target markets and to generate qualified sales leads that will allow successfully build strong relationships with key decision makers involved in the sales process on the customer side that typically consists of information technology executives, finance executives and managers of communications assets and networks. The sales process can take a year or more to cultivate and close depending on the prospective customer's timetable and urgency.

Our marketing and sales team has a wide variety of skills and expertise to cultivate qualified leads and guide our prospective customers towards finding a solution that meets their organization's goals and objectives.

## **Clients**

We derive a significant amount of our revenues from contracts funded by federal government agencies for which we act in capacity as the prime contractor, or as a subcontractor. We believe that contracts with federal government agencies in particular, will be a significant source of our revenues for the foreseeable future although we are working as part of our strategic re-focus to increase our footprint with non-government clients. Accordingly, changes in federal government fiscal or spending policies or the U.S. defense budget could directly affect our financial performance. Additionally, certain factors outside of our control including but not limited to potential delays in receiving task orders against our U.S Department of Homeland Security Blanket Purchase Agreement may materially affect the amount and timing of revenues we recognize and cause variability in our earnings in the short term.

We expect our federal customers to be motivated to meet their organizational missions and objectives and also minimize costs in this challenging environment. We believe these actions may result in lower profit margins across the federal contracting industry in whole if government spending in all areas is reduced. We believe that the federal government's spending will remain stable in key areas in which we are well positioned, including mobile telecommunications capabilities that serve to reduce and optimize spending; and in select cyber security initiatives that support trusted, cloud-based, secured-transmission solutions to both protect critical communications and infrastructure, and to do so in a cost-justified manner.

Our government client base is located predominantly in the Mid-Atlantic region of the U.S. while our commercial client base is located throughout the continental U.S., Europe and the Middle East. Historically, we have derived, and may continue to derive in the future, a significant percentage of our total revenues from a relatively small number of federal government contracts.

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 would have a material adverse effect on our results of operations. In future periods, we will continue to focus on diversifying our revenue by increasing the number of commercial customer contracts.

## Government Contracts

We have numerous government contracts and contract vehicles. Contract vehicles include Government Wide Acquisition Contracts (“GWACs”), Indefinite Delivery/Indefinite Quantity (“ID/IQ”) contracts, and Blanket Purchase Agreements (“BPAs”) based upon General Services Administration (“GSA”) Schedule rates. Our major prime contracts are with various departments of the Department of Defense (“DoD”), the Department of Homeland Security (“DHS”), the Centers for Disease Control (“CDC”), and Department of Health and Human Services (“DHHS”). We also hold a number of ID/IQ contracts that extend our capability to expand our revenue base, including, but not limited to:

§ Federal Supply Schedule for Management, Organizational and Business Improvement Services (“MOBIS”), the  
§ Federal Supply Schedule for Professional Engineering Services (“PES”), and the Solutions and More (“SAM”) contract.

§ DHHS Telecommunications Inventory and Expense Management Solutions contract.

§ The Department of Justice (“DOJ”) Information Technology Support Services (“ITSS”) 3 contract.

§ The Federal Bureau of Investigation (FBI) Explosive Reference Tool (EXPeRT).

§ Subsidiaries of WidePoint are approved subcontractors for the following ID/IQ contracts:

- o GSA Alliant Small Business
- o GSA Network
- o GSA Connections II
- o National Institutes of Health Chief Information Officer Solutions and Partners (CIO-SP3)
- o Defense Logistics Agency (DLA) Program Management and Support Services (PMSS)
- o Solutions for Enterprise-Wide Procurement (SEWP)

We also have various relationships with other contractors that allow us to act as a subcontractor, thereby providing us access to various other contracts and contract vehicles in biometrics and identity management infrastructure support, and Information Technology Support Services.

Our contracts with the federal government, and many contracts with other entities, permit the government client to modify, curtail or terminate the contract at any time for the convenience of the government, or for default by the contractor. If a contract is terminated for convenience, we are generally reimbursed for our allowable costs through the date of termination and are paid a proportionate amount of the stipulated profit or fee attributable to the work actually performed.



## **Product Development and Technology Solution Enhancements**

We may fund certain product development initiatives to enhance or customize existing client facing platforms and software solutions. These initiatives are aimed at improving the efficiency and effectiveness of our software solutions and our customizing a solution to meet our customer's organizational requirements, if necessary. We determine which enhancements to further develop after assessing the market capabilities sought by potential customers, considering technological advances, feedback on enhancements from our current customer user groups and other factors. Our current research and development activities are focused on the integration of our software based platforms, certain enhancements to improve the delivery of our information technology services delivered through these platforms and Cert-on-Device.

We utilized our proven federally authorized credentialing infrastructure to develop a mobile certificate solution that enables an organization to assign different levels of access to employees, consultants, and trading partners, based on the specific BYOD device being used to establish a connection with an organizations infrastructure. Our Cert-on-Device and other device oriented credentialing service enables an organization to provide secure virtual private network access through a mobile device, prohibit sensitive data downloads to unauthorized devices and prevent downloads from protected devices, and enable remote revocation of credentials that have been lost or stolen or being to an individual no longer with the organization the credential is linked.

We utilize a standard architecture with centralized technology oversight to ensure enhancements are subject to appropriate oversight and scrutiny and a consistent and efficient process. Our development team is comprised of professionals with hands-on technical and practical client-side development experience. We believe this allows us to design and deploy enhancements that can resolve real-world problems in a timely manner.

We funded and expensed strategic product development initiatives including Certificate-on-Device, derived credentialing and other credentialing offerings as well as platform and portal integrations and other product and portal enhancements totaling approximately \$673,000 in 2015, \$480,100 in 2014 and \$74,000 in 2013. In 2016, we will continue to work with our strategic partners to continue and focus our product development efforts as well as with client integrations.

## **Data Centers**

We host our proprietary solutions and operate all servers, systems and networks at 5 data centers located in Ohio, North Carolina and Virginia. Our agreements with our customers contain guarantees regarding specified levels of system availability, and we regularly provide our customers with performance reports against those standards. We deploy monitoring technology that continuously checks the servers and key underlying components at regular intervals for availability and performance, ensuring availability to our customers. Each data center provides security measures, redundant environmental controls, fire suppression systems and redundant electrical generators. To facilitate data loss recovery, we operate a multi-tiered system configuration with load-balanced web server pools, replicated database servers and fault-tolerant storage devices. The architecture is designed to ensure near real-time data recovery in the event of a malfunction of a primary server. Based on customer requirements, we can also provide near real-time asynchronous data replication between operational and disaster recovery backup sites.

## **Intellectual Property**

Our intellectual property rights are important to our business. We rely on a combination of patent, copyright, trademark, service mark, trade secret and other rights in the United States and other jurisdictions, as well as

confidentiality procedures and contractual provisions to protect our proprietary technology, processes and other intellectual property. We protect our intellectual property rights in a number of ways including entering into confidentiality and other written agreements with our employees, customers, consultants and partners in an attempt to control access to and distribution of our software, documentation and other proprietary technology and other information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop software or services with the same functionality as our software and services.

U.S. patent filings are intended to provide the holder with a right to exclude others from making, using, selling or importing in the United States the inventions covered by the claims of granted patents. Our patents, including our pending patents, if granted, may be contested, circumvented or invalidated. Moreover, the rights that may be granted in those issued and pending patents may not provide us with proprietary protection or competitive advantages, and we may not be able to prevent third parties from infringing those patents. Therefore, the exact benefits of our issued patents and, if issued, our pending patents and the other steps that we have taken to protect our intellectual property cannot be predicted with certainty.

### **Seasonality**

Our business is not seasonal. However, our revenues and operating results may vary significantly from quarter-to-quarter, due to revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter; as well as the schedule of the government agencies for awarding contracts, the term of each contract that we have been awarded and general economic conditions. 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.

### **Employees**

As of December 31, 2015, we had approximately 300 full-time employees. We periodically engage additional consultants and employ temporary employees. The majority of our offices are located in areas populated by military personnel (both retired and active duty), and highly-skilled civilian personnel. Potential employees possessing the unique qualifications required are readily available for both part-time and full-time employment. The primary method of soliciting personnel is through recruiting resources directly utilizing all known sources including electronic databases, public forums, and personal networks of friends and former co-workers.

We believe that our future success will depend in part on our continued ability to offer market competitive compensation packages to attract and retain highly skilled, highly motivated and disciplined managerial, technical, sales and support personnel. We generally do not have employment contracts with our employees, but we do selectively maintain employment agreements with key employees. In addition, confidentiality and non-disclosure agreements are in place with many of our customer, employees and consultants and such agreements are included in our policies and procedures. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

## **Corporate Information**

We were incorporated on May 30, 1997, under the laws of the State of Delaware under the name WidePoint Corporation. Our principal executive offices are located at 7926 Jones Branch Drive, Suite 520, McLean, Virginia 22102. Our internet address is [www.widepoint.com](http://www.widepoint.com). Information on our website is not incorporated into this Form 10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

## ITEM 1A. RISK FACTORS

*You should carefully consider the risk factors set forth below and in other reports that we file from time to time with the Securities and Exchange Commission and the other information in this Annual Report on Form 10-K. The matters discussed in the risk factors, and additional risks and uncertainties not currently known to us or that we currently deem immaterial, could have a material adverse effect on our business, financial condition, results of operation and future growth prospects and could cause the trading price of our common stock to decline.*

### **Risks Related to our Business and our Industry**

*We have had a history of losses, and we may be unable to (i) achieve and sustain profitability or (ii) raise additional capital on favorable terms; or at all.*

We have experienced net losses of approximately \$5.5 million, \$8.4 million, and \$1.7 million during the years ended December 31, 2015, 2014 and 2013, respectively. Generating positive cash flow and net income in the future will depend on our ability to successfully execute our on our strategy of growing of business through sales of higher margin services. There is no guarantee that we will be able to achieve or sustain profitability in the future. An inability to successfully achieve profitability will decrease our long-term viability. These is also no guarantee that we will be able to renew and/or access our credit facility or raise additional capital on favorable terms, or at all, and any inability to either renew and/or access our credit facility or raise additional capital could have an impact on our ability to continue to operate our business.

*We may need to obtain additional funding to meet our future capital needs. If we are unable to obtain such financings, we may be required to significantly cut back our operations, sell assets or cease operations.*

We may require additional funding to support our operations. Additional funding may be unavailable on favorable terms, if at all. If we are unable to obtain sufficient additional funding when needed, we may have to significantly cut back our operations, defer potentially favorable acquisitions, and/or sell some or all of our assets. We are working to strategically re-focus our organization and reduce our operating expenses in order to operate more efficiently and grow our business. If demand for our products and services does not increase, our business and operating results will suffer.

*We currently have access to a credit facility agreement, which requires us to maintain certain financial covenants and failure to maintain such covenants could limit our access to debt capital and simultaneously require immediate*

*payment of borrowings by our lender.*

Historically, we have had access to a credit facility, which consists of a variable line of credit and a fixed term note to fund acquisition growth and working capital. Our credit facility agreement requires us to maintain certain financial covenants on a quarterly and annual basis. We were in compliance with our financial covenants as of December 31, 2015. If we are unable to meet future covenants, such failures could result in our lender accelerating in part or in full payment of all unpaid principal and interest which could have an adverse our ability to fund acquisition initiatives using debt and fund operational short falls. Similarly, if we are unable to renew or access the credit facility in the future, our business and operating results will suffer and we may need to obtain additional funding, which may not be available on favorable terms or at all.

*Our market is highly competitive and we may not be able to compete effectively or gain market acceptance of our products and service, such as Cert-on-Device.*

The markets for the services and products we provide are highly competitive. We currently compete with companies from a variety of market segments, including publicly and privately held firms, large accounting and consulting firms, systems consulting and implementation firms, application software firms, service groups of computer equipment companies and other general management consulting firms. We also compete regularly with offshore outsourcing companies, and we expect competition from these companies to increase in the future, especially on development, application management services and outsourcing engagements. In addition, we and other technology and outsourced service providers compete with internally developed communications management solutions.

We compete frequently for client engagements against companies with greater resources than ours. Recent consolidations of large competitors within our market have further increased the size and resources of some of these competitors. These competitors are often able to offer more scale, which in some instances has enabled them to significantly discount their services in exchange for revenues in other areas or at later dates. Additionally, in an effort to maintain market share, many of our competitors are heavily discounting their services to unprofitable levels. If we cannot keep pace with the intense competition in our marketplace, our business, financial condition and results of operations will suffer.

The intensity of competition in our information technology based managed mobility solutions market could result in pricing pressure as the market continues to develop. We expect the intensity of competition to increase in the future as existing competitors develop their capabilities and as new companies, which could include mobile communications technology, cyber security technology, and solution providers and one or more large communications carriers, enter our market. Some of these competitors, such as large communications carriers, may offer similar and or expanded solutions as part of a broad outsource offering for mobile communications services. Increased competition could result in additional pricing pressure, reduced sales, shorter term lengths for customer contracts, lower margins or the failure of our solution to achieve or maintain broad market acceptance. If we are unable to compete effectively, it will be difficult for us to maintain our pricing rates and add and retain customers, and our business, financial condition and results of operations will be harmed.

In addition, due to competitive factors, such as access to customers or the development of superior products of services, our business will be harmed if we are unable to gain market acceptance of our products, including Cert-On-Device. Since we have less resources than our competitors, the failure of one of our products or services to gain market acceptance will cause us greater harm due to the costs involved in developing or acquiring new products and services. Any failure to gain market acceptances of our products and services will have a material adverse impact on our operations and our ability to continue our business.



*We have significant fixed operating costs, which may be difficult to adjust in response to unanticipated fluctuations in revenues.*

A high percentage of our operating expenses, particularly personnel, rent and depreciation, are fixed in advance of any particular quarter. As a result, an unanticipated decrease in the number or average size of, or an unanticipated delay in the scheduling for our projects may cause significant variations in operating results in any particular quarter and could have a material adverse effect on operations for that quarter. An unanticipated termination or decrease in size or scope of a major project, a client's decision not to proceed with a project we anticipated or the completion during a quarter of several major client projects could require us to maintain underutilized employees and could have a material adverse effect on our business, financial condition and results of operations. Additionally, our revenues and earnings may also fluctuate from quarter to quarter because of such factors as:

§ the contractual terms and timing of completion of projects, including achievement of certain business results;

§ the contractual terms and timing of completion of projects, including achievement of certain business results;  
§ any delays incurred in connection with projects;  
§ the adequacy of provisions for losses and bad debts;  
§ the accuracy of our estimates of resources required to complete ongoing projects;  
§ loss of key highly skilled personnel necessary to complete projects; and  
§ general economic conditions.

***We may not be able to respond to rapid technological changes with new software products and services, which could harm our sales and profitability.***

The IT-based services offered through our portfolio of products, services, and solutions is characterized by rapid technological change and frequent new product and service introductions, driven in part by periodic introductions of new technologies and devices in the mobile cyber security and communications industries, frequent changes in, and resulting inconsistencies between, the billing platforms utilized by major communications carriers and the changing demands of customers regarding the means of delivery of communications management solutions. To achieve and maintain market acceptance for our solution, we must effectively anticipate these changes and offer software products and services that respond to them in a timely manner. Customers may require features and capabilities that our current solution does not have. In addition, the development of new products and services involves significant time and financial resources. If we fail to develop software products and services that satisfy customer preferences in a timely and cost-effective manner, our ability to renew our agreements with existing customers and our ability to create or increase demand for our solution will be harmed.

***We may lose money if we do not accurately price our products and services or estimate the costs of fixed-price engagements.***

We are working towards growing our business profitability. The development and sale of new products, such as Certificate-On-Device, involves estimates of (i) our actual costs and expenses, (ii) prices that the customers will pay and (iii) other factors. Our inability to accurately price and sell our products at an acceptable profit margin that customers are willing to pay will have a negative impact on our business. In addition, some of our projects may be based on fixed-price, fixed-time contracts, rather than contracts in which payment to us is determined on a time and materials basis. Our failure to accurately estimate the resources required for a project (including appropriate overhead and general and administrative support costs), client driven actions that causes our original project plan to be delayed, or our failure to complete our contractual obligations in a manner consistent with the project plan upon which our fixed-price, fixed-time contract was based, could adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations. In addition, we may fix the price for some projects at an early stage of the process, which could result in a fixed price that turns out to be too low and, therefore, could adversely affect our business, financial condition and results of operations.

***Our clients could unexpectedly terminate their contracts for our services.***

Some of our contracts can be canceled by the client with limited advance notice and without significant penalty. Termination by any client of a contract for our services could result in a loss of expected revenues and additional expenses for staff that were allocated to that client's project. We could be required to maintain underutilized employees who were assigned to the terminated contract. The unexpected cancellation or significant reduction in the scope of any of our large projects could have a material adverse effect on our business, financial condition and results of operations.

***We may be liable to our clients for damages caused by our services or by our failure to remedy system failures.***

Many of our projects involve technology applications or systems that are critical to the operations of our clients' businesses. If we fail to perform our services correctly, we may be unable to deliver applications or systems to our clients with the promised functionality or within the promised time frame, or to satisfy the required service levels for support and maintenance. While we have created redundancy and back-up systems, any such failures by us could result in claims by our clients for substantial damages against us. Although we attempt to limit the amount and type of our contractual liability for defects in the applications or systems we provide, and carry insurance coverage that mitigates this liability in certain instances, we cannot be assured that these limitations and insurance coverages will be applicable and enforceable in all cases. Even if these limitations and insurance coverages are found to be applicable and enforceable, our liability to our clients for these types of claims could still exceed our insurance coverage and be material in amount and affect our business, financial condition and results of operations.

***We may be unable to protect our proprietary software and methodology.***

Our success depends, in part, upon our proprietary software, methodology and other intellectual property rights. We rely upon a combination of trade secrets, nondisclosure and other contractual arrangements, and copyright and trademark laws to protect our proprietary rights. We generally enter into nondisclosure and confidentiality agreements with our employees, partners, consultants, independent sales agents and clients, and limit access to and distribution of our proprietary information. We cannot be certain that the steps we take in this regard will be adequate to deter misappropriation of our proprietary information or that we will be able to detect unauthorized use and take appropriate steps to enforce our intellectual property rights. Furthermore, statutory contracting regulations protect the rights of federal agencies to retain access to, and utilization of, proprietary intellectual property utilized in the delivery of contracted services to such agencies. We have attempted to put in place certain safeguards in our policies and procedures to protect intellectual property developed by employees. Our policies and procedures stipulate that intellectual property created by employees and its consultants remain our property. If we are unable to protect our proprietary software and methodology, the value of our business may decrease and we may face increased competition.

***Assertions by a third party that our software products or technology infringes its intellectual property, whether or not correct, could subject us to costly and time-consuming litigation or expensive licenses.***

Although we believe that our services and products do not infringe on the intellectual property rights of others, infringement claims may be asserted against us in the future. There is frequent litigation in the communications and technology industries based on allegations of infringement or other violations of intellectual property rights. As we face increasing competition, the possibility of intellectual property rights claims against us may increase. These claims, whether or not successful, could:

§ divert management's attention;  
§ result in costly and time-consuming litigation;  
§ require us to enter into royalty or licensing agreements, which may not be available on acceptable terms, or at all; or  
§ require us to redesign our software products to avoid infringement.

As a result, any third-party intellectual property claims against us could increase our expenses and impair our business. In addition, although we have licensed proprietary technology, we cannot be certain that the owners' rights in such technology will not be challenged, invalidated or circumvented. Furthermore, many of our customer agreements require us to indemnify our customers for certain third-party intellectual property infringement claims, which could increase our costs as a result of defending such claims and may require that we pay damages if there were an adverse ruling related to any such claims. These types of claims could harm our relationships with our customers, may deter future customers from purchasing our software products or could expose us to litigation for these claims. Even if we are not a party to any litigation between a customer and a third party, an adverse outcome in any such litigation could make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

***Our net operating loss carry-forwards may be subject to a valuation adjustment if we do not maintain and increase our profitability.***

As of December 31, 2015, we had aggregate federal net operating loss carry-forwards of approximately \$28.3 million and state net operating loss carry-forwards of approximately \$25.3 million. Our ability to utilize our net operating loss carry-forwards and related deferred tax assets is based upon our ability to generate future taxable income. Our ability to generate future taxable income can be impacted by many circumstances. If we fail to generate taxable income our existing deferred tax assets may expire unused. In addition, net operating loss carry-forwards may become subject to an annual limitation if there is a cumulative change in the ownership interest of significant stockholders (or certain stockholder groups) over a three-year period in excess of 50%, in accordance with rules established under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, and similar state rules (we refer to each as an ownership change). Such an ownership change could limit the amount of historic net operating loss carry-forwards that can be utilized annually to offset future taxable income.

***The loss of key personnel or an inability to attract and retain additional personnel may impair our ability to grow our business.***

We are highly dependent upon the continued service and performance of our senior management team and key technical and sales personnel. The replacement of these individuals likely would involve expenditure of significant time and financial resources, and their loss might significantly delay or prevent the achievement of our business objectives. We do not maintain key man life insurance with respect to any of our executives.

We plan to continue to expand our work force both domestically and internationally to increase our customer base and revenue. We face intense competition for qualified individuals from numerous consulting, technology, software and communications companies. Our ability to achieve significant revenue growth will depend, in large part, on our success in recruiting, training and retaining sufficient numbers of personnel to support our growth. New hires may require significant training and may take significant time before they achieve full productivity. If our recruiting, training and retention efforts are not successful or do not generate a corresponding increase in revenue, our business will be harmed.

In addition, if our key employees resign from us or our subsidiaries to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on our business, financial condition and results of operations. Although we require certain of our employees to sign agreements prohibiting them from joining a competitor, forming a competing company or soliciting our clients or employees for certain periods of time, we cannot be certain that these agreements will be effective in preventing our key employees from engaging in these actions or that courts or other adjudicative entities will substantially enforce these agreements.



***The loss of one or more significant customers could have an adverse impact on our results of operations.***

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. Historically, we have derived, and may in the future derive, a significant percentage of our total revenues from the U.S Federal Government and a relatively small number of large multinational customers. For the years ended December 31, 2015, 2014 and 2013, revenues from the Department of Homeland Security as a percentage of consolidated revenues represented approximately 49%, 37% and 33%, respectively.

***We may incur substantial costs in connection with contracts awarded through a competitive procurement process, which could negatively impact our operating results.***

Many federal, state and local government contracts are awarded through a competitive procurement process. We expect that much of the government business we seek in the foreseeable future will be awarded through competitive procedures. Competitive procurements impose substantial costs and present a number of risks, including:

- § the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may not be awarded to us;
- § requirements to register to conduct business in another state or country could increase our compliance costs;
- § requirements to post a bid guarantee or similar performance guarantee as part of a bid submission; and
- § the expense and delay that we may face if our competitors protest or challenge contract awards made to us pursuant to competitive procedures, and the risk that any such protest or challenge could result in the resubmission of offers, or in termination, reduction, or modification of the awarded contract.

The costs we incur in the competitive procurement process may be substantial and, to the extent we participate in competitive procurements and are unable to win particular contracts, these costs could negatively affect our operating results. In addition, the General Services Administration multiple award schedule contracts, government-wide acquisitions contracts, blanket purchase agreements, and other indefinite delivery/indefinite quantity contracts do not guarantee more than a minimal amount of work for us, but instead provide us access to work generally through further competitive procedures. This competitive process may result in increased competition and pricing pressure, requiring that we make sustained post-award efforts to realize revenues under the relevant contract.

***We may be unable to successfully implement our acquisition program.***



Our business strategy includes the potential future acquisition of, or investment in, complementary businesses, services or technologies. Demand for businesses with credible business relationships and capabilities to provide services to large commercial enterprises and/or governmental agencies at the federal, state and local level is very competitive. To the extent that the price of such acquisitions may rise beyond reasonable levels where funding for such acquisitions is no longer available, we may not be able to implement our acquisition strategy. Further, these acquisitions, investments or new business relationships may result in unforeseen difficulties and expenditures. We may encounter difficulties assimilating or integrating the businesses, technologies, products, services, personnel or operations of companies we have acquired or companies that we may in the future acquire. These difficulties may arise if the key personnel of the acquired company choose not to work for us, the company's technology or services do not easily integrate with ours or we have difficulty retaining the acquired company's customers due to changes in its management or for other reasons. These acquisitions may also disrupt our business, divert our resources and require significant management attention that would otherwise be available for development of our business. Moreover, the anticipated benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities. In addition, any future acquisition may require us to:

- § issue additional equity securities that would dilute our stockholders;
- § use cash that we may need in the future to operate our business;
- § incur debt on terms unfavorable to us or that we are unable to repay;
- § incur large charges or substantial liabilities; or
- § become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

If any of these risks materializes, our business and operating results would be harmed.

***We have identified ineffective disclosure controls and procedures and material weaknesses in the design of our internal control over financial reporting.***

If we are unable to maintain adequate internal control over financial reporting, we may be unable to report our financial information on a timely basis, may suffer adverse regulatory consequences or violations of applicable stock exchange listing rules. Furthermore, failure to achieve and maintain an effective internal control environment could have a material adverse effect on our business and share price due to a lack of investor confidence.

Our management has previously determined that our internal control over financial reporting is not effective due to the existence of certain material weaknesses. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management has determined that its existing policies and procedures continued to be limited and/or inadequate in scope to provide staff with guidance or framework for accounting and disclosing financial transactions. This deficiency could result in unintended, misleading entries being made in the financial system and precluding sufficient disclosure of complex transactions.

In addition, we will incur additional costs in order to improve our internal control over financial reporting and comply with Section 404, including increased auditing and legal fees and costs associated with hiring additional accounting and administrative staff.

***Unfavorable government audit results could subject us to a variety of penalties and sanctions, and could harm our reputation and relationships with our clients.***

The federal government audits and reviews our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations, and standards. Like most large government contractors, our contracts are audited and reviewed on a continual basis by federal agencies, including the Defense Contract Audit Agency. An unfavorable audit of us, or of our subcontractors, could have a substantial adverse effect on our operating results. For

example, any costs that were originally reimbursed could subsequently be disallowed. In this case, cash we have already collected may need to be refunded.

If a government audit uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or debarment from doing business with U.S. government agencies. In addition, we could suffer serious harm to our reputation if allegations of impropriety were made against us, whether or not true.

***Security breaches in sensitive government systems could result in the loss of clients and negative publicity.***

Many of the services we provide involve managing and protecting information involved in intelligence, national security, and other sensitive or classified government functions. A security breach in one of these systems could cause serious harm to our business, damage our reputation, and prevent us from being eligible for further work on sensitive or classified systems for federal government clients. We could incur losses from such a security breach that could exceed the policy limits under our errors and omissions and product liability insurance. Damage to our reputation or limitations on our eligibility for additional work resulting from a security breach in one of the systems we develop, install, and maintain could materially reduce our revenues.

***Our failure to obtain and maintain necessary security clearances may limit our ability to perform classified work for government clients, which could cause us to lose business.***

Some government contracts require us to maintain facility security clearances, and require some of our employees to maintain individual security clearances. If our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, the government client can terminate the contract or decide not to renew it upon its expiration. As a result, to the extent we cannot obtain or maintain the required security clearances for a particular contract, or we fail to obtain them on a timely basis, we may not derive the revenues anticipated from the contract, which, if not replaced with revenues from other contracts, could harm our operating results. To the extent we are not able to obtain facility security clearances or engage employees with the required security clearances for a particular contract, we will be unable to perform that contract and we may not be able to compete for or win new contracts for similar work.

***Changes in the spending policies or budget priorities of the federal government could cause us to lose revenues.***

We derive a significant amount of our revenues from contracts funded by federal government agencies. We believe that contracts with federal government agencies and defense agencies in particular, will be a significant source of our revenues for the foreseeable future. Accordingly, changes in federal government fiscal or spending policies or the U.S. defense budget could directly affect our financial performance. Among the factors that could harm our business are:

- § curtailment of the federal government's use of technology services firms;
- § a significant decline in spending by the federal government, in general, or by specific agencies such as the Department of Defense;
- § budget cuts intended to avoid sequestration;
- § reductions in federal government programs or requirements, including government agency shutdowns and/or reductions in connection with sequestration;
- § any failure to raise the debt ceiling;

§ a shift in spending to federal programs and agencies that we do not support or where we currently do not have contracts;

§ delays in the payment of our invoices by government payment offices;

§ federal governmental shutdowns, and other potential delays in the government appropriations process; and  
§ general economic and political conditions, including any event that results in a change in spending priorities of the federal government.

These or other factors could cause federal government agencies and departments to delay payments owed for our services, to reduce their purchases under contracts, to exercise their right to terminate contracts, or not to exercise options to renew contracts, any of which could cause us to lose revenues. In addition, any limitations imposed on spending by U.S. government agencies that result from efforts to reduce the federal deficit, including as a result of sequestration or otherwise, may limit both the continued funding of our existing contracts and our ability to obtain additional contracts.

***Federal government contracts contain provisions giving government clients a variety of rights that are unfavorable to us, including the ability to terminate a contract at any time for convenience.***

Federal government contracts contain provisions and are subject to laws and regulations that provide government clients with rights and remedies not typically found in commercial contracts. These rights and remedies allow government clients, among other things, to:

- § terminate existing contracts, with short notice, for convenience, as well as for default;
- § reduce orders under or otherwise modify contracts;
- § for larger contracts subject to the Truth in Negotiations Act, reduce the contract price or cost where it was increased because a contractor or subcontractor during negotiations furnished cost or pricing data that was not complete, accurate, and current;
- § for GSA multiple award schedule contracts, government-wide acquisition agreements, and blanket purchase agreements, demand a refund, make a forward price adjustment, or terminate a contract for default if a contractor provided inaccurate or incomplete data during the contract negotiation process, or reduce the contract price under certain triggering circumstances, including the revision of pricelists or other documents upon which the contract award was predicated, the granting of more favorable discounts or terms and conditions than those contained in such documents, and the granting of certain special discounts to certain clients;
- § terminate our facility security clearances and thereby prevent us from receiving classified contracts;
- § cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;
- § decline to exercise an option to renew a multi-year contract or issue task orders in connection with indefinite delivery/indefinite quantity contracts;
- § claim rights in solutions, systems, and technology produced by us;
- § prohibit future procurement awards with a particular agency due to a finding of organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors or the existence of conflicting roles that might bias a contractor's judgment;
- § subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction, or modification of the awarded contract; and
- § suspend or debar us from doing business with the federal government.

If a federal government client terminates one of our contracts for convenience, we may recover only our incurred or committed costs, settlement expenses, and profit on work completed prior to the termination. If a federal government client were to unexpectedly terminate, cancel, or decline to exercise an option to renew with respect to one or more of our significant contracts or suspend or debar us from doing business with the federal government, our revenues and operating results would be materially harmed.

***Our failure to comply with complex procurement laws and regulations could cause us to lose business and subject us to a variety of penalties.***

We must comply with laws and regulations relating to the formation, administration, and performance of federal government contracts, which affect how we do business with our federal government clients and may impose added costs on our business. Among the most significant laws and regulations are:

- § the Federal Acquisition Regulation, and agency regulations analogous or supplemental to the Federal Acquisition Regulation, which comprehensively regulate the formation, administration, and performance of government contracts;
- § the Truth in Negotiations Act, which requires certification and disclosure of all cost or pricing data in connection with some contract negotiations;
- § the Cost Accounting Standards, which impose cost accounting requirements that govern our right to reimbursement under some cost-based government contracts; and
- § laws, regulations, and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of specified solutions and technical data.

If a government review or investigation uncovers improper or illegal activities, we may be subject to civil and criminal penalties and administrative sanctions, including the termination of our contracts, the forfeiture of profits, the suspension of payments owed to us, fines, and our suspension or debarment from doing business with federal government agencies. In particular, the civil False Claims Act provides for treble damages and potentially substantial civil penalties where, for example, a contractor presents a false or fraudulent claim to the government for payment or approval, or makes a false statement in order to get a false or fraudulent claim paid or approved by the government. Actions under the civil False Claims Act may be brought by the government or by other persons on behalf of the government. These provisions of the civil False Claims Act permit parties, such as our employees, to sue us on behalf of the government and share a portion of any recovery. Any failure to comply with applicable laws and regulations could result in contract termination, price or fee reductions, or suspension or debarment from contracting with the government, each of which could lead to a material reduction in our revenues.

***The adoption of new procurement laws or regulations could reduce the amount of services that are outsourced by the federal government and cause us to experience reduced revenues.***

New legislation, procurement regulations, or labor organization pressure could cause federal agencies to adopt restrictive procurement practices regarding the use of outside service providers. The American Federation of Government Employees, the largest federal employee union, strongly endorses legislation that may restrict the procedure by which services are outsourced to government contractors. One such proposal, the Truthfulness, Responsibility, and Accountability in Contracting Act, would have effectively reduced the volume of services that is

outsourced by the federal government by requiring agencies to give in-house government employees expanded opportunities to compete against contractors for work that could be outsourced. If such legislation, or similar legislation, were to be enacted, it would likely reduce the amount of IT services that could be outsourced by the federal government, which could materially reduce our revenues.

***If the market for our information technology based managed mobility solutions does not grow as we expect, our business will be harmed.***

The markets for our information technology based managed mobility solutions are developing, and it is not certain whether these services will achieve market acceptance and sustain high demand. Some potential customers have invested substantial personnel and financial resources into developing internal solutions for communications management, so they may not perceive the benefit of our external solution. If potential customers do not perceive the benefits of our products, services and solutions, then the markets may not continue to develop or may develop more slowly than we expect, either of which would reduce our revenue and profitability.



***If we are unable to retain our existing customers, our revenue and results of operations would grow more slowly than expected or decline and our results of operations would be impaired.***

We sell our information technology based services pursuant to agreements that are generally one to five years in duration. Many times they are in the form of a one year agreement with one to four year option periods. Our customers have no obligation to renew their agreements after their terms expire and some of our customers may terminate their agreements for convenience. These agreements may not be maintained or renewed on the same or on more profitable terms. As a result, our ability to both maintain and grow our revenue depends in part on customer renewals. We may not be able to accurately predict future trends in customer renewals, and our customers' renewal rates may decline or fluctuate because of several factors, including their satisfaction or dissatisfaction with our products, services, and or solutions, the prices of our managed mobility solutions software products, the prices of products and services offered by our competitors or reductions in our customers' spending levels. In addition, customers that are acquired by companies using competing service offerings may be required to begin using those competing service offerings, rather than renew their license arrangements with us. If our customers do not renew their agreements for our communications management solutions software products, renew on less favorable terms, or do not purchase additional functionality, our revenue may grow more slowly than expected or decline.

***Our sales cycles can be long, unpredictable and require considerable time and expense, which may cause our operating results to fluctuate.***

Our sales cycle, which is the time between initial contact with a potential customer and the ultimate sale, is often lengthy and unpredictable. Some of our potential customers may already have partial managed mobility solutions in place under fixed-term contracts, which may limit their ability to commit to purchase our solution in a timely fashion. In addition, our potential customers typically undertake a significant evaluation process that can last six to nine months or more, and which requires us to expend substantial time, effort and money educating them about the capabilities of our offerings and the potential cost savings they can bring to an organization. Furthermore, the purchase of our solution typically also requires coordination and agreement across many departments within a potential customer's organization, which further contributes to our lengthy sales cycle. As a result, we have limited ability to forecast the timing and size of specific sales. Any delay in completing, or failure to complete, sales in a particular quarter or year could harm our business and could cause our operating results to vary significantly.

***If a communications carrier prohibits customer disclosure of communications billing and usage data to us, the value of our solution to customers of that carrier would be impaired, which may limit our ability to compete for their business.***

Certain of our information technology based solutions software functionality and services that we offer depend on our ability to access a customer's communications billing and usage data. For example, our ability to offer outsourced or automated communications bill auditing, billing dispute resolution, bill payment, cost allocation and expense

optimization depends on our ability to access this data. If a communications carrier were to prohibit its customers from disclosing this information to us, those enterprises would only be able to use these billing-related aspects of our solution on a self-serve basis, which would impair some of the value of our solution to those enterprises. This in turn could limit our ability to compete with the internally developed communications management solutions of those enterprises, require us to incur additional expenses to license access to that billing and usage data from the communications carrier, if such a license is made available to us at all, or put us at a competitive disadvantage against any third-party communications management solutions service provider that licenses access to that data.

Our long-term success in our industry depends, in part, on our ability to expand the sales of our solutions to customers located outside of the United States, and thus our business is susceptible to risks associated with international sales and operations.

We are currently seeking to expand the international sales and operations of our portfolio of solutions. This international expansion will subject us to new risks that we have not faced in the United States. These risks include:

- § geographic localization of our software products, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- § lack of familiarity with and unexpected changes in foreign regulatory requirements;
- § longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- § difficulties in managing, staffing and overseeing international implementations and operations, including increased reliance on foreign subcontractors;
- § challenges in integrating our software with multiple country-specific billing or communications support systems for international customers;
- § challenges in providing procurement, help desk and fulfillment capabilities for our international customers;
- § fluctuations in currency exchange rates;
- § potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- § the burdens of complying with a wide variety of foreign laws and legal standards;
- § increased financial accounting and reporting burdens and complexities;
- § potentially slower adoption rates of communications management solutions services internationally;
- § political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- § reduced or varied protection for intellectual property rights in some countries.

Operating in international markets also requires significant management attention and financial resources. The investment and additional resources required to establish operations and manage growth in other countries may not produce desired levels of revenue or profitability.

***Expansion into international markets could require us to comply with additional billing, invoicing, communications, data privacy and similar regulations, which could make it costly or difficult to operate in these markets.***

Many international regulatory agencies have adopted regulations related to where and how communications bills may be sent and how the data on such bills must be handled and protected. For instance, certain countries restrict communications bills from being sent outside of the country, either physically or electronically, while other countries require that certain information be encrypted or redacted before bills may be transmitted electronically. These regulations vary from jurisdiction to jurisdiction and international expansion of our business could subject us to additional similar regulations. Failure to comply with these regulations could result in significant monetary penalties

and compliance with these regulations could require expenditure of significant financial and administrative resources.

In addition, personally identifiable information is increasingly subject to legislation and regulations in numerous jurisdictions around the world, the intent of which is to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Our failure to comply with applicable safe harbor, privacy laws and international security regulations or any security breakdown that results in the unauthorized release of personally identifiable information or other customer data could result in fines or proceedings by governmental agencies or private individuals, which could harm our results of operations.

***If we fail to effectively manage and develop our strategic relationships with our channel partners, or if those third parties choose not to market and sell our communications management solutions, our operating results would suffer.***

The successful implementation of our strategic goals is dependent in part on strategic relationships with our channel partners to offer our communications management solutions to a larger customer base than we can reach through our current direct sales and marketing efforts. Some of our strategic relationships are relatively new and, therefore, it is uncertain whether these third parties will be able to market and sell our solution successfully or provide the volume and quality of customers that we currently desire.

Our success depends in part on the ultimate success of our channel partners and their ability to market and sell our communications management solutions. Some of these third parties may have previously entered, and may in the future enter, into strategic relationships with our competitors. Further, many of our channel partners have multiple strategic relationships and they may not regard us as significant to their businesses. Our channel partners may terminate their respective relationships with us, pursue other partnerships or relationships, or attempt to develop or acquire products or services that compete with our communications management solutions. Our channel partners also may interfere with our ability to enter into other desirable strategic relationships.

If we are unable to manage and develop our strategic relationships, the growth of our customer base may be harmed and we may have to devote substantially more resources to the distribution, sales and marketing of our solution, which would increase our costs and decrease our earnings.

***The emergence of one or more widely used, standardized communications devices or billing or operational support systems could limit the value and operability of our solution and our ability to compete with the manufacturers of such devices or the carriers using such systems in providing telecommunications lifecycle management services.***

Our solution derives its value in significant part from our communications management software's ability to interface with and support the interoperation of diverse communications devices, billing systems and operational support systems. The emergence of a single or a small number of widely used communications devices, billing systems or operational support systems using consolidated, consistent sets of standardized interfaces for the interaction between communications service providers and their enterprise customers could significantly reduce the value of our solution to our customers and potential customers. Furthermore, any such communications device, billing system or operational support system could make use of proprietary software or technology standards that our software might not be able to support. In addition, the manufacturer of such device, or the carrier using such billing system or operational support system, might actively seek to limit the interoperability of such device, billing system or operational support system with our software products for competitive or other reasons. The resulting lack of compatibility of our software products would put us at a significant competitive disadvantage, or entirely prevent us from competing, in that segment of the potential market if such manufacturer or carrier, or its authorized licensees,

were to develop one or more communications management solutions competitive with our solution.

***A continued proliferation and diversification of communications technologies or devices could increase the costs of providing our software products or limit our ability to provide our software products to potential customers.***

Our ability to provide our software products is dependent on the technological compatibility of our products with the communications infrastructures and devices of our customers and their communications service providers. The development and introduction of new communications technologies and devices requires us to expend significant personnel and financial resources to develop and maintain interoperability of our software products with these technologies and devices. The communications industry has recently been characterized by rapid change and diversification in both product and service offerings. Continued proliferation of communications products and services could significantly increase our research and development costs and increase the lag time between the initial release of new technologies and products and our ability to provide support for them in our software products, which would limit the potential market of customers that we have the ability to serve.

***Actual or perceived breaches of our security measures, or governmental required disclosure of customer information could diminish demand for our solution and subject us to substantial liability.***

In the processing of communications transactions, we receive, transmit and store a large volume of sensitive customer information, including call records, billing records, contractual terms, and financial and payment information, including credit card information, and we have entered into contractual obligations to maintain the confidentiality of certain of this information. Any person who circumvents our security measures could steal proprietary or confidential customer information or cause interruptions in our operations and any such lapse in security could expose us to litigation, substantial contractual liabilities, loss of customers or damage to our reputation or could otherwise harm our business. We incur significant costs to protect against security breaches and may incur significant additional costs to alleviate problems caused by any breaches. In addition, if we are required to disclose any of this sensitive customer information to governmental authorities, that disclosure could expose us to a risk of losing customers or could otherwise harm our business.

If customers believe that we may be subject to requirements to disclose sensitive customer information to governmental authorities, or that our systems and software products do not provide adequate security for the storage of confidential information or its transmission over the Internet or corporate extranets, or are otherwise inadequate for Internet or extranet use, our business will be harmed. Customers' concerns about security could deter them from using the Internet to conduct transactions that involve confidential information, including transactions of the types included in our solution, so our failure to prevent security breaches, or the occurrence of well-publicized security breaches affecting the Internet in general, could significantly harm our business and financial results.

***Defects or errors in our software products and/or processes could harm our reputation, impair our ability to sell our products and result in significant costs to us.***

Our software products are highly complex and may contain undetected defects or errors that may result in product failures or otherwise cause our software products to fail to perform in accordance with customer expectations. Because our customers use our software products for important aspects of their businesses, any defects or errors in, or other performance problems with, our software products could hurt our reputation and may damage our customers' businesses. If that occurs, we could lose future sales or our existing customers could elect to not renew their customer agreements with us. Product performance problems could result in loss of market share, failure to achieve market acceptance and the diversion of development resources from software enhancements. If our software products fail to perform or contain a technical defect, a customer might assert a claim against us for damages. Whether or not we are responsible for our software's failure or defect, we could be required to spend significant time and money in litigation, arbitration or other dispute resolution, and potentially pay significant settlements or damages.



*We provide minimum service-level commitments to many of our customers, and our inability to meet those commitments could result in significant loss of customers, harm to our reputation and costs to us.*

Many of our customer agreements currently, or may in the future, require that we meet minimum service level commitments regarding items such as platform availability, invoice processing speed and order processing speed. If we are unable to meet the stated service level commitments under these agreements many of our customers will have the right to terminate their agreements with us and we may be contractually obligated to provide our customers with credits or pay other penalties. If our software products are unavailable for significant periods of time we may lose a substantial number of our customers as a result of these contractual rights, we may suffer harm to our reputation and we may be required to provide our customers with significant credits or pay our customers significant contractual penalties, any of which could harm our business, financial condition, results of operations.

## **Risks Related To Our Common Stock**

*Our common stock price has been volatile.*

The stock market has, from time to time, experienced extreme price and volume fluctuations. The market prices of the securities of companies in our industry have been especially volatile. Broad market fluctuations of this type may adversely affect the market price of our common stock.

The market price of our common stock has experienced, and may continue to be subject to volatility due to a variety of factors, including:

- § public announcements concerning us, our competitors or our industry;
- § fluctuations in operating results;
- § introductions of new products or services by us or our competitors;
- § changes in analysts' earnings estimates;
- § announcements of technological innovations;
- § additional sales of our common stock or other securities;
- § our inability to achieve and sustain profitability; or
- § our inability to gain market acceptance of our products and services.

In the past, some companies that have experienced volatility in the market price of their stock have been the object of securities class action litigation. If we were the object of securities class action litigation, we could incur substantial costs and experience a diversion of our management's attention and resources and such securities class action litigation

could have a material adverse effect on our business, financial condition and results of operations.

***A third party could be prevented from acquiring shares of our common stock at a premium to the market price because of our anti-takeover provisions.***

Various provisions of our certificate of incorporation, by-laws and Delaware law could make it more difficult for a third party to acquire us, even if doing so might be beneficial to you and our other stockholders. We are subject to the provisions of Section 203 of the General Corporation Law of Delaware. Section 203 prohibits a publicly held Delaware corporation from engaging in a “business combination” with any interested stockholder for a period of three years after the date of the transaction in which the person became an interested stockholder, unless the business combination is approved in a prescribed manner. A “business combination” includes mergers, asset sales and other transactions resulting in a financial benefit to the interested stockholder. Subject to certain exceptions, an “interested stockholder” is (i) a person who, together with affiliates and associates, owns 15% or more of our voting stock or (ii) an affiliate or associate of ours who was the owner, together with affiliates and associates, of 15% or more of our outstanding voting stock at any time within the 3-year period prior to the date for determining whether such person is “interested.”

Our certificate of incorporation also provides that any action required or permitted to be taken by our stockholders at an annual meeting or special meeting of stockholders may be taken without such meeting only by the unanimous consent of all stockholders entitled to vote on the particular action. In order for any matter to be considered properly brought before a meeting, a stockholder must comply with certain requirements regarding advance notice to us. The foregoing provisions could have the effect of delaying until the next stockholders' meeting stockholder actions, which are favored by the holders of a majority of our outstanding voting securities. These provisions may also discourage another person or entity from making a tender offer for our common stock, because such person or entity, even if it acquired a majority of our outstanding voting securities, would be able to take action as a stockholder (such as electing new directors or approving a merger) only at a duly called stockholders' meeting, and not by written consent.

The General Corporation Law of Delaware provides generally that the affirmative vote of a majority of the shares entitled to vote on any matter is required to amend a corporation's certificate of incorporation or bylaws, unless a corporation's certificate of incorporation or bylaws, as the case may be, requires a greater percentage. Our certificate of incorporation and bylaws do not require a greater percentage vote. Our board of directors is classified into three classes of directors, with approximately one-third of the directors serving in each such class of directors and with one class of directors being elected at each annual meeting of stockholders to serve for a term of three years or until their successors are elected and take office. Our bylaws provide that the board of directors will determine the number of directors to serve on the board. Our board of directors presently consists of seven members.

Our certificate of incorporation and bylaws contain certain provisions permitted under the General Corporation Law of Delaware relating to the liability of directors. The provisions eliminate, to the fullest extent permitted by the General Corporation Law of Delaware, a director's personal liability to us or our stockholders with respect to any act or omission in the performance of his or her duties as a director. Our certificate of incorporation and bylaws also allow us to indemnify our directors, to the fullest extent permitted by the General Corporation Law of Delaware. Our bylaws also provide that we may grant indemnification to any officer, employee, agent or other individual as our Board may approve from time to time. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

***The future sale of shares of our common stock may negatively affect our common stock price.***

If our stockholders sell substantial amounts of our common stock, the market price of our common stock could fall. These sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate.

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, 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.

***Our quarterly operating results may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of research analysts or investors, which could cause our stock price to decline.***

Our quarterly operating results may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly operating results or guidance fall below the expectations of research analysts or investors, the price of our common stock could decline substantially. Fluctuations in our quarterly operating results or guidance may be due to a number of factors, including, but not limited to:

§ our ability to attract new customers, obtain renewals from existing customers and increase sales to existing customers;

§ the purchasing and budgeting cycles of our customers;

§ changes in our pricing policies or those of our competitors;

§ the amount and timing of operating costs and capital expenditures related to the operation, maintenance and expansion of our business;

§ service outages or security breaches;

§ the timing and success of new service introductions and upgrades by us or our competitors;

§ the timing of costs related to the development or acquisition of technologies, services or businesses;

§ the timing of collection of payments from channel partners;

§ the financial condition of our customers; and

§ general economic, industry and market conditions.

*We do not expect to declare any dividends in the foreseeable future.*

We do not anticipate declaring any cash dividends to holders of our common stock in the foreseeable future. Consequently, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase our common stock.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

## ITEM 2. PROPERTIES

All of our property locations are leased other than our operations office in Lewis Center, Ohio; which is owned and carries a mortgage obligation of approximately \$451,000. We believe we can obtain additional facilities required to accommodate projected needs without difficulty and at commercially reasonable prices, although no assurance can be given that we will be able to do so. The following table presents our property locations at December 31, 2015 for our U.S. locations:

Function	Physical Street Address	City, State Zip Code	Lease Expiration	Approx. Sqft	Base Cost per Sqft	Base Annual Cost
----------	-------------------------	----------------------	------------------	--------------	--------------------	------------------

Edgar Filing: WIDEPOINT CORP - Form 10-K

Executive and Administration	7926 Jones Branch Drive, Suite 520	McLean, VA 22102	August 2019	5,437	\$ 24	\$129,600
Administration	1736 South Park Court, Suite 201	Chesapeake, VA 23320	April 2016	2,377	\$ 16	\$38,400
Commercial Sales	5950 Canoga Avenue, Suite 500	Woodland Hills, CA 91367	June 2016	3,142	\$ 29	\$46,800
Commercial Sales	825 North Cass Avenue, Suite 112	Westmont, IL 60559	October 2016	888	\$ 14	\$12,000
Operations and Administration	11250 Waples Mill Rd S. Tower, Suite 210	Fairfax, VA 22030	March 2019	11,852	\$ 26	\$307,300
Operations	101 Green Meadows Drive South	Lewis Center, OH 43035	n/a	7,600	n/a	n/a
Operations	2 Eaton Street Suites 800/807	Hampton, VA 23669	November 2019	4,519	\$ 15	\$65,700
Operations	104 Cude Lane	Madison, TN 37115	August 2016	3,448	\$ 9	\$32,100
Operations	280 Pinehurst Avenue Suite B	Southern Pines, NC 28387	Month to Month	2,500	\$ 10	\$24,000

The following table presents our property locations at December 31, 2015 for our international locations:

Function	Physical Street Address	Country Postal Code	Lease Expiration	Approx. Sqft	Base Cost per Sqft	Base Annual Cost
Operations and Administration	South County Business Park	Dublin 18, Ireland	March 2026	6,000	\$ 33	\$197,519
Commercial Sales Office	3B Juno House, Calleva Park	Aldermaston,Berkshire RG7 8RA, England	June 2016	1,250	\$ 19	\$23,342
Commercial Sales Office	Stoomloggerwey 4 B	3133 KT, Vlaardingen,Netherlands	Month to Month	1,600	\$ 19	\$30,388
Commercial Sales Office	Siriusdreef 55	2132 WT, Hoofddorp,Netherlands	December 2017	500	\$ 15	\$7,293

### ITEM 3. LEGAL PROCEEDINGS

From time to time we may be involved in claims arising in the ordinary course of business. We are not currently involved in legal proceedings, governmental actions, investigations or claims currently pending against us or involve us that, in the opinion of our management, could reasonably be expected to have a material adverse effect on our business and financial condition.

### ITEM 4. MINE SAFETY DISCLOSURES

None.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Market Information

Our common stock trades on the NYSE MKT under the symbol “WYY”. The stock prices listed below represent the high and low closing prices of the Common Stock on the NYSE MKT for each of the periods indicated:

Period	2015		2014	
	High	Low	High	Low
December 31,	\$0.99	\$0.64	\$1.74	\$0.99
September 30,	\$2.30	\$0.70	\$1.90	\$1.45
June 30,	\$2.03	\$1.29	\$1.87	\$1.28
March 31,	\$1.75	\$1.27	\$1.95	\$1.29

Stock Performance Graph

The performance graph below compares the cumulative total stockholder return in our common stock between January 1, 2010 and December 31, 2015, with cumulative total return on the Russell MicroCap Index and the RDG Technology Index. This graph assumes a \$100 investment in each of the Company, the Russell Microcap Index and the RDG Technology Index at the close of trading on January 1, 2010. We selected these indices because they include companies with similar market capitalizations and companies in our industry.



The comparisons shown in the graph below are based upon historical data. We caution that the stock price performance shown in the graph below is not necessarily indicative of, nor is it intended to forecast, the potential future performance of our common stock.

The performance graph above is being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K, is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any of our filings, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

#### Holders

As of the close of business on February 29, 2016, there were 125 registered holders of record of our common stock.

#### Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

#### Equity Compensation Plan Information

Information regarding our equity compensation plans and the securities authorized for issuance thereunder is incorporated by reference to Item 12 of this Annual Report on Form 10-K.

Dividend Policy

We have has never paid dividends on our Common Stock and intend to continue this policy for the foreseeable future. We plan to retain earnings for use in growing its business base. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent on our results of operations, financial condition, contractual and legal restrictions and any other factors deemed by the management and the Board to be a priority requirement of the business.

Recent Sales of Unregistered Securities

None.

Repurchases of Equity Securities

We repurchased no shares of our Common Stock during the fourth quarter of 2015.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth Selected Financial Data on a historical basis for the five years ended December 31, 2015. This historical Selected Financial Data has been derived from the audited consolidated financial statements and should be read in conjunction with the consolidated financial statements and the related notes thereto and Management's Discussion and Analysis of the Financial Condition and Results of Operations, each included elsewhere in this Form 10-K.

	2015	2014	2013	2012	2011
<b>Operating Results</b>					
Revenues	\$70,838,017	\$53,316,210	\$46,825,032	\$55,782,742	\$41,372,490
Gross profit	13,232,660	13,513,917	12,111,561	13,862,581	9,243,502
Operating expense	18,694,621	18,164,925	13,286,855	12,843,804	105,173
Interest expense	(142,497 )	(186,796 )	(175,358 )	(294,244 )	(69,317 )
(Loss) income from operations	(5,461,961 )	(4,651,008 )	(1,175,294 )	1,018,777	47,820
Net (loss) income	(5,466,607 )	(8,400,626 )	(1,694,785 )	832,301	246,866
<b>Balance Sheet</b>					
Cash and cash equivalents	\$7,930,303	\$13,154,699	\$-	\$1,857,614	\$2,135,310
Accounts receivable, net	10,565,113	8,543,050	7,612,400	6,932,366	7,884,802
Unbilled accounts receivable	6,637,587	5,547,416	1,561,030	2,969,450	2,715,406
Deferred income tax asset, net	-	-	4,407,630	3,820,378	3,738,555
Total assets	50,858,471	54,078,240	36,074,840	39,579,841	42,290,226
Line of credit advance	-	-	916,663	-	-
Accounts payable	7,812,226	6,165,477	3,228,586	5,555,419	8,418,854
Accrued expenses	6,687,054	5,980,110	4,407,286	3,539,710	1,851,678
Current portion of long-term debt	893,706	2,184,016	1,150,455	1,102,741	798,319
Long-term debt, net	431,756	1,327,800	2,509,492	4,918,732	7,769,143
Total stockholders' equity	32,190,666	36,778,856	22,515,738	23,937,267	22,836,152
<b>Common Stock Statistics</b>					
Earnings per share:					
Basic	\$(0.066 )	\$(0.115 )	\$(0.027 )	\$0.013	\$0.004
Diluted	\$(0.066 )	\$(0.115 )	\$(0.027 )	\$0.013	\$0.004
Book value per share	\$0.39	\$0.45	\$0.35	\$0.38	\$0.36
Market price per share:					
High	\$2.30	\$1.950	\$1.790	\$0.950	\$1.480
Low	\$0.64	\$0.999	\$0.350	\$0.330	\$0.690
Close	\$0.70	\$1.380	\$1.640	\$0.370	\$0.690
Average common shares outstanding for earnings per share:					
Basic	82,228,974	73,048,883	63,802,275	63,874,871	62,882,100
Diluted	82,228,974	73,048,883	63,802,275	63,758,632	64,148,331
Shares outstanding at end of the period	82,520,696	81,656,763	63,907,357	63,751,857	63,226,857
Number of shareholders of record at end of period	125	151	154	155	155

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This discussion should be read in conjunction with the other sections of this Form 10-K, including "Risk Factors," and the Financial Statements. The various sections of this discussion contain a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risk factors described throughout this Annual Report on Form 10-K. See "Forward-Looking Statements." Our actual results may differ materially.*

### **Organizational Overview**

We were incorporated on May 30, 1997 under the laws of the state of Delaware. We are a leading provider of federally certified secure identity management and communications solutions to the government and commercial sectors. Our on-demand solutions offer a suite of advanced and federally certified proprietary cloud-based software solutions designed to enable secure identity management and manage the complex processes and expenses associated with complex communication assets and services of any enterprise.

### **Strategic Re-Focus**

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

Our Board of Directors recently formed an Executive Committee, consisting of Steve Komar and Paul Johnson, in order to work with management to re-focus and re-develop our strategy in order to focus on higher margin services, to gain market penetration for our products and services as well as to provide assistance to the position of CEO in order to attract potential candidates and otherwise properly transition the office of CEO upon Steve Komar's retirement by the end of the calendar year. We are also working to decrease our costs and properly manage our resources, developing a more streamlined and technical sales approach and are working to redefine our process for developing sales leads.

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

Our challenge is reaching potential customers and in order to gain market penetration as an organization capable of meeting an organization's technology asset and risk management objectives without significantly increasing their operating costs and allowing these organizations to focus on running their business. Generating positive cash flow and net income in the future will depend on our ability to successfully execute our on our strategy of growing of business through sales of higher margin services. There is no guarantee that we will be able to achieve or sustain profitability in the future and an inability to successfully achieve profitability will decrease our long-term viability.

## **Critical Accounting Policies and Estimates**

Refer to Note 2 to the Consolidated Financial Statements for a summary of our significant accounting policies referenced, as applicable, to other notes. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management's judgment in its application. Our senior management has reviewed these critical accounting policies and related disclosures with its Audit Committee. See Note 2 to consolidated financial statements, which contain additional information regarding accounting policies and other disclosures required by U.S. GAAP. The following section below provides information about certain critical accounting policies that are important to the Consolidated Financial Statements and that require significant management assumptions and judgments.

## **Segments**

Segments are defined by authoritative guidance as components of a company in which separate financial information is available and is evaluated by the chief operating decision maker (CODM), or a decision making group, in deciding how to allocate resources and in assessing performance. Our CODM is our chief executive officer. Our customers and the industry view our market as a singular business and demand an integrated and scalable suite of information technology-based enterprise-wide solutions. Services comprising our offerings have similar client service approaches, delivery costs and operational risks and are led by a project manager and a cross-functional service delivery team comprised of employees across all subsidiaries. The Company presents a single segment for purposes of financial reporting and prepared its consolidated financial statements upon that basis.

## **Business Combinations**

The application of purchase accounting to a business acquisition requires that the Company identify the individual assets acquired and liabilities assumed and estimate the fair value of each. The Company estimates the fair value of purchase consideration in each business combination using an acceptable valuation methodology which may include an income, market and/or cost approach. The Company assigns a provisional value on the date of purchase and engages qualified third party valuation professionals to estimate the fair value of significant assets acquired and liabilities assumed.

Purchase consideration is often paid to the seller in the form of cash, seller financed promissory notes and/or shares of common stock that may or may not contain a contingency often tied to future financial performance targets. The Company generally assesses the estimated fair value of contingent obligations using a probability weighted income approach (discounted cash flow) valuation technique which requires the use of observable and unobservable inputs. Fluctuations in the fair value of contingent obligations are impacted by two unobservable inputs, management's

estimate of the probability of the acquired company meeting the operating performance target and the estimated discount rate (a rate that approximates the Company's weighted average cost of capital). Significant increases (decreases) in either of those inputs in isolation would result in a significantly higher (lower) fair value measurement. Fair value is assessed for contingent obligations on a quarterly basis until such contingencies have been resolved and any changes in fair value are recorded as a gain or loss on change in fair value of contingent obligations within general and administrative expense.

Goodwill and intangible assets often represent a significant portion of the assets acquired in a business combination. The Company recognizes the fair value of 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. The Company generally assesses the estimated fair values of acquired intangibles using an income and market approach, except for internally developed software which is valued using a cost approach. The fair values of the intangible assets purchased were determined using a combination of valuation techniques. Fluctuations in the fair value of intangibles are impacted by two unobservable inputs, management's five year forecast and the estimated discount rate (a rate that approximates the Company's weighted average cost of capital). Significant increases (decreases) in either of those inputs in isolation would result in a significantly higher (lower) fair value measurement.

The Company had finite-lived intangible assets with a carrying value of approximately \$5.1 million as of December 31, 2015. The fair value of intangibles acquired in connection with business combinations continued to generate positive returns above its carrying value. Accordingly, the Company has concluded the fair value of its intangibles is not impaired at December 31, 2015. The Company could be exposed to increased risk of recoverability to the extent future revenue estimates may not support the recovery of purchased intangible assets.

## **Revenue Recognition**

*Telecommunications expense management and device management services* are delivered on a monthly basis based on a standard fixed pricing scale and sensitive to significant changes in per user or device counts which form the basis for monthly charges. Revenue is recognized upon the completion of the delivery of monthly managed services based on user or device counts or other metrics. Managed services are not interdependent and there are no undelivered elements in these arrangements.

*Telecommunications carrier invoice management and payment services* require the Company to purchase bands of minutes, text messaging and data services from large carriers and optimizes these services for its mobile customers. The Company recognizes revenues and related costs on a gross basis for these arrangements as we have discretion in choosing providers, rate plans, and devices in providing the services to our customers. We establish pricing for our customer contracts. For arrangements in which we do not have such credit risk we recognize revenues and related costs on a net basis.

*Telecommunications audit and optimization services are professional services* conducted over a specified period of time. These professional services are billed based on time incurred and actual costs or on a contingency basis. The Company recognizes revenues for professional services performed based on actual hours worked and actual costs incurred. The Company recognizes contingent based service arrangements when our savings results are verified by the carrier and accepted by the customer. Contingent fees earned are calculated based on projected or proven savings multiplied by an agreed upon recovery rate. Cost associated with contingent fee arrangements are recognized as incurred.

*Telecommunication mobile device and accessory resale services* may require the Company to facilitate as an agent on our customers' account or transact on our own account to deliver third party vendor products and/or services to meet our customers' specific functional requirements. For those transactions in which we procure and deliver products and services for our own account the Company recognizes revenues and related costs on a gross basis for these arrangements as we have discretion in choosing providers, rate plans, and devices in providing the services to our customers. For those transactions in which we procure and deliver products and services for our customers' on their own account we do not recognize revenues and related costs on a gross basis for these arrangements. We recognize revenues earned for arranging the transaction and any related costs.



*Identity management and identity services* are delivered as an on-demand managed service through the cloud to an individual or organization or sold in bulk to an organization capable of self-issuing credentials. Credentialing services are not bundled and do not include other obligations to deliver. Revenue is recognized from the sales of credentials to an individual or organization upon issuance or in the case of bulk sales or consoles upon issue or availability to the customer for issuance. There is no obligation to provide post contract services in relation to certificates issued and consoles delivered. Certificates issued have a fixed life and cannot be modified or reissued.

*Technical consulting services* are professional services provided on a project basis determined by our customers' specific requirements. These technical professional services are billed based on time incurred and actual costs. The Company recognizes revenues for professional services performed based on actual hours worked and actual costs incurred.

## Goodwill

Goodwill represents the excess of acquisition cost of an acquired company over the fair value of assets acquired and liabilities assumed. In accordance with GAAP, goodwill is not amortized but is tested for impairment at the reporting unit level annually at December 31 and between annual tests if events or circumstances arise, such as adverse changes in the business climate, that would more likely than not reduce the fair value of the reporting unit below its carrying value.

A reporting unit is defined as either an operating segment or a business one level below an operating segment for which discrete financial information is available that management regularly reviews. The Company has a single reporting unit for the purpose of impairment testing.

The goodwill impairment test utilizes a two-step approach. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss. The Company has the option to bypass the qualitative assessment for any reporting period and proceed to performing the first step of the two-step goodwill impairment test and then subsequently resume performing a qualitative assessment in any subsequent period. The Company bypassed using a qualitative assessment for 2015.

Goodwill impairment testing involves management judgment, requiring an assessment of whether the carrying value of the reporting unit can be supported by its fair value using widely accepted valuation techniques, such as the market approach (earnings multiples or transaction multiples for the industry in which the reporting unit operates) or the income approach (discounted cash flow methods). The fair values of the reporting units were determined using a combination of valuation techniques consistent with the market approach and the income approach.

When preparing discounted cash flow models under the income approach, the Company estimates future cash flows using the reporting unit's internal five year forecast and a terminal value calculated using a growth rate that management believes is appropriate in light of current and expected future economic conditions. The Company then applies a discount rate to discount these future cash flows to arrive at a net present value amount, which represents the estimated fair value of the reporting unit. The discount rate applied approximates the expected cost of equity financing, determined using a capital asset pricing model. The model generates an appropriate discount rate using internal and external inputs to value future cash flows based on the time value of money and the price for bearing the uncertainty inherent in an investment.

The Company has approximately \$18.5 million of goodwill as of December 31, 2015. The fair value of the Company's reporting unit is above its carrying value; accordingly, the Company has concluded its goodwill is not impaired at December 31, 2015. The Company could be exposed to increased risk of goodwill impairment if future operating results or macroeconomic conditions differ significantly from management's current assumptions.

### **Allowance for Doubtful Accounts**

The Company has not historically maintained an allowance for doubtful accounts for its federal government customers. Allowances for doubtful accounts relate to commercial accounts receivable and unbilled accounts receivable represent management's best estimate of the losses inherent in the Company's outstanding trade accounts receivable. The Company determines its allowance by considering a number of factors, including the length of time 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. Customer account balances outstanding longer than 120 days that have not been settled in accordance with contract terms and for which no firm payment commitments exist are placed with a third party collection agency and a reserve is established. The Company writes off accounts receivable after 180 days or earlier when they become uncollectible. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts. If the accounts receivable has been written off and no allowance for doubtful accounts exist subsequent payments received are credited to bad debt expense.

To the extent historical credit experience, updated for emerging market trends in credit is not indicative of future performance, actual losses could differ significantly from management's judgments and expectations, resulting in either higher or lower future provisions for losses, as applicable. The process of determining the allowance for doubtful accounts requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

### **Share-Based Compensation**

The Company issues share-based compensation awards to company employees upon which the fair value of awards is subject to significant estimates made by management. The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model ("Black-Scholes model"), which uses the assumptions of no dividend yield, risk free interest rates and expected life (in years) of approximately five (5) to seven (7) years. Share-based compensation awards reflected in the consolidated financial statements are for the period from 1999 through 2015.

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. To the extent historical volatility estimates, risk free interest rates, option terms and forfeiture rates updated for emerging market trends are not indicative of future performance it could differ significantly from management's judgments and expectations on the fair value of similar share-based awards, resulting in either higher or lower future compensation expense, as applicable. The process of determining fair value of share-based compensation requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

### **Product Development**

Product development expenses include payroll, employee benefits, and other employee related expenses associated with product development. Product development expenses also include third-party development and programming costs, subject matter experts, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Costs related to product development are expensed until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are commercially available for release. Once technological feasibility is reached, such costs are not normally material. To the extent costs are significant such costs are capitalized and amortized to cost of revenue over the estimated lives of the solution.

### **Accounting for Income Taxes**

Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax bases of assets and liabilities using the enacted tax rates expected to be in effect for the years in which the differences are expected to reverse. A valuation allowance is established when management determines that it is more likely than not that all or some portion of the benefit of the deferred tax asset will not be realized.

Since deferred taxes measure the future tax effects of items recognized in the financial statements, certain estimates and assumptions are required to determine whether it is more likely than not that all or some portion of the benefit of a deferred tax asset will not be realized. In making this assessment, management analyzes and estimates the impact of future taxable income, reversing temporary differences and available tax planning strategies. These assessments are performed quarterly, taking into account any new information. The Company's significant deferred tax assets consist of net operating loss carryforwards, share-based compensation and intangible asset amortization. Should a change in facts or circumstances lead to a change in judgment about the ultimate ability to realize a deferred tax asset (including our utilization of historical net operating losses and share-based compensation expense), the Company records or adjusts the related valuation allowance in the period that the change in facts or circumstances occurs, along with a corresponding increase or decrease to the income tax provision.

## 2015 Results of Operations

### Year Ended December 31, 2015 Compared to the Year ended December 31, 2014

#### Revenues

Revenues for the year ended December 31, 2015 were approximately \$70.8 million, an increase of approximately \$17.5 million (or 33%), as compared to approximately \$53.3 million in 2014. Our mix of revenues for the periods presented is set forth below:

Service Mix	YEARS ENDED		Dollar Variance
	DECEMBER 31, 2015	2014	
Carrier Services	\$37,499,954	\$20,044,276	\$17,455,678
Managed Services	33,338,063	33,271,934	66,129
	\$70,838,017	\$53,316,210	\$17,521,807

We believe the following factors contributed to higher revenues:

Our carrier services were higher compared to same period last year as a result of the recognition of equipment and additional carrier service task orders issued related to our U.S Department Homeland Security (“DHS”) blanket § purchase agreement (“BPA”) contract award. We were awarded 41 task orders under the DHS BPA contract during 2015 as compared to 12 task orders awarded in 2014.

§ Our managed services were higher due to additional revenues from our recent acquisition of SCL (that is part of our managed services offering), partially offset by volume pricing reductions associated with our DHS BPA contract.

#### Cost of Revenues

Cost of revenues for the year ended December 31, 2015 was approximately \$57.6 million (or 81% of revenues) as compared to approximately \$39.8 million (or 75% of revenues) in 2014. The dollar basis increase in cost of revenues was predominantly attributable to increased costs associated with carrier services.

### **Gross Profit**

Gross profit for the year ended December 31, 2015 was approximately \$13.2 million (or 19% of revenues), as compared to approximately \$13.5 million (or 25% of revenues) in 2014. The dollar basis decrease in gross profit was due to volume pricing discounts achieved under the ramp up of new agencies coming on line under our DHS BPA which met volume thresholds. Our focus will remain on growing sales of higher margin recurring services from existing customers and securing services from the two (2) remaining DHS agencies and renegotiating better prices with our vendors.

## **Operating Expenses**

Sales and marketing expense for the year ended December 31, 2015 was approximately \$3.0 million (or 4% of revenues), as compared to approximately \$3.4 million (or 7% of revenues) in 2014. The decrease in sales and marketing reflects reductions in sales labor resources and modifications of sales commission agreements to realign our business development efforts in a manner that incentivizes our salesforce to pursue and close recurring higher margin business in a shorter period of time. We believe that our sales and marketing spend may increase over time as we introduce new products and services, move forward with strategic sales alliances and co-marketing activities and promote of our next generation identity management services.

General and administrative expenses for the year ended December 31, 2015 were approximately \$14.6 million (or 21% of revenues), as compared to approximately \$13.9 million (or 26% of revenues) in 2014. The increase in general and administrative expense was attributable to recognizing a full year of SCL general and administrative expenses, as well as non-recurring legal and professional fees related to contract modifications and staff training programs.

Product development costs for the year ended December 31, 2015 were approximately \$673,000 as compared to approximately \$480,100 in 2014. We continued development activities associated with our Certificate-on-Device identity management solution and demonstrated our solution in the marketplace. We believe the timing and amount of capital spent on product development and maintenance costs to vary from time to time depending on the life cycle of our technology solutions. The costs associated with maintaining and developing new products and services is vital to our ability to compete in our market place and deliver solutions our clients demand.

Depreciation expense for the year ended December 31, 2015 was approximately \$383,300, as compared to approximately \$376,000 in 2014. The increase in depreciation expense was due to increased pool of depreciable assets to support our technology solutions infrastructure. We anticipate additional infrastructure investments in computer equipment and other hardware to respond to anticipated capacity requirements as we growth our revenue base.

## **Other Income (Expense)**

Interest income for the year ended December 31, 2015 was approximately \$23,000, as compared to approximately \$17,000 in 2014. This increase was due to higher amounts of invested cash and cash equivalents being held in interest bearing accounts and the length of time these increased deposits were earning interest compared the same period last year.



Interest expense for the year ended December 31, 2015 was approximately \$142,500 (or less than 1% of revenues), a decrease of approximately \$44,300, as compared to approximately \$186,800 (or less than 1% of revenues) of interest expense in 2014. The decrease in interest expense is due to the settlement of seller financed promissory notes during the first and second quarter of 2015. There were no significant changes in the terms of interest bearing debt during 2015.

Other income for the year ended December 31, 2015 was approximately \$33,000 as compared to \$12,900 for 2014. Other income (expense) for both periods did not include any significant items.

## Provision for Income Taxes

Income tax benefit for the year ended December 31, 2015 was approximately \$81,800, as compared to an income tax expense of approximately \$3.6 million in 2014. All federal, state and foreign net operating losses are fully valued for tax purposes and as a result, the principal component of income tax expense relates to minimum state and foreign income taxes.

## Net Loss

As a result of the factors above, the net loss for the year ended December 31, 2015 was approximately \$5.5 million as compared to approximately \$8.4 million in 2014.

## 2014 Results of Operations

### Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013

## Revenues

Revenues for the year ended December 31, 2014 were approximately \$53.3 million, an increase of approximately \$6.5 million (or 14%), as compared to approximately \$46.8 million in 2013. Although we had increased revenues versus 2013, delays in federal and commercial implementations and government product resale transactions negatively impacted revenues during 2014. Our mix of services for the periods presented is set forth below:

Service Mix	YEARS ENDED		Dollar Variance
	2014	2013	
Carrier Services	\$20,044,276	\$16,815,215	\$3,229,061
Managed Services	33,271,934	30,009,817	3,262,117
	\$53,316,210	\$46,825,032	\$6,491,178

We believe the following factors contributed to reduced revenues:

§ Our carrier services were higher compared to same period in 2013 as a result of the recognition of task orders issued related to our DHS BPA contract award. We were awarded 12 task orders under the DHS BPA contract during 2014.

Our managed services were higher due to additional revenues from our recent acquisition of SCL (that is part of our §MMS managed services offering), partially offset by reductions in customer attrition, government delays and cutbacks as a result of Federal Budget sequestration and delays as a result of the protest of our DHS BPA award.

### **Cost of Revenues**

Cost of revenues for the year ended December 31, 2014 was approximately \$39.8 million (or 75% of revenues) as compared to approximately \$34.7 million (or 74% of revenues) in 2013. The dollar basis increase in cost of revenues was predominantly attributable to increased costs associated with software resale activities and carrier services delivered during the year. Our cost of revenues will rise in periods in which we recognize higher government product resale transactions and conversely decrease our margins. The addition of SCL did not have a material effect on cost of revenues.

## Gross Profit

Gross profit for the year ended December 31, 2014 was approximately \$13.5 million (or 25% of revenues), as compared to approximately \$12.1 million (or 26% of revenues) in 2013. The dollar basis increase in gross profit was due to the additional of SCL's higher margin revenue, partially offset by higher carrier services costs and decreases in higher margin federal consulting revenues. Our focus will remain on growing sales of higher margin recurring services.

## Operating Expenses

Sales and marketing expense for the year ended December 31, 2014 was approximately \$3.4 million (or 6% of revenues), as compared to approximately \$3.1 million (or 7% of revenues) in 2013. The dollar basis increase in sales and marketing expense reflects the addition of SCL of approximately \$0.7 million, partially offset by lower channel partner commissions as a result of a greater direct sales and lower external sales and marketing program consultant costs. We may have increases in sales and marketing going forward as we expand promotion of our latest product and service offerings such as Cert-On-Device.

General and administrative expenses for the year ended December 31, 2014 were approximately \$13.9 million (or 26% of revenues), as compared to approximately \$9.8 million (or 21% of revenues) in 2013. General and administrative expenses for the year ended December 31, 2013 included a non-cash gain of approximately \$1.25 million that represented a reduction in the fair value of a contingent obligation (related to the acquisition of Avalon Global Solutions, Inc. ("AGS")) as re-measured at the reporting date. Excluding this non-cash gain, general and administrative expenses for the year ended December 31, 2013 would have been approximately \$11.1 million (or 24% of revenues). The increase in general and administrative expense after excluding this non-cash gain predominantly reflects the inclusion of SCL general and administrative expense of approximately \$2.5 million.

Product development costs for the year ended December 31, 2014 were approximately \$480,100 as compared to approximately \$73,400 in 2013. We upgraded key hardware and software infrastructures that support our client facing software platforms and web-based portals and began major development activities associated with our Certificate-on-Device identity management solution.

Depreciation expense for the year ended December 31, 2014 was approximately \$376,000, as compared to approximately \$288,300 in 2013. The increase in depreciation expense was due to increased pool of depreciable assets to support our technology solutions infrastructure and the addition of SCL's depreciable assets. We anticipate additional infrastructure investments in computer equipment and other hardware to respond to anticipated capacity

requirements as we growth our revenue base.

### **Other Income (Expense)**

Interest income for the year ended December 31, 2014 was approximately \$17,000, as compared to approximately \$7,400, in the same period last year. This increase was due to higher amounts of invested cash and cash equivalents being held in interest bearing accounts and the length of time these increased deposits were earning interest compared to 2013.

Interest expense for the year ended December 31, 2014 was approximately \$186,800 (or less than 1% of revenues), an increase of approximately \$11,500 as compared to approximately \$175,300 (or less than 1% of revenues) of interest expense in 2013. The increase in interest expense reflects accrued interest related to an unsecured loan note payable issued in connection with the SCL acquisition. There were no significant changes in the terms of interest bearing debt during the year ended December 31, 2014.

Other income for the year ended December 31, 2014 was approximately \$12,900 as compared to \$11,300 in 2013. Other income (expense) for both periods did not include any significant items.

### **Provision for Income Taxes**

Income tax expense for the year ended December 31, 2014 was approximately \$3.6 million, as compared to an approximately \$0.4 million in 2013. The increase in income tax expense reflects a \$5.0 million valuation allowance applied against the Company's deferred tax assets. Objective evidence of cumulative losses carries more weight under the accounting rules than subjective evidence such as projections and tax planning strategies when evaluating whether a valuation reserve is required. Management placed a full valuation allowance on its deferred tax assets after analyzing both positive and negative evidence over the last two years.

### **Net Loss**

As a result of the factors above, the net loss for the year ended December 31, 2014 was approximately \$8.4 million as compared to approximately \$1.7 million in 2013.

### **Liquidity and Capital**

#### Net Working Capital

We have, since inception, financed operations and capital expenditures through the sale of stock, seller notes in connection with acquisitions, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. Our immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Cardinal Bank for up to \$8.0 million. We are currently working with Cardinal Bank to renew our credit facility which will expire on April 30, 2016.

At December 31, 2015, our net working capital was approximately \$8.0 million as compared to \$12.5 million at December 31, 2014. Our decrease in net working capital was primarily due to net losses incurred while continuing to fund business development efforts and our second year of product development and promotion costs to bring our Certificate-on-Device solution to market. We utilized available cash and our line of credit to manage through

collection timing differences throughout fiscal 2015. We believe that we are nearing the end of our investment activities and expect our future costs to be more in line with our pre investment cycle expense run rate.

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

#### Cash Flows from Operating Activities

Cash provided by operating activities provides an indication of our ability to generate sufficient cash flow from our recurring business activities. Fixed costs such as labor, direct materials, network and data charges, software and subscription costs and office rent represent a significant portion of the Company's continuing operating costs. Any changes in the Company's fixed operating cost structure may require a significant amount of time to take effect depending on the nature of the change made.

For the year ended December 31, 2015, net cash used in operations was approximately \$2.9 million driven by current year operating losses, temporary collection timing differences on DHS BPA equipment refresh orders and slower than anticipated capture of our two (2) remaining federal government agencies and monetization of our Certificate-on-Device offerings.

For the year ended December 31, 2014, net cash used in operations was approximately \$2.6 million driven by current year operating losses due to slower than anticipated implementation of our DHS BPA award and planned strategic investments in our new service offerings including Certificate-on-Device.

For the year ended December 31, 2013, net cash used in operations was approximately \$1.2 million driven by receivable billing and collection timing differences on large resale transactions, our decision to invest approximately \$0.5 million in property and equipment infrastructure investments and product development, our decision to hire of a Chief Sales and Marketing Officer and additional marketing and lead generation sales professionals with combined salary costs of approximately \$0.5 million.

#### Cash Flows from Investing Activities

Cash used in investing activities provides an indication of our long term infrastructure investments. We make recurring purchases of property and equipment to replace or enhance our hardware and software applications that support customer operations.

For the year ended December 31, 2015, cash used in investing activities was approximately \$600,000 to fund required hardware and software refreshes for our client facing technology solutions, including approximately \$186,000 in software and testing related to our “authority to operate” which is a critical component tied to our federally accepted identity management solutions.

For the year ended December 31, 2014, cash used in investing activities was approximately \$4.4 million reflecting our purchase of all of the equity interests of SCL for approximately \$6.0 million, consisting of \$5.0 million in cash at closing excluding cash acquired, capital expenditures of approximately \$0.3 million and capitalization of approximately \$0.1 million in software development related to our PKI credentialing tools and applications.

For the year ended December 31, 2013, cash used in investing activities was approximately \$0.5 million due to continuing property and equipment expenditures aimed at enhancing our internal infrastructure to support growth.



Cash Flows from Financing Activities

Cash (used in) provided by financing activities provides an indication of our debt financing and proceeds from capital raise transactions and stock option exercises.

For the year ended December 31, 2015, cash used in financing activities was approximately \$1.5 million reflecting term debt repayments of approximately \$2.2 million, partially offset by net proceeds of approximately \$0.7 million from the exercise of stock options. The Company was advanced and repaid approximately \$22.0 million in cumulative line of credit advances during the year.

For the year ended December 31, 2014, cash provided by financing activities was approximately \$20.4 million primary reflecting net proceeds of approximately \$22.0 million received from two public offerings of our common stock, partially offset by net proceeds of approximately \$0.5 million from the exercise of stock options. The Company was advanced approximately \$12.0 million and repaid approximately \$12.9 million in cumulative line of credit advances during the year and unpaid credit advances at the end of fiscal 2013.

For the year ended December 31, 2013, cash used in financing activities was approximately \$0.2 million reflecting term debt repayments of approximately \$1.1 million, partially offset by net proceeds of approximately \$46,200 from the exercise of stock options. The Company was advanced approximately \$2.0 million and repaid approximately \$1.0 million in cumulative line of credit advances during the year, resulting in a net unpaid line advance of approximately \$0.9 million at end of fiscal 2013.

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

For the years ended December 31, 2015 and 2014, the net effect of exchange rate changes decreased the translated value of our foreign cash balances due to the decline in the Euro relative to the US dollar. There was no net effect of exchange rate changes during the year ended December 31, 2013 as we had no foreign operations.

At December 31, 2015, there were no outstanding borrowings against the Company's working capital credit facility. At December 31, 2015, there were no material commitments for additional capital expenditures, but that could change with the addition of material contract awards or task orders awarded in the future.

We believe our working capital credit facility, along with cash on hand, should be sufficient to meet our minimum requirements for our current business operations and implementation of new business during fiscal 2016. Over the long term, we must successfully execute our growth plans to increase profitable revenue and income streams to generate positive cash flows to sustain adequate liquidity without impairing growth initiatives or requiring the infusion of additional funds from external sources to meet minimum operating requirements, including debt service. We may need to raise additional capital to fund our operations and there can be no assurance that additional capital will be available on acceptable terms, or at all.

#### **Contractual Obligations**

The table below identifies transactions that represent our contractually committed future obligations. Purchase obligations include our agreements to purchase goods and services that are enforceable and legally binding and that specify significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. The following reflects a summary of our contractual obligations for fiscal years ending December 31:

Obligation Type	2016	2017	2018	2019	2020	Thereafter	Total
-----------------	------	------	------	------	------	------------	-------

Edgar Filing: WIDEPOINT CORP - Form 10-K

Long-term debt and interest payments on long-term debt	\$918,706	\$46,586	\$46,631	\$46,753	\$46,757	\$364,429	\$1,469,862
Operating lease obligations	905,200	753,000	738,000	442,000	198,000	1,037,000	4,073,200
Capital lease obligations	29,569	11,992	-	-	-	-	41,561
	\$1,853,475	\$811,578	\$784,631	\$488,753	\$244,757	\$1,401,429	\$5,584,623

(1) Weighted average interest rate of all outstanding long term debt at December 31, 2015 was approximately 4.5%.

**Off-Balance Sheet Arrangements**

The Company has no existing off-balance sheet arrangements as defined under SEC regulations.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk in the normal course of its business primarily due to its international customer base and operations. The primary exposure relates to the exchange rate fluctuations between the Company's U.S. dollar functional reporting currency and the Euro dollar. This exposure includes trade receivables denominated in currencies other than the Company's functional currency.

If the values of the Euro relative to the U.S. dollar had been ten (10) percent lower than the values that prevailed during 2015, the Company's pretax income for 2015 would have been approximately \$142,000 lower. Conversely, if such values had been ten (10) percent higher, the Company's reported pretax income for 2015 would have been approximately \$368,000 higher.

## **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA**

The consolidated financial statements and schedules required hereunder and contained herein are listed under Item 15 below.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the existence of the material weaknesses discussed below in "*Management's Report on Internal Control Over Financial Reporting*," our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this report.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

§ pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

§ provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and

§ provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework (2013)*. Based on this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2015 due to the existence of the material weaknesses as of December 31, 2015, discussed below. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Management has identified material weaknesses in controls over financial reporting related to inadequate transactional level controls over contract management and billing and inadequate entity level controls. Management has determined that we lack adequate documentation to provide evidence of operating effectiveness related to contract management and billing and entity level controls.

Moss Adams LLP, our independent registered public accounting firm, has audited the consolidated financial statements as of and for the year ended December 31, 2015, and the effectiveness of our internal control over financial reporting as of December 31, 2015, as stated in their reports, which are included herein.

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

The material weaknesses described above comprise control deficiencies that we discovered during our assessment of ICFR and were not remediated during the financial close process for the December 31, 2015 fiscal period. Management made progress is establishing accounting policies and procedures and is developing a plan to respond to identified material weaknesses described above and such plan may include investing in workflow technologies that

can minimize manual reporting processes, modification of roles and responsibilities of contract support personnel to capture and store relevant documentation related to contract management and billing to support operating effectiveness and strengthen internal controls over financial reporting.

We believe that these measures, if effectively implemented and maintained, will remediate the remaining material weaknesses discussed above.

### **Changes in Internal Control Over Financial Reporting**

Other than as described above, there have been no changes in our internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

WidePoint Corporation

We have audited WidePoint Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



A material weakness is a control deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment. Management has identified material weaknesses in controls related to inadequate controls over contract management and billing and inadequate entity level controls.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 financial statements, and this report does not affect our report dated March 15, 2016, on those financial statements

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, WidePoint Corporation and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of WidePoint Corporation and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015, and our report dated March 15, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ Moss Adams. LLP

Scottsdale, Arizona

March 15, 2016

**PART III.****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE****DIRECTORS AND EXECUTIVE OFFICERS**

The following sets forth information regarding the directors, executive officers and certain significant employees of the Company as of December 31, 2015:

<b>Name</b>	<b>Age</b>	<b>Position</b>
Steve L. Komar	74	Chief Executive Officer, Director, and Chairman of the Board
James McCubbin	51	Executive Vice President, Chief Financial Officer, Secretary, Treasurer and Director
Jin Kang	51	Executive Vice President, Chief Operations Officer, Chief Executive Officer and President of WidePoint Integrated Solutions Corp.
Paul Johnson	54	Director
Otto Guenther	74	Director
George Norwood	73	Director
James Ritter	71	Director, Chairman of the Compensation and Nominating Committees
Morton Taubman	72	Director, Chairman of the Audit Committee

**Steve L. Komar** has served as a director since December 1997 and became Chairman of the Board in October 2001. Mr. Komar has also served as Chief Executive Officer since December 2001. From June 2000 until December 2001, Mr. Komar served as a founding partner of C-III Holdings, a development stage financial services company. From 1991 to June 2000, Mr. Komar served as Group Executive Vice President of Fiserv, Inc., a company that provides advanced data processing services and related products to the financial industry. From 1980 to 1991, Mr. Komar served in a number of financial management positions with CitiGroup, including the role of Chief Financial Officer of Diners Club International and Citicorp Information Resources, respectively. Mr. Komar is a graduate of the City University of New York with a Bachelor of Science Degree in Accounting and holds a Master's Degree in Finance from Pace University.

Mr. Komar brings extensive financial and operational management experience to the Board as a result of his past operational experience at several large firms where he held senior executive positions in areas including financial and operational management and mergers and acquisitions. The financial and managerial skills he developed over a career

that has spanned more than 45 years, as well as Mr. Komar's experience as our Chairman of the Board and Chief Executive Officer, his knowledge of our Company as a result thereof, and his prior performance serving as a Board member of the Company, led the Board to conclude that he should continue to serve as a director of the Company.

**James T. McCubbin** has served as a director and as our Secretary since November 1998. Since August 1998, Mr. McCubbin has also served as our Executive Vice President and Chief Financial Officer. Prior to that time, from December 1997 to August 1998, Mr. McCubbin served as Vice President, Controller, Assistant Secretary and Treasurer. Prior to the commencement of his employment with WidePoint in November 1997, Mr. McCubbin held various financial management positions with several companies in the financial and government sectors. Mr. McCubbin is a graduate of the University of Maryland with a Bachelor of Science Degree in Finance and a Master's Degree in International Management. Mr. McCubbin brings extensive financial and corporate compliance expertise as well as internal knowledge of the Company as a result of his having over 13 years of experience with the Company. Mr. McCubbin also has significant experience serving in financial managerial roles within a variety of organizations and membership on several boards of directors over the past 25 years.

Mr. McCubbin also presently serves on the Board of Directors of ProPhase Labs, Inc. and serves on their Audit Committee. Mr. McCubbin was also on the Board of Directors of Redmile Entertainment until his resignation on March 1, 2008 and on the Board of Directors of Tianjin Pharmaceutical Company and was its Chairman of its Audit Committee, Nominating Committee, and Compensation Committee until his resignation on June 4, 2012. Mr. McCubbin subsequent to his resignation on the Board of Directors of Tianjin Pharmaceutical Company continued to serve as a consultant with the Company. Mr. McCubbin at times consults on financial and other compliance matters. These experiences and his prior performance as a Board member led the Board to conclude that he should continue to serve as a director of the Company.

**Jin Kang** has served as Executive Vice President and Chief Operations Officer of WidePoint since June 30, 2012. Mr. Kang was appointed Chief Operations Officer on June 30, 2012. Mr. Kang has also served as the Chief Executive Officer and President of WidePoint Integrated Solutions Corp., a wholly-owned subsidiary of the Company, since our acquisition of WidePoint Integrated Solutions Corp. on January 4, 2008. Mr. Kang founded the company in 1999 and has managed WidePoint Integrated Solutions Corp. since its inception. Mr. Kang has over 26 years of professional experience in the Federal Government Information Technology Services field. Prior to founding, iSYS, LLC (now WidePoint Integrated Solutions Corp.), Mr. Kang was a Division Manager for Science Applications International Corporation (SAIC). His responsibilities included the Combined DNA Index System (CODIS), a marquee program for the FBI Laboratory Division. As the Engineering Manager for Northrop Grumman Corporation, Mr. Kang played a critical role in the successful management of the Defense Medical Information Systems/Systems Integration, Design Development, Operations and Maintenance Services (D/SIDDOMS) contract from its inception with zero revenues to a program of \$190 million in sales. Mr. Kang received a Bachelor and Master's Degrees in Computer Science and Computer Systems Management from the University of Maryland.

**Lieutenant General (Ret.) Otto J. Guenther** has served as a director since his appointment on August 15, 2007. General Guenther serves as a member of the Corporate Governance and Nominating Committee. He joined the Board after a distinguished 34-year military career, including serving as the Army's first chief information officer, followed by nearly a decade of exceptional leadership within the federal information technology industry. His key assignments included the following: commanding general for Fort Monmouth, NJ, and the Communications Electronics Command; program executive officer for the Army's tactical communications equipment; project manager for the Tactical Automated Data Distribution System; and commander for the Defense Federal Acquisition Regulatory Council. General Guenther recently retired from Northrop Grumman Mission Systems, where he served as the Sector Vice President and General Manager of Tactical Systems Division. While there, he oversaw battlefield digitization, command and control, and system engineering activities for the U.S. Army. Under his leadership, the division grew to approximately 1,650 employees across several locations and completed over \$700 million in acquisitions. Previously General Guenther was general manager of Computer Associates International's Federal Systems Group, a \$300 million operation providing IT products and services to the federal market area. General Guenther was awarded several honors by the U.S. Army, including the Distinguished Service Medal, Legion of Merit (Oak Leaf Cluster), Defense Superior Service Medal (Oak Leaf Cluster), Joint Service Medal, and Army Commendation Medal. Recognized for his work within the industry, he also received several Armed Forces Communications and Electronics Association awards and was inducted into the Government Computer News Hall of Fame. Currently, General Guenther sits on two educational foundations, AFCEA Education Foundation and Aurora Foundation, and since 2006 has been an active trustee at McDaniel College. General Guenther received a Bachelor of Science Degree in Economics from Western Maryland College, now called McDaniel College, and a Master's Degree in Procurement and Contracting from the Florida Institute of Technology.

General Guenther brings to the Board extensive knowledge of the federal marketplace as a result of a career that has spanned both military and informational technology industries. In addition, General Guenther's knowledge of federal infrastructure as well as experience in successful business development and board service is particularly valuable to the Company. This experience, as well as his independence from the Company and his prior performance as a Board member, led the Board to conclude that he should continue to serve as a director of the Company.

**Major General (Ret.) George W. Norwood** has served as a director since his appointment on August 15, 2007. General Norwood serves as a member of the Audit Committee and the Compensation Committee. General Norwood also currently serves on the board of directors of Scalable Network Technologies. He is also on the boards of Peduzzi Associates, Ltd., and Airborne Tactical Advantage Company. General Norwood brings to the Board extensive knowledge of the federal marketplace as a result of a distinguished 30-year military career and more than 12-years in the commercial market with significant experience in both military and defense contracting.

General Norwood is currently President and Chief Executive Officer of Norwood & Associates, Inc. of Tampa, Fla., which maintains extensive international and U.S. networks of government, military and private sector contacts while providing technical and strategic planning expertise to corporations pursuing defense-related opportunities. General Norwood previously served as Deputy Chief of Staff for the United Nations Command and United States Forces in Korea from 1995 to 1997. He also served as the U.S. member of the United Nations Command's Military Armistice Commission responsible for crucial general officer level negotiations with North Korea.

General Norwood received a Bachelor of Science Degree in Mathematics from San Diego State University and a Master's Degree in Business Administration from Golden Gate University. He is also a graduate of the National War College and Defense Language Institute.

General Norwood's experience supporting the federal infrastructure as well as his experience in successful business development and board service is particularly valuable to the Company. This experience, as well as his independence from the Company and his prior performance as a Board member, led the Board to conclude that he should continue to serve as a director of the Company.

**Paul Johnson** has served as a director since December 2015. Since its inception in 2012, Mr. Johnson has managed Nicusa Investment Advisors, a firm focused on advising senior management and boards of directors on governance, strategy, capital allocation, and shareholder value creation. Mr. Johnson is also a senior advisor to Bowen Advisors, an organization focused on offering M&A and strategic advisory services to emerging and high growth technology firms. Prior to the inception of Nicusa Investment Advisors in 2012, Mr. Johnson was the general partner and investment manager of Nicusa Capital Partners, a private investment partnership that he started in 2003, which invested in virtually all sectors of the economy, with a concentration in technology. Prior to founding Nicusa, Mr. Johnson was a Managing Director in the Equity Research Department of Robertson Stephens, where he worked from 1994 through 2002. Mr. Johnson has been an Adjunct Professor of Finance at the Graduate School of Business, Columbia University, since 1992, where he teaches courses on securities analysis and value investing. Mr. Johnson was appointed as a Fellow to the Gabelli Center for Global Security Analysis at Fordham University in August 2015 and will teach an introductory class on value investing at the Fordham University Graduate Business School starting in January 2016. Mr. Johnson is co-author of *The Gorilla Game, Picking Winners in High Technology*, was a contributing annotator in 2012 to *The Most Important Thing Illuminated*, by Howard Marks, and wrote the history of value investing in the forthcoming book celebrating the 100-year history of the Columbia Business School. Mr. Johnson is also co-author of the forthcoming, *Pitch the Perfect Investment, The Essential Guide to Winning on Wall Street*. Mr. Johnson has a B.A. in Economics from the University of California, Berkeley and an MBA in Finance from the Executive Program at the Wharton School of the University of Pennsylvania.

In January, 2003, the SEC commenced a civil enforcement action against Mr. Johnson, alleging two counts of securities fraud with respect to research reports on three companies prepared by Mr. Johnson, primarily from the failure to disclose personal financial interests in the companies that were the subject of the reports. On November 11, 2005, a jury returned a verdict finding that Mr. Johnson violated the federal securities laws in connection with the research reports. Mr. Johnson resolved the civil action and related administrative proceedings by entering into a settlement with the SEC (i) enjoining him, for a period of five (5) years, from future securities violations, (ii) requiring disgorgement of certain profits, (iii) requiring payment of a civil penalty and (iv) consenting to a five-year bar from association with any broker or dealer that ended on July 23, 2011.

We believe that Mr. Johnson brings to the Board extensive knowledge of corporate governance, corporate strategy, and capital allocation as well as shareholder value creation. This experience and knowledge led the Board to conclude that he should serve as a director of the Company.

**James M. Ritter** has served as a director since December 1999 and served as Assistant Secretary of the Company from December 2002 until 2008. Mr. Ritter is the Chairman of the Corporate Governance and Nominating Committee and the Compensation Committee and is also a member of the Audit Committee. Mr. Ritter is the retired Corporate Headquarters Chief Information Officer of Lockheed Martin Corporation. Prior to his retirement in February 2001, Mr. Ritter was employed at Lockheed Martin Corporation for over 32 years in various positions involving high level IT strategic planning and implementation, e-commerce development, integrated financial systems, and large-scale distributed systems.

Mr. Ritter brings to the Board extensive knowledge of information systems and managerial experience as a result of a career managing and building complex information technology systems. This experience, as well as his independence from the Company, his prior performance as a Board member, led the Board to conclude that he should continue to serve as a director of the Company.

**Morton S. Taubman** has served as a director since his appointment on March 10, 2006 to serve out the remaining term of G.W. Norman Wareham, who resigned his position on March 7, 2006. Mr. Taubman is also the Chairman of the Audit Committee and is a member of the Compensation Committee and the Corporate Governance and Nominating Committee. Mr. Taubman has experience as a certified public accountant and is currently an attorney with expertise in corporate law, government contracting and international relations. Prior to forming Hunter Taubman Fischer law firm, Mr. Taubman was the senior vice president and general counsel to DIGICON Corporation, an IT and telecommunications company. Before joining DIGICON, he was a senior partner at Ginsburg, Feldman and Bress, LLP, an established Washington, D.C. firm that provided expertise in tax, telecommunications, litigation, federal regulatory issues, capital reformation, government contracting and international issues. Before that, he was a founding partner at a number of law firms, was the partner-in-charge of the Washington D.C. office of Laventhol & Harworth, in charge of the Washington, D.C. tax department at Coopers & Lybrand and a special agent with the U.S. Treasury Department. Mr. Taubman has been an adjunct law professor for more than 15 years at Georgetown University and George Washington University. He presently also serves as special corporate counsel to Interior Systems, Inc. d/b/a ISI Professional Services, a United States federal contractor. He holds a Bachelor of Science Degree in Accounting from the University of Baltimore, a Juris Doctor Degree from the University of Baltimore Law School, and a Masters of Law Degree from Georgetown University.

Mr. Taubman brings to the Board financial expertise and is qualified as an audit committee financial expert. Mr. Taubman also brings to the Board a wealth of experience as a financial and legal professional serving as a partner at both major auditing and legal firms. This experience, as well as his independence from the Company and his prior performance as a Board member, led the Board to conclude that he should serve as a director of the Company.

Our executive officers serve at the discretion of the board of directors.

There are no family relationships among any of our executive officers or directors.

## **CORPORATE GOVERNANCE**

### **Code of Ethics**

The Company's Board of Directors has a code of ethics and business conduct for the chief executive and principal financial and accounting officers. The Company has posted a copy of the code on its website located at [www.widepoint.com](http://www.widepoint.com). We intend to post notice of any waiver from, or amendment to, any provision of our code of ethics and business conduct on our website.

### **Board Meetings – Committees of the Board**

The Board of Directors held four (4) meetings during 2015. During this period, all of the directors attended or participated in more than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all Committees of the Board of Directors on which each such director served.

The Board currently has the following standing Committees: Audit; Corporate Governance and Nominating; and Compensation. Each standing Committee consists entirely of independent, non-employee directors in accordance with the listing standards of the NYSE MKT. The Board also recently established an Executive Committee. Membership and principal responsibilities of the Board's Committees are described below. Each standing Committee of the Board has adopted a charter and each such charter is available free of charge on our website, [www.widepoint.com](http://www.widepoint.com), or by writing to WidePoint Corporation, 7926 Jones Branch Drive, Suite 520, McLean, Virginia 22102, c/o Corporate Secretary.



*Audit Committee*

The members of the Audit Committee are:

§ Morton S. Taubman (Chair)

§ James M. Ritter

§ George W. Norwood

§ Otto J. Guenther

§ Paul Johnson

The Audit Committee met four (4) times in 2015. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934. The primary functions of the Audit Committee are to: appoint (subject to stockholder approval), and be directly responsible for the compensation, retention and oversight of, the firm that will serve as the Company's independent accountants to audit our financial statements and to perform services related to the audit (including the resolution of disagreements between management and the independent accountants regarding financial reporting); review the scope and results of the audit with the independent accountants; review with management and the independent accountants, prior to the filing thereof, the annual and interim financial results (including Management's Discussion and Analysis) to be included in our Forms 10-K and 10-Q, respectively; consider the adequacy and effectiveness of our internal accounting controls and auditing procedures; review, approve and thereby establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; review and approve related person transactions in accordance with the policies and procedures of the Company; and consider the accountants' independence and establish policies and procedures for pre-approval of all audit and non-audit services provided to WidePoint by the independent accountants who audit its financial statements. At each meeting, Audit Committee members may meet privately with representatives of Moss Adams LLP, our independent accountants, and with the Company's Executive Vice President and Chief Financial Officer.

The Board has determined that Messrs. Taubman, Ritter, Johnson, Norwood and Guenther each meet the definition of "independent directors" for purposes of serving on an audit committee under applicable rules of the Securities and Exchange Commission and the listing standards of the NYSE MKT. In addition, the Board has determined that Mr. Taubman satisfies the "financially sophisticated" requirements set forth in the NYSE MKT Company Guide, and has designated Mr. Taubman as the "audit committee financial expert," as such term is defined in the rules and regulations of the SEC.

#### *Corporate Governance and Nominating Committee*

The members of the Corporate Governance and Nominating Committee are:

§ James M. Ritter (Chair)

§ Morton S. Taubman

§ Otto J. Guenther

§ George W. Norwood

§ Paul Johnson

The Corporate Governance and Nominating Committee met one (1) time in 2015. The primary functions of this Committee are to: identify individuals qualified to become Board members and recommend to the Board the nominees for election to the Board at the next Annual Meeting of Stockholders; review annually and recommend changes to the Company's Corporate Governance Guidelines; lead the Board in its annual review of the performance of the Board and

its committees; review policies and make recommendations to the Board concerning the size and composition of the Board, the qualifications and criteria for election to the Board, retirement from the Board, compensation and benefits of non-employee directors, the conduct of business between WidePoint and any person or entity affiliated with a director, and the structure and composition of the Board's Committees; review the Company's policies and programs relating to compliance with its Code of Business Conduct and such other matters as may be brought to the attention of the Committee regarding WidePoint's role as a responsible corporate citizen. See "Identification and Evaluation of Director Candidates" and "Director Compensation" in this proxy statement.

*Compensation Committee*

The members of the Compensation Committee are:

§ James M. Ritter (Chair)

§ Morton S. Taubman

§ George W. Norwood

§ Otto J. Guenther

§ Paul Johnson

The Compensation Committee met two (2) times in 2015. The primary functions of the Compensation Committee are to: evaluate and approve executive compensation plans, policies and programs, including review of relevant corporate and individual goals and objectives, as submitted by the Chief Executive Officer; evaluate the Chief Executive Officer's performance relative to established goals and objectives and, together with the other independent directors, determine and approve the Chief Executive Officer's compensation level based on this evaluation; review and approve the annual salary and other remuneration of all other officers; review the management development program, including executive succession plans; review with management, prior to the filing thereof, the executive compensation disclosure included in this proxy statement; recommend individuals for election as officers; and review or take such other action as may be required in connection with the bonus, stock and other benefit plans of WidePoint and its subsidiaries.

Executive Committee

Our Board of Directors recently formed an Executive Committee of the Board of Directors, consisting of Steve Komar and Paul Johnson, in order to work with management to re-focus and re-develop our strategy in order to gain market penetration for our products and services in the commercial sector as well as to provide assistance to the position of CEO in order to attract potential candidates and otherwise properly transition the office of CEO upon Steve Komar's retirement.

**Director Compensation**

Directors who are not also officers or employees receive an annual fee of \$12,000. The following table sets forth director compensation for the year ended December 31, 2015:

Director Name	Fees Earned or Paid (\$)	Option Awards (\$)	All Other Compensation (\$)	Total
James Ritter	\$ 12,000	\$ -	\$ -	\$ 12,000
Morton Taubman	12,000	-	-	12,000
George Norwood	12,000	-	-	12,000
Otto Guenther	12,000	-	-	12,000
Paul Johnson(1)	-	-	-	-

(1) Paul Johnson became a member of our Board of Directors in December 2015.

### Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission. Statements of Changes in Beneficial Ownership of Securities on Form 4 are generally required to be filed before the end of the second business day following the day on which the change in beneficial ownership occurred. Based on the Company's review of Forms 3 and 4 filed during 2015, all such Forms 3 and Forms 4 were filed on a timely basis.

## **ITEM 11. EXECUTIVE COMPENSATION**

### **Compensation Discussion and Analysis**

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our “NEOs,” during 2015 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for 2015. The NEOs are identified below in the table titled “Summary Compensation Table.” In this compensation discussion and analysis, we also describe various actions regarding NEO compensation take before or after 2015 when we believe it enhances the understanding of our executive compensation program.

### **Overview of Our Executive Compensation Philosophy and Design**

We believe that a skilled, experienced and dedicated executive and senior management team is essential to the future performance of our Company and to building stockholder value. We have sought to establish competitive compensation programs that enable us to attract and retain executive officers with these qualities. The other objectives of our compensation programs for our executive officers are the following:

- § to motivate our executive officers to achieve strong financial performance;
- § to attract and retain executive officers who we believe have the experience, temperament, talents and convictions to contribute significantly to our future success; and
- § to align the economic interests of our executive officers with the interests of our stockholders.

### **Setting Executive Compensation**

Our compensation committee has primary responsibility for, among other things, determining our compensation philosophy, evaluating the performance of our NEOs, setting the compensation and other benefits of our NEOs, overseeing the Company’s response to the outcome of the advisory votes of stockholders on executive compensation, assessing the relative enterprise risk of our compensation program and administering our equity compensation plans. The Company’s compensation planning is done annually for cash based performance goals and in multi-year periods for equity based performance goal setting.

It is our Chief Executive Officer's responsibility to provide recommendations to the Compensation Committee for most compensation matters related to executive compensation. The recommendations are based on a general analysis of market standards and trends and an evaluation of the contribution of each executive officer to the Company's performance. Our Compensation Committee considers, but retains the right to accept, reject or modify such recommendations and has the right to obtain independent compensation advice. Neither the Chief Executive Officer nor any other members of management is present during executive sessions of the Compensation Committee. The Chief Executive Officer is not present when decisions with respect to his compensation are made. Our Board of Directors appoints the members of our compensation committee and delegates to the compensation committee the direct responsibility for overseeing the design and administration of our executive compensation program.

We have not historically utilized a compensation consultant to set the compensation of our NEOs.

## Elements of Executive Compensation

We believe the most effective compensation package for our NEOs is one designed to reward achievement of individual and corporate objectives, provide for short-term, medium-term and long-term financial and strategic goals and align the interest of management with those of the stockholders by providing incentives for improving stockholder value. Compensation for our NEOs consists of base salary and an annual bonus opportunity, along with multi-year accelerated vesting goals associated with either stock option awards and or stock grant awards. Our annual bonus opportunity is intended to incentivize the achievement of goals that drive annual and multi-year performance, while our accelerated stock option and or stock grant vesting goals are intended to incentivize the achievement of goals that drive multi-year performance.

*Base Salary.* We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year. The fiscal 2016 base salaries for our NEOs, as well as the percentage increase from the fiscal 2015 base salaries, are as follows:

Name	Fiscal 2016 Base Salary (1)	Percentage Increase over Fiscal 2015 Base Salary
Steve Komar	\$ 270,000	n/a
James McCubbin	\$ 265,000	n/a
Jin Kang	\$ 265,000	n/a

(1) Compensation for NEOs was increased in April 2015.

*Annual Cash Based Bonus Opportunity.* The amount of the annual discretionary cash based bonus award is based on individual performance assessments along with the financial performance of the Company. Our performance-based cash incentive compensation in recent years has included targets for achieving various levels of revenue, operating income, and other financial goals and metrics, along with individual performance assessments that has included goals in personal professional improvement, team building, and other individual personal growth goals. The annual cash based bonus opportunity is for up to 50% of a NEOs base salary. In 2015, none of our NEOs earned a bonus because due to our net operating losses.

We believe these cash based award opportunities reinforce the alignment of interests of our executive officers with those of our stockholders in the shorter term as the positive financial performance that drives the cash based bonus awards also indirectly influences the performance of the Company's common stock. We believe the personal professional improvement goals enhance the value of the NEO to expand their expertise and expand the effectiveness



of the Company's staff allowing for greater organization efficiencies while improving Company performance, which drives short-term, medium-term, and long-term organizational improvement and ultimately value for the stockholders in the form of better financial and common stock performance.

*Restricted Stock Equity Awards.* Mr. Komar and Mr. McCubbin were each awarded 250,000 shares of restricted common stock in 2010 that vest 100% upon the earlier of (i) the seventh anniversary from the date of grant or (ii) upon an acceleration event that is determined by the Compensation Committee.

*Stock Option Equity Awards.* Mr. Kang was awarded 170,000 stock options in 2013 that vested one third per year over a term of three years in order to reward Mr. Kang for improved performance in the Company's common stock price. On May 8, 2015, Mr. Kang was awarded 25,000 stock options that vested 50% on December 31, 2015 and the remainder vesting on December 31, 2016.

*Acceleration of Equity Awards.* The acceleration of the common shares and or stock options are tied generally to performance measures such as earnings before interest, taxes, amortization and depreciation and other triggers predominately tied to performance goals of the Company. In keeping with our philosophy for incentivizing the performance of our named executive officers over a medium to longer term horizon the Company has used equity grants and awards linked to accelerated vesting goals to reinforce the alignment of interest of our named executive officers with those of our stockholders, as the value of the awards granted thereunder is linked to the value of our Common Stock, which, in turn, is indirectly attributable to the performance of our executive officers.

*Retirement and Other Benefits.* We are strongly committed to encouraging all employees to save for retirement. To provide employees with the opportunity to save for retirement on a tax-deferred basis, we sponsor a defined contribution 401(k) savings plan. We also provide health, dental, vision and short term disability insurance to our NEOs on the same basis offered to all of our employees.

### Summary Compensation Table

The following table summarizes the compensation paid by us in each of the last three recently completed fiscal years for our NEOs:

Name and Principal Position	Year	Base Salary (1)	Discretionary Bonus	Option Awards (2)	Other Compensation (3)	Total Compensation
Steve Komar Chief Executive Officer, Director, and Chairman of the Board	2015	\$264,517	\$ -	\$-	\$ 7,200	\$ 271,717
	2014	\$ 249,167 (4)	\$ -	\$-	\$ 7,200	\$ 256,367
	2013	\$255,000	\$ -	\$-	\$ 7,200	\$ 262,200
James McCubbin Executive Vice President, Chief Financial Officer, Secretary, Treasurer and Director	2015	\$258,480	\$ -	\$-	\$ 7,200	\$ 265,680
	2014	\$ 249,167 (4)	\$ -	\$-	\$ 7,200	\$ 256,367
	2013	\$255,000	\$ -	\$-	\$ 7,200	\$ 262,200
Jin Kang Executive Vice President & Chief Operations Officer	2015	\$246,225	\$ -	\$ 19,025 (5)	\$ -	\$ 265,250
	2014	\$ 239,583 (4)	\$ -	\$-	\$ -	\$ 239,583
	2013	\$250,000	\$ -	\$ 45,730 (5)	\$ -	\$ 295,730

(1) Amount represents base salary as set forth in an executive employment agreement.

(2) Amount represents the grant date fair value calculated pursuant to ASC Topic 718. Additional information about the assumptions used when valuing equity awards is set forth in the notes the consolidated financial statements included herein.

(3) Monthly combined home office and phone allowance of \$600 were paid to Mr. Komar and Mr. McCubbin during fiscal 2015, 2014, and 2013.

(4) For a five month period in fiscal year 2014, Mr. Komar, Mr. McCubbin and Mr. Kang each voluntarily agreed to a 10% reduction in base salary.

(5) During fiscal 2015 Mr. Kang was granted an equity award of 25,000 options on May 8, 2015 with an estimated fair value of \$19,025. During fiscal 2013 Mr. Kang was granted an equity award of 170,000 options on March 21, 2013 with an estimated fair value of approximately \$96,900.

### **Grant of Plan Based Awards**

As described above in the Compensation Discussion and Analysis, we granted stock options to certain of our NEOs. The following table sets forth information regarding all such awards:

Name	Option Awards		All Other Option Awards: Number of Securities Underlying Options (#)	Exercise Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards \$(1)
	Grant Date	Date of Committee Action			
Jin Kang, Executive Vice President and Chief Operations Officer	5/8/2015	5/8/2015	\$ 25,000	\$ 1.38	\$ 19,025

(1) Amount represents the grant date fair value calculated pursuant to ASC Topic 718. Additional information about the assumptions used when valuing equity awards is set forth in the notes the consolidated financial statements included herein.

**Outstanding Equity Awards at December 31, 2015**

The following table sets forth information on outstanding equity awards held by NEOs at December 31, 2015:

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Unearned Shares or other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Rights that have not Vested (\$)
Steve L. Komar, Chief Executive Officer, Director, and Chairman of the Board	-	-	-	-	250,000(1)	\$ 175,000
James T. McCubbin, Executive Vice President, Chief Financial Officer, Secretary, Treasurer	-	-	-	-	250,000(1)	\$ 175,000

and Director

Jin Kang, Executive Vice President and Chief Operations Officer	125,833	44,167	\$ 0.57	3/20/2018	(2)	-	-
	12,500	12,500	\$ 1.38	5/8/2020	(3)		

(1) Equity incentive plan awards unearned represent restricted stock awards which vest on the seventh anniversary of the date of grant or earlier upon a determination by the compensation committee that such shares have been earned.

(2) Options vest one-third per year over a term of three years.

(3) Options vested 50% on December 31, 2015 and the remainder vests on December 31, 2016.

## **Option Exercises and Stock Vested for Fiscal 2015**

None of our NEOs exercised options or had stock vest during the year ended December 31, 2015.

## **Employment Agreements and Compensation Arrangements;**

### **Termination and Change in Control Provisions**

The following describes the terms of employment agreements between the Company and the named executive officers included in the above Summary Compensation Table and sets forth information regarding potential payments upon termination of employment or a change in control of the Company.

***Mr. Komar.*** On November 6, 2015, we entered into an amendment of an employment agreement with Steve Komar, our Chief Executive Officer and President, dated as of August 13, 2010 and effective as of July 1, 2010. The employment agreement, as amended, has a term expiring on June 30, 2016. The Company had the option to terminate Mr. Komar's employment agreement as of March 31, 2015 by giving written notice on or before January 31, 2015; however, the Compensation Committee affirmatively decided not to exercise such option. The agreement provides for (1) a base salary of \$270,000, (2) a home office/automobile expense allowance of \$600 per month to cover such expenses incurred in the pursuit of our business; (3) a phone allowance of \$100 per month to cover such expenses incurred in the pursuit of our business; (4) reimbursement for additional actual business expenses consistent with our existing policies that have been incurred for our benefit; (5) paid medical and other benefits consistent with our existing policies with respect to our key executives, as such policies may be amended from time to time in the future; and (6) performance incentive bonuses as may be granted annually at the discretion of the Compensation Committee of the Board. For a five month period in calendar 2014, Mr. Komar voluntarily agreed to a 10% reduction in base salary.

The employment agreement contains a severance provision which provides that upon the termination of his employment without Cause (as described below) or his voluntary resignation for a Good Reason (as described below), Mr. Komar will receive severance compensation payable in a lump-sum of cash equal to the greater of (a) an amount equal to twelve (12) months of his base salary then in effect, or (b) an amount equal to Mr. Komar's base salary for the remainder of the term of the employment agreement as if the employment agreement had not been terminated; provided that if employment terminates by reason of death or disability, then Mr. Komar shall receive a one-time payment equal to the amount of Base Salary owed for the immediate twelve (12) months following the death or disability event, or an amount equal the remainder of the contractual term of the employment agreement whichever is less and all granted but unvested stock options shall be immediately vested and the period of exercise extended for an additional 2 years.

The employment agreement further provides that if within two years after a change in control of the Company there occurs any termination of Mr. Komar for any reason other than for Cause or a voluntary resignation without a Good Reason, then the Company will be required to pay to Mr. Komar a one-time severance payment equal to the greater of (a) an amount equal to twelve (12) months of his base salary then in effect, or (b) an amount equal to Mr. Komar's base salary for the remainder of the term of the employment agreement. If Mr. Komar's employment terminates for any reason other than for Cause or a voluntary retirement without Good Reason, Mr. Komar will be eligible to participate, at the Company's expense, in all executive medical and dental plans provided by the Company for the remainder of the term of the employment agreement. Mr. Komar will receive a payment equal to any excise, income and other taxes resulting from the imposition of parachute penalties of the Internal Revenue Code or applicable state tax law.

Termination of Mr. Komar's employment by the Company shall be deemed for "Cause" if, and only if, it is based upon (i) conviction of a felony by a federal or state court of competent jurisdiction; (ii) material disloyalty to the Company such as embezzlement or misappropriation of corporate assets; or (iii) engaging in unethical or illegal behavior which is of a public nature, brings the Company into disrepute, and results in material damage to the Company. A resignation by Mr. Komar shall not be deemed to be voluntary and shall be deemed to be a resignation with "Good Reason" if it is based upon (i) a diminution in Mr. Komar's title, duties, or salary; (ii) a material reduction in benefits; (iii) a direction by the Board of Directors that Mr. Komar report to any person or group other than the Board of Directors, or (iv) a geographic relocation of the Company's primary business operations outside of the Washington Metropolitan Area.

**Mr. McCubbin.** On April 9, 2015, we entered into an amendment of an employment agreement with James T. McCubbin, our Executive Vice President, Chief Financial Officer, Secretary and Treasurer, dated as of August 13, 2010 and effective as of July 1, 2010. The amendment to Mr. McCubbin's employment agreement has a term expiring on March 31, 2017. The agreement provides for (1) a base salary of \$265,000, (2) a home office/automobile expense allowance of \$600 per month to cover such expenses incurred in the pursuit of our business; (3) a phone allowance of \$100 per month to cover such expenses incurred in the pursuit of our business; (4) reimbursement for additional actual business expenses consistent with our existing policies that have been incurred for our benefit; (5) paid medical and other benefits consistent with our existing policies with respect to our key executives, as such policies may be amended from time to time in the future; and (6) performance incentive bonuses as may be granted annually at the discretion of the Compensation Committee of the Board. For a five month period in calendar 2014, Mr. McCubbin voluntarily agreed to a 10% reduction in base salary.

The employment agreement contains a severance provision which provides that upon the termination of his employment without Cause (as described below) or his voluntary resignation for a Good Reason (as described below), Mr. McCubbin will receive severance compensation payable in a lump-sum of cash equal to the greater of (a) an amount equal to twelve (12) months of his base salary then in effect, or (b) an amount equal to Mr. McCubbin's base salary for the remainder of the term of the employment agreement as if the employment agreement had not been terminated; provided that if employment terminates by reason of death or disability, then Mr. McCubbin shall receive a one-time payment equal to the amount of Base Salary owed for the immediate twelve (12) months following the death or disability event, or an amount equal the remainder of the contractual term of the employment agreement whichever is less and all granted but unvested stock options shall be immediately vested and the period of exercise extended for an additional 2 years.

The employment agreement further provides that if within two years after a change in control of the Company there occurs any termination of Mr. McCubbin for any reason other than for Cause or a voluntary resignation without a Good Reason, then the Company will be required to pay to Mr. McCubbin a one-time severance payment equal to the greater of (a) an amount equal to twelve (12) months of his base salary then in effect, or (b) an amount equal to Mr. McCubbin's base salary for the remainder of the term of the employment agreement. If Mr. McCubbin's employment terminates for any reason other than for Cause or a voluntary retirement without Good Reason, Mr. McCubbin will be eligible to participate, at the Company's expense, in all executive medical and dental plans provided by the Company for the remainder of the term of the employment agreement. Mr. McCubbin will receive a payment equal to any excise, income and other taxes resulting from the imposition of parachute penalties of the Internal Revenue Code or



applicable state tax law.

Termination of Mr. McCubbin's employment by the Company shall be deemed for "Cause" if, and only if, it is based upon (i) conviction of a felony by a federal or state court of competent jurisdiction; (ii) material disloyalty to the Company such as embezzlement or misappropriation of corporate assets; or (iii) engaging in unethical or illegal behavior which is of a public nature, brings the Company into disrepute, and results in material damage to the Company. A resignation by Mr. McCubbin shall not be deemed to be voluntary and shall be deemed to be a resignation with "Good Reason" if it is based upon (i) a diminution in Mr. McCubbin's title, duties, or salary; (ii) a material reduction in benefits; (iii) a direction by the Board of Directors that Mr. McCubbin report to any person or group other than the Board of Directors, or (iv) a geographic relocation of the Company's primary business operations outside of the Washington Metropolitan Area.

**Mr. Kang.** On April 9, 2015, we entered into an employment agreement with Jin Kang, our Executive Vice President and Chief Executive Officer of WidePoint Integrated Solutions Corp. and Chief Operations Officer, which replaced Mr. Kang's prior employment agreement, dated November 27, 2012. The agreement is for a term ending on December 31, 2016 and provides for (1) a base salary of \$265,000 per year, (2) reimbursement for business expenses, (3) paid medical and other benefits consistent with our existing policies with respect to our key executives, as such policies may be amended from time to time in the future, and (4) bonus compensation in the reasonable discretion of the Compensation Committee of the Board of Directors. For a five month period in calendar 2014, Mr. Kang voluntarily agreed to a 10% reduction in base salary.

Mr. Kang's employment period will continue from the date of his agreement until December 31, 2016 unless he is terminated earlier due to (a) Mr. Kang's death or permanent disability which renders Mr. Kang unable to perform his duties hereunder (as determined by the Company in its good faith judgment), (b) Mr. Kang's resignation, upon prior written notice to the Company of one hundred eighty (180) days, (c) termination by the Company for Cause or (d) termination by the Company without Cause upon prior written notice of one-hundred eighty (180) days. "Cause" is defined in the agreements as: (i) the repeated failure or refusal of Mr. Kang to follow the lawful directives of the Company, or its designee (except due to sickness, injury or disabilities), after prior notice to Mr. Kang and a reasonable opportunity to cure by Mr. Kang for up to thirty (30) days, (ii) gross inattention to duty or any other willful, reckless or grossly negligent act (or omission to act) by Mr. Kang, which, in the good faith judgment of the Company, materially injures the Company, including the repeated failure to follow the policies and procedures of the Company, after prior written notice to Employee and a reasonable opportunity to cure by Mr. Kang of up to thirty (30) days, (iii) a material breach of this Agreement by Mr. Kang, after prior written notice to Mr. Kang and a reasonable opportunity to cure by Mr. Kang of up to thirty (30) days, (iv) the commission by Mr. Kang of a felony or other crime involving moral turpitude or the commission by Mr. Kang of an act of financial dishonesty against the Company or, (v) a proper business purpose of the Company, which shall be limited to the elimination of the position filled by Mr. Kang as a result of a material decrease in revenues and/or profits of the Company, but with other cost cutting measures and the termination of other employees being first considered and instituted as determined in the sole judgment of the Company prior to the termination of Mr. Kang; provided, however, that in the event the Company terminates Mr. Kang under (v) above, then (I) the scope of the non-compete shall be limited to the products and services offered by the Company as of the termination of Mr. Kang and (II) the Company shall pay to Mr. Kang a continuation of base salary and benefits each month for the six (6) month period immediately following such termination. In the event Mr. Kang is terminated without Cause, then the Company shall pay to Mr. Kang a continuation of base salary and benefits each month for the six (6) month period immediately following such termination and the non-compete provisions in the agreement shall not apply.

### **Compensation Committee Interlocks and Insider Participation**

During the last fiscal year, no member of the Compensation Committee had a relationship with us that required disclosure under Item 404 of Regulation S-K. During the past fiscal year, none of our executive officers served as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who served as members of our Board of Directors or our

Compensation Committee. None of the members of our Compensation Committee is an officer or employee of our Company, nor have they ever been an officer or employee of our Company.

### **Compensation Committee Report**

Our Compensation Committee has reviewed and discussed the “Compensation Discussion and Analysis” contained in this Form 10-K with management. Based on our Compensation Committee’s review and discussions with management, our Compensation Committee recommended to our Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

**Security Ownership of Certain Beneficial Owners (Greater than 5% Holders)**

The following table sets forth beneficial owners of more than 5% based on 82,520,696 outstanding shares of Common Stock as of March 15, 2016:

Names and Complete Mailing Address	Number of Shares of Common Stock	Percent of Common Stock Outstanding	
Nokomis Capital, L.L.C., and Brett Hendrickson 2305 Cedar Springs Rd., Suite 420 Dallas, Texas 75201	12,774,251	15.5	%(1)

Based on information provided in a Schedule 13G filed on October 2, 2015, Nokomis Capital, L.L.C. is a Texas limited liability company and Mr. Brett Hendrickson is the principal of Nokomis Capital, L.L.C. The Schedule 13G relates to shares purchased by Nokomis Capital through the accounts of certain private funds and managed (1) accounts (collectively, the “Nokomis Accounts”). Nokomis Capital serves as the investment adviser to the Nokomis Accounts and may direct the vote and dispose of the shares held by the Nokomis Accounts. As the principal of Nokomis Capital, Mr. Hendrickson may direct the vote and disposition of the shares held by the Nokomis Accounts. Pursuant to Rule 16a-1, both Nokomis Capital and Mr. Hendrickson disclaim such beneficial ownership.

**Security Ownership of Directors and Executive Officers**

The following table sets forth the number of shares of our Common Stock beneficially owned as of March 15, 2016 with respect to the beneficial ownership of Common Stock by each director, and each executive officer named in the Summary Compensation Table herein. In general, “beneficial ownership” includes those shares a director or executive officer has the power to vote or transfer, except as otherwise noted, and shares underlying warrants and stock options that are exercisable currently or within 60 days. The calculation of the percentage of outstanding shares is based on 82,520,696 shares outstanding as of March 15, 2016.

Directors, Nominees and Executive Officers	Number of Shares of Common Stock (1)	Percent of Common Stock Outstanding (1)	
Steve Komar (2)	2,112,803	3	%
Morton Taubman (3)	50,000	*	
James McCubbin (4)	1,875,203	2	%
James Ritter (5)	90,500	*	
Jin Kang (6)	3,006,177	4	%
Otto Guenther (7)	62,000	*	
George Norwood (8)	62,000	*	
Paul Johnson (9)	-	*	
All directors and officers as a group (8 persons) (10)	7,258,683	9	%

\*Indicates ownership percentage is less than 1.0%.

(1) Assumes in the case of each shareholder listed above that all options held by such shareholder that are exercisable currently or within 60 days of March 15, 2016 were fully exercised by such shareholder, without the exercise of any warrants or options held by any other shareholders.

(2) Includes (i) 1,319,700 shares owned directly by Mr. Komar (excludes 250,000 shares of unvested restricted stock awards not vesting within 60 days), and (ii) 793,103 shares held by SLK Diversified L.P., a limited partnership controlled by Mr. Komar, as a result of which such shares are held by Mr. Komar indirectly.

(3) Includes 50,000 shares subject to exercisable options to purchase shares of Common Stock, that may be purchased at a price of \$0.54 per share through May 11, 2019, pursuant to a stock option granted on May 11, 2009.

(4) Includes 1,875,203 shares owned directly by Mr. McCubbin (excludes 250,000 shares of unvested restricted stock awards not vesting within 60 days).

(5) Includes (i) 65,500 shares owned directly by Mr. Ritter and (ii) 25,000 shares of Common Stock that may be purchased at a price of \$0.54 per share through May 11, 2019, pursuant to a stock option granted on May 11, 2009.

(6) Includes (i) 2,880,344 shares owned directly by Mr. Kang, (ii) 113,333 earned and exercisable options to purchase shares from the Company at a price of \$0.76 per share until March 20, 2018, pursuant to a stock option granted on March 20, 2013, and (iii) 12,500 earned and exercisable options and excludes 12,500 unearned options to purchase shares from the Company at a price of \$1.38 per share until May 8, 2020, pursuant to a stock option granted on May 8, 2015. Excludes 56,667 unvested options.

(7) Includes 62,000 shares subject to exercisable options to purchase shares Common Stock, consisting of (i) 12,000 shares that may be purchased at a price of \$0.93 per share through August 15, 2017, pursuant to a director stock option granted on August 15, 2007 and (ii) 50,000 shares that may be purchased at a price of \$0.54 per share through May 11, 2019, pursuant to a stock option granted on May 11, 2009.

(8) Includes 62,000 shares subject to exercisable options to purchase shares Common Stock, consisting of (i) 12,000 shares that may be purchased at a price of \$0.93 per share through August 15, 2017, pursuant to a director stock option granted on August 15, 2007 and (ii) 50,000 shares that may be purchased at a price of \$0.54 per share through May 11, 2019, pursuant to a stock option granted on May 11, 2009.

(9) Excludes 50,000 unvested options to purchase shares from the Company at a price of \$0.68 per share until January 4, 2021, pursuant to a stock option granted on January 4, 2016.

(10) Includes the shares referred to as included in notes (2) through (9) above.

### Equity Compensation Plan Information

The following table sets forth information as of December 31, 2015, with respect to the Company's compensation plans under which its Common Stock is authorized for issuance:

	(a)	(b)	(c)
	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance (excluding securities reflected in column (a))
Directors, Nominees and Executive Officers			
Equity Compensation Plans:			
Approved by security holders	1,857,668	\$ 0.91	1,692,893
Not approved by security holders	-	\$ -	-
Total	1,857,668	\$ 0.91	1,692,893

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

A related person transaction is a consummated or currently proposed transaction in which the Company has been, is or will be a participant and the amount involved exceeds \$120,000, and in which a related person (i.e., any director or executive officer or nominee for director, or any member of the immediate family of such person) has or will have a direct or indirect material interest.

The Company was not a participant in any related person transactions in the past two fiscal years and no such transactions are currently proposed.



Under the Company’s corporate governance principles (the “Corporate Governance Principles”), a majority of the Company’s Board will consist of independent directors. An “independent” director is a director who meets the NYSE MKT definition of independence and other applicable independence standards under SEC guidelines, as determined by the Board. The Company’s Corporate Governance and Nominating Committee conduct an annual review of the independence of the members of the Board and its Committees and report its findings to the full Board of Directors. Based on the report and recommendation of the Corporate Governance Committee, the Board has determined that each of the Company’s non-employee directors—Messrs. Taubman, Ritter, Guenther, Johnson and Norwood—satisfies the independence criteria (including the enhanced criteria with respect to members of the Audit Committee) set forth in the applicable NYSE MKT listing standards and SEC rules. Each Board Committee consists entirely of independent, non-employee directors.

Non-management members of the Board of Directors conduct at least two regularly-scheduled meetings per year without members of management being present. Mr. Ritter serves as the presiding director of such meetings. Following an executive session of non-employee directors, the presiding director may act as a liaison between the non-employee directors and the Chairman, provide the Chairman with input regarding agenda items for Board of Directors and Committee meetings, and coordinate with the Chairman regarding information to be provided to the non-employee directors in performing their duties.

#### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following table sets forth fees paid to our principal accountants in connection with audit and audit-related, tax and other non-audit fees for the years ended December 31:

Service Type	2015	2014
Audit and Quarterly Review Fees (1)	\$ 192,500	\$ 174,864
Audit-Related Fees (2)	9,000	38,415
Total	\$ 201,500	\$ 213,279

(1) Audit and quarterly review fees for the annual audit and review of financial statements included in the Company’s quarterly filings, including reimbursable expenses.

(2) Audit-Related fees for other required regulatory filings including Form S-3 consents included in the Company’s filings, including reimbursable expenses.

*Audit Committee Policies and Procedures For Pre-Approval of Independent Auditor Services*

The following describes the Audit Committee's policies and procedures regarding pre-approval of the engagement of the Company's independent auditor to perform audit as well as permissible non-audit services for the Company.

For audit services and audit-related fees, the independent auditor will provide the Committee with an engagement letter during the March-May quarter of each year outlining the scope of the audit services proposed to be performed in connection with the audit of the current fiscal year. If agreed to by the Committee, the engagement letter will be formally accepted by the Committee at an Audit Committee meeting held as soon as practicable following receipt of the engagement letter. The independent auditor will submit to the Committee for approval an audit services fee proposal after acceptance of the engagement letter.

For non-audit services and other fees, Company management may submit to the Committee for approval (during May through September of each fiscal year) the list of non-audit services that it recommends the Committee engage the independent auditor to provide for the fiscal year. The list of services must be detailed as to the particular service and may not call for broad categorical approvals. Company management and the independent auditor will each confirm to the Audit Committee that each non-audit service on the list is permissible under all applicable legal requirements. In addition to the list of planned non-audit services, a budget estimating non-audit service spending for the fiscal year may be provided. The Committee will consider for approval both the list of permissible non-audit services and the budget for such services. The Committee will be informed routinely as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process.

To ensure prompt handling of unexpected matters, the Audit Committee delegates to its Chairman the authority to amend or modify the list of approved permissible non-audit services and fees. The Chairman will report any action taken pursuant to this delegation to the Committee at its next meeting.

All audit and non-audit services provided to the Company are required to be pre-approved by the Committee. The Chief Financial Officer of the Company will be responsible for tracking all independent auditor fees against the budget for such services and report at least annually to the Audit Committee.

**PART IV.**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

§ Financial Statements and Financial Statement Schedule

Financial Statements:

Management's Report on Internal Control over Financial Reporting

Report of Moss Adams LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Operations for the Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2015, 2014, and 2013

Consolidated Statements of Cash Flow for the Years Ended December 31, 2015, 2014, and 2013

Notes to Consolidated Financial Statements

All other schedules are omitted either because they are not applicable or not required, or because the required information is included in the financial statements or notes thereto

§ Exhibits: The following exhibits are filed herewith or incorporated herein by reference:

10.1 Employment Agreement, between WidePoint Corporation and Jin Kang. \* (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 10, 2015.)

10.2 Debt Modification Agreement, dated September 16, 2011, by and among the Registrant, and its subsidiaries and Cardinal Bank (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 5, 2011).

10.3 \$4,000,000 Commercial Term Loan Agreement, dated as of December 31, 2011, between the Registrant and its subsidiaries and Cardinal Bank. (Incorporated herein by reference to Exhibits 10.3 and 10.5 to the Registrant's Current Report on Form 8-K filed on January 5, 2012).

10.4 \$8,000,000 Commercial Revolving Loan Agreement, dated as of December 31, 2011, between the Registrant and its subsidiaries and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.4 and 10.6 to the Registrant's Current Report on Form 8-K filed on January 5, 2012).

10.5 Credit Security Agreement, dated as of December 31, 2011, between the Registrant and its subsidiaries and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on January 5, 2012).

Employment Agreement between WidePoint Corporation and Steve L. Komar, dated August 13, 2010.\*  
10.6 (Incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, as filed on August 16, 2010)

Employment Agreement between WidePoint Corporation and James McCubbin, dated August 13, 2010.\*  
10.7 (Incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, as filed on August 16, 2010)

Amendment dated August 13, 2013 to Employment Agreement between WidePoint Corporation and Steve L. Komar.\* (Incorporated herein by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q, as filed on August 14, 2013)

Amendment dated August 13, 2013 to Employment Agreement between WidePoint Corporation and James McCubbin.\* (Incorporated herein by reference to Exhibit 10.2 to Registrant's Quarterly Report on Form 10-Q, as filed on August 14, 2013)

Amendment dated February 18, 2014 to Employment Agreement between WidePoint Corporation and Steve L. Komar.\* (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, as filed on February 20, 2014)

Amendment dated February 18, 2014 to Employment Agreement between WidePoint Corporation and James McCubbin.\* (Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, as filed on February 20, 2014)

Employment Agreement, dated as of May 1, 2014, by and between Soft-ex Communications Limited and Ian Sparling. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 7, 2014).

10.13 Amended and Restated 2008 Stock Incentive Plan.\* (Incorporated herein by reference to Appendix I to the Company's Definitive Proxy Statement filed on November 24, 2009)

Change in Terms Agreement dated January 28, 2016 between WidePoint Corporation and its subsidiaries and Cardinal Bank (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on January 29, 2016)

Amendment dated April 9, 2015 to Employment Agreement between WidePoint Corporation and James McCubbin.\* (Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, as filed on April 10, 2015)

Edgar Filing: WIDEPOINT CORP - Form 10-K

Amendment dated April 9, 2015 to Employment Agreement between WidePoint Corporation and Steve  
10.16 Komar.\* (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, as filed  
on April 10, 2015)

Amendment dated November 6, 2015 to Employment Agreement between WidePoint Corporation and Steve  
10.17 Komar.\* (Incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 10-Q, as filed  
on November 9, 2015)

21 Subsidiaries of WidePoint Corporation (Filed herewith).

23.1 Consent of Moss Adams LLP (Filed herewith).

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

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

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

101. Interactive Data Files

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

\* Management contract or compensatory plan.



## 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: March 15, 2016 /s/ STEVE L. KOMAR  
*Steve L. Komar*  
Chief Executive Officer

Date: March 15, 2016 /s/ JAMES T. MCCUBBIN  
*James T. McCubbin*  
Executive Vice President – Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons, on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 15, 2016 /s/ STEVE L. KOMAR  
Steve L. Komar  
Director and Chief Executive Officer  
(Principal Executive Officer)

Dated: March 15, 2016 /s/ JAMES T. MCCUBBIN  
James T. McCubbin  
Director, Executive Vice President and  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Dated: March 15, 2016 /s/ JAMES M. RITTER  
James M. Ritter  
Director

Dated: March 15, 2016 /s/ MORTON S. TAUBMAN  
Morton S. Taubman  
Director

Dated: March 15, 2016 /s/ OTTO GUENTHER  
Otto Guenther  
Director

Dated: March 15, 2016 /s/ GEORGE NORWOOD  
George Norwood  
Director

Dated: March 15, 2016 /s/ PAUL JOHNSON  
Paul Johnson  
Director

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2015 and 2014</u>	F-2
<u>Consolidated Statements of Operations for the Years ended December 31, 2015, 2014, and 2013</u>	F-3
<u>Consolidated Statements of Comprehensive Loss for the Years ended December 31, 2015, 2014 and 2013</u>	F-4
<u>Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2015, 2014, and 2013</u>	F-5
<u>Consolidated Statements of Cashflows for the Years ended December 31, 2015, 2014, and 2013</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

WidePoint Corporation

We have audited the accompanying consolidated balance sheets of WidePoint Corporation and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, statements of comprehensive loss, changes in stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WidePoint Corporation and subsidiaries as of December 31, 2015 and 2014, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), WidePoint Corporation and subsidiaries’ internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 15, 2016 expressed an adverse opinion thereon due to material weaknesses.

/s/ Moss Adams LLP

Scottsdale, Arizona

March 15, 2016

F-1

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Balance Sheets

	DECEMBER 31,	
	2015	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$7,930,303	\$13,154,699
Accounts receivable, net of allowance for doubtful accounts of \$73,378 and \$88,719 in 2015 and 2014, respectively	10,565,113	8,543,050
Unbilled accounts receivable	6,637,587	5,547,416
Inventories	28,400	37,025
Prepaid expenses and other assets	435,300	426,736
Income taxes receivable	-	25,984
Deferred income taxes	30,889	18,584
<b>Total current assets</b>	<b>25,627,592</b>	<b>27,753,494</b>
<b>NONCURRENT ASSETS</b>		
Property and equipment, net	1,513,307	1,614,182
Intangibles, net	5,101,523	5,992,992
Goodwill	18,555,578	18,555,578
Deposits and other assets	60,471	161,994
<b>TOTAL ASSETS</b>	<b>\$50,858,471</b>	<b>\$54,078,240</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term note payable	\$131,953	\$137,025
Accounts payable	7,812,226	6,165,477
Accrued expenses	6,687,054	5,980,110
Deferred revenue	2,007,970	710,275
Income taxes payable	37,684	12,574
Current portion of long-term debt	893,706	2,184,016
Current portion of deferred rent	-	9,274
Current portion of capital lease obligations	28,752	76,597
<b>Total current liabilities</b>	<b>17,599,345</b>	<b>15,275,348</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt, net of current portion	431,756	1,327,800
Capital lease obligation, net of current portion	11,962	36,669
Deferred rent, net of current portion	151,994	152,815

Edgar Filing: WIDEPOINT CORP - Form 10-K

Deferred revenue	24,937	56,977
Deferred income taxes	447,811	447,811
Deposits and other liabilities	-	1,964
Total liabilities	18,667,805	17,299,384
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 2,045,714 shares issued and none outstanding	-	-
Common stock, \$0.001 par value; 110,000,000 shares authorized; 82,520,696 and 81,656,763 shares issued and outstanding, respectively	82,521	81,657
Additional paid-in capital	93,661,178	92,661,000
Accumulated other comprehensive (loss)	(270,140 )	(147,515 )
Accumulated deficit	(61,282,893)	(55,816,286)
Total stockholders' equity	32,190,666	36,778,856
Total liabilities and stockholders' equity	\$50,858,471	\$54,078,240

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Operations

	YEARS ENDED		
	DECEMBER 31,		
	2015	2014	2013
REVENUES	\$70,838,017	\$53,316,210	\$46,825,032
COST OF REVENUES (including amortization and depreciation of \$1,183,143, \$1,462,505, and \$1,462,995, respectively)	57,605,357	39,802,293	34,713,471
GROSS PROFIT	13,232,660	13,513,917	12,111,561
OPERATING EXPENSES			
Sales and Marketing	3,030,249	3,432,602	3,125,867
General and Administrative Expenses (including share-based compensation of \$299,337, \$324,281 and \$227,035, respectively)	14,608,014	13,876,249	9,799,094
Product Development	673,093	480,123	73,561
Depreciation and Amortization	383,265	375,951	288,333
Total Operating Expenses	18,694,621	18,164,925	13,286,855
LOSS FROM OPERATIONS	(5,461,961 )	(4,651,008 )	(1,175,294 )
OTHER INCOME (EXPENSE)			
Interest Income	23,031	17,002	7,364
Interest (Expense)	(142,497 )	(186,796 )	(175,358 )
Other Income (Expense)	33,009	12,890	11,267
Total Other Income (Expense)	(86,457 )	(156,904 )	(156,727 )
LOSS BEFORE PROVISION FOR INCOME TAXES	(5,548,418 )	(4,807,912 )	(1,332,021 )
INCOME TAX (BENEFIT) PROVISION	(81,811 )	3,592,714	362,764
NET LOSS	\$(5,466,607 )	\$(8,400,626 )	\$(1,694,785 )
BASIC EARNINGS PER SHARE	\$(0.066 )	\$(0.115 )	\$(0.027 )
BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	82,228,974	73,048,883	63,802,275
DILUTED EARNINGS PER SHARE	\$(0.066 )	\$(0.115 )	\$(0.027 )
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	82,228,974	73,048,883	63,802,275



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

F-3

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Comprehensive (Loss) Income

	YEARS ENDED		
	DECEMBER 31,		
	2015	2014	2013
Net Loss	\$(5,466,607)	\$(8,400,626)	\$(1,694,785)
Other comprehensive (loss) income:			
Foreign currency translation adjustments, net of tax	(122,625 )	(147,515 )	-
Other comprehensive income (loss)	(122,625 )	(147,515 )	-
Comprehensive loss	\$(5,589,232)	\$(8,548,141)	\$(1,694,785)

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Stock	Additional	Accumulated	Accumulated	Total
	Issued	Amount	Warrants	Paid-In	OCI	Deficit	
Balance, January 1, 2013	63,751,857	\$63,752	\$ 0	\$69,594,390	\$ -	\$(45,720,875)	\$23,937,267
Issuance of common stock — options exercises	155,500	155	-	46,066	-	-	46,221
Issuance of common stock — restricted	-	-	-	87,143	-	-	87,143
Stock compensation expense	-	-	-	139,892	-	-	139,892
Net loss	-	-	-	-	-	(1,694,785 )	(1,694,785 )
Balance, December 31, 2013	63,907,357	\$63,907	\$ -	\$69,867,491	\$ -	\$(47,415,660)	\$22,515,738
Issuance of common stock — options exercises	760,399	760	-	461,458	-	-	462,218
Issuance of common stock — restricted	-	-	-	87,143	-	-	87,143
Issuance of common stock — public offering	16,989,007	16,990	-	22,007,770	-	-	22,024,760
Stock compensation expense	-	-	-	237,138	-	-	237,138
Foreign currency translation — gain (loss)	-	-	-	-	(147,515 )	-	(147,515 )
Net loss	-	-	-	-	-	(8,400,626 )	(8,400,626 )
Balance, December 31, 2014	81,656,763	\$81,657	\$ -	\$92,661,000	\$(147,515 )	\$(55,816,286)	\$36,778,856
Issuance of common stock — options exercises	863,933	864	-	700,841	-	-	701,705
Issuance of common stock — restricted	-	-	-	87,144	-	-	87,144
Stock compensation expense	-	-	-	212,193	-	-	212,193
Foreign currency translation — gain (loss)	-	-	-	-	(122,625 )	-	(122,625 )
Net loss	-	-	-	-	-	(5,466,607 )	(5,466,607 )
Balance, December 31, 2015	82,520,696	\$82,521	\$ -	\$93,661,178	\$(270,140 )	\$(61,282,893)	\$32,190,666

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



**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

	YEARS ENDED		
	DECEMBER 31,		
	2015	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$(5,466,607 )	\$(8,400,626 )	\$(1,694,785 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Deferred income tax expense	(12,305 )	3,693,521	113,491
Depreciation expense	488,584	496,908	395,358
Provision for doubtful accounts	18,072	37,735	75,389
Inventory write-downs	-	5,408	199,992
Amortization of intangibles	1,077,824	1,341,548	1,355,970
Amortization of deferred financing costs	10,304	7,880	8,728
Share-based compensation expense	299,337	324,281	227,035
Gain on change in fair value of contingent consideration	-	-	(1,250,000)
Loss on disposal of equipment	1,259	(2,556 )	-
Changes in assets and liabilities:			
Accounts receivable and unbilled receivables	(2,950,167 )	(3,810,821 )	652,997
Inventories	8,494	66,630	25,590
Prepaid expenses and other current assets	(13,214 )	317,500	(51,555 )
Other assets excluding deferred financing costs	89,255	(41,828 )	(52,656 )
Accounts payable and accrued expenses	2,154,529	3,862,824	(1,438,975)
Income tax (payable) receivable	49,080	(442,456 )	355,794
Deferred revenue and other liabilities	1,344,744	(43,494 )	(75,481 )
Net cash used in operating activities	(2,900,811 )	(2,587,546 )	(1,153,108)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from settlement of net working capital requirement	-	33,188	-
Purchase of property and equipment	(413,619 )	(262,737 )	(512,986 )
Software development costs	(186,354 )	(138,781 )	-
Business combination, net of cash acquired	-	(4,079,628 )	-
Net cash used in investing activities	(599,973 )	(4,447,958 )	(512,986 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Advances on bank line of credit	21,995,057	11,973,106	1,989,259
Repayments of bank line of credit advances	(21,995,057)	(12,889,769)	(1,072,596)

Edgar Filing: WIDEPOINT CORP - Form 10-K

Principal repayments of long term debt	(2,186,354 )	(1,148,131 )	(1,111,526)
Principal repayments under capital lease obligations	(68,088 )	(52,278 )	(42,878 )
Debt issuance costs	-	(8,000 )	-
Proceeds from public stock offering, net of offering costs	-	22,024,760	-
Proceeds from exercise of stock options	701,705	462,218	46,221
Net cash (used in) provided by financing activities	(1,552,737 )	20,361,906	(191,520 )
Net effect of exchange rate on cash and equivalents	(170,875 )	(171,703 )	-
NET (DECREASE) INCREASE IN CASH	(5,224,396 )	13,154,699	(1,857,614)
CASH, beginning of period	13,154,699	-	1,857,614
CASH, end of period	\$7,930,303	\$13,154,699	\$-

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

	YEARS ENDED DECEMBER 31,		
	2015	2014	2014
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>			
Cash paid for interest	\$ 157,472	\$ 167,899	\$ 205,762
Cash (refunded) paid for income taxes	\$(110,649)	\$ 125,036	\$ 10,774
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>			
Subordinated unsecured seller financed note payable issued as consideration in the acquisition of Soft-ex Communications Ltd.	-	\$ 1,000,000	-
Insurance policies financed by short term notes payable	\$ 177,550	\$ 181,068	\$ 163,889

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Nature of Operations

#### *Organization*

WidePoint Corporation (“WidePoint” or the “Company”) was incorporated in Delaware on May 30, 1997. The Company is a global provider of information technology (IT) based products, services, and solutions. The Company offers secure, cloud-based, enterprise-wide information technology-based solutions that enable commercial markets, and federal and state government organizations, to deploy fully compliant IT services in accordance with government-mandated regulations and advanced system requirements. The Company has sales and operational offices strategically located throughout the continental United States, Ireland, the Netherlands and the United Kingdom. The Company’s principal executive and administrative headquarters is located in McLean, Virginia.

#### *Nature of Operations*

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

The Company’s operating results may vary significantly from quarter-to-quarter, due to revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract awarded and general economic conditions. A significant portion of the Company’s expenses, such as personnel and facilities costs, are fixed in the short term. Successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter.



## 2. Significant Accounting Policies

### Basis of Presentation

The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and the financial statement rules and regulations of the Securities and Exchange Commission.

### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant inter-company amounts have been eliminated in consolidation.

### Foreign Currency

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars based upon exchange rates prevailing at the end of each reporting period. The resulting translation adjustments, along with any related tax effects, are included in accumulated other comprehensive (loss) income, a component of stockholders’ equity. Translation adjustments are reclassified to earnings upon the sale or substantial liquidation of investments in foreign operations. Revenues and expenses are translated at the average month-end exchange rates during the year. Gains and losses related to transactions in a currency other than the functional currency, including operations outside the U.S. where the functional currency is the U.S. dollar, are reported net in the Company’s Consolidated Statements of Operations, depending on the nature of the activity. See Note 14 for additional information.

### Segment Reporting

Segments are defined by authoritative guidance as components of a company in which separate discrete financial information is available and is evaluated by the chief operating decision maker (CODM), or a decision making group, in deciding how to allocate resources and in assessing performance. Our CODM is our chief executive officer. Our customers and the industry view our market as a singular business and demand an integrated and scalable suite of information technology-based enterprise-wide solutions. Our information technology service offerings are set forth below:

§ Telecom management services – Full life cycle management of fixed and mobile assets.

§ Mobile security management services – Full life cycle fixed and mobile device access and application control management.

§ Identity management services – Full life cycle fixed and mobile (including cloud based services) authentication and information assurance services.

§ Identity services – Fixed and mobile digital certificates required for secure access to a customer's technology infrastructure.

Services comprising the Company's information technology service offerings have similar client service approaches, delivery costs and operational risks and are led by a project manager and a cross-functional service delivery team comprised of employees across all subsidiaries to deliver the Company's products and services to its customers.

F-9

The Company presents a single segment for purposes of financial reporting and prepared its consolidated financial statements upon that basis.

#### *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, ability to realize intangible assets and goodwill, ability to realize deferred income tax assets, fair value of certain financial instruments and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

#### *Fair Value Measurements*

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, based on the Company's principal or, in the absence of a principal, most advantageous market for the specific asset or liability. GAAP provides for a three-level hierarchy of inputs to valuation techniques used to measure fair value, defined as follows:

Level 1 - Inputs that are quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability, including:

§ Quoted prices for similar assets or liabilities in active markets

§ Quoted prices for identical or similar assets or liabilities in markets that are not active

§ Inputs other than quoted prices that are observable for the asset or liability

§ Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - Inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows). The Company measured the fair value of contingent seller financed promissory notes presented on the consolidated balance sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the years ended December 31, 2015, 2014, and 2013. See Note 4 for additional information regarding financial liabilities carried at fair value.

The Company monitors the market conditions and evaluates the fair value hierarchy levels at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred. See Note 4 for financial assets and liabilities subject to fair value measurements.

F-10

### *Business Combinations*

The Company identifies the individual assets acquired and liabilities assumed in connection with a business combination and purchase consideration in each business combination. The Company utilizes third party valuation professionals to estimate the initial fair value of significant assets acquired and liabilities assumed. The Company assigns provisional values to purchase consideration, assets acquired and liabilities assumed on the date of purchase and may revise these provisional values if fair value estimates prepared by outside qualified third party valuation are materially different.

The Company estimates the fair value of each using an acceptable valuation methodology which may include an income, market and/or cost approach. The Company generally assesses the estimated fair value of contingent obligations using a probability weighted income approach (discounted cash flow) valuation technique which requires the use of observable and unobservable inputs. Fluctuations in the fair value of contingent obligations are impacted by two unobservable inputs, management's estimate of the probability of the acquired company meeting the operating performance target and the estimated discount rate (a rate that approximates the Company's weighted average cost of capital). Significant increases (decreases) in either of those inputs in isolation would result in a significantly higher (lower) fair value measurement. Fair value is assessed for contingent obligations on a quarterly basis until such contingencies have been resolved and any changes in fair value are recorded as a gain or loss on change in fair value of contingent obligations within general and administrative expense.

See Note 3 for a detailed description of material business combinations and see Note 4 for changes in fair value of assets and liabilities recorded in connection with material business combinations that are measured on a recurring basis.

### Significant Customers and Concentration of Credit Risk

#### Significant Customers

The Company has historically derived a significant portion of its revenues from its federal government customer base due to the large size of individual awards. Customers representing ten percent or more of annual consolidated revenues are set forth in the table below for the years ended:

YEARS ENDED  
DECEMBER 31,

Edgar Filing: WIDEPOINT CORP - Form 10-K

Customer Name	2015	2014	2013	
	As a % of Revenues	As a % of Revenues	As a % of Revenues	As a % of Revenues
Department of Homeland Security (DHS)	49%	37%	33%	%

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

F-11

Customer Name	DECEMBER 31,			
	2015	2014	As a % of	As a % of
	Receivables	Receivables		
Department of Homeland Security (“DHS”)	51 %	20 %		
Science Applications International Corporation	—	21 %		
US Airforce	14 %	—		

Due to the nature of the Company’s 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 and/or a delay in the continuation of an existing or new contract award could have a material adverse effect on its results of operations.

### Financial Instruments

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable.

### Cash and Cash Equivalents

The Company maintains interest-bearing cash deposits and short-term overnight investments with large financial institutions. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of these consolidated financial statements. Interest-bearing cash deposits maintained by financial institutions in the United States of America are insured by the Federal Deposit Insurance Corporation (“FDIC”) up to a maximum of \$250,000. At December 31, 2015 and 2014, the Company had deposits in excess of FDIC limits of approximately \$5,575,800 and \$12,695,800, respectively. The Company also maintains deposits with a financial institution in Ireland that are insured by the Central Bank of Ireland up to a maximum of €100,000 per financial institution. At December 31, 2015 and 2014, the Company had deposits in excess of insured limits of approximately \$1,915,000 and \$899,700, respectively. The Company also maintains deposits with a financial institution in the United Kingdom that are insured by Financial Services Compensation Scheme up to a maximum of £75,000 per financial institution. At December 31, 2015 and 2014, the Company had deposits in excess of insured limits of approximately \$16,700 and \$116,690, respectively.

### *Accounts Receivable*

The Company enters into standard master contract vehicles or an individual purchase requisitions with federal and state governments and their agencies. Federal contracts are bid on and awarded based on a cost plus fixed fee or fixed award fee, firm fixed price or time and materials basis. Federal and state government customer orders are covered by a contract vehicle or master services agreement and specific goods and services are generally submitted through task orders or purchase requisitions under a master contract or under an individual purchase requisition.

The Company enters into standard contractual arrangements with corporations using a master service agreement and customized statement of work which outlines the product or services purchased, optional products and services and standard pricing based on volume or an hourly rate. Consulting services are charged based upon standard professional rates dependent upon level of expertise of the professionals involved. Also, the Company enters into fee arrangements for which the fees earned are based on a percentage of savings or other measures as may be determined in the applicable contract.

Credit is extended based on evaluation of a customer's financial condition and, generally, collateral is not required. Accounts receivable are usually due within 30 to 60 days and are stated at amounts due from customers net of an allowance for doubtful accounts if deemed necessary. The Company determines its allowance by considering a number of factors, including the length of time 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 its federal government customers as it has not experienced material or recurring bad debt charges and the nature and size of the contracts has not necessitated the Company's establishment of such a bad debt reserve.



Customer account balances outstanding longer than the contractual payment terms are reviewed for collectability and after 90 days are considered past due unless arrangements were made at the time of the transaction that specified different payment terms. Upon specific review and its determination that a bad debt reserve may be required, the Company will reserve such amount if it views the account as potentially uncollectable. Customer account balances outstanding longer than 120 days that have not been settled in accordance with contract terms and for which no firm payment commitments exist are placed with a third party collection agency and a reserve is established. The Company writes off accounts receivable after 180 days or earlier when they become uncollectible. Payments subsequently received on such receivables are credited to the allowance for doubtful accounts. If the accounts receivable has been written off and no allowance for doubtful accounts exist subsequent payments received are credited to bad debt expense.

#### *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 due to contractual terms or due to timing differences. Unbilled accounts receivable on fixed-price contracts predominantly consist of carrier services and equipment, third party value added resale (VAR) of hardware and software products delivered but not invoiced at the end of the reporting period. To a lesser extent unbilled accounts receivable also consists of monthly managed services performed but not invoiced at the end of the reporting period. At December 31, 2015 and 2014 unbilled accounts receivable totaled approximately \$6,637,600 and \$5,547,400, respectively.

#### *Inventories*

Inventories consist of hardware components that will be used in custom identity management technology solutions and certain software licenses available for resale. Inventories are valued at the lower of cost, using first-in, first-out method, or market. The Company may record a write-down for inventories which have become obsolete or are in excess of anticipated demand or net realizable value. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of inventory, we may be required to record additional write-downs, which would adversely affect our gross profit. For the year ended December 31, 2015, there were no inventory write-downs. For the years ended December 31, 2014 and 2013, the Company recorded inventory write-downs related to obsolete inventory of approximately \$5,400 and 199,900, respectively, in the consolidated statements of operations within cost of revenues.

#### *Advance Billings and Customer Payments*

Deferred revenue arises from advanced customer billings as permitted under contractual arrangements or from advanced payments from customers for monthly managed services. Certain federal and state governments and their agencies may prepay for services and/or VAR transactions in advance. These advance payments are recorded as deferred revenue and recognized as services are performed and/or devices delivered. Amounts recorded as deferred revenue are released as the monthly services are complete at the end of the month. Our revenue recognition policy is below under the caption “*revenue recognition.*”

F-13

*Property and Equipment*

Property and equipment (including assets acquired under capital lease arrangements) are stated at historical cost, net of accumulated depreciation and amortization. Depreciation and amortization expense is computed using the straight-line method over the estimated useful lives based upon the classification of the property and/or equipment or lease period for assets acquired under capital lease arrangements. The estimated useful lives of the assets are as follows:

	Estimated Useful Life
Land and building	20 years
Computer hardware and software	3 years
Furniture and fixtures	5 years
Mobile equipment	3 years

The Company assesses the recoverability of property and equipment by determining whether the depreciation of property and equipment over its remaining life can be recovered through projected undiscounted future cash flows. The amount of property and equipment impairment if any, is measured based on fair value and is charged to operations in the period in which property and equipment impairment is determined by management. As of December 31, 2015 and 2014, the Company's management has not identified any material impairment of its property and equipment.

*Goodwill and Other Intangible Assets*

The Company accounts for goodwill and other indefinite-lived intangible assets in accordance with ASC Topic 350 "*Intangibles*". Under ASC Topic 350, goodwill and certain indefinite-lived intangible assets are not amortized but are subject to an annual impairment test during the fourth quarter of each year, and between annual tests if indicators of potential impairment exist. The Company has elected to perform this review annually on December 31st of each calendar year. See Note 8 to the consolidated financial statements for additional discussion about annual impairment testing.

Included within other intangible assets are software development costs. The Company capitalizes costs related to software and implementation in connection with its internal use software systems including its Public Key Infrastructure (PKI) certificate issuance database and application. For software development costs (or "internally developed intangible assets") related to software products for sale, lease or otherwise marketed, 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 generally over a six-year period or such other such shorter period as may be required.

*Revenue Recognition Principles*

The Company has a standard internal process that is used to determine whether all required criteria for revenue recognition have been met. A summary of the Company's specific revenue recognition policies are as follows:

F-14

*Expense Management:* Telecommunications expense management and device management services are delivered on a monthly basis based on a standard fixed pricing scale per user or device or other service utilization metric. Managed services are not interdependent and there are no undelivered elements in these arrangements. Revenue is recognized upon the completion of the delivery of monthly managed services. The Company also offers invoice management and payment services and resells third party products and services, which may subject the Company to § credit risk as it is responsible for the payment of multiple billable arrangements by and between its customer and various carriers. The Company recognizes revenues and related costs on a gross basis for these arrangements as it has discretion in choosing providers, rate plans, hardware and devices provided to its customers. For arrangements in which the Company does not have such credit risk, it recognizes revenues and related costs on a net basis. This service is broadly classified as a managed service.

*Security:* The Company issues its proprietary PKI identity credentialing software certificates to individuals or as an enterprise solution under which the customer issues the individual certificates. Certificates issued have a fixed life and cannot be modified or reissued. There is no obligation to provide post contract services in relation to certificates § issued. Revenue is recognized from the sales of credentials to an individual or as an enterprise solution upon issuance; provided there are no other additional deliverables. Cost of Revenues includes general infrastructure support costs to maintain the continued issuance of credentials. This service is broadly classified as a managed service.

*Software:* The Company offers telecommunications expense management software under a perpetual and term § license.

Perpetual License - Revenue from software licenses which are sold as a perpetual license and which do not involve the significant production, modification or customization of the software are recognized when the software is delivered. Where an arrangement to deliver software involves significant production, modification or customization, § the software revenue is not recognized until such time as the software has been accepted by the client. Implementation fees are recognized once the software has been delivered. Maintenance services, if contracted, are recognized ratably over the term of the maintenance agreement, generally twelve months.

Term License - Revenue from software licenses which are sold as term licenses, which do not involve the significant production, modification or customization of the software are recognized evenly over the license term once the § software has been delivered. Where an arrangement to deliver software involves significant production, modification or customization, software sold as a term license is recognized ratably over the license term from the date the software is accepted by the client.

*User Support:* The Company offers call centers with 24x7 emergency support and expert technical support which is § delivered on a monthly basis based on a standard fixed pricing scale per ticket, user or device or other service utilization metric. Revenue is recognized upon the completion of the delivery of monthly managed services. This service is broadly classified as a managed service.

§ Policies: Services performed include policy and contract permission based audits, accounts payable audits, and compliance reviews which are performed on a time and materials basis and contingent fee arrangement. Revenue on

time and material arrangements is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred to deliver consulting services. Revenue on contingent-fee arrangements are recognized upon customer acceptance of proposed billing. This service is broadly classified as a managed service.

F-15

*Consulting:* The Company provides professional services on a project basis determined by our customers' specific requirements. The Company provides a variety of telecommunication management consulting services, traditional information technology and network consulting and security assurance services and charges a fee for time and materials incurred or a contingent-fee based on expected savings or other metric determined. This service is broadly classified as a professional service.

### *Product Development*

Product development expenses include payroll, employee benefits, and other employee related expenses associated with product development. Product development expenses also include third-party development and programming costs, subject matter experts, localization costs incurred to translate software for international markets, and the amortization of purchased software code and services content. Costs related to product development are expensed until the point that technological feasibility is reached, which for our software products, is generally shortly before the products are commercially available for release. Once technological feasibility is reached, such costs are not normally material. To the extent costs are significant such costs are capitalized and amortized to cost of revenue over the estimated lives of the solution. For the years ended December 31, 2015, 2014 and 2013, the Company incurred product development costs of approximately \$673,100, \$480,100 and \$73,600, respectively. The Company did not capitalize any product development costs for the years ended December 31, 2015, 2014 and 2013.

### Income Taxes

The Company accounts for income taxes in accordance with authoritative guidance which requires that deferred tax assets and liabilities be computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The guidance 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 recognizes the impact of an uncertain tax position taken or expected to be taken on an income tax return in the financial statements at the amount that is more likely than not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained upon audit by the relevant taxing authority.

### Basic and Diluted Earnings Per Share (EPS)

Basic EPS includes no dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution that could occur if securities or other contracts to issue common and restricted stock were exercised or converted into common and restricted stock. The number of incremental shares from assumed conversions of stock options and unvested restricted stock awards

included in the calculation of diluted EPS was calculated using the treasury stock method. See Note 13 to the consolidated financial statements for computation of EPS.

#### *Employee Stock-Based Compensation*

The Company accounts for stock-based employee compensation arrangements under provisions of ASC 718-10. The Company recognizes the cost of employee stock awards granted in exchange for employee services based on the grant-date fair value of the award using a Black-Scholes option-pricing model, net of expected forfeitures. Those costs are recognized ratably over the vesting period. Each stock option has an exercise price equal to the market price of the Company's common stock on the date of grant and a contractual term ranging from 3 to 10 years. Stock options generally vest over 3-years from the date of grant. See Note 12 to the consolidated financial statements for additional information about stock based compensation programs.

#### *Non-Employee Stock-Based Compensation*

The Company accounts for stock-based non-employee compensation arrangements using the fair value recognition provisions of ASC 505-50, "Equity-Based Payments to Non-Employees" (formerly known as FASB Statement 123, *Accounting for Stock-Based Compensation* and "Emerging Issues Task Force" *EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*).



*Accounting Standards Update*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, Leases, which requires lessees to recognize a right-of-use asset and a lease liability for all non-cancellable leases and embedded leases with a lease term of greater than twelve (12) months. The measurement guidance for determining the value of a lease liability are not affected by the amendments in this update. The new standard requires a lessee to remeasure the lease asset and lease liability when there are changes in the lease agreement such as a change in the lease term, periodic lease rate, exercise of option terms, changes in variable lease payments, among other considerations. Periodic lease expense shall be recognized on a straight line basis for operating leases. The new standard is effective for financial statements issued by public companies for fiscal years beginning after December 31, 2018. The standard must be applied on a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period. The Company has a number of operating leases and is evaluating the effect that ASU 2016-02 may have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU 2015-17, Income Taxes, requires that deferred income tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments apply to all entities that present a classified statement of financial position. The new standard is effective for financial statements issued by public companies for fiscal years beginning after December 15, 2017. Early adoption is permitted for financial statements that have not been previously issued. The standard allows for either a prospective to all deferred tax liabilities and assets or retrospectively to all periods presented. Retrospective adoption shall be accounting for as a change in accounting principle in the first interim or annual period of change. The Company is evaluating the effect that ASU 2015-17 may have on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued ASU 2015-03, Interest—Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The standard should be applied on a retrospective basis and accounted for as a change in accounting principle. Upon transition, an entity is required to comply with the applicable disclosures for a change in an accounting principle. The Company is evaluating the effect that ASU 2015-03 may have on its consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, or ASU 2014-09, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The standard will replace most existing revenue recognition guidance in GAAP when it becomes effective. The standard allows for either full retrospective or modified retrospective adoption method. In July 2015, the FASB deferred the effective date to January 1, 2018 with early adoption beginning January 1, 2017. The Company is currently evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, adoption date, or determined the effect

of the standard on its ongoing financial reporting.

F-17

### 3. Business Combinations

The Company did not consummate any business combinations during the year ended December 31, 2015. The Company had two (2) business combinations completed prior to 2014 that had a continuing impact during the year ended December 31, 2015:

#### Soft-ex Communications Ltd.

On May 1, 2014, WidePoint Global Solutions, Inc. (“WGS”), a wholly-owned subsidiary of the Company entered into a Share Sale and Purchase Agreement (the “Agreement”), with Gutteridge Limited (“Gutteridge”), a wholly-owned subsidiary of Soft-Ex Holdings Limited (“SHL”), and the shareholders of Soft-Ex Holdings Limited, pursuant to which WGS purchased all of the outstanding equity of Soft-ex Communications Limited (“SCL”). Total purchase consideration paid was approximately \$6.0 million, consisting of \$5 million in cash and a \$1.0 million (the “Note”) subordinated seller promissory note with a fair value of \$1.0 million as of the acquisition date. In 2015, the Company repaid the Note at its original recorded fair value. There were no post-acquisition adjustments recorded as a result of this prior business combination during the year ended December 31, 2015.

WidePoint’s long term strategic objective of expanding its services and presence outside of the United States was launched with the acquisition of SCL. SCL is a leading supplier of telecom data intelligence services offered as a Software-as-a-Service (SaaS) solution that provides unique online data intelligence for Communication Service Providers (CSPs) and their enterprise customers for fixed, mobile, and IP/PABX communications. The addition of SCL complements the Company’s MMS offering and provides access to global CSPs and their customers and partners in over 90 countries throughout European and Middle Eastern markets.

SCL’s principal executive and administrative office headquarters is in Dublin, Ireland. SCL has two operating subsidiaries, Soft-Ex BV and Soft-Ex UK Limited, which maintain offices and operations in the Netherlands and the United Kingdom, respectively. SCL has been in business since 1989.

The Company utilized the assistance of a third party valuation expert to estimate the fair value of the assets acquired and the liabilities assumed and the related allocations of purchase consideration. The excess of purchase price over the net tangible and intangible assets has been recorded as goodwill.

#### *Purchase Consideration*

The following table sets forth the final fair value of consideration paid in connection with acquisition of SCL as of May 1, 2014:

	Fair Value
Cash consideration	\$5,000,000(1)
Contingent subordinated unsecured loan note payable consideration	1,000,000(2)
Net working capital escrow adjustment to consideration paid	(33,188 )(3)
Fair value of consideration paid	\$5,966,812

F-18

(1) The Company used operating cash on hand of \$5.0 million, of which \$4.35 million was released to the seller upon closing of the transaction and the remainder was delivered into escrow. Under the terms of the escrow agreement, the funds shall be released (subject to satisfaction of the terms of the escrow agreement) in two amounts with the first release of \$0.15 million on or about May 1, 2015 and the second release of \$0.5 million on or about August 1, 2015. The release of funds held in escrow is subject to adjustment based on final net working capital as described in (3) below.

(2) The Company issued a subordinated unsecured loan Note in the principal amount of \$1.0 million to satisfy the remainder of the purchase price. This is a US dollar denominated obligation.

(3) On October 21, 2014, a final determination of net working capital resulted in a deficiency of €26,670 (\$33,188 USD) reduced total purchase consideration.

#### *Transaction Costs*

The Company incurred acquisition related due diligence, legal and accounting and transaction costs (including Irish stamp taxes and other processing costs) in connection with acquisition of SCL of approximately \$250,300. These transaction-related costs were expensed as incurred and reflected in general and administrative expense in the consolidated statements of operations for the periods presented.

#### *Fair Value of Assets Acquired and Liabilities Assumed*

The following table summarizes the fair values of the assets acquired and liabilities assumed in connection with acquisition of SCL as of May 1, 2014:

Fair value of identifiable assets acquired and liabilities assumed:	
Cash	\$920,372
Trade receivables	1,294,573
Other current assets	276,443
Property and equipment	333,650
Developed technology	663,936
Channel partners	2,628,080
Tradenames and trademarks	290,472
Other assets	1,687

Edgar Filing: WIDEPOINT CORP - Form 10-K

Accounts payable and accrued expenses	(1,864,888)
Deferred tax liability	(447,811 )
Capital lease obligation	(66,813 )
Total identifiable net assets acquired	\$4,029,701
Goodwill	1,937,111
Total purchase price	\$5,966,812

F-19

*Supplemental Unaudited Pro Forma Information*

The accompanying unaudited pro forma condensed consolidated financial information were prepared in accordance with the acquisition method of accounting. The following unaudited pro forma condensed consolidated statements of operations of WidePoint for each of the two years ended December 31, 2014 and 2013 have been prepared as if the acquisition of SCL had occurred at January 1, 2013:

	YEARS ENDED DECEMBER 31,	
	2014	2013
Revenues, net (a)	\$55,255,000	\$52,570,000
Net loss (a)	\$(8,822,000 )	\$(1,160,000 )
Basic (loss) earnings per share	\$(0.121 )	\$(0.018 )
Diluted (loss) earnings per share	\$(0.121 )	\$(0.018 )

(a) To reflect on a pro forma basis unaudited consolidated financial information for the two years ended December 31, 2014 and 2013 for WidePoint. Prior to fiscal 2014, SCL's fiscal year end was April 30, 2014. During fiscal 2014 SCL changed its fiscal year end to December 31st. The unaudited financial information presented herein were derived from historical internally prepared financial statements for SCL and WidePoint's Form 10-K audited financial statements. SCL's financial statements are prepared in accordance with Irish GAAP, as such additional adjustments were made to convert SCL Irish GAAP presentation to a US GAAP presentation to align with WidePoint's accounting policies. SCL's reporting currency unit is the Euro. SCL's US GAAP unaudited historical statement of operations for the two years ended December 31, 2014 and 2013 were translated into WidePoint's reporting currency using an average USD/EURO rate of \$1.3293, and \$1.3279, respectively.

Avalon Global Solutions, Inc.

On December 30, 2011, the Company together with its wholly-owned subsidiary, WidePoint Solutions Corp. (WSC), entered into an Asset Purchase Agreement ("APA") with Avalon Global Solutions (AGS), pursuant to which WSC acquired certain assets and assumed certain liabilities of AGS. Total purchase consideration paid was approximately \$11.5 million, consisting of \$3.5 million in cash, \$4.0 million in bank loan proceeds, \$1.0 million subordinated seller promissory note and a contingent subordinated seller promissory note ("contingent consideration") with a fair value of \$3.0 million as of the acquisition date. In 2012, the Company finalized its fair value accounting and determined the estimated fair value of contingent consideration to be approximately \$2.15 million, which revised purchase consideration from \$11.5 million to \$10.7 million and thereby reduced goodwill in connection with this business combination by approximately \$850,000. In 2013, the Company remeasured the fair value of contingent consideration at zero, which revised purchase consideration from \$10.7 million to \$8.5 million. During the year ended December 31,

2013, the Company recognized a non-cash contingent gain on change in fair value of approximately \$1,250,000 and reflected in general and administrative expense in the consolidated statements of operations for the year ended December 31, 2013. There were no adjustments recorded as a result of this prior business combination during the year ended December 31, 2015.

See Note 4 for changes in fair value of assets and liabilities recorded in connection with material business combinations that are measured on a recurring basis.

4. Fair Value Measurements

The consolidated financial statements include financial instruments for which the fair market value may differ from amounts reflected on a historical basis.

F-20



*Financial Liabilities Carried at Fair Value*

The Company reports contingent seller financed promissory notes at fair value on the consolidated balance sheets under the caption of long term debt. The Company assesses the estimated fair value of the contingent seller financed promissory note (“contingent consideration”) using a probability weighted income approach (discounted cash flow) valuation technique. When preparing discounted cash flow models under the income approach, the Company uses internal forecasts to estimate future cash flows. The Company’s internal forecasts are developed using observable (Level 2) and unobservable (Level 3) inputs.

The Company uses the expected weighted average cost of capital, estimated using a capital asset pricing model, to discount future cash flows. The Company’s cost of equity estimate is developed using a combination of observable (Level 2) and unobservable (Level 3) inputs with appropriate adjustments that take into consideration our risk profile and other factors deemed appropriate. The Company believes the discount rates used appropriately reflect the risks and uncertainties associated with the probability of payout and market conditions generally and specifically in the Company’s internally developed forecasts.

Fair value is assessed on a quarterly basis and any changes in estimated fair value are recorded as a non-operating change in fair value of contingent consideration in the consolidated statement of operations. Fluctuations in the fair value of contingent consideration are impacted by two unobservable inputs, management’s estimate of the probability (which are greater than 75%) of the acquired company meeting the operating performance target and the estimated discount rate (a rate that approximates the Company’s weighted average cost of capital). Significant increases (decreases) in either of those inputs in isolation would result in a significantly higher (lower) fair value measurement. Generally, a change in the assumption used for the probability of meeting the performance target is accompanied by a directionally similar change in the fair value of contingent consideration liability, whereas a change in assumption used for the estimated discount rate is accompanied by a directionally opposite change in the fair value of contingent consideration liability.

Changes in the fair value measurement of contingent seller financed promissory note using significant unobservable inputs classified as Level 3 and valuation method used to estimate fair values are set forth below for the years ended:

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
Balance, Beginning of Period	\$1,000,000	\$-	\$1,250,000
Total additions for the period:	—	—	—

Edgar Filing: WIDEPOINT CORP - Form 10-K

Fair value of SCL contingent obligation (see Notes 3 and 9) (1)	—	1,000,000	—
Total gains or losses for the period:			
Non-cash gain on change in fair value of AGS contingent obligation included in general and administrative expense (2)	—	—	(1,250,000)
Total liability settlements for the period:			
Cash paid to settle contingent liability	(1,000,000)		
Balance, End of Period	\$-	\$1,000,000	\$-

F-21

Management determined the fair value of its SCL contingent obligation based on a probability weighted discounted (1) cash flow valuation technique. The potential probability of not paying out contingent consideration is considered remote. On May 1, 2015, the Company paid the contingent consideration in full.

Management determined the fair value of its AGS contingent obligation based on a probability weighted (2) discounted cash flow valuation technique. The potential probability for payout of contingent consideration is considered remote during the year ended December 31, 2013. On April 15, 2014, the Company formally cancelled the contingent seller financed promissory note.

The Company monitors applicable market conditions and evaluates the fair value hierarchy levels as they pertain to the Company at least quarterly. For any transfers in and out of the levels of the fair value hierarchy, the Company elects to disclose the fair value measurement at the beginning of the reporting period during which the transfer occurred. There were no transfers into or out of Level 3 for the years ended December 31, 2015, 2014 or 2013. The Company's outstanding obligations under the contingent seller financed promissory note were paid in full on May 30, 2015 as further described in Note 9.

*Financial Assets and Financial Liabilities Carried at Other Than Fair Value*

The Company's financial instruments include cash equivalents, accounts receivable, short and long-term debt (except for contingent promissory notes) and other financial instruments associated with the issuance of the common stock. The carrying values of cash equivalents and accounts receivable approximate their fair value because of the short maturity of these instruments and past evidence indicates that these instruments settle for their carrying value. The carrying amounts of the Company's bank borrowings under its credit facility approximate fair value because the interest rates reflect current market rates.

5. Accounts Receivable and Unbilled Accounts Receivables

Accounts receivable consist of the following:

	DECEMBER 31,	
	2015	2014
Commercial	\$2,616,702	\$5,328,988
Government	8,021,789	3,302,781
Gross accounts receivable	10,638,491	8,631,769
Less: allowances for doubtful accounts	(73,378 )	(88,719 )

Accounts receivable, net	\$10,565,113	\$8,543,050
--------------------------	--------------	-------------

For the years ended December 31, 2015, 2014 and 2013, the Company had no material recoveries of accounts receivable for which an allowance had been previously established.

F-22

Unbilled accounts receivable consist of the following:

	DECEMBER 31,	
	2015	2014
Commercial	\$422,138	\$550,590
Government	6,215,449	4,996,826
Unbilled accounts receivable	\$6,637,587	\$5,547,416

#### 6. Property and Equipment

Major classes of property and equipment (includes equipment and automobile capital leases) consisted of the following:

	DECEMBER 31,	
	2015	2014
Land and building	\$677,054	\$677,054
Computer hardware and software	2,698,577	2,824,340
Furniture and fixtures	303,691	295,485
Leasehold improvements	568,642	547,087
Automobile	247,405	295,844
Gross property and equipment	4,495,369	4,639,810
Less: accumulated depreciation and amortization	(2,982,062)	(3,025,628)
Property and equipment, net	\$1,513,307	\$1,614,182

For the years ended December 31, 2015, 2014, and 2013, depreciation expense recorded was approximately \$488,600, \$496,600 and \$395,400, respectively. For the years ended December 31, 2015 there were disposals of fully depreciated assets of approximately \$446,200. For the years ended December 31, 2014 and 2013 there were no material dispositions or sales of property and equipment.

#### Capital Leases

The gross value of assets under capital leases at December 31, 2015 and 2014 were approximately \$372,600 and \$548,000, respectively. For the years ended December 31, 2015, 2014 and 2013 there were no capital lease

acquisitions, expiration or disposals of equipment leases. For the year ended December 31, 2015 there were disposals of certain expired equipment leases with a gross value and accumulated depreciation of approximately \$168,400, respectively. Depreciation expense for leased equipment for the years ended December 31, 2015, 2014 and 2013 was approximately \$25,900, \$72,100, and \$58,700, respectively, and accumulated depreciation at December 31, 2015 and 2014 was \$351,400 and \$481,000, respectively. Total net book value of assets under capital leases at December 31, 2015 and 2014 was approximately \$21,200 and \$67,000, respectively.

F-23

## 7. Intangible Assets

The Company's intangible assets are comprised of purchased intangibles consisting of customer relationships, channel relationships, telecommunications software, trade names and trademarks and non-compete agreements. The Company's intangible assets also include internally developed software used in the sales and delivery of its information technology service offerings. The following table summarizes purchased and internally developed intangible assets subject to amortization as follows:

## DECEMBER 31, 2015

	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period
Customer Relationships	\$1,980,000	\$(990,000)	\$990,000	5.5
Channel Relationships	3,168,080	(724,009)	2,444,071	13.5
Telecommunications Software	2,593,936	(1,409,268)	1,184,668	2.7
Cybersecurity Software	325,138	(114,551)	210,587	3.0
Trade Name and Trademarks	360,472	(88,275)	272,197	9.0
	\$8,427,626	\$(3,326,103)	\$5,101,523	

## DECEMBER 31, 2014

	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period
Customer Relationships	\$2,890,000	\$(1,652,500)	\$1,237,500	5.5
Channel Relationships	3,168,080	(440,804)	2,727,276	13.5
Telecommunications Software	3,113,936	(1,528,374)	1,585,562	2.7
Cybersecurity Software	271,219	(134,377)	136,842	3.0
Trade Name and Trademarks	515,472	(209,660)	305,812	9.0
Non-Compete Agreements	780,000	(780,000)	-	5.0
	\$10,738,707	\$(4,745,715)	\$5,992,992	

Purchased Intangibles

For the years ended December 31, 2015 and 2013, the Company did not recognize any acquisition related intangible assets. For the year ended December 31, 2014, the Company completed the acquisition of SCL and recognized

intangible assets totaling approximately \$3,582,500.

For the year ended December 31, 2015 the Company disposed of fully amortized purchased intangible assets with a historical cost and accumulated amortization of approximately \$2.5 million, respectively. For the years ended December 31, 2014 and 2013, the Company did not dispose of any intangible assets. See Note 3 for additional information about the fair value adjustments recorded to intangible assets in connection with these business combinations.

F-24



Internally Developed

For the years ended December 31, 2015 and 2014 the Company recorded capitalized software costs related to our Cybersecurity software totaling approximately \$186,300 and \$138,800, respectively. For the years ended December 31, 2015, 2014 and 2013, the Company did not dispose of any internally developed intangible assets.

The total weighted average remaining life of purchased and internally developed intangible assets is approximately 5.4 years and 1.2 years, respectively, at December 31, 2015.

The following table summarizes reflects estimated future amortization for purchased intangible assets for fiscal years ending December 31:

2016	\$1,067,676
2017	903,293
2018	551,845
2019	515,630
2020	268,131
Thereafter	1,794,948
Total	\$5,101,523

The aggregate amortization expense recorded was approximately \$1,077,800, \$1,341,548 and \$1,356,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

8. Goodwill

The Company evaluates goodwill for impairment annually as of December 31st and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value. The Company has the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step quantitative goodwill impairment test or bypass the qualitative assessment for any reporting period and proceed to performing the first step of the two-step goodwill impairment test.

Goodwill impairment testing involves management judgment, requiring an assessment of whether the carrying value of the reporting unit can be supported by its fair value using widely accepted valuation techniques. The quantitative goodwill impairment test utilizes a two-step approach. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to the carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss.

The Company uses a combination of the income approach (discounted cash flow method) and market approach (market multiples). When preparing discounted cash flow models under the income approach, the Company uses internal forecasts to estimate future cash flows expected to be generated by the reporting units. Our internal forecasts are developed using observable (Level 2) and unobservable (Level 3) inputs. Actual results may differ from forecasted results. When preparing the market approach the Company may adjust market multiples to reflect the Company's risk profile and other factors deemed appropriate to properly apply the market approach.

F-25

The Company uses the expected weighted average cost of capital, estimated using a capital asset pricing model, to discount future cash flows for each reporting unit. Our cost of equity estimate is developed using a combination of observable (Level 2) and unobservable (Level 3) inputs with appropriate adjustments that take into consideration our risk profile and other factors deemed appropriate. The Company believes the discount rates used appropriately reflect the risks and uncertainties in the financial markets generally and specifically in the Company's internally developed forecasts. Further, to assess the reasonableness of the valuations derived from the discounted cash flow models, the Company also analyzes market-based multiples for similar industries of the reporting unit, where available.

As of December 31, 2015 and 2014, goodwill was not impaired and there were no accumulated impairment losses.

The changes in the carrying amount of goodwill were as follows for the years ended:

	DECEMBER 31,		
	2015	2014	2013
Beginning balances, January 1,	\$ 18,555,578	\$ 16,618,467	\$ 16,618,467
Additions:			
Acquisition of Soft-ex Communications Ltd. (see Note 3)	-	1,937,111	-
Ending balances, December 31,	\$ 18,555,578	\$ 18,555,578	\$ 16,618,467

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

##### *Commercial Loan Agreement Facility*

On December 30, 2011, the Company entered into a Commercial Loan Agreement (collectively referred to as the "Cardinal Loans") to obtain a \$4.0 million term loan (the "\$4.0 Million Term Loan") and to increase the revolving line of credit for net working capital from \$5.0 million to \$8.0 million. On January 21, 2016, Cardinal Bank extended the maturity date of the Company's \$8.0 million working line of credit through April 30, 2016. The Company is currently working with Cardinal Bank to renew its credit facility which expires April 30, 2016.

The available amount under the \$8,000,000 working capital line of credit facility with Cardinal Bank varies from month to month depending upon the amount of qualified customer accounts receivable which currently consists of up to 90% of qualified United States Federal Government receivables and up to 80% of United States domestic commercial and other non-federal government receivables, less any amounts outstanding on the Cardinal Bank term note.

The credit facility with Cardinal Bank requires the Company to maintain (i) a tangible net worth of at least \$4.5 million and (ii) a current ratio of at least 1.1:1.0. As of December 31, 2015, the Company was in compliance with all financial covenants.

Term Loan. Advances made under the \$4.0 Million Term Loan bear interest at 4.5% with monthly principal and interest payments of \$74,694 and matures on December 30, 2016.

F-26

Line of Credit. The Company was advanced approximately \$22.0 million and repaid approximately \$22.0 million during the year ended December 31, 2015. There was no outstanding balance on the credit facility at December 31, 2015 or 2014.

### *Long-Term Debt*

Long-term debt consisted of the following:

	DECEMBER 31,	
	2015	2014
Cardinal Bank mortgage dated December 17, 2010 (1)	\$450,770	\$468,163
Cardinal Bank term note dated December 31, 2011 (2)	874,692	1,710,319
Non-contingent subordinated unsecured promissory note dated December 31, 2011 (3)	-	333,334
Contingent subordinated unsecured loan note payable dated May 31, 2014 (4)	-	1,000,000
Total	1,325,462	3,511,816
Less: current portion	(893,706 )	(2,184,016)
Long-term debt, net of current portion	\$431,756	\$1,327,800

(1) On December 17, 2010, the Company entered into a real estate purchase agreement to acquire an operations center facility in Columbus, Ohio for approximately \$677,000. In connection with the real estate purchase agreement the Company entered into a \$528,000 ten-year mortgage with Cardinal Bank to fund the unpaid portion of the purchase price. The mortgage loan bears interest at 6.0% with monthly principal and interest payments of approximately \$3,800, and matures on December 17, 2020. The mortgage loan principal and interest payments are based on a twenty-year amortization with the unpaid balance due at maturity. The mortgage loan is secured by the real estate.

(2) On December 31, 2011, the Company entered into a \$4 million 5-year term note with Cardinal Bank to fund a portion of the purchase price paid in connection with the asset purchase agreement with AGS dated December 30, 2011. The term note bears interest at 4.50% with monthly principal and interest payments of approximately \$74,694, and matures on December 30, 2016. The term note is secured under a corporate security agreement.

(3) On December 31, 2011, the Company entered into a \$1.0 million subordinated 3-year term non-contingent note (“term note”) with AGS to fund a portion of the purchase price paid in connection with the asset purchase agreement with AGS dated December 30, 2011. The note matured on April 15, 2015. The Company paid the third and final installment of \$343,333 (including accrued interest of \$10,000) on April 15, 2015.

(4) On May 1, 2014, the Company entered into a \$1.0 million subordinated 1-year term unsecured Contingent Note with SCL to fund a portion of the purchase price paid in connection with the Share Sale and Purchase Agreement with SHL dated May 1, 2014. The Contingent Note was scheduled to mature on May 31, 2015. The Company paid the outstanding balance of \$1,032,500 (including accrued interest of \$32,500) on May 30, 2015.

F-27

Future repayments on long-term debt are as follows for fiscal years ending December 31:

2016	\$893,706
2017	20,186
2018	21,431
2019	22,753
2020	24,157
Thereafter	343,229
Total	\$1,325,462

Capital Lease Obligations

The Company has leased certain equipment and automobiles under capital lease arrangements that expire in 2017. There were no changes to existing lease arrangements during the year ended December 31, 2015. For the year ended December 31, 2015, the Company did not enter into any capital lease agreements. For the years ended December 31, 2015, 2014 and 2013 there were no disposals of equipment leases.

The following sets forth the Company's future obligations under capital lease agreement for fiscal years ending December 31:

2016	\$29,569
2017	11,992
Total	41,561
Less portion representing interest	(847 )
Present value of minimum lease payments under capital lease agreements	40,714
Less current portion	(28,752)
Capital lease obligations, net of current portion	\$11,962

10. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". Under ASC 740, 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. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become

deductible. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. ASC 740 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.

F-28



As of December 31, 2015, the Company had approximately \$28.3 million in net operating loss (NOL) carry forwards available to offset future taxable income for federal income tax purposes, net of the potential Section 382 limitations. These federal NOL carry forwards expire between 2017 and 2032. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$25.3 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2032. Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our domestic NOL may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities.

Management assesses the available positive and negative evidence to estimate if sufficient future taxable income will be generated to use the existing deferred tax assets. Under existing income tax accounting standards such objective evidence is more heavily weighted in comparison to other subjective evidence such as our projections for future growth, tax planning and other tax strategies. A significant piece of objective negative evidence considered in management's evaluation of the realizability of its deferred tax assets was the existence of cumulative losses over the latest three-year period. Management forecast future taxable income, but concluded that there may not be enough of a recovery before the end of the fiscal year to overcome the negative objective evidence of three years of cumulative losses. On the basis of this evaluation, management recorded a valuation allowance against all deferred tax assets. If management's assumptions change and we determine we will be able to realize these deferred tax assets, the tax benefits relating to any reversal of the valuation allowance on deferred tax assets will be accounted for as a reduction of income tax expense.

The Company files U.S. federal income tax returns with the Internal Revenue Service ("IRS") as well as income tax returns in various states and certain foreign countries. The Company may be subject to examination by the IRS for tax years 2003 and forward. The Company may be subject to examinations by various state taxing jurisdictions for tax years 2003 and forward. The Company may be subject to examination by various foreign countries for tax years 2014 forward. As of December 31, 2015, the Company is currently not under examination by the IRS, any state or foreign tax jurisdiction. The Company did not have any unrecognized tax benefits at either December 31, 2015 or 2014. In the future, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.

Provision for income taxes is as follows for the years ended:

	DECEMBER 31,		
	2015	2014	2013
Current provision (benefit)			
Federal	\$-	\$(146,125 )	\$-
State	(110,930)	39,522	249,273
Foreign	41,424	5,796	-
Total	(69,506 )	(100,807 )	249,273
Deferred provision (benefit)			

Edgar Filing: WIDEPOINT CORP - Form 10-K

Federal	-	3,459,123	96,180
State	-	234,398	17,311
Foreign	(12,305 )	-	-
Total	(12,305 )	3,693,521	113,491

Income tax (benefit) provision \$(81,811 ) \$3,592,714 \$362,764

F-29

The provision (benefit) for income taxes results in effective rates, which differs from the federal and state statutory rate as follows for the years ended:

	DECEMBER 31,		
	2015	2014	2013
Statutory federal income tax rate	34.0 %	34.0 %	34.0 %
State income tax rate (net of federal benefit)	-0.1 %	-3.8 %	-8.8 %
Non-deductible expenses	-0.7 %	-0.6 %	-2.4 %
Change in valuation allowance	-40.7 %	-103.2 %	—
Adjustments to state net operating losses	— %	— %	—
Adjustments to share-based compensation	— %	— %	-53.8 %
Change in fair value of contingent consideration	— %	— %	— %
Foreign rate differential	3.6 %	— %	— %
Return to accrual difference true-ups	2.4 %	-3.5 %	1.6 %
Other	2.1 %	1.2 %	—
Combined effective tax rate	-0.6 %	-75.9 %	-29.4 %

The deferred tax assets (liabilities) consisted of the following:

	DECEMBER 31,	
	2015	2014
Deferred tax assets:		
Net operating loss carryforwards	\$9,441,549	\$7,003,976
Alternative minimum tax credit	45,650	45,650
Share-based compensation	304,869	340,735
Intangible amortization	1,354,223	968,485
Foreign depreciation	17,763	18,584
Depreciation	36,763	-
Other assets	181,706	186,900
Total deferred tax assets	11,382,523	8,564,330
Less: valuation allowance	(8,500,622 )	(5,996,720)
Total deferred tax assets, net	2,881,901	2,567,610
Deferred tax liabilities:		
Goodwill amortization	2,717,847	2,238,814
Depreciation	-	231,192
Foreign intangible amortization	447,811	447,811
Other liabilities	16,195	16,195
Foreign capitalized software costs	116,970	62,825
Total deferred tax liabilities	3,298,823	2,996,837

Net deferred tax liability            \$(416,922 ) \$(429,227 )

F-30

Changes in the valuation allowance for the years ended were as follows:

	DECEMBER 31,		
	2015	2014	2013
Beginning balance	\$(6,139,958)	\$(856,085 )	\$(849,654)
Decreases (Increases)	(2,360,664)	(5,283,873)	(6,431 )
Ending balance	\$(8,500,622)	\$(6,139,958)	\$(856,085)

11.

Stockholders' Equity

#### *Preferred Stock*

The Company's Certificate of Incorporation authorizes the Company to issue up to 10,000,000 shares of preferred stock, \$0.001 par value per share. Under the terms of the Company's Certificate of Incorporation, the board of directors is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue such shares of preferred stock in one or more series. Each such series of preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the board of directors. In November 2004, the Company filed a certificate of designation designating 2,045,714 shares of the Company's preferred stock as shares of Series A Convertible Preferred Stock, which shares were later issued. All of the shares of Series A Convertible Preferred Stock that was issued has been converted into common stock and may not be reissued. Accordingly, as of December 31, 2015, there were 7,945,286 undesignated shares of preferred stock remaining available for issuance. There were no issuances of preferred stock during the year ended December 31, 2015.

#### *Common Stock*

The Company is authorized to issue 110,000,000 shares of common stock, \$0.001 par value per share. As of December 31, 2015, there were 82,520,696 shares of common stock outstanding.

#### Common Stock Issuances - Public Offerings

On February 26, 2014, the Company entered into an underwriting agreement with B. Riley & Co., LLC (the “Underwriter”) relating to an underwritten public offering of 7,876,497 shares of the Company’s common stock, par value \$0.001 per share. On February 27, 2014, the Company received notice from the Underwriter that it had fully-exercised its over-allotment option to purchase an additional 1,181,475 shares of common stock. On March 3, 2014, the Company completed the public offering of 9,057,972 shares of its common stock at a purchase price of \$1.38 per share, which includes the full exercise of the over-allotment option granted to the underwriters. The gross proceeds to the Company from this offering were approximately \$12.5 million, before deducting underwriting discounts and other estimated offering expenses incurred by the Underwriter. The Company received net proceeds of approximately \$11.7 million after paying offering expenses of approximately \$0.3 million incurred by the Company to complete the public offering.

F-31

On October 23, 2014, the Company entered into an underwriting agreement with B. Riley & Co., LLC (the “Underwriter”) and Craig-Hallum (“Co-Manager”) relating to an underwritten public offering of 6,896,552 shares of the Company’s common stock, par value \$0.001 per share. On October 28, 2014, the Company completed the public offering of 6,896,552 shares of its common stock at a purchase price of \$1.45 per share, which excludes the full exercise of the over-allotment option granted to the underwriters. On October 29, 2014, the Company received notice from the Underwriter that it had fully-exercised its over-allotment option to purchase an additional 1,034,483 shares of common stock. The gross proceeds to the Company from this offering were approximately \$11.5 million, before deducting underwriting discounts and other estimated offering expenses incurred by the Underwriter. The Company received net proceeds of approximately \$10.8 million before paying estimated offering expenses of approximately \$0.2 million incurred by the Company to complete the public offering.

#### Common Stock Issuances - Employee Stock Option Exercises

Shares of common stock issued as a result of stock option exercises for the years ended December 31, 2015, 2014 and 2013 were 863,933, 760,399 and 155,500, respectively. The Company realized gross proceeds of approximately \$701,700, \$462,200 and \$46,200 from the exercise of stock options for the years ended December 31, 2015, 2014 and 2013, respectively. See Note 12 for additional information regarding stock option plans.

#### 12. Stock Options and Award Programs

The Company’s stock incentive plan is administered by the Compensation Committee and authorizes the grant or award of incentive stock options, non-qualified stock options, restricted stock awards, stock appreciation rights, dividend equivalent rights, performance unit awards and phantom shares. The Company issues new shares of common stock upon the exercise of stock options. Any shares associated with options forfeited are added back to the number of shares that underlie stock options to be granted under the stock incentive plan. The Company has issued restricted stock awards and non-qualified stock option awards as described below.

#### Restricted Stock Awards

On November 18, 2010, the Company’s Compensation Committee granted Steve L. Komar and James T. McCubbin each an award of 250,000 shares of restricted stock of the Company, the vesting of which is based upon the earlier to occur of (a) the seventh anniversary date of the grant, or (b) an acceleration event as determined on the date of grant by the Compensation Committee and set forth in the award agreement with respect to such grant. There were no changes in vesting requirements or activity related to restricted stock awards (RSA) during the years ended December 31, 2015, 2014 and 2013. At December 31, 2015, the Company had approximately \$161,100 of total unamortized RSA compensation expense that will be recognized over the weighted average period of 1.9 years.

Stock Option Awards

During the year ended December 31, 2015 the Company granted 180,000 stock options. The fair value of each these employee option awards were estimated on the date of grant using a Black-Scholes option pricing model (“Black-Scholes model”). The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model (“Black-Scholes model”), which requires an assumption of dividend yield, risk free interest rates, volatility, forfeiture rates and expected option life.

The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Expected volatilities are based on the historical volatility of our common stock over the expected option term. The expected term of options granted is based on analyses of historical employee termination rates and option exercises.

F-32



Option pricing model assumptions for stock awards granted during the year ended December 31, 2015 were valued using the following assumptions: i) no dividend yield, ii) risk free interest rates of 0.86% to 1.50%, iii) expected life in years of approximately 3 to 5 years; (iv) expected volatility of our common stock of approximately 66.1% to 72.1% and v) forfeiture rate of 2% to 3% based on analyses of historical employee termination rates and option exercises. Option pricing model assumptions for stock awards granted during the year ended December 31, 2014 were valued using the following assumptions: i) no dividend yield, ii) risk free interest rates of 0.40%-2.20%, iii) expected life in years of approximately 3 to 5 years; (iv) expected volatility of our common stock of approximately 73% to 86% and v) forfeiture rate of 2% to 3% based on analyses of historical employee termination rates and option exercises. Option pricing model assumptions for stock awards granted during the year ended December 31, 2013 were valued using the following assumptions: i) no dividend yield, ii) risk free interest rates of 0.38%-0.42%, iii) expected life in years of approximately 3 to 5 years; (iv) expected volatility of our common stock of approximately 67% to 70% and v) forfeiture rate of 2% to 3% based on analyses of historical employee termination rates and option exercises. Stock option awards reflected in the tables below cover the period from 1999 through 2015.

A summary of stock option and RSA activity as of December 31, 2015, and changes during the year is set forth below:

NON-VESTED AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
Non-vested balances, January 1, 2015	500,000	\$ 1.22	1,340,838	\$ 0.57
Granted	-	—	180,000	\$ 0.70
Cancelled	-	—	(250,000 )	\$ 0.39
Vested	-	—	(429,166 )	\$ 0.29
Non-vested balances, December 31, 2015	500,000	\$ 1.22	841,672	\$ 0.80

  

OUTSTANDING AND EXERCISABLE AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
Awards outstanding, January 1, 2015	-	—	2,791,601	\$ 0.83
Granted	-	—	180,000	\$ 1.45
Canceled	-	—	(250,000 )	\$ 0.74
Exercised	-	—	(863,933 )	\$ 0.81
Awards outstanding, December 31, 2015	-	—	1,857,668	\$ 0.91
Awards vested and expected to vest, December 31, 2015	-	—	1,857,668	\$ 0.91
Awards outstanding and exercisable, December 31, 2015	-	—	1,015,996	\$ 0.68



A summary of stock option and RSA activity as of December 31, 2014, and changes during the year is set forth below:

NON-VESTED AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
Non-vested balances, January 1, 2014	500,000	\$ 1.22	1,900,000	\$ 0.36
Granted	-	—	360,000	\$ 1.03
Cancelled	-	—	(122,500 )	\$ 0.35
Vested	-	—	(796,662 )	\$ 0.31
Non-vested balances, December 31, 2014	500,000	\$ 1.22	1,340,838	\$ 0.57

OUTSTANDING AND EXERCISABLE AWARDS	Restricted Stock		Stock Options	
	Shares	Grant Date Fair Value	Shares	Weighted Average Exercise Price
Awards outstanding, January 1, 2014	-	—	3,336,500	\$ 0.72
Granted	-	—	360,000	\$ 1.45
Canceled	-	—	(144,500 )	\$ 0.94
Exercised	-	—	(760,399 )	\$ 0.61
Awards outstanding, December 31, 2014	-	—	2,791,601	\$ 0.83
Awards vested and expected to vest, December 31, 2014	-	—	2,791,601	\$ 0.83
Awards outstanding and exercisable, December 31, 2014	-	—	1,450,763	\$ 0.77

The weighted-average remaining contractual life and the aggregate intrinsic value (the amount by which the fair value of the Company's stock exceeds the exercise price of the option) of the stock options outstanding, exercisable, and vested and expected to vest as of December 31, 2015 are as follows:

	Outstanding	Vested and Expected to Vest	Outstanding and Exercisable
Weighted-average remaining contractual life (in years)	3.3	3.3	3.0
Aggregate intrinsic value	\$ 163,067	\$ 163,067	\$ 134,899

Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on December 31, 2015 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 December 31, 2015. The intrinsic value will change based on the fair market value of WidePoint's stock. The total intrinsic value of options exercised were \$713,400, \$741,200 and \$89,700 during the years ended December 31, 2015, 2014 and 2013, respectively.

F-34

The amount of compensation expense recognized under ASC 718-10 under the Company's plans was comprised of the following during the years ended:

Share-based compensation recognized under ASC 718-10 (including restricted stock awards) represents both stock options based expense and stock grant expense. For the years ended December 31, 2015, 2014 and 2013, the Company recognized share-based compensation expense of approximately \$299,300, \$324,300 and \$227,000, respectively. During the year ended December 31, 2015, there were no fully vested stock options that expired unexercised and/or were cancelled as a result of employment terminations. During the year ended December 31, 2015, there were stock options of 250,000 that expired unexercised that were cancelled as a result of employment terminations.

No tax benefit has been associated with the exercise of stock options for the years ended December 31, 2015, 2014 and 2013, respectively, because of the existence of net operating loss carryforwards. There will be no credit to additional paid in capital for such until the associated benefit is realized through a reduction of income taxes payable.

At December 31, 2015, the Company had approximately \$266,400 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 2.0 years.

### 13. Earnings Per Common Share (EPS)

The computations of basic and diluted EPS for the years ended were as follows:

	YEAR ENDED DECEMBER 31,		
	2015	2014	2013
Basic EPS Computation:			
Net (loss) income	\$(5,466,607 )	\$(8,400,626 )	\$(1,694,785 )
Weighted average number of common shares	82,228,974	73,048,883	63,802,275
Basic EPS	\$(0.066 )	\$(0.115 )	\$(0.027 )
Diluted EPS Computation:			
Net (loss) income	\$(5,466,607 )	\$(8,400,626 )	\$(1,694,785 )
Weighted average number of common shares	82,228,974	73,048,883	63,802,275

Edgar Filing: WIDEPOINT CORP - Form 10-K

Incremental shares from assumed conversions of stock options	-	-	-
Adjusted weighted average number of common shares	82,228,974	73,048,883	63,802,275
Diluted EPS	\$(0.066 )	\$(0.115 )	\$(0.027 )

The dilutive effect of unexercised stock options excludes 1,857,668, 2,791,601, and 3,336,500 of options from the computation of EPS for the years ended December 31, 2015, 2014 and 2013, respectively.

F-35

## 14. Accumulated Other Comprehensive Income (Loss) (AOCI)

AOCI is a balance sheet item in the stockholders' equity section of the Company's consolidated balance sheets. The Company's acquisition of SCL on May 1, 2014 resulted in the recognition of net foreign currency translation adjustments due to translation of SCL's Euro-currency financial statements into the Company's reporting currency. Changes in AOCI were as follows:

	YEAR ENDED DECEMBER 31,	
	2015	2014
Balances, January 1	\$(147,515)	\$-
Net foreign currency translation (loss)	(122,625)	(147,515)
Balances, December 31	\$(270,140)	\$(147,515)

## 15. Commitments and Contingencies

*Operating Lease Commitments*

The Company has entered into property and equipment leasing arrangements that expire at various times between June 2016 and March 2026, with optional renewal periods. Lease payments range from \$1,000 to \$27,000 per month and may require additional rent to cover a proportionate share of taxes, maintenance, insurance and other shared expenses. Rents are generally increased annually by fixed amounts, subject to certain maximum amounts defined within individual agreements. Rent expenses under these operating leases for the years ended December 31, 2015, 2014 and 2013 were approximately \$977,000, \$926,000 and \$767,000, respectively.

Future minimum payments by year (excluding related party leases) required under lease obligations consist of the following for fiscal years ending December 31:

	Property Leases	Equipment Leases	Less Property Sublease	Net Lease Total
2016	\$834,000	\$83,000	\$(11,800)	\$905,200
2017	726,000	27,000	-	753,000

2018	738,000	-	-	738,000
2019	442,000	-	-	442,000
2020	198,000	-	-	198,000
Thereafter	1,037,000	-	-	1,037,000
Total	\$3,975,000	\$ 110,000	\$(11,800)	\$4,073,200

#### Employment Agreements

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

F-36



## Litigation

The Company is not involved in any material legal proceedings.

### 16. Consolidated Revenue Mix and Revenue by Geographic Region

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

Service Mix	YEARS ENDED DECEMBER 31,		
	2015	2014	2013
Carrier Services	\$37,499,954	\$20,044,276	\$16,815,215
Managed Services	33,338,063	33,271,934	30,009,817
	\$70,838,017	\$53,316,210	\$46,825,032

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

Geographic Region	YEARS ENDED DECEMBER 31,		
	2015	2014	2013
North America	\$65,349,884	\$49,209,336	\$46,825,032
Europe	5,179,498	3,936,527	-
Middle East	308,635	170,347	-
	\$70,838,017	\$53,316,210	\$46,825,032

**17. Quarterly Financial (Unaudited)**

Quarters Ended	2015 12/31	9/30	6/30	3/31	2014 12/31	9/30	6/30	3/31
<b>Operating Results</b>								
Revenues	\$ 18,714,846	\$ 16,994,858	\$ 17,432,745	\$ 17,695,568	\$ 16,763,502	\$ 14,555,908	\$ 12,394,021	\$ 9,600,000
Gross profit	\$ 3,237,078	3,119,385	3,306,229	3,569,968	3,448,494	3,984,390	3,613,795	2,460,000
(Loss) income from operations	\$(1,333,984 )	(1,631,776 )	(1,401,464 )	(1,094,737 )	(1,034,182 )	(879,839 )	(1,233,765 )	(1,500,000 )
Net (loss) income	\$(1,135,940 )	(1,763,280 )	(1,409,628 )	(1,157,759 )	(902,993 )	(5,901,696 )	(669,239 )	(926,000 )
<b>Common Stock Statistics</b>								
<b>Earnings per share:</b>								
Basic	\$(0.014 )	\$(0.021 )	\$(0.017 )	\$(0.014 )	\$(0.011 )	\$(0.081 )	\$(0.009 )	\$(0.010 )
Diluted	\$(0.014 )	\$(0.021 )	\$(0.017 )	\$(0.014 )	\$(0.011 )	\$(0.081 )	\$(0.009 )	\$(0.010 )
<b>Market price per share:</b>								
High	\$0.99	\$2.30	\$2.03	\$1.75	\$1.74	\$1.90	\$1.87	\$1.95
Low	\$0.64	\$0.70	\$1.29	\$1.27	\$0.99	\$1.45	\$1.28	\$1.29

F-38