

WIDEPOINT CORP
Form 10-Q
November 14, 2017

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2017

or

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

For the transition period from _____ to _____

Commission File Number: 001-33035

WidePoint Corporation

(Exact name of Registrant as specified in its charter)

Delaware

52-2040275

*(State or other jurisdiction of (I.R.S. employer
incorporation or organization) identification no.)*

7926 Jones Branch Drive, Suite 520, McLean, Virginia

(Address of principal executive offices)

22102

(Zip Code)

(703) 349-2577

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

As of November 14, 2017, there were 83,031,597 shares of the registrant’s Common Stock issued and outstanding.

WIDEPOINT CORPORATION

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CERTIFICATIONS

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PART I. FINANCIAL INFORMATIONITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

WIDEPOINT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | SEPTEMBER 30, 2017 (Unaudited) | DECEMBER 31, 2016 |
|---|---|-------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$6,423,974 | \$9,123,498 |
| Accounts receivable, net of allowance for doubtful accounts of \$78,230 and \$344,411 in 2017 and 2016, respectively | 7,942,035 | 5,153,093 |
| Unbilled accounts receivable | 6,132,753 | 8,112,690 |
| Inventories | 313,538 | 123,287 |
| Prepaid expenses and other assets | 576,402 | 385,388 |
| Income taxes receivable | - | 42,896 |
| Total current assets | 21,388,702 | 22,940,852 |
| NONCURRENT ASSETS | | |
| Land and building held for sale | - | 594,376 |
| Property and equipment, net | 969,651 | 736,678 |
| Intangibles, net | 3,900,433 | 4,298,902 |
| Goodwill | 18,555,578 | 18,555,578 |
| Deposits and other assets | 85,094 | 52,456 |
| TOTAL ASSETS | \$44,899,458 | \$47,178,842 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Line of credit advance | \$552,739 | \$- |
| Short term note payable | 53,650 | 131,761 |
| Accounts payable | 7,826,706 | 8,665,449 |
| Accrued expenses | 8,506,206 | 7,872,557 |
| Deferred revenue | 1,506,010 | 1,190,558 |
| Income taxes payable | 58,258 | 5,141 |
| Current portion of long-term debt | - | 94,868 |

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| | | |
|---|--------------|--------------|
| Current portion of deferred rent | 56,894 | 40,397 |
| Current portion of capital lease obligations | 20,216 | 4,097 |
| Total current liabilities | 18,580,679 | 18,004,828 |
| NONCURRENT LIABILITIES | | |
| Long-term debt related to assets held for sale, net of current portion | - | 412,180 |
| Capital lease obligation, net of current portion | 56,547 | - |
| Deferred rent, net of current portion | 100,380 | 86,198 |
| Deferred revenue | 13,333 | - |
| Deferred income taxes | 379,894 | 398,985 |
| Total liabilities | 19,130,833 | 18,902,191 |
| STOCKHOLDERS' EQUITY | | |
| 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; 82,946,847 and 82,730,134 shares issued and outstanding, respectively | 82,947 | 82,730 |
| Additional paid-in capital | 94,007,140 | 93,920,095 |
| Accumulated other comprehensive loss | (135,664) | (309,369) |
| Accumulated deficit | (68,185,798) | (65,416,805) |
| Total stockholders' equity | 25,768,625 | 28,276,651 |
| Total liabilities and stockholders' equity | \$44,899,458 | \$47,178,842 |

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2017 | |
|---|--|---------------|--|----------------|
| | 2016 | 2016 | 2016 | 2016 |
| REVENUES | \$ 18,463,872 | \$ 22,114,839 | \$ 55,956,617 | \$ 60,163,145 |
| COST OF REVENUES (including amortization and depreciation \$318,461, \$307,235, \$895,088, and \$887,870, respectively) | 15,087,567 | 18,076,810 | 45,859,532 | 48,559,591 |
| GROSS PROFIT | 3,376,305 | 4,038,029 | 10,097,085 | 11,603,554 |
| OPERATING EXPENSES | | | | |
| Sales and Marketing | 532,714 | 625,481 | 1,709,892 | 2,066,995 |
| General and Administrative Expenses (including share-based compensation of (\$81,043), \$68,088, \$138,036 and \$204,414, respectively) | 3,046,148 | 3,450,767 | 10,668,368 | 10,650,697 |
| Product Development | 11,342 | 2,648 | 219,141 | 261,031 |
| Depreciation and Amortization | 69,935 | 84,759 | 212,874 | 268,956 |
| Total Operating Expenses | 3,660,139 | 4,163,655 | 12,810,275 | 13,247,679 |
| LOSS FROM OPERATIONS | (283,834) | (125,626) | (2,713,190) | (1,644,125) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest Income | 1,971 | 3,012 | 11,564 | 10,618 |
| Interest Expense | (13,985) | (20,910) | (36,402) | (61,068) |
| Other (Expense) Income | (1,541) | 3,779 | 1,758 | 11,124 |
| Total Other Income (Expense) | (13,555) | (14,119) | (23,080) | (39,326) |
| LOSS BEFORE INCOME TAX PROVISION | (297,389) | (139,745) | (2,736,270) | (1,683,451) |
| INCOME TAX PROVISION | 17,212 | 8,295 | 32,723 | 21,029 |
| NET LOSS | \$(314,601) | \$(148,040) | \$(2,768,993) | \$(1,704,480) |
| BASIC EARNINGS PER SHARE | \$(0.00) | \$(0.00) | \$(0.03) | \$(0.02) |
| BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING | 82,946,847 | 82,730,134 | 82,878,287 | 82,673,570 |
| DILUTED EARNINGS PER SHARE | \$(0.00) | \$(0.00) | \$(0.03) | \$(0.02) |

| | | | | |
|--|------------|------------|------------|------------|
| DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING | 82,946,847 | 82,730,134 | 82,878,287 | 82,673,570 |
|--|------------|------------|------------|------------|

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

| | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|--|-----------------------|--------------|-----------------------|----------------|
| | SEPTEMBER 30, 2017 | 2016 | SEPTEMBER 30, 2017 | 2016 |
| | (Unaudited) | | | |
| NET LOSS | \$ (314,601) | \$ (148,040) | \$ (2,768,993) | \$ (1,704,480) |
| Other comprehensive income: | | | | |
| Foreign currency translation adjustments, net of tax | 45,673 | 15,366 | 173,705 | 46,517 |
| Other comprehensive income | 45,673 | 15,366 | 173,705 | 46,517 |
| COMPREHENSIVE LOSS | \$ (268,928) | \$ (132,674) | \$ (2,595,288) | \$ (1,657,963) |

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

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

| | NINE MONTHS ENDED SEPTEMBER 30, | |
|---|------------------------------------|----------------|
| | 2017 | 2016 |
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$(2,768,993) | \$(1,704,480) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Deferred income tax benefit | (10,173) | (12,213) |
| Depreciation expense | 295,798 | 336,147 |
| Provision for doubtful accounts | 31,187 | (7,932) |
| Amortization of intangibles | 812,164 | 820,679 |
| Amortization of deferred financing costs | 9,485 | - |
| Share-based compensation expense | 138,036 | 204,414 |
| (Gain) on sale of assets held for sale | (66,683) | - |
| Loss on disposal of fixed assets | 172,472 | - |
| Changes in assets and liabilities: | | |
| Accounts receivable and unbilled receivables | (612,010) | (946,390) |
| Inventories | (189,607) | (342,292) |
| Prepaid expenses and other current assets | (245,637) | 19,293 |
| Other assets | (10,849) | 6,515 |
| Accounts payable and accrued expenses | (552,531) | 1,309,782 |
| Income tax (payable) receivable | 85,891 | (11,183) |
| Deferred revenue and other liabilities | 281,168 | (880,982) |
| Net cash used in operating activities | (2,630,282) | (1,208,642) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of property and equipment | (573,400) | (145,246) |
| Software development costs | (360,685) | (480,355) |
| Proceeds from sale of assets held for sale | 236,451 | - |
| Proceeds from the sale of property and equipment | 53,861 | - |
| Net cash used in investing activities | (643,773) | (625,601) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Advances on bank line of credit | 11,599,343 | 18,254,362 |
| Repayments of bank line of credit advances | (11,046,604) | (18,128,355) |
| Principal repayments of long term debt | (82,440) | (665,704) |
| Principal repayments under capital lease obligations | (25,562) | (26,396) |
| Restricted stock award tax liability payment | (60,614) | (32,332) |

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| | | |
|---|--------------|--------------|
| Proceeds from exercise of stock options | 17,100 | - |
| Net cash provided by (used in) financing activities | 401,223 | (598,425) |
| Net effect of exchange rate on cash and equivalents | 173,308 | 87,924 |
| NET DECREASE IN CASH | (2,699,524) | (2,344,744) |
| CASH, beginning of period | 9,123,498 | 7,930,303 |
| CASH, end of period | \$6,423,974 | \$5,585,559 |

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | NINE MONTHS ENDED SEPTEMBER 30, 2017 2016 (Unaudited) | |
|--|--|----------|
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid for interest | \$23,656 | \$58,125 |
| Cash paid for income taxes | \$8,787 | \$4,031 |
| Cash received from income tax refund | \$2,674 | \$- |
| NONCASH INVESTING AND FINANCING ACTIVITIES | | |
| Fair value of contingent consideration paid in connection with software asset purchase (Note 6) | \$50,000 | \$- |
| Insurance policies financed by short term notes payable | \$68,488 | \$62,352 |
| Acquisition of assets under capital lease obligation (Note 6) | \$93,301 | \$- |

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization and Nature of Operations

Organization

WidePoint Corporation (“WidePoint” or the “Company”) was incorporated in Delaware on May 30, 1997 and conducts operations through its wholly-owned operating subsidiaries throughout the continental United States, Ireland, the Netherlands and the United Kingdom. The Company’s principal executive and administrative headquarters is located in McLean, Virginia.

Nature of Operations

The Company is a leading provider of trusted mobility management (TM2) solutions to the government and commercial sectors. The Company utilizes its subject matter expertise and internally developed proprietary software, analytical and reporting tools to deliver its communications and related identity management solutions. The Company’s solutions are internally hosted solutions which are accessible on-demand through a secure portal that provides its customers with a set of streamlined mobile communications management, identity management, and consulting solutions. The Company’s trusted mobility management solutions provides its customers the ability to efficiently manage, analyze and protect their valuable communications assets, and deploy federal government compliant identity management solutions that provide secured virtual and physical access to restricted environments.

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

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

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

2. Basis of Presentation and Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements as of September 30, 2017 and for each of the three and nine month periods ended September 30, 2017 and 2016, respectively, included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to such regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. It is the opinion of management that all adjustments (which include normal recurring adjustments) necessary for a fair statement of financial results are reflected in the financial statements for the interim periods presented. The condensed consolidated balance sheet as of December 31, 2016 was derived from the audited condensed consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations for the three and nine month periods ended September 30, 2017 are not indicative of the operating results for the full year.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and acquired entities since their respective dates of acquisition. All significant inter-company amounts were eliminated in consolidation.

Reclassifications

Upon the adoption of recent accounting standards as further described below the Company made certain reclassifications to the condensed consolidated balance sheets to comply with the standard and made similar reclassifications to conform to the current year presentation. At December 31, 2016, the Company reclassified deferred tax assets of \$48,826 against non-current deferred tax liabilities of \$447,811. There was no impact on the condensed consolidated statement of operations or earnings per share as a result of adopting this standard.

Foreign Currency

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

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring use of estimates and judgment relate to revenue recognition, accounts receivable valuation reserves, ability to realize intangible assets and goodwill, ability to realize deferred income tax assets, fair value of certain financial instruments

and the evaluation of contingencies and litigation. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. There were no significant changes in accounting estimates used by management during the quarter.

Significant Accounting Policies

There have been no significant changes in the Company's significant accounting policies during the first nine months of 2017 from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 30, 2017, except as noted below under the section "Recently Adopted Accounting Standards".

Segment Reporting

Our trusted mobility management solution offerings comprise an overall single business from which the Company earns revenues and incurs costs. The Company's trusted mobility management solution offerings are centrally managed and reported on that basis to its Chief Operating Decision Maker who evaluates its business as a single segment. See Note 13 for detailed information regarding the composition of revenues.

Recently Adopted Accounting Standards

Accounting Standards Codification 740 “Income Taxes.” In November 2015, ASU No. 2015-17, “Balance Sheet Classification of Deferred Taxes” was issued. This ASU requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in this update apply to all entities that present a classified statement of financial position. The Company adopted this ASU in the first quarter of 2017 and reclassified \$48,826 of current deferred tax assets to non-current deferred tax assets reflected at December 31, 2016. All deferred tax assets are presented as non-current.

Accounting Standards Codification 718 “Compensation-Stock Compensation.” In March 2016, ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting” was issued. This ASU provides for areas of simplification for several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company adopted this ASU in the three months ended March 31, 2017, and the Company did not recognize any adjustments due to the fact that the Company had a tax-effected full valuation allowance of approximately \$9.3 million applied against its U.S. based deferred tax assets, of which approximately \$352,200 was applied against unrealized stock option benefits. In the event the Company generates sufficient taxable income to utilize its deferred tax assets the Company may be required to recognize up to \$352,200 in deferred tax assets relating to unrealized stock option benefits and a corresponding adjustment to retained earnings. The Company estimates forfeiture rates and adjusts such rates when appropriate.

Accounting Standards Codification 230 “Statement of Cash Flows.” In August 2016, ASU No. 2016-15, “Classification of Certain Cash Receipts and Cash Payments” was issued. This ASU provides guidance on eight specific cash flow issues with the objective of reducing the existing diversity in practice for those issues. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company early adopted this ASU during the year ended December 31, 2017. The adoption of this accounting standard did not have a material effect on the Company’s condensed consolidated statements of cash flows presented herein.

Accounting Standards under Evaluation

In May 2014, the Financial Accounting Standards Board (FASB) issued new accounting guidance on revenue recognition. The accounting standard establishes the principles to apply to determine the amount and timing of revenue recognition, specifying the accounting for certain costs related to revenue, and requiring additional disclosures about the nature, amount, timing and uncertainty of revenues and related cash flows. The guidance, as amended, supersedes most of the current revenue recognition requirements, and is effective January 1, 2018. Upon

adoption of the new revenue recognition guidance, the Company anticipates using the full retrospective method, which applies the new standard to each prior reporting period presented. The Company has been working on the implementation of the standard and has made good progress in evaluating the potential impact on its consolidated financial statements. There will be some changes to the recognition timing and classification of revenues and expenses; however, the Company does not expect a significant impact to pretax income upon adoption. The Company is also in the process of implementing changes to its accounting policies, business processes, systems and internal controls to support the recognition and disclosure requirements under the new standard.

In February 2016, the FASB issued new accounting guidance on leases. The guidance, which is effective January 1, 2019, with early adoption permitted, requires virtually all leases to be recognized on the Consolidated Balance Sheets. The Company currently anticipates adopting the standard effective January 1, 2019, using the modified retrospective approach, which requires recording existing operating leases on the Consolidated Balance Sheets upon adoption and in the comparative period. The Company is in the process of identifying changes to its accounting policies, business processes, systems, and internal controls in preparation for the implementation. Specifically, the Company is currently reviewing its lease portfolio and is evaluating and interpreting the requirements under the guidance, including the available accounting policy elections, in order to determine the impacts to the Company's financial position, results of operations and cash flows upon adoption.

Accounting Standards Codification 350 “Intangibles - Goodwill and Other.” In January 2017, ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment” was issued. Under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss should not exceed the total amount of goodwill allocated to that reporting unit. The ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. An entity should apply this ASU on a prospective basis and for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company is continuing to evaluate the effect this guidance will have on the consolidated financial statements and related disclosures.

3. Assets Held for Sale

In November 2016, the Company evaluated plans to either expand its facility located in Lewis Center, Ohio (“Lewis Center Facility”) or relocate to a larger facility that could accommodate the Company’s growth and operational requirements. In December 2016, the Company’s management decided to put the Lewis Center Facility up for sale and identify a larger facility to lease. The Company completed the sale of its Lewis Center Facility on May 22, 2017 at a gross sales price of \$730,000 and received net proceeds of approximately \$236,400 after paying off the existing mortgage, broker commissions and other closing costs. The Company recorded within general and administrative expenses a net gain of approximately \$66,700 on the sale of its Lewis Center Facility. Assets held for sale are set forth in the table below as of the periods presented:

| | SEPTEMBER 30, 2017 (Unaudited) | DECEMBER 31, 2016 |
|--|--------------------------------------|-------------------------|
| Land | \$ - | \$ 139,656 |
| Building | - | 537,398 |
| Total Land and building held for sale, at cost | \$- | \$ 677,054 |
| Less: Accumulated depreciation | - | (82,678) |
| Land and building held for sale, net | \$- | \$ 594,376 |
| Long-term debt | \$- | \$ 432,367 |

4. Accounts Receivable and Significant Concentrations

Accounts receivable consist of the following by customer type in the table below as of the periods presented:

| | SEPTEMBER | DECEMBER |
|---|-------------|--------------|
| | 30, | 31, |
| | 2017 | 2016 |
| | (Unaudited) | |
| Commercial | \$2,275,740 | \$ 2,319,142 |
| Government | 5,744,525 | 3,178,362 |
| Gross accounts receivable | 8,020,265 | 5,497,504 |
| Less: allowances for doubtful accounts | 78,230 | 344,411 |
| Accounts receivable, net | \$7,942,035 | \$ 5,153,093 |

For the nine month period ended September 30, 2017, the Company recorded a provision for bad debt of approximately \$31,200 and separately wrote-off a specific provision for bad debt of approximately \$274,500 against the related customer invoice which reduced ending allowances for doubtful accounts. For the three and nine month periods ended September 30, 2016, the Company did not recognize any material provisions for bad debt, write-offs of existing provisions for bad debt or any material recoveries of commercial accounts receivable for which an allowance had been previously established. The Company has not historically maintained a bad debt reserve for its government customers as it has not experienced material or recurring bad debt charges and the nature and size of the contracts has not necessitated the Company's establishment of such a bad debt reserve.

Significant Concentrations

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

| Customer Name | SEPTEMBER | | DECEMBER | |
|---------------------------------------|-------------|----------------------------|-------------|----------------------------|
| | 30, 2017 | As a % of | 31, 2016 | As a % of |
| Department of Homeland Security (DHS) | 46% | Receivables (Unaudited) | 47% | Receivables (Unaudited) |

Customers representing ten percent or more of consolidated revenues are set forth in the table below for each of the periods presented:

| Customer Name | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|---------------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | SEPTEMBER 30, 2017 | As a % of | SEPTEMBER 30, 2016 | As a % of |
| Department of Homeland Security (DHS) | 60% | Revenues (Unaudited) | 62% | Revenues (Unaudited) |
| | | | 60% | 63% |

5. Unbilled Accounts Receivable

Unbilled accounts receivable represents amount not yet billed for products and/or services delivered. Unbilled receivables consist of the following by customer type as of the periods presented below:

| | SEPTEMBER | DECEMBER |
|------------------------------|-------------|--------------|
| | 30, | 31, |
| | 2017 | 2016 |
| | (Unaudited) | |
| Commercial | \$285,912 | \$ 278,862 |
| Government | 5,846,841 | 7,833,828 |
| Unbilled accounts receivable | \$6,132,753 | \$ 8,112,690 |

6. Property and Equipment

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

| | SEPTEMBER | DECEMBER |
|---|-------------|--------------|
| | 30, | 31, |
| | 2017 | 2016 |
| | (Unaudited) | |
| Computer hardware and software | \$1,516,560 | \$ 1,214,052 |
| Furniture and fixtures | 297,291 | 211,376 |
| Leasehold improvements | 242,792 | 486,467 |
| Automobile | 186,623 | 216,880 |
| Gross property and equipment | 2,243,266 | 2,128,775 |
| Less: accumulated depreciation and amortization | 1,273,615 | 1,392,097 |
| Property and equipment, net | \$969,651 | \$ 736,678 |
| Land and building held for sale, net | \$- | \$ 594,376 |

On April 30, 2017, the Company entered into an Asset Purchase Agreement with Probaris Technologies, Inc. (“Seller”) and paid approximately \$304,300 to purchase certain commercial identity and authentication software assets (the “Software Assets”). The Company principally purchased the Software Assets to ensure that a key component in the delivery of the Company’s identify management solution offering was neither acquired by a competitor nor no longer made available to license. Also under the terms of the Asset Purchase Agreement, the Company agreed to pay contingent consideration of \$100,000 to the Seller if the Seller’s sole government customer renews its license agreement in 2018. The Company estimated the fair value of contingent consideration at \$50,000 based on a number of different factors including the current state of the government fiscal budget and planned cuts, as well as changes in the technology and industry that may require expensive development that may not make renewal feasible. Contingent consideration is recorded within “accrued expenses” on the condensed consolidated balance sheets.

As discussed further in Note 3, in May 2017 the Company relocated from the Lewis Center Facility to a larger facility in Columbus and abandoned undepreciated building and leasehold improvements with a gross cost and accumulated depreciation of approximately \$282,200 and \$105,500, respectively. The Company recorded within general and administrative expenses a loss on disposal of approximately \$176,700 as a result of the move.

During the nine month period ended September 30, 2017 there were disposals of fully depreciated owned property and equipment with related cost and accumulated depreciation of approximately \$398,600 and building and leasehold improvements with a net book value of approximately \$176,700. During the three and nine month periods ended September 30, 2016 there were disposals of fully depreciated owned property and equipment of approximately \$309,100.

There were no changes in the estimated useful lives used to depreciate property and equipment during the three or nine month periods ended September 30, 2017 and 2016.

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

| | SEPTEMBER | DECEMBER |
|--------------------------------|-------------|-----------|
| | 30, | 31, |
| | 2017 | 2016 |
| | (Unaudited) | |
| Automobiles | \$93,301 | \$ 63,498 |
| Less: accumulated amortization | 14,611 | 36,823 |
| Capital lease assets, net | \$78,690 | \$ 26,675 |

During the nine month period ended September 30, 2017, the Company acquired two automobiles under capital lease arrangements and recognized a gross asset of \$93,301. For the nine month period ended September 30, 2017, the Company disposed of two leased automobiles with a net book value of \$47,800 and received gross proceeds of approximately \$51,800. The Company recognized a net gain on disposal of approximately \$4,100. During the three and nine month periods ended September 30, 2017 there were no material sales or disposals of leased equipment. During the three and nine month periods ended September 30, 2016 there were disposals of fully amortized leased equipment of approximately \$309,100.

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

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2016 | |
|---|--|------------|---|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | | |
| Property and equipment depreciation expense | \$ 100,200 | \$ 105,200 | \$ 295,800 | \$ 336,100 |
| Capital lease amortization (included in property and equipment depreciation expense) | \$ 6,000 | \$ 3,400 | \$ 13,800 | \$ 10,900 |

7. Goodwill and Intangible Assets

The Company has recorded goodwill of \$18,555,578 as of September 30, 2017. There were no changes in the carrying amount of goodwill during the three and nine month periods ended September 30, 2017. The Company considered whether there were indicators of impairment during the three and nine month periods ended September 30, 2017.

The Company has recorded net intangible assets of \$3,900,433, consisting of purchased intangibles and internally developed software used in the conduct of business. For the three and nine month periods ended September 30, 2017, the Company capitalized internally developed software costs of approximately \$128,000 and \$360,700, respectively, related to costs associated with our next generation TDI Optimiser™ application. There were no material disposals of intangible assets for the three and nine month periods ended September 30, 2017 and 2016.

The aggregate amortization expense recorded for the three month periods ended September 30, 2017 and 2016 were approximately \$276,400 and \$286,800 respectively. The aggregate amortization expense recorded for the nine month periods ended September 30, 2017 and 2016 were approximately \$812,200 and \$820,700, respectively. The total weighted remaining average life of all purchased intangible assets and internally developed software costs is approximately 6.8 years and 2.8 years, respectively, at September 30, 2017.

8. Line of Credit and Long Term Debt

Commercial Loan Agreement Facility

On June 15, 2017, the Company entered into a Loan and Security Agreement with Access National Bank (the “Loan Agreement”). The Loan Agreement provides for a \$5.0 million working capital revolving line of credit through April 30, 2018 and replaces the Company’s prior credit facility with Cardinal Bank.

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

The Loan Agreement requires that the Company (i) maintain a minimum adjusted tangible net worth of at least \$4.0 million for the quarter ending December 31, 2017, increasing to \$4.5 million for each quarter thereafter and (ii) maintain a current ratio of 1.10:1 tested quarterly.

Under the previous credit facility with Cardinal Bank the Company was advanced and repaid approximately \$3.3 million during the nine month period ended September 30, 2017. Under the current credit facility with Access National Bank the Company was advanced and repaid approximately \$8.3 million and \$7.8 million, respectively during the nine month period ended September 30, 2017.

As of September 30, 2017, the Company was eligible to borrow up to \$4.4 million under the borrowing base formula.

Long-Term Debt

Long-term debt consisted of the following:

| | SEPTEMBER 30, 2017 (Unaudited) | DECEMBER 31, 2016 |
|--|--------------------------------------|-------------------------|
| Cardinal Bank mortgage dated December 17, 2010 (1) | \$- | \$ 432,367 |
| Cardinal Bank term note dated December 31, 2011 (2) | | - 74,681 |
| Total | - | 507,048 |
| Less: current portion | - | 94,868 |
| Long-term debt, net of current portion | \$- | \$ 412,180 |
| Long-term debt related to assets held for sale, net of current portion | \$- | \$ 412,180 |

(1) On December 17, 2010, the Company entered into a real estate purchase agreement to acquire the Lewis Center Facility for approximately \$677,000 and financed a significant portion of the purchase price with a \$528,000 ten-year mortgage with Cardinal Bank. On May 22, 2017, the Company completed the sale of this real estate asset and paid off the balance of the mortgage. See Note 3 for additional information regarding the sale of the property.

(2) On December 31, 2011, the Company entered into a \$4.0 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 Avalon Global Solutions, Inc. dated December 30, 2011. The Company paid the last scheduled installment on January 6, 2017.

Capital Lease Obligations

As more fully described in Note 6, the Company acquired two new automobiles at a cost of \$93,301 and financed the purchase of these vehicles under a capital lease agreement for \$80,527. Minimum lease payments required under these two new capital leases are \$695 and \$1,210, respectively, and these leases expire in March 2020. The following sets forth the Company's future minimum payment obligations under these capital lease agreements for fiscal years ending September 30:

| | |
|--|----------|
| 2017 | \$24,500 |
| 2018 | 24,500 |
| 2019 | 24,500 |
| 2020 | 12,291 |
| Total principal and interest payments | 85,791 |
| Less: portion representing interest | 9,028 |
| Present value of minimum lease payments under capital lease agreements | 76,763 |
| Less: current portion | 20,216 |
| Capital lease obligations, net of current portion | \$56,547 |

9.

Income Taxes

The Company files U.S. federal income tax returns with the Internal Revenue Service ("IRS") as well as income tax returns in various states and certain foreign countries. The Company may be subject to examination by the IRS or various state taxing jurisdictions for tax years 2003 and forward. The Company may be subject to examination by various foreign countries for tax years 2014 forward. As of September 30, 2017, the Company was not under examination by the IRS, any state or foreign tax jurisdiction. The Company did not have any unrecognized tax benefits at either September 30, 2017 or December 31, 2016. In the future if applicable, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.

As of September 30, 2017, the Company had approximately \$33.4 million in net operating loss (NOL) carry forwards available to offset future taxable income for federal income tax purposes, net of the potential Section 382 limitations. These federal NOL carry forwards expire between 2020 and 2036. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$30.0 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2036. Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our domestic NOL may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities.

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

10. Stockholders' Equity

Preferred Stock

There were no issuances of preferred stock during the nine month periods ended September 30, 2017 and 2016.

Common Stock

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. As of September 30, 2017, there were 82,946,847 shares of common stock outstanding. The Company issued 186,713 and 209,438 shares of common stock, respectively, as a result of the vesting of RSAs during the nine month periods ended September 30, 2017 and 2016, respectively. See Note 11 for additional information regarding RSA activity.

There were no shares of common stock issued as a result of stock option exercises during the three month periods ended September 30, 2017 and 2016, respectively. Shares of common stock issued as a result of stock option exercises and realized gross proceeds during the nine month period ended September 30, 2017 were 30,000 and \$17,100, respectively, from the exercise of such stock options. See Note 11 for additional information regarding the stock incentive plans.

11. Stock Award Programs

The Company's stock incentive plan is administered by the Compensation Committee and authorizes the grant or award of incentive stock options, nonqualified stock options, restricted stock awards, stock appreciation rights, dividend equivalent rights, performance unit awards and phantom shares. The Company issues new shares of common stock upon the 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.

Valuation of Stock Awards

The Company estimates the fair value of nonqualified stock awards using a Black-Scholes Option Pricing model ("Black-Scholes model"). The fair value of each stock award is estimated on the date of grant using a Black-Scholes 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.

Restricted Stock Awards

During the nine month period ended September 30, 2017, the Company granted 300,000 RSAs to its former Chief Executive Officer that had a grant date fair value of approximately \$246,000. The vesting of these RSAs were tied to attainment of certain financial goals as outlined by the Company's Compensation Committee of the Board of Directors. In connection with his resignation on June 30, 2017, 150,000 shares immediately vested and the remaining 150,000 were cancelled. As a result of share withholdings to satisfy tax liabilities, the Company issued 102,525 shares of the Company's common stock to Mr. Nyweide and recognized a non-cash stock based compensation expense of approximately \$94,400 in conjunction with this acceleration event. The Company's payment of the tax liability associated with this accelerated vesting was recorded as a cash flow from financing activity on the condensed consolidated statements of cash flows.

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

There were no RSAs granted during the nine month period ended September 30, 2016.

During the nine month period ended September 30, 2016, 250,000 RSAs vested upon the Company reporting over \$70 million in revenues in its Annual Report on Form 10-K for 2015. On March 15, 2016, the Company issued 209,438 shares of the Company's common stock in connection with this accelerated vesting event, of which Mr. Komar received 125,000 shares and James T. McCubbin received 84,438 shares. Mr. McCubbin received less than 125,000 shares because he elected to have 40,562 of such shares withheld in satisfaction of the corresponding tax liability of approximately \$32,300. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the condensed consolidated statements of cash flows.

There were no RSAs that were cancelled or expired during the three and nine month periods ended September 30, 2016.

A summary of RSA activity as of September 30, 2017 and 2016, and changes during nine month periods ended September 30, 2017 and 2016 are set forth below:

| | 2017 | 2016 |
|---|-------------|-----------|
| | (Unaudited) | |
| NON-VESTED AWARDS | | |
| Non-vested awards outstanding, January 1, | 250,000 | 500,000 |
| Granted (+) | 300,000 | - |
| Cancelled (-) | 150,000 | - |
| Vested (-) | 275,000 | 250,000 |
| Non-vested awards outstanding, September 30, | 125,000 | 250,000 |
| Weighted-average remaining contractual life (in years) | 0.2 | 1.5 |
| Unamortized RSA compensation expense | \$1,090 | \$61,700 |
| Aggregate intrinsic value of RSAs non-vested, September 30 | \$81,250 | \$147,500 |
| Aggregate intrinsic value of RSAs vested during the quarter | \$177,750 | \$185,000 |

Non-Qualified Stock Option Awards

During the three and nine month periods ended September 30, 2017 and 2016, employee and non-employee NQSO grants were valued based on the assumptions as set forth in the table below:

Employee Stock Option Grants

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2016 | |
|-------------------------|--|------|--|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | | |
| Stock options granted | 2,590,000 | -- | 3,440,000 | 650,000 |
| Expected dividend yield | 0% | -- | 0% | 0% |
| Expected volatility | 69.6% | -- | 68.2%-74.2% | 66%-72% |
| Risk-free interest rate | 2.0% | -- | 1.8% - 2.1% | 0.9%-1.5% |
| Forfeiture rate | 4.2% | -- | 4.6% - 6.8% | -- |
| Expected life | 5 years | -- | 5 years | 3-5 years |

Director Stock Option Grants

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2016 | |
|-------------------------|--|------|---|------|
| | 2017 | 2016 | 2017 | 2016 |
| | (Unaudited) | | | |
| Stock options granted | 100,000 | -- | 250,000 | -- |
| Expected dividend yield | 0% | -- | 0% | -- |
| Expected volatility | 70.1% | -- | 69.6% - 70.1% | -- |
| Risk-free interest rate | 2.0% | -- | 1.7% - 2.0% | -- |
| Forfeiture rate | 5.9% | -- | 4.2% - 5.9% | -- |
| Expected life | 7 years | -- | 7 years | -- |

A summary of stock option activity as of September 30, 2017 and 2016, and changes during nine month periods ended September 30, 2017 and 2016 are set forth below:

| NON-VESTED AWARDS | 2017 | | 2016 | |
|------------------------------------|-------------|--|---------|--|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| | (Unaudited) | | | |
| Non-vested balances, January 1, | 920,000 | \$ 0.59 | 841,672 | \$ 0.80 |
| Granted (+) | 3,440,000 | \$ 0.30 | 650,000 | \$ 0.40 |
| Cancelled (-) | 860,000 | \$ 0.68 | 25,000 | \$ 0.72 |
| Vested (-) | 110,000 | \$ 0.69 | 534,172 | \$ 0.69 |
| Non-vested balances, September 30, | 3,390,000 | \$ 0.27 | 932,500 | \$ 0.59 |

| OUTSTANDING AND EXERCISABLE AWARDS | 2017 | | 2016 | |
|---|-------------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| | (Unaudited) | | | |
| Awards outstanding, January 1, | 2,090,668 | \$ 0.86 | 1,857,668 | \$ 0.91 |
| Granted (+) | 3,440,000 | \$ 0.59 | 650,000 | \$ 0.70 |
| Cancelled (-) | 1,402,334 | \$ 0.97 | 392,000 | \$ 0.62 |
| Exercised (-) | 30,000 | \$ 0.57 | - | - |
| Awards outstanding, September 30, | 4,098,334 | \$ 0.60 | 2,115,668 | \$ 0.87 |
| Awards vested and expected to vest, September 30, | 3,614,538 | \$ 0.59 | 1,989,739 | \$ 0.88 |
| Awards outstanding and exercisable, September 30, | 708,334 | \$ 0.73 | 1,183,168 | \$ 0.82 |

During the nine month period ended September 30, 2017, the Company awarded 3,440,000 stock options, of which: i) 2,590,000 stock options were awarded as part of an additional compensation plan to align certain key employees with the Company's long term financial goals, ii) 600,000 stock options were awarded to the Company's former CEO and iii) 250,000 stock options were awarded to the members of the Company's board of directors.

During the nine month period ended September 30, 2017, there were stock options of 1,402,334 that were cancelled, of which 993,334 were cancelled due to termination of employment, 225,000 were cancelled by the board of directors as part of a compensation plan change, and the remainder expired unexercised at the end of the option term. During the nine month period ended September 30, 2016, there were stock options of 392,000 that were cancelled, of which 205,000 were cancelled due to termination of employment and the remainder expired unexercised at the end of the option term.

The weighted-average remaining contractual life of the non-qualified stock options outstanding, exercisable, and vested and expected to vest as of September 30, 2017 were 3.5 years, 3.5 years and 2.3 years, respectively.

There was no intrinsic value associated with options outstanding, exercisable and expected to vest as of September 30, 2017 as the stock price was below the lowest option exercise price. Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on September 30, 2017 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2017. The intrinsic value will change based on the fair market value of WidePoint's stock.

The total intrinsic value of stock options exercised during the nine months ended September 30, 2017 was approximately \$9,000.

Share-Based Compensation Expense

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

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED JUNE 30, 2016 | |
|---|--|----------|--|-----------|
| | (Unaudited) | | | |
| Restricted stock compensation expense | \$5,447 | \$21,786 | \$156,768 | \$65,358 |
| Non-qualified stock compensation expense | (86,490) | 46,302 | (18,732) | 139,056 |
| Total share-based compensation before taxes | \$(81,043) | \$68,088 | \$138,036 | \$204,414 |

During the three and nine month periods ended September 30, 2017, the board of directors cancelled 225,000 stock awards previously awarded to employees and recognized a benefit related to cancellation of stock awards. At September 30, 2017, the Company had approximately \$661,900 of total unamortized share-based compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average remaining period of 1.43 years.

12. Earnings Per Common Share (EPS)

The computations of basic and diluted EPS were as follows for the periods presented below:

| | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2016 | |
|--|--|-------------|--|---------------|
| | (Unaudited) | | | |
| Basic EPS Computation: | | | | |
| Net loss | \$(314,601) | \$(148,040) | \$(2,768,993) | \$(1,704,480) |
| Weighted average number of common shares | 82,946,847 | 82,730,134 | 82,878,287 | 82,673,570 |
| Basic EPS | \$(0.00) | \$(0.00) | \$(0.03) | \$(0.02) |

Diluted EPS Computation:

| | | | | |
|--|---------------|---------------|-----------------|-----------------|
| Net loss | | | | |
| | \$ (314,601) | \$ (148,040) | \$ (2,768,993) | \$ (1,704,480) |
| Weighted average number of common shares | 82,946,847 | 82,730,134 | 82,878,287 | 82,673,570 |
| Incremental shares from assumed conversions of stock options | - | - | - | - |
| Adjusted weighted average number of common shares | 82,946,847 | 82,730,134 | 82,878,287 | 82,673,570 |
| Diluted EPS | \$ (0.00) | \$ (0.00) | \$ (0.03) | \$ (0.02) |

The dilutive effect of unexercised stock options and restricted stock awards excludes 4,223,334 and 2,363,668 of options from the computation of EPS for the three and nine month periods ended September 30, 2017 and 2016, respectively, because inclusion of the options would have been anti-dilutive.

13. Details of Consolidated Revenue and Revenue by Geographic Region

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

| Revenue Mix | THREE MONTHS ENDED | | NINE MONTHS ENDED | |
|------------------|--------------------|---------------|--------------------|---------------|
| | SEPTEMBER 30, 2017 | 2016 | SEPTEMBER 30, 2017 | 2016 |
| | (Unaudited) | | | |
| Carrier Services | \$ 11,245,395 | \$ 13,532,617 | \$ 32,191,335 | \$ 35,721,245 |
| Managed Services | 7,218,477 | 8,582,222 | 23,765,282 | 24,441,900 |
| | \$ 18,463,872 | \$ 22,114,839 | \$ 55,956,617 | \$ 60,163,145 |

The following table presents our domestic and foreign revenue mix for the periods presented:

| Geographic Region | THREE MONTHS ENDED SEPTEMBER 30, 2017 | | NINE MONTHS ENDED SEPTEMBER 30, 2017 | |
|-------------------|--|--------------|--|--------------|
| | 2016 | 2016 | 2016 | 2016 |
| | (Unaudited) | | | |
| North America | \$17,342,443 | \$20,867,324 | \$52,664,719 | \$56,360,870 |
| Europe | 1,121,429 | 1,247,515 | 3,291,898 | 3,802,275 |
| | \$18,463,872 | \$22,114,839 | \$55,956,617 | \$60,163,145 |

14. Commitments and Contingencies

Operating Lease Commitments

In March 2017, the Company entered into 10-year lease agreement for a 14,382 square foot facility to accommodate growth and operational requirements in Columbus, Ohio. In late May 2017, the Company moved into the new Columbus, Ohio facility. The lease agreement includes six (6) months of free rent from June 1, 2017 through November 30, 2017. Thereafter, the lease requires monthly minimum rent of approximately \$20,700, of which \$10,200 covers base minimum lease payments and \$10,500 covers estimated annual operating expenses and real estate taxes. Base minimum lease payments are subject to an annual escalation of approximately 3.5% beginning on October 1, 2018. The term of the lease expires on September 30, 2027, unless the Company elects to use an early termination provision that is available in October 2023. Any early termination election would require an immediate payment of a fixed penalty that may range from \$260,000 to \$265,000.

Except as described above, there were no other material leases entered into or modifications of existing leases during the nine month period ended September 30, 2017.

Employment Agreements

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

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

Cautionary Note Regarding Forward-Looking Statements

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

- Our ability to achieve profitability and positive cash flows;
- Our ability to 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 continue to deliver contracted services and products to our existing customers;
- Our ability to sell higher margin services;
- Our ability to retain key personnel; and

The risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 30, 2017.

The forward-looking statements included in this Form 10-Q are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law. Readers are cautioned not to put undue reliance on forward-looking statements.

Business Overview

We are a leading provider of trusted mobility solutions to the government and commercial sectors. Our hosted solutions are accessible on-demand through a secure proprietary portal 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 federal government compliant identity management solutions that provide secured virtual and physical access to restricted environments. Our trusted mobility management solutions are designed and implemented with flexibility in mind such that it can accommodate a large variety of customer requirements through simple configuration settings rather than through costly software development. Our trusted mobility management solutions have a comprehensive set of functional capabilities that can be used by any customer to meet a comprehensive set of functional, technical and security requirements.

For additional information related to our business operations see the description of our business set forth in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 filed with the SEC on March 30, 2017.

Strategic Focus and Goals

Our strategic focus and goals are driven by our short-term need to improve our financial performance and return to profitability. Our longer-term strategic focus and goals are driven by our need to expand our critical mass so that we have more flexibility to fund investments in technology solutions and introduce new sales and marketing initiatives in order to expand our marketplace share and increase the breadth of our offerings in order to improve company sustainability and growth.

With a focus on solidifying, improving, and expanding our information technology based proprietary solutions and adopting channel driven sales and marketing initiatives, we believe we can reshape our environment and create a more unified set of operational efficiencies and technical solutions. These changes should allow us to grow critical mass and enable better use of our personnel and other resources to scale and grow our business. We further believe that we can expand our business and market share through acquisitions of complementary businesses and strategic assets.

As part of our shorter-term strategic focus, we continue to re-evaluate the roles and responsibilities throughout the Company with a focus on eliminating non-value added activities, automating manual processes and recruiting more experienced talent while eliminating redundant and expensive legacy resources.

We are also reviewing all client relationships and commencing corrective actions to improve profitability and/or resign unprofitable or non-value added client relationships.

We have initiated a number of cost savings efforts including:

- § closing our Chesapeake VA and Oakbrook IL offices and consolidated the work into our McLean office;
- § streamlining and reducing staff in our credentialing operations to eliminate duplicative management and non-management positions;
- § implementing a plan to close our Southern Pines office no later than January of 2018 and consolidate the work into our Columbus, OH office;
- § renegotiating and/or cancelling one or both of our leases in McLean, VA and/or Fairfax, VA and migrating work into one consolidated location;
- § reviewing additional configurations to allow us to further consolidate our disaster recovery sites.
- § renegotiating and realigning commission plans with our channel partner to drive improved performance and reducing non-performing sales resources; and
- § reducing operational personnel by reducing technology platforms and combining redundant help desk support across functions.

Our short-term strategy to drive increased revenue performance and increase our pipeline of new sales opportunities includes:

- § adopting new pricing strategies,
- § targeting competitor's customers with lower introductory pricing during renewal periods to garner increased market share,
- § utilizing social media marketing enhancements to increase customer awareness of our solutions,
- § highlighting superior product differentiators in our marketing materials and online presence,
- § improving, expanding and targeting our current marketing efforts to identify new customers that could utilize our current solutions,
- § improving our cross selling of our solutions to our current customers,
- § providing our larger customers with enhanced product opportunities and improved pricing in an effort to increase their short-term purchasing activities, and
- § utilizing various lead productions opportunities to drive an increase amount of pipeline, and emphasizing higher margin solutions.

Longer-term, we are reviewing our intellectual property portfolio and may seek to continue acquiring software assets and new customer relationships in support of expanding our information technology based proprietary solutions and customer reach. Acquisitions of customers and/or software assets, coupled with our longer term initiatives to further consolidate, streamline, and focus on building out a set of core trusted mobility management (TM2) driven solutions may allow us to further differentiate our capabilities to our customers.

Our next steps towards achieving our longer-term goals include:

- § reviewing our current offerings to determine which solutions we believe can be grouped into a unified set of trusted mobility management solutions, and
- § focusing our efforts away from supporting multiple solutions and introducing new solutions to our commercial enterprise markets.

We believe these actions could drive a strategic realignment of services that may include the sale of non-aligned offerings coupled with additional acquisitions of complementary services that could result in a more focused core set of trusted mobility management solutions.

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

Results of Operations

Three Months Ended September 30, 2017 as Compared to Three Months Ended September 30, 2016

Revenues. Revenues for the three month period ended September 30, 2017 were approximately \$18.5 million, a decrease of approximately \$3.6 million (or 17%), as compared to approximately \$22.1 million in 2016. Our mix of revenues for the periods presented is set forth below:

| | THREE MONTHS ENDED SEPTEMBER 30, | | Dollar |
|------------------|--|---------------|---------------|
| Revenue Mix | 2017 | 2016 | Variance |
| | (Unaudited) | | |
| Carrier Services | \$ 11,245,395 | \$ 13,532,617 | \$(2,287,222) |
| Managed Services | 7,218,477 | 8,582,222 | (1,363,745) |

\$18,463,872 \$22,114,839 \$(3,650,967)

Carrier services decreased due to fewer large task orders issued under our U.S. Department of Homeland Security (“DHS”) blanket purchase agreement (“BPA”) for carrier services as compared to the same period last year. We are continuing to move away from selling low margin carrier services so that we can refocus our internal resources on delivering higher margin services. Managed services revenue decreased due to non-recurring one-time credentialing sales that occurred last year that did not reoccur, lower billable hourly services as a result of client administrative delays in processing contract renewals and supplier related delays that resulted in delivery and recognition of September accessory and reselling orders after the end of the current quarter, as compared to last year. We believe our managed services revenues will increase over the next year provided that we continue to grow and retain our core client base and successfully ramp up services under recently awarded task orders for the Federal Emergency Management Agency (FEMA) and the U.S. Coast Guard.

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

Cost of Revenues. Cost of revenues for the three month period ended September 30, 2017 was approximately \$15.1 million (or 82% of revenues), as compared to approximately \$18.1 million (or 82% of revenues) in 2016. The dollar decrease was driven by lower revenues, the benefit of lower actual project costs, and savings realized as a result of employee and consultant position eliminations within our credentialing operations in July 2017, as compared to the same period last year. Our cost of revenues may continue to fluctuate as we continue to shift away from sales of low margin carrier services.

Gross Profit. Gross profit for the three month period ended September 30, 2017 was approximately \$3.4 million (or 18% of revenues), as compared to approximately \$4.0 million (or 18% of revenues) in 2016. The dollar decrease in gross profit was largely related to a lower ratio of higher margin credentialing sales and hourly billable service arrangements as compared to the same period last year, partially offset by savings realized from the elimination of certain management and non-management positions within our credentialing operations. Additionally, the effect of supplier delays contributed to the decrease in gross profit which pushed recognition of recurring accessory and reselling orders until the fourth quarter.

Sales and Marketing. Sales and marketing expense for the three month period ended September 30, 2017 was approximately \$0.5 million (or 3% of revenues), as compared to approximately \$0.6 million (or 3% of revenues) in 2016. The decrease is attributable to actions we took at the end of the second quarter of 2017 to turnover our sales and marketing teams and renegotiate and/or eliminate legacy sales lead generation and channel partners that were not producing high quality leads and revenue pipelines to match our revenue growth goals. We are focused on expanding our full set of products and services to our existing customers, actively pursuing customer and partner referrals and teaming with larger companies to provide them with additional depth and expertise to bid on larger opportunities.

General and Administrative. General and administrative expenses for the three month period ended September 30, 2017 were approximately \$3.0 million (or 16% of revenues), as compared to approximately \$3.4 million (or 16% of revenues) in 2016. As a result of cost reductions initiatives executed during the first and second quarter of 2017, our personnel costs during the third quarter of 2017 decreased significantly as compared the same period last year. Subsequent to the end of the third quarter of 2017 our Chief Financial Officer resigned his position and as a result we expect to record approximately \$0.3 million in one-time severance costs during the fourth quarter of 2017. Except for the one-time severance cost discussed above, we are on target to reduce our continuing general and administrative expense by the end of fiscal 2017. We will continue to identify further opportunities to drive meaningful cost savings and efficiencies in our business model.

Product Development. Product development costs for the three month period ended September 30, 2017 were approximately \$11,300 (or less than 1% of revenues), as compared to approximately \$2,600 (or 1% of revenues) in 2016, reflecting less capitalization of internally developed software costs as compared to last year and a decision made to eliminate development costs associated with certificate on device. During the three month period ended September 30, 2017 we capitalized internally developed software costs of approximately \$128,000 related to costs associated with our next generation TDI Optimiser™ application. During the three month period ended September 30, 2016 we

capitalized approximately \$246,900 in internally developed software costs, of which \$127,300 related to Certificate-on-Device (CoD) credentialing tools and applications and \$119,600 related to costs associated with certification of our Public Key Infrastructure (PKI) authority to operate and issue identity credentials. We anticipate some additional capitalization of software costs during the fourth quarter of 2017 prior to the launch of our new TDI Optimiser™ application. 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 that our customers believe meet or exceed their requirements. These costs over time may rise and fall as we continue to support the development and go to market efforts for new product solutions.

Depreciation and Amortization. Depreciation and amortization expense for the three month period ended September 30, 2017 was approximately \$69,900 as compared to approximately \$84,800 in 2016. The decrease in depreciation and amortization reflects no material increases in our depreciable asset base related to general and administrative activities as compared to last year.

Interest Income. Interest income for the three month period ended September 30, 2017 was approximately \$2,000, as compared to approximately \$3,000 in 2016. The decrease was due to lower amounts of cash and cash equivalents being held in interest bearing accounts and the length of time those deposits were earning interest throughout the quarter compared to 2016.

Interest Expense. Interest expense for the three months ended September 30, 2017 was approximately \$14,000 as compared to approximately \$20,900 in 2016. The decrease in interest expense is due to lower line of credit advances and the length of time such advances were outstanding, as well as the elimination of term debt after the Company paid the last installment in January 2017.

Other Income (Expense). Other expense for the three month period ended September 30, 2017 was approximately \$1,500 as compared to other income of \$3,800 in 2016. Other expense did not include any significant items.

Income Taxes. Income tax expense for the three month period ended September 30, 2017 was approximately \$17,200, as compared to approximately \$8,300 in 2016. The increase in income tax expense for the three month period ended September 30, 2017 is attributable to taxes payable on foreign earnings in the Republic of Ireland.

Net (Loss) Income. As discussed above, we made significant labor and discretionary consultant expense reductions during the third quarter of 2017 that enabled us to narrow our net loss for the current quarter. We believe these current quarter expense reductions alone will cut approximately \$1.6 million annually from our expense base. As a result of the cumulative factors annotated above, the net loss for the three month period ended September 30, 2017 was approximately \$314,600, as compared to approximately \$148,000 in the same period last year.

Nine Months Ended September 30, 2017 as Compared to Nine Months Ended September 30, 2016

Revenues. Revenues for the nine month period ended September 30, 2017 were approximately \$56.0 million, a decrease of approximately \$4.2 million (or 7%), as compared to approximately \$60.2 million in 2016. Our mix of revenues for the periods presented is set forth below:

| | NINE MONTHS ENDED | | |
|-------------|-------------------|------|----------|
| | SEPTEMBER 30, | | Dollar |
| Revenue Mix | 2017 | 2016 | Variance |

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| | | | |
|------------------|--------------|--------------|---------------|
| Carrier Services | \$32,191,335 | \$35,721,245 | \$(3,529,910) |
| Managed Services | 23,765,282 | 24,441,900 | (676,618) |
| | \$55,956,617 | \$60,163,145 | \$(4,206,528) |

Carrier services decreased due to fewer large task orders issued under our U.S. BPA and the impact of our efforts to move away from selling low margin carrier services that are labor intensive to deliver. Managed services revenue decreased due to lower billable hours as a result of client administrative delays in processing contract renewals and non-recurring one-time credentialing sales that occurred last year that did not reoccur, all of which was partially offset by an increase in reselling transactions as compared to last year.

Cost of Revenues. Cost of revenues for the nine month period ended September 30, 2017 was approximately \$45.9 million (or 82% of revenues), as compared to approximately \$48.6 million (or 81% of revenues) in 2016. The dollar decrease is primarily due to lower reselling and carrier services purchases and lower actual estimated project costs associated with certain credentialing contracts and cost reductions initiatives executed during the first and second quarter of 2017, as compared to the same period last year.

Gross Profit. Gross profit for the nine month period ended September 30, 2017 was approximately \$10.1 million (or 18% of revenues), as compared to approximately \$11.6 million (or 19% of revenues) in 2016. The decrease in gross profit was largely related to a lower ratio of higher margin credentialing, device and accessory sales, as well as decreases in billable service arrangements as compared to the same period last year.

Sales and Marketing. Sales and marketing expense for the nine month period ended September 30, 2017 was approximately \$1.7 million (or 3% of revenues), as compared to approximately \$2.1 million (or 3% of revenues) in 2016. The dollar decrease in sales and marketing expense is due to actions taken during the second quarter of 2017 to streamline our business development and marketing activities and reduce commission rates paid on channel and partner deals. Our sales and marketing costs may fluctuate depending on the effort and subject matter expertise required to respond to a request for proposal for services from a prospective customer.

General and Administrative. General and administrative expenses for the nine month period ended September 30, 2017 were approximately \$10.7 million (or 19% of revenues), as compared to approximately \$10.7 million (or 18% of revenues) in 2016. Included in general and administrative expense for the nine month period ended September 30, 2017 was a gain on the sale of real estate assets held for sale of approximately \$66,700, offset by a loss on disposal of the net book value leasehold improvements of approximately \$176,700 that occurred when the Company relocated its operations from the Lewis Center Facility to a larger facility in Columbus, Ohio. General and administrative expense (excluding the one-time loss on disposal described above) was higher as compared to last year due to approximately \$0.4 million in non-recurring one-time costs including the acceleration of certain RSAs and severance paid to our former Chief Executive Officer, costs to close and consolidate two (2) satellite offices, and employee transition benefits paid as part of our organizational changes to streamline our business.

Product Development. Product development costs for the nine month period ended September 30, 2017 were approximately \$219,100 (or 1% of revenues), as compared to approximately \$261,000 (or 1% of revenues) in 2016, reflecting less capitalization of internally developed software costs as compared to last year. The decrease was due to a decision we made during the end of the second quarter of 2017 to slow down product development activity related to credentialing and redirect our capital and internal resources on selling and delivering our existing products and services. During the nine month period ended September 30, 2017 we capitalized internally developed software costs of approximately \$360,700 related to costs associated with our next generation TDI Optimiser™ application. During the nine month period ended September 30, 2016 we capitalized approximately \$480,300 in internally developed software costs of which \$343,900 related to certificate on device credentialing tools and applications, \$119,600 related to costs associated with our PKI authority to operate and issue identity credentials and the remainder related to other software applications.

Depreciation and Amortization. Depreciation and amortization expense for the nine month period ended September 30, 2017 was approximately \$212,700 as compared to approximately \$269,000 in 2016. The decrease in depreciation and amortization reflects no material increases in our depreciable asset base related to general and administrative activities as compared to last year.

Interest Income. Interest income for the nine month period ended September 30, 2017 was approximately \$11,600, as compared to approximately \$10,600 in 2016. The increase was due to higher amounts of cash and cash equivalents being held in interest bearing accounts and the length of time those deposits were earning interest as compared to 2016.

Interest Expense. Interest expense for the nine month period ended September 30, 2017 was approximately \$36,400 as compared to approximately \$61,100 in 2016. The decrease in interest expense is due to the elimination of term debt during the first quarter of 2017 after the Company paid the last installment of its term note in January 2017 and to a lesser extent lower line of credit advances and the length of time such advances were outstanding.

Other Income (Expense). Other income for the nine month period ended September 30, 2017 was approximately \$1,800 as compared to approximately \$11,100 in 2016. Other income did not include any significant items.

Income Taxes. Income tax expense for the nine month period ended September 30, 2017 was approximately \$32,700 as compared to approximately \$21,000 in 2016. Income tax expense for the nine month period ended September 30, 2017 consisted of tax expense associated with foreign earnings in the Republic of Ireland, partially offset by tax benefit related to vesting of restricted stock awards.

Net (Loss) Income. As a result of the cumulative factors annotated above, the net loss for the three month period ended September 30, 2017 was approximately \$2.8 million, as compared to approximately \$1.7 million in the same period last year.

Liquidity and Capital Resources

We have, since inception, financed operations and capital expenditures through the sale of stock, seller notes in connection with acquisitions, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. Our immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Access National Bank for up to \$5.0 million.

At September 30, 2017, our net working capital was approximately \$2.8 million as compared to \$5.0 million at December 31, 2016. Our decrease in net working capital was primarily due to net losses incurred while continuing to fund product development (\$0.2 million), purchase of certain software assets critical to our credentialing services offering (\$0.4 million), non-recurring severance expenses (\$0.3 million), and office consolidation and closure costs (\$0.1 million) incurred during the nine month period ended September 30, 2017.

We must successfully execute our strategic goals and tactically execute our cost savings and new revenue initiatives as described above in order to generate positive cash flows, improve our liquidity position and meet our minimum operating requirements. During the nine month period ended September 30, 2017, we believe we made significant progress towards improving the economics of our business model and we believe that our cost reduction actions to date will cut approximately \$2.5 million from our annual operating expenses. In addition to cost reductions made to date we expect to consolidate one additional location and make additional staff adjustments during the fourth quarter of 2017 that will cut approximately \$0.4 million from our annual operating expenses. We will continue to identify additional opportunities for cost savings that can further reduce our fixed operating costs and/or provide us better flexibility to match our cost structure with our revenue streams. We may need to raise additional capital to fund major growth initiatives and/or acquisitions and there can be no assurance that additional capital will be available on acceptable terms or at all.

Cash Flows from Operating Activities

Cash provided by operating activities provides an indication of our ability to generate sufficient cash flow from our recurring business activities. Our single largest cash operating expenses is the cost of labor and company sponsored healthcare benefit programs. Our second largest cash operating expense is our facility costs and related technology communication costs to support delivery of our services to our customers. We lease most of our facilities under non-cancellable long term contracts that may limit our ability to reduce fixed infrastructure costs in the short term. Any changes to our fixed labor and/or infrastructure costs may require a significant amount of time to take effect depending on the nature of the change made and cash payments to terminate any agreements that have not yet expired. We experience temporary collection timing differences from time to time due to customer invoice processing delays that are often beyond our control.

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

For the nine months ended September 30, 2016, net cash used in operations was approximately \$1.2 million driven by operating losses, foreign currency transaction losses and temporary collection timing differences.

Cash Flows from Investing Activities

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

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

For the nine months ended September 30, 2016, cash used in investing activities was approximately \$0.6 million and consisted of capitalized internally developed software costs substantially related to our Certificate-on-Device credentialing tools and applications; and to a lesser extent normal replacements of computers and peripheral equipment used in operating and administrative functions.

Cash Flows from Financing Activities

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

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

For the nine months ended September 30, 2016, cash provided by financing activities was approximately \$0.6 million primarily reflecting scheduled term debt repayments of approximately \$0.7 million, partially offset by net line of credit advances. The Company was advanced approximately \$18.2 million and repaid approximately \$18.1 million in line of credit advances.

Net Effect of Exchange Rate on Cash and Equivalents

For the nine months ended September 30, 2017 and 2016, the net effect of exchange rate changes increased the translated value of our foreign cash balances due to appreciation of the Euro relative to the US dollar.

Off-Balance Sheet Arrangements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no material change in the Company's exposure to market risk from the information disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 4. CONTROLS AND PROCEDURES

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

Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal controls over financial reporting during the three month period ended September 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

Neither the Company nor its subsidiaries are involved in any material legal proceeding.

ITEM 1A RISK FACTORS

Our risk factors have not changed materially from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTLT UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

None

ITEM 5 OTHER INFORMATION

None

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ITEM 6. EXHIBITS

EXHIBIT

| <u>NO.</u> | <u>DESCRIPTION</u> |
|-------------|---|
| <u>31.1</u> | <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).</u> |
| <u>31.2</u> | <u>Certification of interim Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Filed herewith).</u> |
| <u>32</u> | <u>Certification of Chief Executive Officer and interim Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Filed herewith).</u> |
| 101. | Interactive Data Files |
| 101.INS+ | XBRL Instance Document |
| 101.SCH+ | XBRL Taxonomy Extension Schema Document |
| 101.CAL+ | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF+ | XBRL Taxonomy Definition Linkbase Document |
| 101.LAB+ | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE+ | XBRL Taxonomy Extension Presentation Linkbase Document |

SIGNATURES

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

WIDEPOINT CORPORATION

Date: November 14, 2017 /s/ JIN H. KANG
Jin H. Kang
President and Chief Executive Officer

Date: November 14, 2017 /s/ KITO A. MUSSA
Kito A. Mussa
Interim Chief Financial Officer