

WIDEPOINT CORP
Form 10-Q
August 15, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 (IRS Employer Identification No.)
incorporation or organization)

18W100 22nd St., Oakbrook Terrace, IL 60181
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (703) 349-2577

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

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

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

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

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

As of August 11, 2011, 62,930,873 shares of common stock, \$.001 par value per share, were outstanding.

WIDEPOINT CORPORATION
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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

WIDEPOINT CORPORATION AND
SUBSIDIARIES CONDENSED
CONSOLIDATED BALANCE SHEETS

	June 30, 2011	December 31, 2010
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$5,394,273	\$ 5,816,303
Accounts receivable	4,733,151	7,794,913
Unbilled accounts receivable	1,319,227	3,059,665
Prepaid expenses and other assets	464,577	473,320
Current deferred income tax asset	492,385	412,801
Total current assets	12,403,613	17,557,002
Property and equipment, net	1,303,325	1,241,510
Goodwill	11,329,917	11,329,917
Other Intangibles, net	1,086,084	1,104,551
Noncurrent deferred income tax asset	3,116,705	3,116,705
Other assets	55,598	46,455
Total assets	\$29,295,242	\$ 34,396,140
Liabilities and stockholders' equity		
Current liabilities:		
Short term note payable	\$59,344	\$ 94,809
Accounts payable	4,303,476	7,725,727
Accrued expenses	1,491,634	2,643,613
Income taxes payable	-	143,450
Deferred revenue	107,008	294,541
Current portion of long-term debt	350,603	572,943
Current portion of deferred rent	30,406	20,835
Current portion of capital lease obligation	38,590	44,724
Total current liabilities	6,381,061	11,540,642
Long-term debt, net of current portion	506,532	564,490
Fair value of earnout liability	153,000	153,000
Deferred rent, net of current portion	84,205	98,702
Capital lease obligation, net of current portion	5,838	22,908
Total liabilities	\$7,130,636	\$ 12,379,742
Stockholders' equity:		
Common stock, \$0.001 par value; 110,000,000 shares authorized; 62,930,873 and 62,690,873 shares issued and outstanding, respectively	62,931	62,691
Additional paid-in capital	69,005,250	68,754,353
Accumulated deficit	(46,903,575)	(46,800,646)
Total stockholders' equity	22,164,606	22,016,398

Total liabilities and stockholders' equity	\$29,295,242	\$ 34,396,140
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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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(unaudited)			
Revenues, net	\$9,965,878	\$12,452,120	\$20,495,003	\$23,615,176
Cost of sales (including amortization and depreciation of \$171,161, \$243,277, \$354,801, and \$469,562, respectively)	7,261,227	9,521,361	15,950,697	18,160,582
Gross profit	2,704,651	2,930,759	4,544,306	5,454,594
Sales and marketing	385,100	487,996	815,283	831,003
General and administrative (including shared-based compensation expense of \$11,747, \$27,565, \$39,937, and \$56,745 respectively)	1,877,145	1,882,721	3,743,951	3,714,532
Depreciation expense	58,777	48,743	106,371	98,477
Income/(loss) from operations	383,629	511,299	(121,299)	810,582
Interest income	2,481	2,231	6,673	8,845
Interest expense	(19,304)	(22,793)	(39,859)	(50,170)
Other expense	-	-	1,143	-
Net income/(loss) before income tax expense	\$366,806	\$490,737	\$(153,342)	\$769,257
Income tax expense/(benefit)	152,375	78,055	(50,413)	117,257
Net income/(loss)	\$214,431	\$412,682	\$(102,929)	\$651,980
Basic earnings/(loss) per share	\$0.00	\$0.01	\$(0.00)	\$0.01
Basic weighted average shares outstanding	62,916,422	61,375,333	62,857,309	61,375,333
Diluted earnings/(loss) per share	\$0.00	\$0.01	\$(0.00)	\$0.01
Diluted weighted average shares outstanding	64,142,707	63,299,155	62,857,309	63,163,824

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

WIDEPOINT CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
	2011	2010
Cash flows from operating activities:		
Net (loss)/income	\$(102,929)	\$651,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income tax (benefit)/expense	(79,584)	78,445
Depreciation expense	167,735	144,644
Amortization of intangibles	293,438	423,395
Amortization of deferred financing costs	857	4,995
Share-based compensation expense	39,937	56,745
Loss on disposal of equipment	357	-
Changes in assets and liabilities (net of business combinations):		
Accounts receivable and unbilled accounts receivable	4,802,200	(1,704,854)
Prepaid expenses and other current assets	8,743	37,440
Other assets excluding deferred financing costs	(10,000)	7,917
Accounts payable and accrued expenses	(4,542,468)	(2,032,258)
Income taxes payable	(143,450)	-
Deferred revenue	(187,533)	(505,017)
Net cash provided by/ (used in) operating activities	\$247,303	\$(2,836,568)
Cash flows from investing activities:		
Purchase of subsidiary, net of cash acquired	-	(383,701)
Purchase of property and equipment	(230,657)	(19,092)
Software development costs	(274,971)	(35,593)
Proceeds from sales of office equipment	750	-
Net cash used in investing activities	\$(504,878)	\$(438,386)
Cash flows from financing activities:		
Principal payments on notes payable	(352,451)	(340,366)
Principal payments under capital lease Obligation	(23,204)	(58,386)
Proceeds from exercise of stock options	211,200	-
Net cash used in financing activities	\$(164,455)	\$(398,752)
Net decrease in cash	\$(422,030)	\$(3,673,706)
Cash and cash equivalents, beginning of period	\$5,816,303	\$6,238,788
Cash and cash equivalents, end of period	\$5,394,273	\$2,565,082
Supplementary Information:		
Cash paid for income tax	\$201,763	\$38,832
Cash paid for interest	\$40,812	\$46,929

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Organization

WidePoint Corporation (“WidePoint”, the “Company,” “we,” “its,” or “our”) was incorporated in Delaware on May 30, 1997. WidePoint is a provider of advanced, federally certified and other customized technology-based products and service solutions to both the government sector and commercial markets. Our advanced technology-based solutions enable organizations to deploy fully compliant IT services in accordance with government requirements and the demands of the commercial marketplace. We have grown through the merger with and acquisition of highly specialized regional IT consulting companies.

Our staff consists of business process and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today’s rapidly changing technological environment in business.

Nature of Operations

We provide our advanced technology-based products and solutions through three business segments. Our three business segments include: Wireless Mobility Management, Cyber Security Solutions, and Consulting Services and Products. These segments offer unique solutions and proprietary IP in mobile and wireless full life cycle management solutions; cyber security solutions with an expertise in identity assurance services utilizing certificate-based security solutions; and other associated IT consulting services and products in which we provide specific subject matter expertise in IT architecture and planning, software implementation services, IT outsourcing, and forensic informatics. Our three business segments are operated through six wholly-owned operational entities, including a development stage company. These entities’ respective principal operations are described as follows:

- **iSYS, LLC (“iSYS”):** iSYS specializes in providing the U.S. government and its agencies mobile telecommunications expense management (MTEM) services and forensic informatics, and information assurance services. Operates in our Wireless Mobility Management and Consulting Services and Products segments.
- **Operational Research Consultants, Inc. (“ORC”):** ORC specializes in providing the U.S. government and its agencies, as well as commercial businesses, with compliant information and identity assurance management solutions consisting of identity proofing and credentialing through its internally-developed proprietary Public Key Infrastructure (PKI) technologies. Operates in our Cyber Security Solutions and Consulting Services and Products segments.
- **Advanced Research Concepts Corporation (“ARCC”):** ARCC was formed in January 2010 and acquired certain assets of Vuance, Inc. ARCC provides state governments and commercial businesses with secure critical response management solutions designed to improve coordination within emergency services and critical infrastructure agencies. ARCC operates within our Cyber Security Solutions segment.
- **WidePoint IL, Inc. and WP NBIL, Inc.:** WP NBIL operates in conjunction with WidePoint IL and provides IT architecture and planning, software implementation and IT outsourcing services to the U.S. government or as a subcontractor through large commercial businesses. WidePoint IL operates within our Consulting Services and Products segment.

- Protexx Technology Corporation d/b/a Protexx: Protexx was formed in July 2008 and acquired certain assets of Protexx Inc. Protexx specializes in identity assurance and mobile and wireless data protection services. Protexx is a development stage company. Protexx operates as a branded offering within our Cyber Security Solutions segment.

Acquisition Activity

On January 29, 2010, we completed the asset purchase and assumption of certain liabilities from Vuance, Inc, including acquisition of their Government Services Division. These assets are now housed in our wholly-owned subsidiary Advanced Response Concepts Corporation. ARCC develops and markets leading-edge secure critical response management solutions designed to improve coordination between emergency services organizations and critical infrastructure agencies.

2. Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements as of June 30, 2011 and for the three and six months ended June 30, 2011 and 2010, 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 have been condensed or omitted. It is the opinion of management that all adjustments (which include normal recurring adjustments) necessary for a fair statement of financial results are reflected in the interim periods presented. The condensed consolidated balance sheet as of December 31, 2010 was derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and six months ended June 30, 2011 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.

Use of Estimates

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