

WIDEPOINT CORP  
Form 10-K  
March 16, 2015

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended December 31, 2014**

**or**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
o 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 22102**

*(Address of principal executive offices)*

*(Zip Code)*

**(703) 349-2577**

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

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

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

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

*None*

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

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

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

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

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

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

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

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of the Common Stock on the NYSE MKT on the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$113,810,000.

As of March 9, 2015, there were 81,721,763 shares of the registrant's Common Stock issued and outstanding.

## **Forward Looking Statements**

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

This Annual Report on Form 10-K contains forward-looking statements that involve substantial risks and uncertainties, many of which are outside of our control. We believe that these statements are within the definition of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, any statement that is not a statement of historical fact, including, without limitation, statements regarding the our business strategy and plans and objectives of management for future operations or that may predict, forecast, indicate or imply future results, performance or achievements. The words “estimate,” “project,” “intend,” “forecast,” “anticipate,” “plan,” “plan,” “expect,” “believe,” “will,” “will likely,” “should,” “could,” “would,” “may” or the negative of such words or words or expressions of similar meaning are intended to identify forward-looking statements. These forward-looking statements are not guarantees of future performance, and all such forward-looking statements involve risks and uncertainties, many of which are beyond our ability to control. Actual results may differ materially from those expressed or implied by such forward-looking statements as a result of various factors. We do not undertake, and we disclaim, any obligation to update any forward-looking statements or to announce revisions to any of the forward-looking statements. Certain factors that could cause results to differ materially from those projected in the forward-looking statements, including the risk factors set forth in this Form 10-K. Readers are cautioned not to put undue reliance on forward-looking statements.

Industry and market data used throughout this Annual Report on Form 10-K were obtained through surveys and studies conducted by third parties, industry and general publications and internal company research. We have not independently verified any of the data from third-party sources nor have we ascertained any underlying economic assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates involve risks and uncertainties and are subject to change based on various factors.

## **PART I**

### **ITEM 1. BUSINESS**

#### **Company Overview**

We are a provider of information technology (IT) based products, services, and solutions. We offer secure, cloud-based, enterprise-wide IT based solutions that enable commercial markets, and federal and state government organizations, to deploy fully compliant IT services in accordance with government-mandated regulations and advanced system requirements. Our Managed Mobility Solutions (MMS) offer a portfolio of IT based services and products with a set of streamlined mobile communications management, identity management, and consulting solutions that provide our customers with the ability to manage and protect their valuable communications assets and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments. Many of our solutions are accessible on-demand through cloud computing and provide customers with the ability to remotely manage their workforce mobility and identity management requirements in accordance with internal policies, the marketplace and the demands of their internal customers.

## Our Solutions

We offer a complementary set of streamlined mobile communications solutions using our proprietary cloud-based portals to enable our clients to actively manage their mobile communications assets and expenses in an efficient and cost-effective manner in a safe and secure environment. These portals provide our clients with on-demand access to manage and control deployment of their communications assets and expenses associated with supporting the functional requirements of their mobile workforce. In addition, these portals identify issues that impact our clients' workflow and business models.

Our portfolio of solutions allow our clients to select a single source solution that enables them to establish a viable standard process that focuses on the goals of the client's entire organization. We build solutions that ensure the privacy of both corporate and personal information. In addition, we find that our telecom services can generally save our clients 30% to 65% of their current communications costs. We believe that our MMS offerings can provide a significant return on investment by enabling our client's to securely manage their mobile workforce and efficiently manage the total life cycle of their valuable communications assets and services throughout the world.

Our core set of offerings are set forth below:

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

Security – We provide a full range of identity management and identity assurance services to protect and defend information and information systems by ensuring confidentiality, integrity, authentication, availability, and non-repudiation. These services include strategic risk analysis and management support that includes physical security, reliability, continuity of operations planning, and support for other enterprise governance issues such as privacy, compliance, audits and disaster recovery. We have been certified by the federal government to facilitate public access to the services offered by government agencies, including on-line access to computers for purposes of reviewing, retrieving, providing, and exchanging information. Our digital certificate credentials are authorized to provide trusted individual or business identity information for use by the Department of Defense ("DoD"), FirstGov, General Services Administration ("GSA") and participating federal government agencies. Our digital certificate credential services include the DoD External Certificate Authority, Access Certificates for Electronic Services, and the General Services Administration Shared Service Provider.

Cert-on-Device - During the first quarter of 2014, we introduced our Certificate-on-Device (Cert-on-Device) solution. Our Cert-on-Device solution is a robust cloud-based internally developed service that provides secure digital certificates to all types of mobile devices in order to enhance the information security assurance level of mobile transactions and access to corporation networks, databases and other IT assets. Cert-on-Device enables an enterprise to attain a greater level of network security than user authentication alone by ensuring that only authorized § devices connect to an organization's IT infrastructure. During the second quarter of 2014, we successfully loaded secure digital certificates onto a number of individual mobile devices, tablets and operating system platforms. We are also delivering machine to machine digital certificates that support data in motion. We are working with leading suppliers and manufacturers of mobile devices to develop and demonstrate mobile devices with this capability built-in as a ready feature and to accommodate other device operating systems.

2

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

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

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

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

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

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

## **Global Industry Overview**

We primarily operate in the IT industry and focus our efforts in the MMS market. We provide our solution offering to both the communications providers and their enterprise customers. A company’s communications infrastructure can be a valuable asset to the organization in terms of the data capture and potential business intelligence from the use of its proprietary information.

Advances in communications technology over the last 10 years significantly improved the storage, speed and frequency of communications and the complexity of these devices and enabled rapid proliferation of mobile computing and communications devices. Examples include wireless workstations, personal digital assistants, mobile hot spots, cloud-based video conferencing, converged voice and data for fixed and mobile communications, virtual networking, and other blue tooth enabled devices. Advances and improvements in digital identity and security technologies coupled with smart mobile computing and communications devices increased the speed of business



transactions across the globe between businesses, governments and individuals, but it also introduced many unexpected security threats to an organizations critical data and communications infrastructure. The growing number of security incidents across the globe are affecting small and large organizations and these incidents are growing in frequency and causing financial and reputational harm for many companies.

The expanded use of cloud-based mobile computing and communications technologies continue to change the way in which our government, businesses and individuals communicate, conduct business, collaborate and share information globally across their respective environments. IT teams at large and small organizations are searching for a market-ready core solution set with easily customizable add-ons that can provide safe and secure mobile computing and communications between any mobile device and the organizations data and communications infrastructure. Many enterprises are managing this risk and related costs by procuring secure communications solutions offered by cloud-based providers thus avoiding the additional infrastructure costs associated with an on premise solution and the cost of hiring expertise in-house to manage the process. This presents a significant opportunity for growth for companies focused in the MMS market with the expertise and technology to meet market demands.

We anticipate that use of mobile business applications will continue to rise and continue to present challenges for our clients to integrate, manage and secure these emerging mobile technologies. Government and commercial enterprises conducting business through e-commerce, online banking and trading, Internet-based enterprise solutions for process automation, or digital signature enablement will require a secure identity assurance solution in today's cloud-based environment to protect against the growing risk of cyber fraud and other schemes designed to deprive an enterprise and its customer of their valuable assets. We believe our portfolio of solutions (including Cert-on-Device) provides a stronger, more secure and cost-effective solution that both protects our clients' critical infrastructure and expands our clients' workforce mobility initiatives. We have partnered with several key communications equipment manufacturers to improve our reach into our target markets and to provide a more integrated market-ready solution that is accessible by our end users and compliant with our customers security and information requirements.

In order to effectively compete, we must keep pace with changes and convergences of mobile computing and security technologies in a data driven global environment. The management and oversight of these devices can be expensive and complicated due to the variety of service plans and features offered; significant differences in software technologies and infrastructure requirements for these devices; the growing complexity of communications bills; and recent trends to permit employees to utilize their personal devices to conduct company business. The level of technical expertise and resources required to protect an organization's valuable communications assets and data presents an opportunity to deliver high quality services and also presents a barrier to new competitors in the marketplace.

The challenge for our industry is to provide cost saving solutions that can enable an organization to meet their technology asset and risk management objectives without significantly increasing their operating costs and allowing these organizations to focus on running their business.

### **Global Competitive Market Overview**

Our global competitive market is highly fragmented and subject to rapid technological change driven in part by periodic introductions of new technologies and devices in the mobile cyber security and communications industries, frequent changes in, and resulting inconsistencies between, the billing platforms utilized by major communications carriers and the changing demands of customers. Changes in billing platforms by major communications carriers may affect automation technologies used to capture, organize, process, analyze and report communications data and tends to increase the costs to deliver services. Requests to modify our core system functionality and more complex operational requirements tend to increase the cost to deliver services.

We currently compete with companies from a variety of market sectors, including publicly and privately held firms, large accounting and consulting firms, systems consulting and implementation firms, application software firms, service groups of computer equipment companies and other general management consulting firms. We also compete regularly with offshore outsourcing companies, and we expect competition from these companies to increase in the future, especially on development, application management services and outsourcing engagements. In addition, we

and other technology and outsourced service providers compete with internally developed communications management solutions. We compete frequently for client engagements against companies with far more resources than us. Recent consolidations of large competitors (including acquisitions made by our competitors named above) within our market have further increased the size and resources of some of these firms. We believe that the major competitive factors in our marketplace are distinctive technical competencies, governmental certifications and approvals to operate within this space, successful past contract performance, price of services, reputation for quality, and key management personnel with domain expertise.

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

Competitors are often able to offer more scale, which in some instances has enabled them to significantly discount their services in exchange for revenues in other areas or at later dates. Many of our competitors are heavily discounting their services to unprofitable levels in an effort to maintain market share and push other competitors out of the market and then turn around and raise prices for its captive customer base. This type of pricing behavior affects the entire market, creates a commodity pricing environment that directly affects the level of services that can be delivered to meet the customers' requirements and ensure a reasonable return for the service provider. We believe we provide a strong core solution that is scalable based on the clients requirements and budget. If we cannot keep pace with the intense competition in our marketplace, deliver cost-effective and relevant solutions to our target market, our business, financial condition and results of operations will suffer.

### **Federal Market Overview and Concentration**

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

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

### **Strategic Vision**

Our objective is to grow our business profitably as a premier technology-based provider of both product and service enterprise solutions to both the public and private sectors. Our strategies for achieving our objective to grow our business profitably include the following:

5

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

*Attract New Customers by Referral and Expertise.* We intend to leverage our long-term relationships with our existing customers to reach new customers in our target markets. We also intend to use our past performance reputation within the federal, state and local government agencies and corporate customers to attract new customers.

*Establish Key Partnerships with Device Manufacturers.* We intend to establish partnerships with large device manufacturers in order to have devices include product offerings such as Cert-on-Device.

*Distribution Channel Growth.* Broaden our distribution channels and reach through alliances with telecommunications carriers and organizations that feature national or transnational sales and marketing networks and resources that can feature our unique offerings as part of their respective products and services portfolios.

*Growth Opportunities in Target Markets.* We believe that the increased focus on efficient use of financial resources in the public and private sectors creates an opportunity for continued growth in identity management services and communications based management services. Our ability to deliver savings may present additional opportunities to provide management and delivery of secure and advanced technology solutions for enterprise applications and information systems. We will continue to develop our sales and marketing infrastructure and channels to drive new customer growth opportunities in our target market.

*Preparing our Infrastructure for Growth.* We continue to develop our operational competencies and disciplines to allow us to both support existing and growth opportunities. We will continue to strengthen our financial infrastructure to support the general and administrative requirements attributable to our growth strategies.

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

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

## **Marketing and Sales**

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

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

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

## **Clients**

Our government client base is located predominantly in the Mid-Atlantic region of the U.S. while our commercial client base is located throughout the continental U.S. Our clients are, for the most part, large governmental agencies, federal government contractors or large commercial enterprises. Historically, we have derived, and may continue to derive in the future, a significant percentage of our total revenues from a relatively small number of federal government contracts.

Due to the nature of our business and the relative size of certain contracts which are entered into in the ordinary course of business, the loss of any single significant customer would have a material adverse effect on our results of operations. In future periods, we will continue to focus on diversifying our revenue by increasing the number of commercial customer contracts.

## **Government Contracts**

We have numerous government contracts and contract vehicles. Contract vehicles include Government Wide Acquisition Contracts ("GWACs"), Indefinite Delivery/Indefinite Quantity ("ID/IQ") contracts, and Blanket Purchase Agreements ("BPAs") based upon General Services Administration ("GSA") Schedule rates. Our major prime contracts are with various departments of the Department of Defense ("DoD"), the Transportation Safety Administration ("TSA"), the Department of Homeland Security ("DHS"), the Centers for Disease Control ("CDC"), and Customs and Border Protection ("CBP"). We also hold a number of ID/IQ contracts that extend our capability to expand our revenue base,



including, but not limited to:

GSA contracts for the Federal Strategic Sourcing Initiative (“FSSI”) for Telecommunications Expense Management (“TEM”), Federal Supply Schedule for Management, Organizational and Business Improvement Services (“MOBIS”), § the Federal Supply Schedule for Professional Engineering Services (“PES”), the Solutions and More (“SAM”), Streamlined Technology Acquisition Resources for Services (“STARS”), and the IT Schedule – 70.

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

7

§ The SeaPort-e Contract to provide engineering, technical, and programmatic support services to the Naval Surface Warfare Centers and the Naval Undersea Warfare Centers.

The Defense Intelligence Agency Solutions for the Information Technology Enterprise (SITE) contract to provide information technology services and capabilities to the Defense Intelligence Agency, the Military Services, the U.S. Coast Guard, the Combatant Commands, the Joint Reserve Intelligence Program; and other Defense and non-Department of Defense departments or Agencies with intelligence missions, or that utilize intelligence information systems.

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

- o GSA Alliant Small Business
- o GSA Network
- o GSA Connections II
- o National Institutes of Health CIO-SP3

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

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

### **Research and Development and Technology Solution Enhancements**

While we do engage in research and development of products and services, including customized software products for our customers, we did not have material research and development expenses in 2014 or 2013. We did incur non-research and development expenses related to platform integrations and product enhancements during fiscal 2013 and 2014.

We may fund certain software development projects to enhance or customize existing software platforms. These projects are aimed at improving the efficiency and effectiveness of our software solutions and our customizing a solution to meet our customer's organizational requirements, if necessary. We determine which enhancements to

further develop after assessing the market capabilities sought by potential customers, considering technological advances, feedback on enhancements from our current customer user groups and other factors. Our current research and development activities are focused on the integration of our software based platforms, certain enhancements to improve the delivery of our information technology services delivered through these platforms and our Cert-on-Device development initiative.

We may fund certain product development projects to respond to perceived and/or existing market opportunities. We funded research during fiscal 2013 to deliver a technology solution to respond to communications security issues such as BYOD programs and delivered a “Cert-on-Device” service. We utilized our proven federally authorized credentialing infrastructure to develop a mobile certificate solution that enables an organization to assign different levels of access to employees, consultants, and trading partners, based on the specific BYOD device being used to establish a connection with an organizations infrastructure. Our Cert-on-Device service enables an organization to provide secure virtual private network access through a mobile device, prohibit sensitive data downloads to unauthorized devices and prevent downloads from protected devices, and enable remote revocation of credentials that have been lost or stolen or being to an individual no longer with the organization the credential is linked. We announced the launch of our Cert-on-Device service in January 2014 and we believe this additional capability addresses a significant mobile security issue that exists in the market.

In addition, we have historically acquired assets in research and development through our strategic acquisitions. There were no acquisitions of research and development intangible assets in connection with our acquisition of SCL in 2014.

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

### **Data Centers**

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

### **Intellectual Property**

Our intellectual property rights are important to our business. We rely on a combination of patent, copyright, trademark, service mark, trade secret and other rights in the United States and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our proprietary technology, processes and other intellectual property. We protect our intellectual property rights in a number of ways including entering into confidentiality and other written agreements with our employees, customers, consultants and partners in an attempt to control access to and distribution of our software, documentation and other proprietary technology and other information. Despite our efforts to protect our proprietary rights, third parties may, in an unauthorized manner, attempt to use, copy or otherwise obtain and market or distribute our intellectual property rights or technology or otherwise develop software or services with the same functionality as our software and services.

U.S. patent filings are intended to provide the holder with a right to exclude others from making, using, selling or importing in the United States the inventions covered by the claims of granted patents. Our patents, including our pending patents, if granted, may be contested, circumvented or invalidated. Moreover, the rights that may be granted

in those issued and pending patents may not provide us with proprietary protection or competitive advantages, and we may not be able to prevent third parties from infringing those patents. Therefore, the exact benefits of our issued patents and, if issued, our pending patents and the other steps that we have taken to protect our intellectual property cannot be predicted with certainty.

## **Seasonality**

Our business is not seasonal. However, our revenues and operating results may vary significantly from quarter-to-quarter, due to revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter; as well as the schedule of the government agencies for awarding contracts, the term of each contract that we have been awarded and general economic conditions. Because a significant portion of our expenses, such as personnel and facilities costs, are fixed in the short term, successful contract performance and variation in the volume of activity as well as in the number of contracts commenced or completed during any quarter may cause significant variations in operating results from quarter to quarter.

## **Employees**

As of December 31, 2014, we had approximately 296 full-time employees worldwide. We periodically engage additional consultants and employ temporary employees.

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

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

## **Corporate Information**

We were incorporated on May 30, 1997, under the laws of the State of Delaware under the name WidePoint Corporation. Our principal executive offices are located at 7926 Jones Branch Drive, Suite 520, McLean, Virginia 22102. Our internet address is [www.widepoint.com](http://www.widepoint.com). Information on our website is not incorporated into this Form

10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

## ITEM 1A. RISK FACTORS

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

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

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

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

*Our market is highly competitive and we may not be able to continue to compete effectively.*

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



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

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

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

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

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

***We may lose money if we do not accurately estimate the costs of fixed-price engagements.***

Some of our projects may be based on fixed-price, fixed-time contracts, rather than contracts in which payment to us is determined on a time and materials basis. Our failure to accurately estimate the resources required for a project (including appropriate overhead and general and administrative support costs), client driven actions that causes our original project plan to be delayed, or our failure to complete our contractual obligations in a manner consistent with the project plan upon which our fixed-price, fixed-time contract was based, could adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations. In addition, we may fix the price for some projects at an early stage of the process, which could result in a fixed price that turns out to be too low and, therefore, could adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

As of December 31, 2014, we had aggregate federal net operating loss carry-forwards of approximately \$21.5 million and state net operating loss carry-forwards of approximately \$18.5 million. Our ability to utilize our net operating loss carry-forwards and related deferred tax assets is based upon our ability to generate future taxable income. Our ability to generate future taxable income can be impacted by many circumstances. If we fail to maintain or increase our recent profitability, our net operating loss carry-forwards and related deferred tax assets may be subject to a valuation adjustment that would reduce their potential value, as we previously recorded a valuation allowance of \$5.0 million against all deferred tax assets during the three month period ended September 30, 2014. In addition, net operating loss carry-forwards may become subject to an annual limitation if there is a cumulative change in the ownership interest of significant stockholders (or certain stockholder groups) over a three-year period in excess of 50%, in accordance with rules established under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, and similar state rules (we refer to each as an ownership change). Such an ownership change could limit the amount of historic net operating loss carry-forwards that can be utilized annually to offset future taxable income.

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

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

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

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

will be effective in preventing our key employees from engaging in these actions or that courts or other adjudicative entities will substantially enforce these agreements.

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

We may require additional funding to support our operations. Additional funding may be unavailable on favorable terms, if at all. If we are unable to obtain sufficient additional funding when needed, we may have to significantly cut back our operations, defer potentially favorable acquisitions, and/or sell some or all of our assets.

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

Historically, we have had access to a credit facility, which consists of a variable line of credit and a fixed term note to fund acquisition growth and working capital. Our credit facility agreement requires us to maintain certain financial covenants on a quarterly and annual basis. We were in compliance with our financial covenants as of December 31, 2014. If we are unable to meet future covenants, such failures could result in our lender accelerating in part or in full payment of all unpaid principal and interest which could have an adverse our ability to fund acquisition initiatives using debt and fund operational short falls.

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

Historically, we have derived, and may in the future derive, a significant percentage of our total revenues from a relatively small number of clients. For the years ended December 31, 2014, 2013 and 2012, revenues from the Transportation Security Administration as a percentage of consolidated revenues represented approximately 17%, 20% and 19%, respectively. For the years ended December 31, 2014, 2013 and 2012, revenues from the Department of Homeland Security as a percentage of consolidated revenues represented approximately 21%, 13% and 15%, respectively.

In December 2013, we began performing work under a new blanket purchase agreement from the Department of Homeland Security for cellular wireless management services that will significantly increase the percentage of our revenues that are derived from the Department of Homeland Security. Due to the nature of our business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer, including the above customers, could have a material adverse effect on results.



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

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

§ the substantial cost and managerial time and effort that we spend to prepare bids and proposals for contracts that may not be awarded to us;

§ requirements to register to conduct business in another state or country could increase our compliance costs;

§ requirements to post a bid guarantee or similar performance guarantee as part of a bid submission; and the expense and delay that we may face if our competitors protest or challenge contract awards made to us pursuant to competitive procedures, and the risk that any such protest or challenge could result in the resubmission of offers, or in termination, reduction, or modification of the awarded contract.

The costs we incur in the competitive procurement process may be substantial and,