WIDEPOINT CORP
Form 10-K
March 16, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2014
or
o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________________ to ____________________

Commission File Number: 001-33035

WidePoint Corporation
(Exact name of Registrant as specified in its charter)

Delaware	**52-2040275**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer 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:

Title of each class	**Name of each exchange on which registered**
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 o No þ

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 o No þ

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 þ No o

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 þ No o

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. þ

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 o	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

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," "plann "expect," "believe," "will," "will likely," "should," "could," "would," "may" or the negative of such words or words or express 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.

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§ 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:

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1. *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.

2. *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.

3. *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.

4. *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.

5. *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.

6. *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.

7. *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.

8. *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.

- 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:

  - GSA Alliant Small Business
  - GSA Networx
  - GSA Connections II
  - 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.

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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. 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.

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

We may be unable to successfully implement our acquisition program.

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

§ issue additional equity securities that would dilute our stockholders;

§ use cash that we may need in the future to operate our business;

§ incur debt on terms unfavorable to us or that we are unable to repay;

§ incur large charges or substantial liabilities; or

§ become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

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

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

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

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

Our management has previously determined that our internal control over financial reporting is not effective due to the existence of certain material weaknesses. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. Our management reported material weaknesses in the following areas:

§ Inadequate segregation of duties within an account or process. Our management has determined that it continued to not have appropriate segregation of duties within our internal controls that would ensure the consistent application of procedures in our financial reporting process by existing personnel. This control deficiency could result in a misstatement of substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements.

§ Inadequate policies and procedures. Our management has determined that its existing policies and procedures continued to be limited and/or inadequate in scope to provide staff with guidance or framework for accounting and disclosing financial transactions. This deficiency could result in unintended, misleading entries being made in the financial system and precluding sufficient disclosure of complex transactions.

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

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

The federal government audits and reviews our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations, and standards. Like most large government contractors, our contracts are audited and reviewed on a continual basis by federal agencies, including the Defense Contract Audit Agency. An unfavorable audit of us, or of our subcontractors, could have a substantial adverse effect on our operating results. For example, any costs that were originally reimbursed could subsequently be disallowed. In this case, cash we have already collected may need to be refunded.

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

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

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

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

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

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

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

§ curtailment of the federal government's use of technology services firms;
§ a significant decline in spending by the federal government, in general, or by specific agencies such as the Department of Defense;
§ budget cuts intended to avoid sequestration;
§ reductions in federal government programs or requirements, including government agency shutdowns and/or reductions in connection with sequestration;
§ any failure to raise the debt ceiling;
§ a shift in spending to federal programs and agencies that we do not support or where we currently do not have contracts;
§ delays in the payment of our invoices by government payment offices;
§ federal governmental shutdowns, such as the shutdown that occurred during the government's 2014 fiscal year, and other potential delays in the government appropriations process; and
§ general economic and political conditions, including any event that results in a change in spending priorities of the federal government.

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

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

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

§ terminate existing contracts, with short notice, for convenience, as well as for default;

- reduce orders under or otherwise modify contracts;
- for larger contracts subject to the Truth in Negotiations Act, reduce the contract price or cost where it was increased because a contractor or subcontractor during negotiations furnished cost or pricing data that was not complete, accurate, and current;

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§ for GSA multiple award schedule contracts, government-wide acquisition agreements, and blanket purchase agreements, demand a refund, make a forward price adjustment, or terminate a contract for default if a contractor provided inaccurate or incomplete data during the contract negotiation process, or reduce the contract price under certain triggering circumstances, including the revision of pricelists or other documents

§ upon which the contract award was predicated, the granting of more favorable discounts or terms and conditions than those contained in such documents, and the granting of certain special discounts to certain clients;

§ terminate our facility security clearances and thereby prevent us from receiving classified contracts;

§ cancel multi-year contracts and related orders if funds for contract performance for any subsequent year become unavailable;

§ decline to exercise an option to renew a multi-year contract or issue task orders in connection with indefinite delivery/indefinite quantity contracts;

§ claim rights in solutions, systems, and technology produced by us;

§ prohibit future procurement awards with a particular agency due to a finding of organizational conflict of interest based upon prior related work performed for the agency that would give a contractor an unfair advantage over competing contractors or the existence of conflicting roles that might bias a contractor's judgment;

§ subject the award of contracts to protest by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest and may also result in a requirement to resubmit offers for the contract or in the termination, reduction, or modification of the awarded contract; and

§ suspend or debar us from doing business with the federal government.

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

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

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

§ the Federal Acquisition Regulation, and agency regulations analogous or supplemental to the Federal Acquisition Regulation, which comprehensively regulate the formation, administration, and performance of government contracts;

§ the Truth in Negotiations Act, which requires certification and disclosure of all cost or pricing data in connection with some contract negotiations;

§ the Cost Accounting Standards, which impose cost accounting requirements that govern our right to reimbursement under some cost-based government contracts; and

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laws, regulations, and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of specified solutions and technical data.

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

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

New legislation, procurement regulations, or labor organization pressure could cause federal agencies to adopt restrictive procurement practices regarding the use of outside service providers. The American Federation of Government Employees, the largest federal employee union, strongly endorses legislation that may restrict the procedure by which services are outsourced to government contractors. One such proposal, the Truthfulness, Responsibility, and Accountability in Contracting Act, would have effectively reduced the volume of services that is outsourced by the federal government by requiring agencies to give in-house government employees expanded opportunities to compete against contractors for work that could be outsourced. If such legislation, or similar legislation, were to be enacted, it would likely reduce the amount of IT services that could be outsourced by the federal government, which could materially reduce our revenues.

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

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

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

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

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

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

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

Certain of our information technology based managed mobility solutions software functionality and services that we offer depend on our ability to access a customer's communications billing and usage data. For example, our ability to offer outsourced or automated communications bill auditing, billing dispute resolution, bill payment, cost allocation and expense optimization depends on our ability to access this data. If a communications carrier were to prohibit its customers from disclosing this information to us, those enterprises would only be able to use these billing-related aspects of our solution on a self-serve basis, which would impair some of the value of our solution to those enterprises. This in turn could limit our ability to compete with the internally developed communications management solutions of those enterprises, require us to incur additional expenses to license access to that billing and usage data from the communications carrier, if such a license is made available to us at all, or put us at a competitive disadvantage against any third-party communications management solutions service provider that licenses access to that data.

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

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

- § geographic localization of our software products, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- § lack of familiarity with and unexpected changes in foreign regulatory requirements;
- § longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- § difficulties in managing, staffing and overseeing international implementations and operations, including increased reliance on foreign subcontractors;
- § challenges in integrating our software with multiple country-specific billing or communications support systems for international customers;
- § challenges in providing procurement, help desk and fulfillment capabilities for our international customers;
- § fluctuations in currency exchange rates;

- § potentially adverse tax consequences, including the complexities of foreign value added or other tax systems and restrictions on the repatriation of earnings;
- § the burdens of complying with a wide variety of foreign laws and legal standards;
- § increased financial accounting and reporting burdens and complexities;
- § potentially slower adoption rates of communications management solutions services internationally;
- § political, social and economic instability abroad, terrorist attacks and security concerns in general; and
- § reduced or varied protection for intellectual property rights in some countries.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related To Our Common Stock

Our common stock price could be volatile.

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

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

- § public announcements concerning us, our competitors or our industry;
- § fluctuations in operating results;
- § introductions of new products or services by us or our competitors;
- § changes in analysts' earnings estimates; and
- § announcements of technological innovations.

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

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

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

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

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

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

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

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

Such stock issuances may be made at a price that reflects a discount from the then-current trading price of our common stock. In addition, in order to raise capital for acquisitions or other general corporate purposes, we would likely need to issue securities that are convertible into or exercisable for a significant number of shares of our common stock. These issuances would dilute our stockholders percentage ownership interest, which would have the effect of reducing our stockholders influence on matters on which our stockholders vote, and might dilute the book value of our common stock.

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

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

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

§ the purchasing and budgeting cycles of our customers;

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

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

- service outages or security breaches;
- the timing and success of new service introductions and upgrades by us or our competitors;
- the timing of costs related to the development or acquisition of technologies, services or businesses;
- the timing of collection of payments from channel partners;
- the financial condition of our customers; and
- general economic, industry and market conditions.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

All of our property locations are leased other than our operations office in Lewis Center, Ohio; which has a mortgage obligation of approximately $468,000. We believe we can obtain additional facilities required to accommodate projected needs without difficulty and at commercially reasonable prices, although no assurance can be given that we will be able to do so. The following table presents our property locations at December 31, 2014 for our U.S. locations:

Function	Physical Street Address	City, State Zip Code	Lease Expiration	Approx. Sqft	**Base** Cost per Sqft	Base Annual Cost
Executive and Administration	7926 Jones Branch Drive, Suite 520	McLean, VA 22102	August 2019	5,437	$ 23.14	$ 125,800
Administration	1736 South Park Court, Suite 201	Chesapeake, VA 23320	April 2015	2,377	$ 16.15	$ 38,400
Commercial Sales	5950 Canoga Avenue, Suite 500	Woodland Hills, CA 91367	June 2016	3,142	$ 28.97	$ 91,016
Commercial Sales	220 South Main St.	Royal Oak, MI 48067	September 2016	2,860	$ 18.06	$ 51,659
Commercial Sales	18W100 22nd Street Suite 124	Oakbrook Terrace, IL 60181	September 2015	808	$ 15.74	$ 12,720
Operations and Administration	11250 Waples Mill Rd S. Tower, Suite 210	Fairfax, VA 22030	March 2019	11,852	$ 24.93	$ 295,470
Operations	101 Green Meadows Drive South	Lewis Center, OH 43035	n/a	7,600	n/a	n/a
Operations	2 Eaton Street Suites 800/807	Hampton, VA 23669	November 2019	4,519	$ 14.04	$ 63,454
Operations	104 Cude Lane	Madison, TN 37115	August 2016	3,448	$ 13.78	$ 47,521
Operations	280 Pinehurst Avenue Suite B	Southern Pines, NC 28387	December 2015	2,500	$ 9.60	$ 24,000

The following table presents our property locations at December 31, 2014 for our international locations:

Function	Physical Street Address	City, State Zip Code	Lease Expiration	Approx. Sqft	**Base** Cost per Sqft	Base Annual Cost
Administrative Office	South County Business Park	Dublin 18, Ireland	March 2026	6,000	$ 32.92	$ 197,519
Commercial Sales Office	3B Juno House, Calleva Park	Aldermaston,Berkshire RG7 8RA, England	June 2016	1,250	$ 18.67	$ 23,342
Commercial Sales Office	Stoomloggerwey 4 B	3133 KT, Vlaardingen,Netherlands	April 2015	1,600	$ 18.99	$ 30,388
Commercial Sales Office	Siriusdreef 55	2132 WT, Hoofddorp,Netherlands	December 2017	500	$ 14.59	$ 7,293

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

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

Market Information

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

	2014		2013	
Period	High	Low	High	Low
December 31,	$1.74	$0.99	$1.79	$0.76
September 30,	$1.90	$1.45	$1.14	$0.65
June 30,	$1.87	$1.28	$0.86	$0.45
March 31,	$1.95	$1.29	$0.73	$0.35

Stock Performance Graph

The line graph below compares the cumulative total stockholder return in our common stock between January 1, 2009 and December 31, 2014, with cumulative total return on the Russell MicroCap Index and the RDG Technology Index. This graph assumes a $100 investment in each of the Company, the Russell Microcap Index and the RDG Technology Index at the close of trading on January 1, 2009. We selected these indices because they include companies with similar market capitalizations and companies in our industry.

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

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

Holders

As of the close of business on February 28, 2015, there were 151 registered holders of record of our common stock.

Transfer Agent and Registrar

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

Equity Compensation Plan Information

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

Dividend Policy

The Company has never paid dividends on its Common Stock and intends to continue this policy for the foreseeable future. WidePoint plans to retain earnings for use in growing its business base. Any future determination to pay dividends will be at the discretion of the Board of Directors (the “Board”) of the Company and will be dependent on WidePoint’s results of operations, financial condition, contractual and legal restrictions and any other factors deemed by the management and the Board to be a priority requirement of the business.

Recent Sales of Unregistered Securities

None.

Repurchases of Equity Securities

The Company repurchased no shares of its Common Stock during the fourth quarter of 2014.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth Selected Financial Data on a historical basis for the five years ended December 31, 2014. This historical Selected Financial Data has been derived from the audited consolidated financial statements and should be read in conjunction with the consolidated financial statements and the related notes thereto and Management's Discussion and Analysis of the Financial Condition and Results of Operations, each included elsewhere in this Form 10-K.

	2014	2013	2012	2011	2010
Operating Results					
Revenues	$53,316,210	$46,825,032	$55,782,742	$41,372,490	$50,812,776
Gross profit	13,513,917	12,111,561	13,862,581	9,243,502	13,264,758
Operating expense	18,164,925	13,286,855	12,843,804	105,173	2,804,320
Interest expense	(186,796)	(175,358)	(294,244)	(69,317)	(90,052)
(Loss) income from operations	(4,651,008)	(1,175,294)	1,018,777	47,820	2,732,708
Net (loss) income	(8,400,626)	(1,694,785)	832,301	246,866	6,380,854
Balance Sheet					
Cash and cash equivalents	$13,154,699	$-	$1,857,614	$2,135,310	$5,816,303
Accounts receivable, net	8,543,050	7,612,400	6,932,366	7,884,802	7,794,913
Unbilled accounts receivable	5,547,416	1,561,030	2,969,450	2,715,406	3,059,665
Deferred income tax asset, net	-	4,407,630	3,820,378	3,738,555	3,529,506
Total assets	54,078,240	36,074,840	39,579,841	42,290,226	34,396,140
Line of credit advance	-	916,663	-	-	
Accounts payable	6,165,477	3,228,586	5,555,419	8,418,854	7,725,727
Accrued expenses	5,980,110	4,407,286	3,539,710	1,851,678	2,643,613
Current portion of long-term debt	2,184,016	1,150,455	1,102,741	798,319	572,943
Long-term debt, net	1,327,800	2,509,492	4,918,732	7,769,143	564,490
Total stockholders' equity	36,778,856	22,515,738	23,937,267	22,836,152	22,016,398
Common Stock Statistics					
Earnings per share:					
Basic	$(0.115)	$(0.027)	$0.013	$0.004	$0.104
Diluted	$(0.115)	$(0.027)	$0.013	$0.004	$0.102
Book value per share	$0.45	$0.35	$0.38	$0.36	$0.35
Market price per share:					
High	$1.950	$1.790	$0.950	$1.480	$1.420
Low	$0.999	$0.350	$0.330	$0.690	$0.630
Close	$1.380	$1.640	$0.370	$0.690	$1.340
Average common shares outstanding for earnings per share:					
Basic	73,048,883	63,802,275	63,474,871	62,882,100	61,555,664
Diluted	73,048,883	63,802,275	63,758,632	64,148,331	62,862,978

Shares outstanding at end of the period	81,656,763	63,907,357	63,751,857	63,226,857	62,690,873
Number of shareholders of record at end of period	151	154	155	155	153
Other Statistics					
Number of employees:					
U.S.	251	227	227	163	115
Outside the U.S.	45	0	0	0	0

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

Organizational Overview

We were incorporated on May 30, 1997 under the laws of the state of Delaware. We are a leading provider of federally certified secure identity management and communications solutions to the government and commercial sectors. We offer a core set of Managed Mobility Enterprise Solutions (MMS) to enable organizations to deploy fully compliant solutions in accordance with government requirements and the demands of the commercial marketplace. Our on-demand MMS platforms are a suite of advanced and federally certified proprietary cloud-based software solutions designed to enable secure identity management and manage the complex processes and expenses associated with complex communication assets and services of any enterprise.

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Our advanced technology-based solutions can be customized to meet functional requirements of any organization and be accessible on-demand through the cloud. Many alternative solutions lack the necessary functionality, security, reliability and depth of technical resources required to successfully administer an efficient and cost-effective solution. We are in the process of realigning our business model to sell recurring technology and services leveraging our identity and communications management platforms and sell customized on premise solutions for enterprises that require an in-house solution.

Acquisition of Soft-ex Communications Ltd. (SCL)

On May 1, 2014, we purchased all of the outstanding equity of Soft-ex Communications Limited ("SCL"). SCL, with headquarters in Dublin, Ireland is a provider of telecom data intelligence services offered as a software as a service solution throughout European and Middle Eastern markets. SCL has two operating subsidiaries, Soft-Ex BV and Soft-Ex UK Limited, which maintain offices and operations in the Netherlands and the United Kingdom, respectively. We believe the combination of WidePoint's secure managed mobility services coupled with Soft-Ex's European and Middle East presence, channel partners, and additional portfolio of services provides our combined enterprise with a stronger base of operations, services and global growth opportunities. The transaction complements Soft-Ex's focus and expertise in delivering business intelligence and subscriber data intelligence to the global telecommunications service provider market. Through the combination of our partnerships and customers we believe that we can leverage Soft-Ex's innovative Software-as-a-Service solutions combined with the scale and breadth of WidePoint's managed mobility offerings, thereby optimizing the core strengths of both organizations.

We remain focused on continued retention and expansion of services to our existing customer base and attracting new customers in the government and commercial sectors. We are continuing to actively search out new synergistic acquisitions that we believe may further enhance our present base of business and service offerings outside the United States.

Recent Public Offering of Common Stock

On October 23, 2014, we entered into an underwriting agreement relating to an underwritten public offering of shares of our common stock. We completed the public offering and received net proceeds of approximately $10.8 million before paying estimated offering expenses of approximately $0.2 million incurred by the Company to complete the public offering. The proceeds strengthen our balance sheet in support of our new and expanding business relationships and growth opportunities.

Critical Accounting Policies and Estimates

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

Segments

Segments are defined by authoritative guidance as components of a company in which separate financial information is available and is evaluated by the chief operating decision maker (CODM), or a decision making group, in deciding how to allocate resources and in assessing performance. Our CODM is our chief executive officer.

In fiscal 2012, the Company previously reported three operating segments: Managed Mobility Solutions, Cybersecurity Solutions, and Consulting and Support Services. Information technology solutions were historically segmented due to technological barriers which prevented delivery of an integrated technology solution to cover an end users mobility, security and network communications requirements. Over the last ten (10) years the proliferation of mobile computing drove the integration of our technology capabilities and solutions into a single MMS market. Our customers and the industry view our MMS market as a singular business and demand an integrated and scalable suite of information technology-based enterprise-wide solutions. Services comprising our MMS offerings have similar client service approaches, delivery costs and operational risks and are led by a project manager and a cross-functional service delivery team comprised of employees across all subsidiaries.

During fiscal 2012, our CODM decided that our MMS business constitutes a single business activity and that our financial results should be evaluated on that basis. Our CODM determined that a functional management approach with centralized roles and responsibilities would best to enable the Company to be able to efficiently scale and deliver its MMS solution to its customers. Our CODM assembled an executive advisory group with specific business functional responsibility to move further towards an integrated and scalable operation and drive our MMS business as an integrated offering. In fiscal 2013, our CODM discontinued our historical segmented reporting as a management tool. The Company presents a single segment for purposes of financial reporting and prepared its consolidated financial statements upon that basis.

Business Combinations

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

Purchase consideration is often paid to the seller in the form of cash, seller financed promissory notes and/or shares of common stock that may or may not contain a contingency often tied to future financial performance targets. The

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

Goodwill and intangible assets often represent a significant portion of the assets acquired in a business combination. The Company recognizes the fair value of an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. The Company generally assesses the estimated fair values of acquired intangibles using an income and market approach, except for internally developed software which is valued using a cost approach. The fair values of the intangible assets purchased were determined using a combination of valuation techniques. Fluctuations in the fair value of intangibles are impacted by two unobservable inputs, management's five year forecast and the estimated discount rate (a rate that approximates the Company's weighted average cost of capital). Significant increases (decreases) in either of those inputs in isolation would result in a significantly higher (lower) fair value measurement.

The Company had finite lived intangible assets with a carrying value of approximately $6.0 million as of December 31, 2014. The fair value of intangibles acquired in connection with business combinations continued to generate positive returns above its carrying value. Accordingly, the Company has concluded the fair value of its intangibles is not impaired at December 31, 2014. The Company could be exposed to increased risk of recoverability to the extent future revenue estimates may not support the recovery of purchased intangible assets.

Revenue Recognition

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

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

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

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

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

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

Goodwill

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

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

The goodwill impairment test utilizes a two-step approach. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss. The Company has the option to bypass the qualitative assessment for any reporting period and proceed to performing the first step of the two-step goodwill impairment test and then subsequently resume performing a qualitative assessment in any subsequent period. The Company bypassed using a qualitative assessment for 2014.

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

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

The Company has approximately $18.2 million of goodwill as of December 31, 2014. The fair value of the Company's reporting unit is above its carrying value; accordingly, the Company has concluded its goodwill is not impaired at December 31, 2014. The Company could be exposed to increased risk of goodwill impairment if future operating results or macroeconomic conditions differ significantly from management's current assumptions.

Allowance for Doubtful Accounts

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

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

Share-Based Compensation

The Company issues share-based compensation awards to company employees upon which the fair value of awards is subject to significant estimates made by management. The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model ("Black-Scholes model"), which uses the assumptions of no dividend yield, risk free interest rates and expected life (in years) of approximately 7 years. Share-based compensation awards reflected in the consolidated financial statements are for the period from 1999 through 2014.

Expected volatilities are based on the historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. To the extent historical volatility estimates, risk free interest rates, option terms and forfeiture rates updated for emerging market trends are not indicative of future performance it could differ significantly from management's judgments and expectations on the fair value of similar share-based awards, resulting in either higher or lower future compensation expense, as applicable. The process of determining fair value of share-based compensation requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

Accounting for Income Taxes

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

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

2014 Results of Operations

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

Revenues

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

MMS Service Mix	years ended DECEMBER 31, 2014	2013	Dollar Variance
Carrier Services	$20,044,276	$16,815,215	$3,229,061
Management Services	18,641,702	17,227,862	1,413,840
Resale and Other Services	14,630,232	12,781,955	1,848,277
	$53,316,210	$46,825,032	$6,491,178

We believe the following factors contributed to higher revenues:

§ Our carrier services were higher compared to same period last year as a result of the recognition of task orders issued related to our U.S Department Homeland Security ("DHS") blanket purchase agreement ("BPA") contract award. We were awarded 12 task orders under the DHS BPA contract during 2014 and we believe our carrier services revenue may continue to increase as we implement existing task orders and win additional task orders associated with this DHS BPA contract.

§ Our managed services were higher due to additional revenues from our recent acquisition of SCL (that is part of our MMS managed services offering), partially offset by reductions in customer attrition, government delays and cutbacks as a result of Federal Budget sequestration and delays as a result of the protest of our DHS BPA award. We believe as cert on device is deployed in 2015 and the DHS BPA task orders are recognized that managed services should further expand.

- Our resale and other services expanded as a result of increased commercial consulting services and software resale transactions. Resale and other services could be erratic year over year due to timing of federal procurement activity and commercial customer mobile equipment upgrades and deployments.

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Cost of Revenues

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

Gross Profit

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

Operating Expenses

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

General and administrative expenses for the year ended December 31, 2014 were approximately $14.4 million (or 27% of revenues), as compared to approximately $9.9 million (or 21% of revenues) in the same period last year. General and administrative expenses for the year ended December 31, 2013 included a non-cash gain of approximately $1.25 million that represented a reduction in the fair value of a contingent obligation (related to the acquisition of Avalon Global Solutions, Inc. ("AGS")) as re-measured at the reporting date. Excluding this non-cash gain, general and administrative expenses for the year ended December 31, 2013 would have been approximately $11.1 million (or 24% of revenues). The increase in general and administrative expense after excluding this non-cash gain predominantly reflects the inclusion of SCL general and administrative expense of approximately $2.5 million.

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

Other Income (Expense)

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

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

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

Provision for Income Taxes

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

Net Income

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

2013 Results of Operations

<u>Year Ended December 31, 2013 Compared to the Year ended December 31, 2012</u>

Revenues

Revenues for the year ended December 31, 2013 were approximately $46.8 million, a decrease of approximately $9.0 million (or 16%), as compared to approximately $55.8 million in the same period in 2012. Decreased revenues are primarily a result of the federal protest that spanned substantially all of fiscal 2013 that delayed our ability to implement new agencies and generate expected revenues. Our mix of MMS revenues for the periods presented is set forth below:

Dollar

MMS Service Mix	YEARS ENDED DECEMBER 31, 2013	2012	Variance
Carrier Services	$16,815,215	$19,545,439	$(2,730,224)
Management Services	17,227,862	19,611,176	(2,383,314)
Resale and Other Services	12,781,955	16,626,127	(3,844,172)
	$46,825,032	$55,782,742	$(8,957,710)

We believe the following factors contributed to reduced revenues:

§ Our carrier services and managed services were lower due to long delays caused by a federal protest associated with our DHS BPA contract award and our continued shift away from lower margin carrier services.

§ Our managed services were lower due to delays caused by a federal protest of our DHS BPA contract award, slower than anticipated commercial sales cycles, client driven implementation delays as well as some commercial customer attrition.

§ Our resale and other services were lower due sequester-related delays that affected the timing of federal procurement activity.

Cost of Revenues

Cost of revenues for the year ended December 31, 2013 was approximately $34.7 million (or 74% of revenues) as compared to approximately $41.9 million (or 75% of revenues) in the same period in 2012. The dollar basis decrease in cost of revenues was predominantly attributable to lower sales of government product resale transactions due to sequester-related delays and lower variable subcontract labor associated with a closed project. Our cost of revenues will fall in periods in which we recognize lower government product resale transactions.

Gross Profit

Gross profit for the year ended December 31, 2013 was approximately $12.1 million (or 26% of revenues), as compared to approximately $13.9 million (or 25% of revenues) in the same period in 2012. The dollar basis decrease in gross profit was due to lower revenues and limited ability to reduce costs in the short term to lessen the impact of sequester-related delays experienced over the last four quarters. Our focus will remain on growing sales of higher margin recurring services and expanding our growth into international markets.

Operating Expenses

Sales and marketing expense for the year ended December 31, 2013 was approximately $3.1 million (or 7% of revenues), as compared to approximately $2.7 million (or 5% of revenues) in the same period in 2012. The increase predominantly reflects higher direct and indirect marketing costs and commission payments associated with our commercial business which requires additional resources to reach decision makers and close deals. The increase in sales and marketing spend was conducted in accordance with our overall strategy to reinvest in our commercial sales infrastructure, thereby expanding our growth opportunities, both domestically and abroad.

General and administrative expenses for the year ended December 31, 2013 were approximately $9.9 million (or 21% of revenues), as compared to approximately $9.8 million (or 18% of revenues) in the same period in 2012. The increase reflects both increased salary and fringe costs associated with expanded overhead support positions and carrying cost of staff retained to service the delayed DHS BPA contract award (approximately $400,000), higher outside accounting and legal fees related to contract negotiations (approximately $168,000), higher commercial insurance rates and prior year premium adjustments (approximately $50,000), partially offset by a net increase in recognized non-cash gain on change in fair value of a contingent obligation (approximately $350,000) and a reduction in lease costs realized upon renewal of certain operating leases (approximately $159,000).

Depreciation expense for the year ended December 31, 2013 was approximately $288,300, as compared to approximately $281,300 in the same period in 2012. The increase in depreciation expense was due to increased pool of depreciable assets to support our technology solutions infrastructure. We anticipate additional infrastructure investments in computer equipment and other hardware to respond to anticipated capacity requirements as we growth our revenue base.

Other Income (Expense)

Interest income for the year ended December 31, 2013 was approximately $7,400, as compared to approximately $4,900, in the same period in 2012. This increase was due to slightly higher amounts of invested cash and cash equivalents being held in interest bearing accounts and the length of time these increased deposits were earning interest compared the same period last year.

Interest expense for the year ended December 31, 2013 was approximately $175,300 (or 1% of revenues), an increase of approximately $118,900 as compared to approximately $294,200 (or 1% of revenues) of interest expense in the same period in 2012. The decrease in interest expense was largely driven by changes in the fair value of a contingent obligation that occurred during 2013. This reduction lowered the interest bearing base upon which accrued interest had been previously determined as compared to the same period in 2012. There were no significant changes in the terms of interest bearing debt during the year ended December 31, 2013.

Other income for the year ended December 31, 2013 was approximately $11,300 as compared to $3,200 for the same period in 2012. Other income (expense) for both periods did not include any significant items.