

WIDEPOINT CORP  
Form 10-K  
March 30, 2017

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-K**

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

**For the fiscal year ended** December 31, 2016

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-33035**

**WidePoint Corporation**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

**M2-2040275**

*(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)*

**7926 Jones Branch Drive, Suite 520, McLean, Virginia 22102**

*(Address of principal executive offices) (Zip Code)*

**(703) 349-2577**

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

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

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

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

*None*

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

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

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

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant, computed by reference to the closing price of the Common Stock on the NYSE MKT on the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$44,507,000.

As of March 30, 2017, there were 82,814,322 shares of the registrant's Common Stock issued and outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

**Not Applicable**

## Cautionary Note Regarding Forward Looking Statements

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

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

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

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

## PART I

## **ITEM 1. BUSINESS**

### **Company Overview**

We are a leading provider of communications solutions and federally certified secure identity management solutions to the government and commercial sectors. We provide a professional services solution that is centered on the use of our proprietary advanced and federally certified software solutions.

Our hosted solutions have a comprehensive set of functional capabilities that can be used by any customer to meet a comprehensive set of functional, technical and security requirements for telecom lifecycle management. Our solutions are designed and implemented with flexibility in mind such that it can accommodate a large variety of customer requirements through simple configuration settings rather than through costly software development.

Our hosted solutions are accessible on-demand through a secure proprietary portal and provide our customers with a set of streamlined mobile communications management, identity management, and consulting solutions that provide our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy compliant identity management solutions that provide secured virtual and physical access to restricted environments. The more our customers use our software solutions to automate complex transactional processes and resulting expenses associated with their technology assets the less money and resources are required on our end to deliver high quality solutions at a price within our customer's budget.

## **Our Solutions**

Our solutions offer our client's the ability to securely enable and manage their mobile workforces as described:

*Telecom Life Cycle Management* – We offer comprehensive telecom lifecycle management solutions delivered in a hosted and secure multi-modal delivery environment. Our solutions provides full visibility of telecom assets for our § clients thereby enabling our clients to secure and efficiently manage all aspects of telecom assets all the while reducing the overall cost of ownership. We offer state-of-the-art call centers that are available 24/7 to help our users stay productive.

§ *Telecom Analysis* – We offer a flexible set of analytical solutions including bill presentment, subscriber data intelligence and hosted voice analytics.

§ *Mobile and Identity Management* – We offer trusted digital identities for internet-based enterprise applications as described further below:

o *Digital Certificates and Credentials* – We offer External Certificate Authorities (ECA) and Access Certificates for o Electronic Services (ACES) digital certificates for conducting business with the government as well as access to online services.

o *PIVotal ID™ for Business* – We offer Personal Identification Verification (PIV-I) credentials that are approved by the o Federal Bridge and the Department of Defense (DOD) as an approved PIV-I provider.

*Certificate-on-Device* – Our Cert-on-Device solution is a robust 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.

*Mobile Security* – We offer comprehensive mobile security solutions that protect users, devices, and corporate resources, including establishing effective policies to create a scalable, adaptable, successful mobile program.

## **Sales and Client Acquisition**

We primarily sell our products and services via business to business (B2B) or business to government (B2G) model. We use a direct and an indirect sales model to sell our services and the type of sales approach we use often depends on the nature of the opportunity. Our sales cycle is long and is often affected by many factors outside of our control including but not limited to client specific proposal and acquisition processes, unique client service requirements, the client's timetable and urgency, changes in key leadership and/or personnel that slows down the proposal or project, budgetary funding and other constraints, and many other factors that may lengthen the sales cycle. Many of these variables are outside our control and we attempt to manage the financial impact on us by building a large pipeline with opportunities that have overlapping sales cycles.

We may utilize one or more of the following approaches to fill our sales pipeline:

*Direct Sales Approach.* We utilize an in-house sales team to manage the entire federal, state and local sales process including lead generation, product demonstrations, proposal creation and submission, contract negotiation and closing and final transition of closed deals to the operations team. We utilize a direct sales approach in the U.S market to identify, sell and close both commercial and government opportunities. Sales commissions are paid to our direct sales representative over the life of the initial contract term on a declining or at a fixed rate as a percentage of net collected gross managed service revenues.

*Indirect Sales Approach.* We outsource our lead generation and certain business development activities through third party channel partners. Our channel partners understand our product and service offerings and they utilize their sales team to generate leads and connect us with prospective clients using their extensive networks. Channel partners are compensated in the form of a sales commission for deals that are successfully closed. Sales commissions have historically been paid over the life of the initial contract term as a percentage of net collected gross managed service revenues.

*Strategic Partner and Alliance Sales Approach.* Strategic partnerships and alliances provide us with additional access to potential clients. We may team up with other companies and competitors to bid on a project that includes one or more of our services as part of a larger service solicitation. In these types of arrangements we may operate as either the prime contractor or subcontractor.

Our global 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.

## **Marketing and Branding**

Our marketing strategy is to build our brand and increase market awareness of our solutions in our target markets that will allow us to successfully build strong relationships with key decision makers involved in the sales process on the customer side. Key decisions makers typically consist of information technology executives, finance executives and managers of communications assets and networks.

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 telecom life cycle management and identity management issues and develop customer reference programs, such as customer case studies, in an effort to promote better awareness of industry issues and demonstrate that our solutions can address many of these risks to an organization.

## **Client Concentrations**

We derive a significant amount of our revenues from contracts funded by federal government agencies for which we act in the capacity as the prime contractor, or as a subcontractor. We believe that contracts with federal government agencies in particular, will be the primary source of our revenues for the foreseeable future although we are working to increase our footprint with commercial clients. Accordingly, changes in federal government fiscal or spending policies (including continuing budget resolutions) will directly affect our financial performance.

We expect our federal customers to be motivated to meet their organizational missions for cybersecurity and objectives to minimize telecommunications and other significant 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; however, we believe we have an attractive set of solutions for both the cybersecurity and cost savings arenas.

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., Canada, Europe and the Middle East. Historically, we have derived, and may continue to derive in the future, a significant percentage of our total revenues from a relatively small number of federal government contracts.

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

## **Government Contracts**

We have numerous government contracts and contract vehicles. Contract vehicles include Government Wide Acquisition Contracts (“GWACs”), and Blanket Purchase Agreements (“BPAs”) based upon General Services Administration (“GSA”) Schedule 70, and customer specific contracts. We also hold a number of Indefinite Delivery/Indefinite Quantity (“ID/IQ”) contracts, including, but not limited to:

§ Department of Health and Human Services Telecommunications Inventory and Expense Management Solutions contract.

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

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

- oGSA Alliant Small Business
- oGSA Networkx
- oGSA Connections II
- oNational Institutes of Health Chief Information Officer Solutions and Partners (CIO-SP3)
- oDefense Logistics Agency (DLA) Program Management and Support Services (PMSS)
- oSolutions for Enterprise-Wide Procurement (SEWP)
- oDepartment of Justice Information Technology Support Services (“ITSS”) 3 contract

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

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

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

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

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

We funded and expensed strategic product development initiatives including Certificate-on-Device, derived credentialing and other credentialing offerings as well as platform and portal integrations and other product and portal enhancements totaling approximately \$699,000 in 2016 and \$673,000 in 2015. In 2017, we will continue to work with our strategic partners to continue and focus our product development efforts as well as with client integrations.

## **Data Centers**

We host our proprietary solutions and operate all servers, systems and networks at six (6) data centers located in Ireland, Ohio, North Carolina and Virginia, which we may consolidate in the future. 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 meet our service level agreements. 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.

### **Competition and Pricing**

Our competitive market is highly fragmented and we compete with companies from a variety of market sectors. Many of our competitors have greater resources than us and are often able to offer more scale and more services for larger prospective clients seeking a total technology solution set in our target market. Our key competitors currently include Tangoe, Inc., Calero, KEYW Holding Corporation, Verisign, Identrust, SureID, DigiCert, Entrust, and other organizations; all of which have varying specialties within the telecommunications market place. Due to our significant federal government contract concentrations we also experience competition from a variety of both large and small companies, including divisions of large federal government integrators such as Lockheed Martin Corporation, Northrop Grumman Corporation, and other large and mid-sized federal contractors, as well as a limited number of small to mid-sized subject matter expert organizations offering specialized capabilities within the identity management space.

Prospective clients in our target market use a wide array of contract vehicles to purchase technology services ranging from individual purchase orders, awards or consolidated service contracts that cover a range of technology services, of which we may or may not be able to provide all of the services to serve as the prime contractor. The same companies that are our competitors will, at times, team with us or subcontract with us in the pursuit of consolidated opportunities from very large Fortune 100 companies.

Many of our competitors are heavily discounting their services to unprofitable levels in an effort to maintain market share and push other competitors out of the market and then turn around and raise prices for its captive customer base. This type of pricing behavior affects the entire market, creates a commodity pricing environment that directly affects the level of services that can be delivered to meet the customers' requirements and ensure a reasonable return for the service provider. If we are unable to keep pace with the intense competition in our marketplace, deliver cost-effective and relevant solutions to our target market, our business, financial condition and results of operations will suffer.

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.

## **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, 2016, we had approximately 279 full-time employees (237 in the U.S. and 42 in Europe). We periodically engage additional consultants and employ temporary employees. Potential employees possessing the unique qualifications required are readily available for both part-time and full-time employment. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

## **Corporate Information**

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



## ITEM 1A. RISK FACTORS

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

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

*We have had a history of losses, and we may be unable to achieve and sustain profitability.*

We have had a history of net losses over the last four years in excess of \$5.0 million. The amount of spending contributed to our significant operating losses and placed a significant strain on our available cash and potentially access to future credit facilities due to the recurring net losses. Also, customer cost cutting initiatives and aggressive pricing pressure from our closest competitors put downward pressure on pricing for our services and negatively affected our earnings. We used cash from operations, debt and capital raises to fund an acquisition, internal infrastructure improvement projects, product development research related to Cert-on-Device and to expand sales and marketing activities to prepare for going to market with our new solutions. Generating positive cash flow and net income in the future will depend on our ability to efficiently run our core business, execute a number of planned cost reduction initiatives, significantly reduce and/or eliminate spending on research and development projects and successfully execute our on our strategy of growing of business through sales of higher margin services.

There is no guarantee that we will be able to achieve or sustain profitability in the future. An inability to successfully achieve profitability will decrease our long-term viability and place a significant financial strain on the business.

*We currently have access to a credit facility agreement that expires on April 30, 2017 and we may be unable to renew or replace such facility on favorable terms or at all*

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 expires on April 30, 2017 and we were not in compliance with our financial covenants required under the facility as of December 31, 2016. Although we are currently working with Cardinal Bank and other lenders, and believe that we will be able to have access to a credit

facility, it is possible that we may be unable to renew our existing facility or replace it on favorable terms. If we are able to renew or replace our credit facility, it will likely require us to maintain financial and other covenants that we may be unable to maintain and negatively impact our operations. Failure to comply with such covenants could result in our lender accelerating in part or in full payment of all unpaid principal and interest. If we are unable to renew or replace our credit facility in the future, on favorable terms or at all, our business and operating results will suffer and we will need to obtain additional funding to meet our working capital needs, which may not be available on favorable terms or at all. If we are unable to obtain such funding, we may be required to significantly cut back our operations, sell assets or cease operations.

***We may need to obtain additional funding to meet our future capital needs and we may be unable to raise additional capital on favorable terms or at all. 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 likely require additional funding to support our operations, product development, sales and marketing and any future acquisitions. Additional funding may be unavailable on favorable terms, if at all. If we are unable to obtain sufficient additional funding when needed, we may have to significantly cut back our operations, defer potentially favorable acquisitions, and/or sell some or all of our assets. We are working to strategically realign our organization and reduce our operating expenses in order to operate more efficiently and grow our business. If demand for our products and services does not increase, our business and operating results will suffer. There is also no guarantee that we will be able to raise additional capital on favorable terms, or at all, and any inability to raise additional capital could have an impact on our ability to continue to operate our business.

***Our market is highly competitive and we may not be able to compete effectively or gain market acceptance of our products and service.***

The markets for the services and products we provide are highly competitive and rapidly changing due to changes in technology. We compete frequently for client engagements against companies with greater resources than ours. 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. If we cannot keep pace with the intense competition in our marketplace, our business, financial condition and results of operations will suffer.

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

In addition, due to competitive factors, such as access to customers or the development of superior products of services, our business will be harmed if we are unable to gain market acceptance of our products. Since we have less resources than our competitors, the failure of one of our products or services to gain market acceptance will cause us greater harm due to the costs involved in developing or acquiring new products and services as we must carefully consider the allocation of our resources given our financial position. Furthermore, larger companies tend to hold a significant advantage over us with potential customers due to their name brand recognition, longevity and resources. Any failure to gain market acceptances of our products and services will have a material adverse impact on our operations and our ability to continue our business.

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

A high percentage of our cash operating expenses, particularly personnel, rent and communications costs, 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 on the time frame that we had anticipated, such as the Coast Guard, or at all or the completion during a quarter of several major client projects could require us to maintain underutilized employees and could have a material adverse effect on

our business, financial condition and results of operations. Additionally, our revenues and earnings may also fluctuate from quarter to quarter because of such factors as:

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

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

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

IT-based services offered through our portfolio of products, services, and solutions could become obsolete due to rapid technological changes and frequent new product and service introductions by our competitors in the mobile, cyber security and communications industries. Additionally, frequent changes in mobile computing hardware and software technology, 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 could affect our ability to efficiently deliver our services. 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 customized transactional and reporting capabilities that our current solution does not have and/or may be cost prohibitive to develop to meet the customer's requirements and ensure our contract is profitable. In addition, the development of new products and services comes with a high degree of uncertainty with regard to return on investment and involves significant time and financial resources to action, as there is no guarantee that the funds and time spent on developing such products will ever generate a return. If we fail to develop software products and services that satisfy customer preferences in a timely and cost-effective manner, our ability to renew our agreements with existing customers and our ability to create or increase demand for our solution will be harmed.

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

We are working towards growing our business profitability. The development and sale of new products, involves estimates of (i) our actual costs and expenses, (ii) prices that the customers will pay and (iii) other factors, some of which may be beyond our control. Our inability to accurately price and sell our products at an acceptable profit margin that customers are willing to pay will have a negative impact on our business. In addition, some of our projects may be based on fixed-price, fixed-time contracts, rather than contracts in which payment to us is determined on a time and materials basis. The long-term nature of our contracts means that our failure to accurately price our products can have a negative impact over a number of years. Our failure to accurately estimate or manage 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 for convenience 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.

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

Due to the nature of our business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer, could have a material adverse effect on results. Historically, we have derived, and may in the future derive, a significant percentage of our total revenues from the U.S. Federal Government and a relatively small number of large multinational customers. For the years ended December 31, 2016 and 2015, revenues from the Department of Homeland Security as a percentage of consolidated revenues represented approximately 62% and 49%, respectively.

***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. Currently, we are unable to assess whether the new Trump administration will propose budget cuts that impact the agencies that purchase our products and services. Among the factors that could harm our business are:

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

a shift in spending to federal programs and agencies that we do not support or where we currently do not have contracts;  
§ delays in the payment of our invoices by government payment offices;  
§ federal governmental shutdowns, and other potential delays in the government appropriations process; and  
§ general economic and political conditions, including any event that results in a change in spending priorities of the  
§ federal government.

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



***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 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. Additionally, in the event we manage third party services on behalf of our customers and fail to execute in approved changes requested by our customers it could result in claims asserted by our clients for substantial damages against us. Although we attempt to limit the amount and type of our contractual liability for defects in the applications or systems we provide, and carry insurance coverage that mitigates this liability in certain instances, we cannot be assured that these limitations and insurance coverages will be applicable and enforceable in all cases. Even if these limitations and insurance coverages are found to be applicable and enforceable, our liability to our clients for these types of claims could still exceed our insurance coverage and be

material in amount and affect our business, financial condition and results of operations.

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

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

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

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

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

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

make it more difficult for us to defend our intellectual property in any subsequent litigation in which we are a named party.

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

As of December 31, 2016, we had aggregate federal net operating loss carry-forwards of approximately \$31.9 million and state net operating loss carry-forwards of approximately \$28.5 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 generate taxable income our existing net operating loss carry-forwards and related deferred tax assets may expire unused. In addition, net operating loss carry-forwards may become subject to an annual limitation if there is a cumulative change in the ownership interest of significant stockholders (or certain stockholder groups) over a three-year period in excess of 50%, in accordance with rules established under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, and similar state rules (we refer to each as an ownership change). Such an ownership change could limit the amount of historic net operating loss carry-forwards that can be utilized annually to offset future taxable income.

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

We are highly dependent upon the continued service and performance of our key operational managers and subject matter experts to run our core operations. 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 key executives and subject matter experts.

We plan to continue to replenish our ranks with the best available talent to optimize our workforce to do more with less resources. 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 qualified 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 incur substantial costs in connection with contracts awarded through a competitive procurement process, which could negatively impact our operating results.***

Most if not all federal, state and local government, as well as commercial contracts are awarded through a competitive procurement process that could be a year or more from the initial solicitation to final contract award. We expect that much of the business we seek in the foreseeable future will be awarded through competitive procedures and similar lengthy sales cycle. Competitive procurements impose substantial upfront costs and present a number of risks, including:

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

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

***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 security certifications and necessary security clearances may limit our ability to perform classified work directly for government clients as a prime contractor or subcontractor, which could cause us to lose business.***

Some government contracts require us to maintain both federal and industry recognized security certifications of our systems, facility security clearances, and require some of our employees to maintain individual security clearances. If we are unable to maintain security certifications of our systems, or our employees lose or are unable to timely obtain security clearances, or we lose a facility clearance, our client may have the right to 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 certifications and 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.



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

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

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

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

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

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

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

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

§ the Cost Accounting Standards, which impose cost accounting requirements that govern our right to reimbursement  
§ under some cost-based government contracts; and  
§ laws, regulations, and executive orders restricting the use and dissemination of information classified for national  
§ security purposes and the exportation of specified solutions and technical data.

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

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

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

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

The markets for our information technology solutions are changing due to technological advances and innovations, and it is not certain whether our services will keep up with our changing environment, achieve market acceptance and/or sustain high demand for our services. 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 these markets may not continue to develop or may develop more slowly than we expect, either of which would reduce our revenue and profitability.

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

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

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

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

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

Certain of our information technology based solutions software functionality and services that we offer depend on our ability to access a customer's communications billing and usage data. For example, our ability to offer outsourced or

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

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

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

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

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

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

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

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

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

The successful implementation of our strategic goals is dependent in part on strategic relationships with our channel partners to offer our solutions to a larger customer base than we can reach through our current direct sales and marketing efforts.



Our success depends in part on the ultimate success of our channel partners and their ability to effectively market and sell our 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.

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

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

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

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

Our ability to provide our software products is dependent on the technological compatibility of our products with the communications infrastructures and devices of our customers and their communications service providers. The

development and introduction of new communications technologies and devices requires us to expend significant personnel and financial resources to develop and maintain interoperability of our software products with these technologies and devices. 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.***

A key part of our service delivery involves the use of internally developed software solutions. If our software solutions contain undetected defects or errors that affect our ability to process customer transactions, prepare reports and/or deliver our services in general it may result in a failure to perform in accordance with customer expectations and could result in monetary damages against us. 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 be required to issue substantial service credits that reduce amounts invoiced to our customers, lose out on 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**

*The future sale of shares of our common stock may negatively affect our common stock price and/or be dilutive to current stockholders.*

If we or our stockholders sell substantial amounts of our common stock, the market price of our common stock could fall. 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. There is no assurance that we will not seek to sell additional shares of our common stock in order to meet our working capital or other needs in a transaction that would be dilutive to current stockholders.

*Our common stock price has been volatile.*

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

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

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

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

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

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

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

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

Our certificate of incorporation and bylaws contain certain provisions permitted under the General Corporation Law of Delaware relating to the liability of directors. The provisions eliminate, to the fullest extent permitted by the General Corporation Law of Delaware, a director’s personal liability to us or our stockholders with respect to any act or omission in the performance of his or her duties as a director. Our certificate of incorporation and bylaws also allow us to indemnify our directors, to the fullest extent permitted by the General Corporation Law of Delaware. Our bylaws

also provide that we may grant indemnification to any officer, employee, agent or other individual as our Board may approve from time to time. We believe that these provisions will assist us in attracting and retaining qualified individuals to serve as directors.

*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 (“Lewis Center Facility”); which is owned, and carries a mortgage obligation of approximately \$432,400. 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. We are currently working on selling our Lewis Center Facility and expect to enter into a lease arrangement for a different location in Columbus, Ohio following such transaction. The sale of our Lewis Center Facility is expected to generate gross proceeds of \$750,000. The following table presents our property locations at December 31, 2016 for our U.S. locations:

Physical Street Address	City, State Zip Code	Lease Expiration	Approx. Sqft	Base Cost per Sqft	Base Annual Cost
7926 Jones Branch Drive, Suite 520	McLean, VA 22102	August 2019	5,437	\$ 24	\$129,600
1736 South Park Court, Suite 201	Chesapeake, VA 23320	April 2017	2,377	\$ 16	\$38,400
825 North Cass Avenue, Suite 112	Westmont, IL 60559	October 2017	888	\$ 14	\$12,000
11250 Waples Mill Rd S. Tower, Suite 210	Fairfax, VA 22030	March 2019	11,852	\$ 26	\$307,300
101 Green Meadows Drive South	Lewis Center, OH 43035	n/a	7,600	n/a	n/a
2 Eaton Street Suites 800/807	Hampton, VA 23669	November 2019	4,519	\$ 15	\$65,700
280 Pinehurst Avenue Suite B	Southern Pines, NC 28387	Month to Month	2,500	\$ 10	\$24,000

The following table presents our property locations at December 31, 2016 for our international locations:

Physical Street Address	Country Postal Code	Lease Expiration	Approx. Sqft	Base Cost per Sqft	Base Annual Cost
South County Business Park	Dublin 18, Ireland	March 2026	6,000	\$ 33	\$197,519
Atlantic House, Imperial Way	Reading, Berkshire RG2 OTD, England	June 2018	250	\$ 118	\$29,400
Beechavenue 30,	1119PV Schipol Rijak, The Netherlands	October 2018	600	\$ 12	\$7,000

**ITEM 3. LEGAL PROCEEDINGS**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

None.

24

## PART II

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

#### Market Information

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

Period	2016		2015	
	High	Low	High	Low
December 31,	\$0.84	\$0.39	\$0.99	\$0.64
September 30,	\$0.64	\$0.37	\$2.30	\$0.70
June 30,	\$0.94	\$0.59	\$2.03	\$1.29
March 31,	\$0.75	\$0.47	\$1.75	\$1.27

#### Holdings

As of the close of business on March 16, 2017, there were 121 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.

#### Dividend Policy

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

Recent Sales of Unregistered Securities

None.

Repurchases of Equity Securities

We repurchased no shares of our Common Stock during the fourth quarter of 2016.

**ITEM 6. SELECTED FINANCIAL DATA**

Not Applicable

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

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

## **Organizational Overview**

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

## **Strategic Focus**

Our strategic focus is to modify, improve and optimize areas within the Company that will allow us to consolidate and streamline the operations of the business. We believe that reshaping our environment can create a more unified set of operational efficiencies that will enable us to more efficiently use our personnel and other resources to scale and grow our revenues and earnings.

We are also presently evaluating roles and responsibilities throughout the Company and focusing on eliminating non-value added activities, automating manual processes and recruiting more experienced talent where required and eliminating redundant and expensive legacy resources. We are also reviewing all client relationships and profitability and commencing corrective actions to improve profitability and/or eliminate unprofitable and challenging clients. We are considering a number of cost savings initiatives including consolidation of our physical locations and technology platforms and driving cost savings from our largest suppliers.

All of these actions will require a significant amount of time and effort to execute and there is no guarantee that we will be able to achieve all of these objectives in 2017. We believe these actions will put us on the right path towards returning to generating positive earnings and cash flow in the long term.

## **Critical Accounting Policies and Estimates**

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

other disclosures required by U.S. GAAP. The following section below provides information about certain critical accounting policies that are important to the Consolidated Financial Statements and that require significant management assumptions and judgments.

## **Segments**

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

## Revenue Recognition

The Company provides a managed service solution model to its customers. Our managed services solutions may require a combination of labor, third party products and services. Our managed services are generally not interdependent and our requirements to earn and bill for our services are completed on a monthly basis. We do not typically have undelivered elements in these arrangements would require us to spread our revenue over a longer period of time.

A substantial portion of our revenues are derived from firm fixed price contracts with the U.S. federal government that are fixed fee arrangements tied to the number of devices managed. Our actual reported revenue may fluctuate month to month depending on the hours worked, number of users, number of devices managed, actual or prospective proven expense savings, actual technology spend, or any other metrics as contractually agreed to with our customers. Our revenue recognition policies for our managed services solution is set forth below based on the type of service:

*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 procure, process and pay communications carrier invoices. The Company recognizes revenues and related costs on a gross basis for such § arrangements whenever we have primary economic risk. We have economic risk in these transactions when we are seen as the primary creditor, we directly issue purchase orders directly to communications carriers for wireline and wireless services, and/or we have discretion in choosing optimal providers and rate plans. For arrangements in which we do not have such economic 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. We earn professional fees for our services based on actual time incurred and/or as a percentage of proven savings delivered for contingent audit services. 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.

§ *Reselling services* require the Company to acquire third party products and services to satisfy customer contractual obligations. The Company recognizes revenues and related costs on a gross basis for such arrangements whenever we have primary economic risk. We have economic risk in these transactions as we are seen as the primary creditor,

we carry inventory risk for undelivered products and services, we directly issue purchase orders third party suppliers, and we have discretion in sourcing among many different suppliers. For those transactions in which we procure and deliver products and services for our customers' on their own account we do not recognize revenues and related costs on a gross basis for these arrangements. We recognize revenues earned for arranging the transaction and any related costs.

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



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

## **Goodwill**

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

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

The goodwill impairment test utilizes a two-step approach. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss. The Company has the option to bypass the qualitative assessment for any reporting period and proceed to performing the first step of the two-step goodwill impairment test and then subsequently resume performing a qualitative assessment in any subsequent period. The Company bypassed using a qualitative assessment for 2016.

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

When preparing discounted cash flow models under the income approach, the Company estimates future cash flows using the reporting unit's internal five year forecast and a terminal value calculated using a growth rate that management believes is appropriate in light of current and expected future economic conditions. The Company then applies a discount rate to discount these future cash flows to arrive at a net present value amount, which represents the estimated fair value of the reporting unit. The discount rate applied approximates the expected cost of equity

financing, determined using a capital asset pricing model. The model generates an appropriate discount rate using internal and external inputs to value future cash flows based on the time value of money and the price for bearing the uncertainty inherent in an investment.

The Company has approximately \$18.5 million of goodwill as of December 31, 2016. 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, 2016. 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 such an allowance represents 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 or 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 against the allowance established after management determines that such accounts are ultimately 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.

During the year ended December 31, 2016, the Company recorded provisions for bad debt expense related to a development stage commercial customer totaling approximately \$274,000, which was partially offset by recoveries of approximately \$20,000. The Company has not historically maintained a bad debt reserve for its government customers as it has not experienced material or recurring bad debt charges and the nature and size of the contracts has not necessitated the Company's establishment of such a bad debt reserve.

### **Share-Based Compensation**

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

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.

## 2016 Results of Operations

### Year Ended December 31, 2016 Compared to the Year ended December 31, 2015

#### Revenues

Revenues for the year ended December 31, 2016 were approximately \$78.4 million, an increase of approximately \$7.6 million (or 11%), as compared to approximately \$70.8 million in 2015. Our mix of revenues for the periods presented is set forth below:

Revenue Mix	YEAR ENDED		Dollar Variance
	2016	2015	
Carrier Services	\$44,276,969	\$37,499,954	\$6,777,015
Managed Services	34,143,895	33,338,063	805,832
	\$78,420,864	\$70,838,017	\$7,582,847

We believe the following factors contributed to higher revenues:

§ Our carrier services were higher compared to same period last year as a result of the recognition of equipment and additional carrier service task orders issued related to our U.S Department Homeland Security ("DHS") blanket

purchase agreement (“BPA”) contract award. There presently are two major components agencies remaining under our DHS BPA contract that have not yet issued initial task orders: the U.S. Coast Guard and Federal Emergency Management Agency (FEMA). Our carrier services revenues could continue to expand if any of these remaining agencies issue task order awards. Carrier services could increase or decrease as a result of the number of mobile devices under management and the extent of usage of those mobile devices.

Our managed services were higher as a result of increases in mobile device and accessory services and to a lesser extent increases in identity credentialing and services, partially offset by the full year negative impact of the decline in Pound Sterling currency denominated contracts. There were a number of new revenue generating contracts that were delayed due to the decision of the United Kingdom (U.K.) to exit the European Union common community (Brexit) and other regulatory matters.

## **Cost of Revenues**

Cost of revenues for the year ended December 31, 2016 was approximately \$64.4 million (or 82% of revenues) as compared to approximately \$57.6 million (or 81% of revenues) in 2015. The dollar basis increase in cost of revenues was predominantly attributable to increased costs associated with carrier services and mobile accessory sales. We anticipate incurring between \$0.5 million and \$0.8 million in costs to complete the migration of customers using our old legacy telecom life cycle management platform to our next generation platform during fiscal 2017.

## **Gross Profit**

Gross profit for the year ended December 31, 2016 was approximately \$14.0 million (or 18% of revenues), as compared to approximately \$13.2 million (or 19% of revenues) in 2015. A substantial portion of our gross profit dollars are derived from our managed services component of our revenue mix. The dollar basis increase in gross profit was driven by increased sales of higher margin managed services to existing customers, partially offset by higher labor costs due to the amount of effort required to manage a large federal government agency with a large number of decentralized locations. We are working to consolidate our service delivery and billing activities to improve our gross profit. In future periods, we expect to focus our efforts on retaining and growing profitable client accounts, emphasizing sales of higher margin recurring services, and continuing to complete the transition of existing clients to our next generation solution.

## **Operating Expenses**

Sales and marketing expense for the year ended December 31, 2016 was approximately \$2.7 million (or 3% of revenues), as compared to approximately \$3.0 million (or 4% of revenues) in 2015. The decrease in sales and marketing was due to turnover in our sales team and reductions in lead generation services and other development costs that we believe are not generating the return on investment expected. We are strategically focused on identifying sales account executives and high quality lead generation suppliers that can support our aggressive target market penetration goals. We believe that our sales and marketing spend will increase over time as we push forward with our aggressive sales growth initiatives, introduce new products and services, move forward with strategic sales alliances and co-marketing activities and promote our services. We anticipate further reductions in sales and marketing expense as cost reduction initiatives are executed in 2017.

General and administrative expenses for the year ended December 31, 2016 were approximately \$14.5 million (or 18% of revenues), as compared to approximately \$14.6 million (or 21% of revenues) in the same period last year. The decrease in general and administrative expense due to reductions in professional fees as compared to 2015,

partially offset by current year provisions for bad debt expense related to a development stage commercial customer totaling approximately \$274,000, which was partially offset by recoveries of approximately \$20,000. We anticipate further reductions in general and administrative expense as cost alignment and reduction initiatives are executed in 2017.



Product development costs for the year ended December 31, 2016 were approximately \$699,000 as compared to approximately \$673,000 in 2015. Product development costs include direct labor, outside consultants, subject matter experts and material costs. We continued development activities associated with our Cert-on-Device identity management solution and our international bill presentment software solution. We incurred product development costs of approximately \$901,800 in 2016, of which we capitalized approximately \$202,800 related to our international bill presentment software solution. The Company initially capitalized approximately \$441,000 of software development costs associated with its certificate-on-device solution set during the second and third quarter of 2016; however, during the fourth quarter of 2016 we lost access to a key integrator for this solution and made a decision to write-off previously capitalized software development costs. We did not capitalize any software development costs related to these development activities in 2015. We believe the timing and amount of capital spent on product development and routine maintenance costs to vary from time to time depending on the life cycle of our technology solutions. The costs associated with maintaining and developing new products and services is vital to our ability to compete in our market place and deliver relevant solutions our clients demand. We anticipate further reductions in the short run as cost alignment and reduction initiatives are executed in 2017.

Depreciation expense for the year ended December 31, 2016 was approximately \$358,600, as compared to approximately \$383,300 in 2015. We purchased capital assets of approximately \$274,700 in 2016 as compared to \$413,600 in 2015. Our pool of depreciable assets higher in 2016 as compared to 2015 and resulted in higher depreciation expense. We anticipate additional infrastructure investments in computer equipment and other hardware to maintain our technology infrastructure and to respond to anticipated capacity requirements as we grow our revenue base.

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

Interest income for the year ended December 31, 2016 was approximately \$14,600, as compared to approximately \$23,000 in 2015. This decrease was due to lower 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, 2016 was approximately \$72,200 (or less than 1% of revenues), a decrease of approximately \$70,300, as compared to approximately \$142,500 (or less than 1% of revenues) of interest expense in 2015. The decrease in interest expense is due to the settlement of seller financed promissory notes during the first and second quarter of 2015. There were no significant interest rate changes associated with outstanding interest bearing debt during 2016.

Other income for the year ended December 31, 2016 was approximately \$13,500 as compared to \$33,000 in 2015. The decrease was due to the expiration of a sublease agreement that expired during the end of 2015. Other income

(expense) for both periods did not include any significant items.

### **Provision for Income Taxes**

Income tax benefit for the year ended December 31, 2016 was approximately \$73,400, as compared to approximately \$81,800 in 2015. Income tax benefit in 2016 predominantly reflects a benefit from a domestic state tax refund of approximately \$50,100 due to a change in filing status and approximately \$20,000 foreign deferred tax benefit related to timing differences. All federal, state and foreign net operating losses are fully valued for tax purposes and as a result, the principal component of income tax expense relates to minimum state and foreign income taxes.

### **Net Loss**

As a result of the factors above, the net loss for the year ended December 31, 2016 was approximately \$4.1 million as compared to approximately \$5.5 million in 2015.

## **Liquidity and Capital**

### Net Working Capital

We have, since inception, financed operations and capital expenditures through the sale of stock, seller notes in connection with acquisitions, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. Our immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Cardinal Bank for up to \$6.0 million. We are currently working with Cardinal Bank and other lenders to renew or replace our credit facility which will expire on April 30, 2017. Although we believe that we will be able to have access to a credit facility, there is no assurance that we will be able to renew or replace our working capital credit facility on favorable terms or at all, which would likely negatively impact our operations and seek capital from other sources, if available.

At December 31, 2016, our net working capital was approximately \$5.0 million as compared to \$8.0 million at December 31, 2015. Our decrease in net working capital was primarily due to net losses incurred while continuing to fund product development, infrastructure improvements and business development efforts. We utilized available cash and our line of credit to manage through collection timing differences throughout fiscal 2016.

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

### Cash Flows from Operating Activities

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

For the year ended December 31, 2016, net cash provided by operations was approximately \$2.7 million driven by strong cash collections on receivables during the last quarter of 2016 and management of our vendor obligations.

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

### Cash Flows from Investing Activities

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

For the year ended December 31, 2016, cash used in investing activities was approximately \$606,000, of which approximately \$274,700 was spent on required hardware and software refreshes for our client facing technology solutions and the remainder was spent on our “authority to operate” certification which is a critical intangible right tied to our federally accepted identity management solutions.

For the year ended December 31, 2015, cash used in investing activities was approximately \$600,000, of which approximately \$413,600 was spent on required hardware and software refreshes for our client facing technology solutions and the remainder was spent on our “authority to operate” certification which is a critical intangible right tied to our federally accepted identity management solutions.

#### Cash Flows from Financing Activities

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

For the year ended December 31, 2016, cash used in financing activities was approximately \$881,700 reflecting term debt repayments of approximately \$849,400. The Company was advanced and repaid approximately \$18.2 million in cumulative line of credit advances during the year.

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

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

For the year ended December 31, 2016, the net effect of exchange rate changes increased the translated value of our foreign cash balances due to a partial recovery of the Euro relative to the US dollar. For the year ended December 31, 2015, the net effect of exchange rate changes decreased the translated value of our foreign cash balances due to the decline in the Euro relative to the US dollar.

#### Credit Facilities and Other Commitments

At December 31, 2016, there were no outstanding borrowings against the Company’s working capital credit facility. At December 31, 2016, there were no material commitments for additional capital expenditures, but that could change with the addition of material contract awards or task orders awarded in the future. The facility requires that the

Company (i) maintain a minimum tangible net worth of at least \$6.5 million at December 31, 2016; (ii) generate a minimum after-tax net income of at least \$1.00 for the fourth quarter of 2016 and (iii) maintain a current ratio of 1.1:1 tested quarterly.

We believe our working capital credit facility, provided it is renewed or replaced, along with cash on hand, should be sufficient to meet our minimum requirements for our current business operations and implementation of new business during fiscal 2017. Over the long term, we must successfully execute our growth plans to increase profitable revenue and income streams to generate positive cash flows to sustain adequate liquidity without impairing growth initiatives or requiring the infusion of additional funds from external sources to meet minimum operating requirements, including debt service. We may need to raise additional capital to fund our operations and there can be no assurance that additional capital will be available on acceptable terms, or at all.

## Contractual Obligations

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

Obligation Type	2017(1)	2018	2019	2020	2021	Thereafter	Total
Long-term debt and interest payments on long-term debt (2)	\$ 120,100	\$ 45,400	\$ 45,400	\$ 389,200	\$ -	\$ -	\$ 600,100
Operating lease obligations (3)	937,500	1,024,000	696,000	456,000	460,000	1,957,100	5,530,600
Capital lease obligations	4,100	-	-	-	-	-	4,100
	\$ 1,061,700	\$ 1,069,400	\$ 741,400	\$ 845,200	\$ 460,000	\$ 1,957,100	\$ 6,134,800

(1) Weighted average interest rate of all outstanding long term debt at December 31, 2016 was approximately 6.0%.

In December 2016, the Company entered into an agreement to sell its Lewis Center Facility secured by this (2) mortgage loan obligation. The Company expects to close the sale of its Lewis Center Facility during the second quarter of 2017 and repay this obligation in full with the net sales proceeds.

(3) Includes base minimum rent and estimated annual operating expenses and real estate tax due under lease agreement.

## Off-Balance Sheet Arrangements

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

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

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

other than the Company's functional currency.

If the values of the Euro relative to the U.S. dollar had been ten (10) percent lower than the values that prevailed during 2016, the Company's pretax income for 2016 would have been approximately \$42,000 lower. Conversely, if such values had been ten (10) percent higher, the Company's reported pretax income for 2016 would have been approximately \$40,000 higher.

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

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



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

### **Evaluation of Disclosure Controls and Procedures**

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

### **Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework (2013), our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting due to the permanent exemptions for smaller reporting companies.

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with accounting principles generally accepted in the United States. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the

policies or procedures may deteriorate.

### **Changes in Internal Controls over Financial Reporting**

During the fourth quarter of 2016, we completed the implementation and testing of our remediation plan that was targeted at eliminating our previously reported material weakness in our internal controls over financial reporting. Except as set forth herein, there were no changes in the Company's internal controls over financial reporting during the fourth quarter of 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

The following sets forth information regarding our current directors, executive officers and certain significant employees of the Company. Our executive officers serve at the discretion of the board of directors. There are no family relationships among any of our executive officers or directors.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Jeffrey O. Nyweide	61	Chief Executive Officer, President and Director
James McCubbin	53	Executive Vice President, Chief Financial Officer, Secretary and Treasurer
Jin Kang	52	Executive Vice President, Chief Operations Officer, Chief Executive Officer and President of WidePoint Integrated Solutions Corp.
Steve L. Komar	75	Executive Chairman of the Board
Morton Taubman	73	Director, Chairman of the Audit Committee
Otto Guenther	75	Director
George Norwood	74	Director
James Ritter	72	Director, Chairman of the Compensation and Nominating Committees

**Jeffrey O. Nyweide** has served as a director and as our Chief Executive Officer and President since his appointment on January 6, 2017. Prior to his appointment as Chief Executive Officer and President of the Company, Mr. Nyweide provided strategic and business operations consulting services. From 2005 through 2013, he served as Chief Financial Officer, Executive Vice President-Corporate Development, Treasurer and Secretary of GlobalOptions Group, Inc. Prior to that time, Mr. Nyweide had been Chief Financial Officer and Executive Vice President-Corporate

Development of privately-held GlobalOptions, Inc. since April 2003. Mr. Nyweide has been a Venture Partner with Millennium Technology Ventures, L.P., a New York-based venture capital firm, from 2001 until 2005. From 1987 to 2000, he co-founded and then grew Dataware Technologies, Inc., a software and services company, as Director, President and Chief Operating Officer, and took the company public. In 1995, he helped found Northern Light Technology LLC. Mr. Nyweide has significant experience in mergers and acquisitions, finance and operations, as well as with establishing international business in Europe and Asia from prior experience as a founder and managing director of Quantum Management in Greenwich, Connecticut and Munich, Germany. His previous experience in the services and solutions business also includes sales, marketing and operating experience as an executive with The Service Bureau Company, a subsidiary of Control Data Corporation, in Chicago, Atlanta and Greenwich. Mr. Nyweide's prior public company experience led the Board to conclude he should be a director of the Company.

**James T. McCubbin** has served as our Secretary since November 1998. Since August 1998, Mr. McCubbin has also served as our Executive Vice President and Chief Financial Officer. Mr. McCubbin previously served as a member of our board of directors from November 1998 until June 2016. From December 1997 to August 1998, Mr. McCubbin served as Vice President, Controller, Assistant Secretary and Treasurer. Prior to the commencement of his employment with WidePoint in November 1997, Mr. McCubbin held various financial management positions with several companies in the financial and government sectors. Mr. McCubbin is a graduate of the University of Maryland with a Bachelor of Science Degree in Finance and a Master's Degree in International Management. Mr. McCubbin brings extensive financial and corporate compliance expertise as well as internal knowledge of the Company as a result of his having over 13 years of experience with the Company. Mr. McCubbin also has significant experience serving in financial managerial roles within a variety of organizations and membership on several boards of directors over the past 25 years

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

**Steve L. Komar** has served as a director since December 1997 and became Chairman of the Board in October 2001. Mr. Komar has also served as Chief Executive Officer since December 2001 until January 2017 and as Executive Chairman from January 2017 until March 2017. From June 2000 until December 2001, Mr. Komar served as a founding partner of C-III Holdings, a development stage financial services company. From 1991 to June 2000, Mr. Komar served as Group Executive Vice President of Fiserv, Inc., a company that provides advanced data processing services and related products to the financial industry. From 1980 to 1991, Mr. Komar served in a number of financial management positions with CitiGroup, including the role of Chief Financial Officer of Diners Club International and Citicorp Information Resources, respectively. Mr. Komar is a graduate of the City University of New York with a Bachelor of Science Degree in Accounting and holds a Master's Degree in Finance from Pace University.

Mr. Komar brings extensive financial and operational management experience to the Board as a result of his past operational experience at several large firms where he held senior executive positions in areas including financial and operational management and mergers and acquisitions. The financial and managerial skills he developed over a career that has spanned more than 45 years, as well as Mr. Komar's experience as our Chairman of the Board and Chief Executive Officer, his knowledge of our Company as a result thereof, and his prior performance serving as a Board

member of the Company, led the Board to conclude that he should continue to serve as a director of the Company.

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

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

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

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



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

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

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

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

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

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

## **CORPORATE GOVERNANCE**

### **Code of Ethics**

The Company's Board of Directors has a code of ethics and business conduct for the chief executive and principal financial and accounting officers. The Company has posted a copy of the code on its website located at <https://www.widepoint.com/investor-relations/corporate-governance/>. We intend to post notice of any waiver from, or amendment to, any provision of our code of ethics and business conduct on our website.

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

The Board of Directors held four (4) meetings during 2016. During this period, all of the directors attended or participated in more than 75% of the aggregate of the total number of meetings of the Board of Directors and the total number of meetings held by all Committees of the Board of Directors on which each such director served.

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

#### *Audit Committee*

The members of the Audit Committee are:

§ Morton S. Taubman (Chair)

§ James M. Ritter

§ George W. Norwood

§ Otto J. Guenther

The Audit Committee met four (4) times in 2016. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934. The primary functions of the Audit Committee are to: appoint (subject to stockholder approval), and be directly responsible for the compensation, retention and oversight of, the firm that will serve as the Company's independent accountants to audit our financial statements and to perform services related to the audit (including the resolution of disagreements between management and the independent accountants regarding financial reporting); review the scope and results of the audit with the independent accountants; review with management and the independent accountants, prior to the filing thereof, the annual and interim financial results (including Management's Discussion and Analysis) to be included in our Forms 10-K and 10-Q, respectively; consider the adequacy and effectiveness of our internal accounting controls and auditing procedures; review, approve and thereby establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters; review and approve related person transactions in accordance with the policies and procedures of the Company; and consider the accountants' independence and establish policies and procedures for pre-approval of all audit and non-audit services provided to WidePoint by the independent accountants who audit its financial statements. At each meeting, Audit Committee members may meet privately with representatives of Moss Adams LLP, our independent accountants, and with the Company's Executive Vice President and Chief Financial Officer.

The Board has determined that Messrs. Taubman, Ritter, Norwood and Guenther each meet the definition of "independent directors" for purposes of serving on an audit committee under applicable rules of the Securities and Exchange Commission and the listing standards of the NYSE MKT. In addition, the Board has determined that Mr.

Taubman satisfies the “financially sophisticated” requirements set forth in the NYSE MKT Company Guide, and has designated Mr. Taubman as the “audit committee financial expert,” as such term is defined in the rules and regulations of the SEC.

*Corporate Governance and Nominating Committee*

The members of the Corporate Governance and Nominating Committee are:

§ James M. Ritter (Chair)

§ Morton S. Taubman

§ Otto J. Guenther

§ George W. Norwood

The Corporate Governance and Nominating Committee met one (1) time in 2016. The primary functions of this Committee are to: identify individuals qualified to become Board members and recommend to the Board the nominees for election to the Board at the next Annual Meeting of Stockholders; review annually and recommend changes to the Company's Corporate Governance Guidelines; lead the Board in its annual review of the performance of the Board and its committees; review policies and make recommendations to the Board concerning the size and composition of the Board, the qualifications and criteria for election to the Board, retirement from the Board, compensation and benefits of non-employee directors, the conduct of business between WidePoint and any person or entity affiliated with a director, and the structure and composition of the Board's Committees; review the Company's policies and programs relating to compliance with its Code of Business Conduct and such other matters as may be brought to the attention of the Committee regarding WidePoint's role as a responsible corporate citizen. See "Identification and Evaluation of Director Candidates" and "Director Compensation" in this proxy statement.

#### *Compensation Committee*

The members of the Compensation Committee are:

§ James M. Ritter (Chair)

§ Morton S. Taubman

§ George W. Norwood

§ Otto J. Guenther

The Compensation Committee met two (2) times in 2016. The primary functions of the Compensation Committee are to: evaluate and approve executive compensation plans, policies and programs, including review of relevant corporate and individual goals and objectives, as submitted by the Chief Executive Officer; evaluate the Chief Executive Officer's performance relative to established goals and objectives and, together with the other independent directors, determine and approve the Chief Executive Officer's compensation level based on this evaluation; review and approve the annual salary and other remuneration of all other officers; review the management development program, including executive succession plans; review with management, prior to the filing thereof, the executive compensation disclosure included in this proxy statement; recommend individuals for election as officers; and review or take such other action as may be required in connection with the bonus, stock and other benefit plans of WidePoint and its subsidiaries.

#### **Director Compensation**

Directors who are not also officers or employees received an annual fee of \$12,000 in 2016. In 2017, we expect to pay our directors who are not our employees annual compensation consisting of \$50,000 (\$12,000 in cash and \$38,000 in

a stock option grant). The following table sets forth director compensation for the year ended December 31, 2016:

Director Name	Fees Earned or Paid (\$)	Option Awards (\$)	All Other Compensation (\$)	Total
James Ritter	\$ 12,000	\$-	\$ -	\$12,000
Morton Taubman	12,000	-	-	12,000
George Norwood	12,000	-	-	12,000
Otto Guenther	12,000	-	-	12,000
Paul Johnson (1)	12,000	34,000	-	46,000

(1) Mr. Johnson's term as a director ended on December 17, 2016.

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

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than 10% of a registered class of the Company's equity securities, to file reports of securities ownership and changes in such ownership with the Securities and Exchange Commission. Statements of Changes in Beneficial Ownership of Securities on Form 4 are generally required to be filed before the end of the second business day following the day on which the change in beneficial ownership occurred. Based on the Company's review of Forms 3 and 4 filed during 2016, all such Forms 3 and Forms 4 were filed on a timely basis except for one late Form 4 filed by James McCubbin reporting the withholding of shares for tax purposes.

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This compensation discussion and analysis describes the material elements of compensation awarded to, earned by, or paid to each of our named executive officers, whom we refer to as our "NEOs," during 2016 and describes our policies and decisions made with respect to the information contained in the following tables, related footnotes and narrative for 2016. The NEOs are identified below in the table titled "Summary Compensation Table." In this compensation discussion and analysis, we also describe various actions regarding NEO compensation take before or after 2016 when we believe it enhances the understanding of our executive compensation program.

### Overview of Our Executive Compensation Philosophy and Design

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

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

### **Setting Executive Compensation**

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



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

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

### **Elements of Executive Compensation**

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

*Base Salary.* We pay our NEOs a base salary to compensate them for services rendered and to provide them with a steady source of income for living expenses throughout the year. The fiscal 2016 base salaries for our NEOs set forth below. The fiscal 2017 base salaries for James McCubbin and Jin Kang will be the same as the fiscal 2016 base salaries. In light of the appointment of Mr. Jeffrey O. Nyweide as our new Chief Executive Officer and President, as discussed below, Mr. Komar will serve as a non-employee director moving forward and not as one of our executive officers. Mr. Komar served as our Executive Chairman for three months to assist with the transition of Mr. Nyweide for a monthly salary of \$11,250. The percentage increase from the fiscal 2016 base salaries, are as follows:

Name	Fiscal 2016 Base Salary
Steve Komar	\$ 270,000
James McCubbin	\$ 265,000
Jin Kang	\$ 265,000

*Annual Cash Based Bonus Opportunity.* The amount of the annual discretionary cash based bonus award is based on individual performance assessments along with the financial performance of the Company. Our performance-based cash incentive compensation in recent years has included targets for achieving various levels of revenue, operating income, and other financial goals and metrics, along with individual performance assessments that has included goals in personal professional improvement, team building, and other individual personal growth goals. The annual cash based bonus opportunity is for up to 50% of a NEOs base salary. In 2016, none of our NEOs earned a bonus because due to our net operating losses.

We believe these cash based award opportunities reinforce the alignment of interests of our executive officers with those of our stockholders in the shorter term as the positive financial performance that drives the cash based bonus awards also indirectly influences the performance of the Company's common stock. We believe the personal professional improvement goals enhance the value of the NEO to expand their expertise and expand the effectiveness of the Company's staff allowing for greater organization efficiencies while improving Company performance, which drives short-term, medium-term, and long-term organizational improvement and ultimately value for the stockholders in the form of better financial and common stock performance.

*Restricted Stock Equity Awards (RSA).* Mr. Komar and Mr. McCubbin were each awarded 250,000 shares of restricted common stock in 2010. 50% of the award vested in 2016 upon the determination that the Company's revenue for 2015 exceeded \$70 million. The remaining 50% of the award for Mr. Komar vested in January 2017 in connection with the appointment of our new Chief Executive Officer. The remaining 50% for Mr. McCubbin will vest upon the earliest of (i) the seventh anniversary from the date of grant (November 18, 2017) or (ii) upon an acceleration event that is determined by the Compensation Committee

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

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

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

*Appointment of New CEO.* On January 6, 2017, we appointed Jeffrey O. Nyweide as our new Chief Executive Officer and President. Mr. Nyweide was also appointed to our Board of Directors as a Class II Director for a term to expire in 2017. In consideration of Mr. Nyweide's appointment, he entered into a three year employment agreement, described below, providing the following: (i) an annual base salary of \$300,000 (increasing \$25,000 annually); (ii) an annual

bonus opportunity equal to 50% of the base salary based on our achieving performance goals determined by the Compensation Committee of the Board of Directors (payable one-half in cash and one-half in common stock); (iii) a stock option grant covering 600,000 shares of common stock vesting pro-rata over a three year period (subject to acceleration if certain performance goals are met); (iv) a restricted stock grant of 300,000 shares of common stock vesting only if certain performance goals are met, (v) participation in the Company's employee benefit plans and (vi) four (4) weeks of vacation. Mr. Nyweide's compensation was determined by our Compensation Committee through negotiations with Mr. Nyweide and through considering our financial condition and the compensation arrangements of similarly situated executives.

**Summary Compensation Table**

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

Name and Principal Position	Year	Base Salary (1)	Option Awards (2)	Other Compensation (3)	Total Compensation
Steve Komar Former Chief Executive Officer, Director and Executive Chairman of the Board	2016	\$ 268,352	\$ -	\$ 7,200	\$ 275,552
	2015	\$ 264,517	\$ -	\$ 7,200	\$ 271,717
James McCubbin Executive Vice President, Chief Financial Officer, Secretary and Treasurer	2016	\$ 258,611	\$ -	\$ 7,200	\$ 265,811
	2015	\$ 258,480	\$ -	\$ 7,200	\$ 265,680
Jin Kang Executive Vice President and Chief Operations Officer	2016	\$ 259,607	\$ -	\$ -	\$ 259,607
	2015	\$ 246,225	\$ 19,025 (4)	\$ -	\$ 265,250

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

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

(3) Monthly combined home office and phone allowance of \$600 were paid to Mr. Komar and Mr. McCubbin during fiscal 2016 and 2015.

(4) During fiscal 2015 Mr. Kang was granted an equity award of 25,000 options on May 8, 2015 with an estimated fair value of \$19,025.

**Grant of Plan Based Awards**

None of our NEOs were granted equity awards in 2016.

**Outstanding Equity Awards at December 31, 2016**

The following table sets forth information on outstanding equity awards held by NEOs at December 31, 2016:

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Equity Incentive Plan Awards: Unearned Shares or other Rights that have not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares or Rights that have not Vested (\$)
Steve L. Komar, Former Chief Executive Officer, Director, and Executive Chairman of the Board	-	-	-	-	125,000(1)	\$ 101,250
James T. McCubbin, Executive Vice President, Chief Financial Officer, Secretary and Treasurer	-	-	-	-	125,000(1)	\$ 101,250
Jin Kang, Executive Vice President and Chief Operations Officer	170,000	-	\$ 0.57	3/20/2018	(2)	
	25,000	-	\$ 1.38	5/8/2020	(3)	

- Equity incentive plan awards unearned represent restricted stock awards which vest on the seventh anniversary of the date of grant or earlier upon a determination by the compensation committee that such shares have been earned.
- (1) The restricted stock owned by Mr. Komar vested in January 2017 in connection with the appointment of our new Chief Executive Officer.
- (2) Options vest one-third per year over a term of three years.
- (3) Options vested 50% on December 31, 2015 and the remainder vested on December 31, 2016.

#### Option Exercises and Stock Vested for Fiscal 2016

The following table sets forth information about the exercise of options by our NEOs and the vesting of their restricted stock awards in fiscal 2016.

Edgar Filing: WIDEPOINT CORP - Form 10-K

Name	Option Awards		Restricted Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Exercise (\$)(1)
Steve L. Komar	-	-	125,000	\$ 92,500
James T. McCubbin	-	-	125,000	\$ 92,500
Jin Kang	-	-	-	-

(1) The amounts in this column have been computed based on the closing price of our common stock on the vesting date. Mr. McCubbin received less than 125,000 shares because he elected to have 40,562 of such shares withheld in satisfaction of the corresponding tax liability of approximately \$32,300. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the Condensed Consolidated Statements of Cash Flows.



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

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

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

**Mr. Nyweide.** On January 6, 2017, we entered into an employment agreement with Jeffrey O. Nyweide, to serve as our Chief Executive Officer and President. The employment agreement has a three year term and provides for: (i) an annual base salary of \$300,000 (increasing \$25,000 annually); (ii) an annual bonus opportunity equal to 50% of the base salary based on us achieving performance goals determined by the Compensation Committee of the Board of Directors (payable one-half in cash and one-half in common stock); (iii) an initial stock option grant covering 600,000 shares of common stock vesting pro-rata over a three year period (subject to acceleration if certain performance goals are met); (iv) an initial restricted stock grant of 300,000 shares of common stock vesting only if certain performance goals are met, (v) participation in our employee benefit plans and (vi) four (4) weeks of vacation.

The employment agreement contains severance provisions which provide that upon the termination of his employment without Cause (as described below) or his voluntary resignation for a Good Reason (as described below), Mr. Nyweide will receive severance compensation payable in a lump-sum of cash equal six (6) month's base salary (increasing to twelve (12) months of base salary if terminated after the first year) and a pro rata bonus amount. The employment agreement further provides that if within 90 days prior to or two years after a change in control of the Company there occurs any termination of Mr. Nyweide for any reason other than for Cause or a voluntary resignation without a Good Reason, then the Company will be required to pay to Mr. Nyweide a one-time severance payment equal twelve (12) months base salary and a pro rata bonus. Mr. Nyweide also has an option to resign six months following a change in control and receive a severance payment of twelve (12) months base salary in certain circumstances.

A termination of the employment shall be deemed for "Cause" if, and only if, it is based upon the following: (i) the failure, neglect or refusal to perform material duties (in each instance, other than any such failure resulting from incapacity due to physical or mental illness); (ii) the failure to comply with any valid, material and legal directive of the Board of Directors; (iii) engagement in dishonesty, illegal or disloyal conduct, or willful or grossly negligent misconduct, which is, in each case, injurious to the interests, reputation or business of the Company or its Affiliates as determined by the Compensation Committee of the Board of Directors; (iv) embezzlement, misappropriation, or fraud, whether or not related to employment with the Company; (v) conviction of or plea of guilty or nolo contendere to a crime that constitutes a felony (or state law equivalent) or a crime that constitutes a misdemeanor involving moral turpitude; (vi) any material failure to comply with the Company's written policies or rules, as they may be in effect from time to time; or (vii) the material breach of any material obligation under the employment agreement or any other written agreement with the Company. A resignation shall not be deemed to be voluntary and shall be deemed to

be a resignation with “Good Reason” if it is based upon (i) a material diminution title, duties, responsibilities, authority or salary; (ii) a material reduction in bonus target or benefits; (iii) a direction by the Board of Directors he report to any person or group other than the Board of Directors; (iv) a requirement that he relocate; or (v) the Company’s material breach of the employment agreement.

**Mr. McCubbin.** On January 3, 2017, we entered into an amendment of an employment agreement with James T. McCubbin, our Executive Vice President, Chief Financial Officer, Secretary and Treasurer. The amendment to Mr. McCubbin’s employment agreement has a term expiring on March 31, 2018. The agreement provides for (1) a base salary of \$265,000, (2) a home office/automobile expense allowance of \$600 per month to cover such expenses incurred in the pursuit of our business; (3) a phone allowance of \$100 per month to cover such expenses incurred in the pursuit of our business; (4) reimbursement for additional actual business expenses consistent with our existing policies that have been incurred for our benefit; (5) paid medical and other benefits consistent with our existing policies with respect to our key executives, as such policies may be amended from time to time in the future; and (6) performance incentive bonuses as may be granted annually at the discretion of the Compensation Committee of the Board.

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

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

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

**Mr. Kang.** On January 9, 2017, we entered into an amendment to the employment agreement with Jin Kang, our Executive Vice President and Chief Executive Officer of WidePoint Integrated Solutions Corp. and Chief Operations Officer. The agreement is for a term ending on December 31, 2017 and provides for (1) a base salary of \$265,000 per year, (2) reimbursement for business expenses, (3) paid medical and other benefits consistent with our existing policies with respect to our key executives, as such policies may be amended from time to time in the future, and (4) bonus compensation in the reasonable discretion of the Compensation Committee of the Board of Directors.



Mr. Kang's employment period will continue from the date of his agreement until December 31, 2017 unless he is terminated earlier due to (a) Mr. Kang's death or permanent disability which renders Mr. Kang unable to perform his duties hereunder (as determined by the Company in its good faith judgment), (b) Mr. Kang's resignation, upon prior written notice to the Company of one hundred eighty (180) days, (c) termination by the Company for Cause or (d) termination by the Company without Cause upon prior written notice of one-hundred eighty (180) days. "Cause" is defined in the agreements as: (i) the repeated failure or refusal of Mr. Kang to follow the lawful directives of the Company, or its designee (except due to sickness, injury or disabilities), after prior notice to Mr. Kang and a reasonable opportunity to cure by Mr. Kang for up to thirty (30) days, (ii) gross inattention to duty or any other willful, reckless or grossly negligent act (or omission to act) by Mr. Kang, which, in the good faith judgment of the Company, materially injures the Company, including the repeated failure to follow the policies and procedures of the Company, after prior written notice to Employee and a reasonable opportunity to cure by Mr. Kang of up to thirty (30) days, (iii) a material breach of this Agreement by Mr. Kang, after prior written notice to Mr. Kang and a reasonable opportunity to cure by Mr. Kang of up to thirty (30) days, (iv) the commission by Mr. Kang of a felony or other crime involving moral turpitude or the commission by Mr. Kang of an act of financial dishonesty against the Company or, (v) a proper business purpose of the Company, which shall be limited to the elimination of the position filled by Mr. Kang as a result of a material decrease in revenues and/or profits of the Company, but with other cost cutting measures and the termination of other employees being first considered and instituted as determined in the sole judgment of the Company prior to the termination of Mr. Kang; provided, however, that in the event the Company terminates Mr. Kang under (v) above, then (I) the scope of the non-compete shall be limited to the products and services offered by the Company as of the termination of Mr. Kang and (II) the Company shall pay to Mr. Kang a continuation of base salary and benefits each month for the six (6) month period immediately following such termination. In the event Mr. Kang is terminated without Cause, then the Company shall pay to Mr. Kang a continuation of base salary and benefits each month for the six (6) month period immediately following such termination and the non-compete provisions in the agreement shall not apply.

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

During the last fiscal year, no member of the Compensation Committee had a relationship with us that required disclosure under Item 404 of Regulation S-K. During the past fiscal year, none of our executive officers served as a member of the board of directors or compensation committee, or other committee serving an equivalent function, of any entity that has one or more executive officers who served as members of our Board of Directors or our Compensation Committee. None of the members of our Compensation Committee is an officer or employee of our Company, nor have they ever been an officer or employee of our Company

### **Compensation Committee Report**

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

Discussion and Analysis be included in this Form 10-K.

James M. Ritter (Chair)

Morton S. Taubman

George W. Norwood

Otto J. Guenther

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

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

The following table sets forth beneficial owners of more than 5% based on 82,814,322 outstanding shares of Common Stock as of March 30, 2017:

Names and Complete Mailing Address	Number of Shares of Common Stock	Percent of Common Stock Outstanding	
Nokomis Capital, L.L.C., and Brett Hendrickson 2305 Cedar Springs Rd., Suite 420 Dallas, Texas 75201	12,774,251	15.4	%(1)

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

### Security Ownership of Directors and Executive Officers

The following table sets forth the number of shares of our Common Stock beneficially owned as of March 30, 2017 with respect to the beneficial ownership of Common Stock by each director, and each executive officer named in the Summary Compensation Table herein. In general, “beneficial ownership” includes those shares a director or executive officer has the power to vote or transfer, except as otherwise noted, and shares underlying warrants and stock options that are exercisable currently or within 60 days. The calculation of the percentage of outstanding shares is based on 82,814,322 shares outstanding as of March 30, 2017.

Directors, Nominees and Executive Officers	Number of Shares of Common Stock (1)	Percent of Common Stock Outstanding (1)	
Steve Komar (2)	2,281,178	3	%
Morton Taubman	-	*	
James McCubbin (3)	1,769,077	2	%
James Ritter (4)	90,500	*	
Jin Kang (5)	3,075,344	4	%
Otto Guenther (6)	62,000	*	
George Norwood (7)	62,000	*	
Jeff Nyweide (8)	-	*	

All directors and officers as a group (8 persons) (9)	7,340,099	9	%
---	-----------	---	---

\*Indicates ownership percentage is less than 1.0%.

(1) Assumes in the case of each shareholder listed above that all options held by such shareholder that are exercisable currently or within 60 days of March 30, 2017 were fully exercised by such shareholder, without the exercise of any warrants or options held by any other shareholders.



(2) Includes (i) 1,488,075 shares owned directly by Mr. Komar and (ii) 793,103 shares held by SLK Diversified L.P., a limited partnership controlled by Mr. Komar, as a result of which such shares are held by Mr. Komar indirectly.

(3) Includes 1,769,077 shares owned directly by Mr. McCubbin (excludes 125,000 shares of unvested restricted stock awards not vesting within 60 days).

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

(5) Includes (i) 2,880,344 shares owned directly by Mr. Kang, (ii) 170,000 earned and exercisable options to purchase shares from the Company at a price of \$0.76 per share until March 20, 2018, pursuant to a stock option granted on March 20, 2013, and (iii) 25,000 earned and exercisable options to purchase shares from the Company at a price of \$1.38 per share until May 8, 2020, pursuant to a stock option granted on May 8, 2015.

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

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

(8) Excludes 600,000 unvested options to purchase shares from the Company at a price of \$0.82 per share until January 17, 2021, pursuant to a stock option granted on January 17, 2017. Excludes 300,000 unvested restricted stock awards, pursuant to a restricted stock award granted on January 17, 2017.

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

## Equity Compensation Plan Information

The following table sets forth information as of December 31, 2016, with respect to the Company's compensation plans under which its Common Stock is authorized for issuance:

	(a)	(b)	(c)
Directors, Nominees and Executive Officers	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance (excluding securities reflected in column (a))
Equity Compensation Plans:			
Approved by security holders	2,090,668	\$ 0.86	1,796,929
Not approved by security holders	-	\$ -	-
Total	2,090,668	\$ 0.86	1,796,929

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

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

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

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

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

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

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

Service Type	2016	2015
Audit and Quarterly Review Fees (1)	\$196,400	\$192,500
Audit-Related Fees (2)	2,700	9,000
Total	\$199,100	\$201,500

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

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

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

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

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

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

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

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

**PART IV.**

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

§ Financial Statements and Financial Statement Schedule

Financial Statements:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2016 and 2015

Consolidated Statements of Operations for the Years Ended December 31, 2016 and 2015

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2016 and 2015

Consolidated Statements of Cash Flow for the Years Ended December 31, 2016 and 2015

Notes to Consolidated Financial Statements

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

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

Edgar Filing: WIDEPOINT CORP - Form 10-K

3.1 Amended and Restated Certificate of Incorporation of WidePoint Corporation. (Incorporated herein by reference to Exhibit A to the Registrant's Definitive Proxy Statement, as filed on December 27, 2004.)

3.2 Bylaws. (Incorporated herein by reference to Exhibit 3.6 to the Registrant's Registration Statement on Form S-4 (File No. 333-29833))

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

10.1.1 Amendment to Employment Agreement, between WidePoint Corporation and Jin Kang. \* (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 9, 2017.)

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

10.4 Employment Agreement between WidePoint Corporation and Jeffrey O. Nyweide.\* (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 9, 2017)



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

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

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

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

Amendment dated January 3, 2017 to Employment Agreement between WidePoint Corporation and James  
10.6.3 McCubbin.\* (Incorporated herein by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, as filed on January 9, 2017)

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

10.8 Business Loan Agreement effective as of April 27, 2016 between Cardinal Bank and the Company (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on April 29, 2016)

Change in Terms Agreement dated November 4, 2016 between WidePoint Corporation and its subsidiaries and  
10.9 Cardinal Bank (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed on November 9, 2016)

21 Subsidiaries of WidePoint Corporation (Filed herewith).

23.1

Consent of Moss Adams LLP (Filed herewith).

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

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

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

101. Interactive Data Files (Filed herewith).

101. INS+ XBRL Instance Document (Filed herewith).

101. SCH+ XBRL Taxonomy Extension Schema Document (Filed herewith).

101. CAL+ XBRL Taxonomy Extension Calculation Linkbase Document (Filed herewith).

- 101. DEF+ XBRL Taxonomy Definition Linkbase Document (Filed herewith).
- 101. LAB+ XBRL Taxonomy Extension Label Linkbase Document (Filed herewith).
- 101. PRE+ XBRL Taxonomy Extension Presentation Linkbase Document (Filed herewith).

\* Management contract or compensatory plan.

## SIGNATURES

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

WidePoint Corporation

Date: March 30, 2017 /s/ JEFFREY O. NYWEIDE  
*Jeffrey O. Nyweide*  
Chief Executive Officer

Date: March 30, 2017 /s/ JAMES T. MCCUBBIN  
*James T. McCubbin*  
Executive Vice President – Chief Financial Officer

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

Dated: March 30, 2017 /s/ JEFFREY O. NYWEIDE  
*Jeffrey O. Nyweide*  
Director, Chief Executive Officer and President  
(Principal Executive Officer)

Dated: March 30, 2017 /s/ STEVE L. KOMAR  
Steve L. Komar  
Executive Chairman of the Board

Dated: March 30, 2017 /s/ JAMES M. RITTER  
James M. Ritter  
Director

Dated: March 30, 2017 /s/ MORTON S. TAUBMAN  
Morton S. Taubman  
Director

Dated: March 30, 2017 /s/ OTTO GUENTHER  
Otto Guenther  
Director

Dated: March 30, 2017 /s/ GEORGE NORWOOD  
George Norwood  
Director

58

**INDEX TO FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2016 and 2015</u>	F-2
<u>Consolidated Statements of Operations for the Years ended December 31, 2016 and 2015</u>	F-3
<u>Consolidated Statements of Comprehensive Loss for the Years ended December 31, 2016 and 2015</u>	F-4
<u>Consolidated Statements of Stockholders' Equity for the Years ended December 31, 2016 and 2015</u>	F-5
<u>Consolidated Statements of Cashflows for the Years ended December 31, 2016 and 2015</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-8

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

WidePoint Corporation

We have audited the accompanying consolidated balance sheets of WidePoint Corporation and subsidiaries (the “Company”) as of December 31, 2016 and 2015, and the related consolidated statements of operations, comprehensive loss, changes in stockholders’ equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of WidePoint Corporation and subsidiaries as of December 31, 2016 and 2015, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/Moss Adams LLP

Scottsdale, Arizona

March 30, 2017

F-1



**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Balance Sheets

	DECEMBER 31,	
	2016	2015
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$9,123,498	\$7,930,303
Accounts receivable, net of allowance for doubtful accounts of \$344,411 and \$73,378 in 2016 and 2015, respectively	5,153,093	10,565,113
Unbilled accounts receivable	8,112,690	6,637,587
Inventories	123,287	28,400
Prepaid expenses and other assets	385,388	435,300
Income taxes receivable	42,896	-
Deferred income taxes	48,826	30,889
<b>Total current assets</b>	<b>22,989,678</b>	<b>25,627,592</b>
<b>NONCURRENT ASSETS</b>		
Assets held for sale	594,376	-
Property and equipment, net	736,678	1,513,307
Intangibles, net	4,298,902	5,101,523
Goodwill	18,555,578	18,555,578
Deposits and other assets	52,456	60,471
<b>TOTAL ASSETS</b>	<b>\$47,227,668</b>	<b>\$50,858,471</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short term note payable	\$131,761	\$131,953
Accounts payable	8,665,449	7,812,226
Accrued expenses	7,872,557	6,687,054
Deferred revenue	1,190,558	2,007,970
Income taxes payable	5,141	37,684
Current portion of long-term debt	94,868	893,706
Current portion of deferred rent	40,397	28,071
Current portion of capital lease obligations	4,097	28,752
<b>Total current liabilities</b>	<b>18,004,828</b>	<b>17,627,416</b>
<b>NONCURRENT LIABILITIES</b>		
Long-term debt related to assets held for sale, net of current portion	412,180	-

Edgar Filing: WIDEPOINT CORP - Form 10-K

Long-term debt, net of current portion	-	431,756
Capital lease obligation, net of current portion	-	11,962
Deferred rent, net of current portion	86,198	123,923
Deferred revenue	-	24,937
Deferred income taxes	447,811	447,811
<b>Total liabilities</b>	<b>18,951,017</b>	<b>18,667,805</b>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 2,045,714 shares issued and none outstanding	-	-
Common stock, \$0.001 par value; 110,000,000 shares authorized; 82,730,134 and 82,520,696 shares issued and outstanding, respectively	82,730	82,521
Additional paid-in capital	93,920,095	93,661,178
Accumulated other comprehensive loss	(309,369 )	(270,140 )
Accumulated deficit	(65,416,805)	(61,282,893)
<b>Total stockholders' equity</b>	<b>28,276,651</b>	<b>32,190,666</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$47,227,668</b>	<b>\$50,858,471</b>

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Operations

	YEAR ENDED DECEMBER 31,	
	2016	2015
REVENUES	\$78,420,864	\$70,838,017
COST OF REVENUES (including amortization and depreciation of \$1,204,858 and \$1,183,143, respectively)	64,410,468	57,605,357
GROSS PROFIT	14,010,396	13,232,660
OPERATING EXPENSES		
Sales and Marketing	2,667,808	3,030,249
General and Administrative Expenses (including share-based compensation of \$310,989 and \$299,337, respectively)	14,448,270	14,608,014
Product Development	699,013	673,093
Depreciation and Amortization	358,559	383,265
Total Operating Expenses	18,173,650	18,694,621
LOSS FROM OPERATIONS	(4,163,254 )	(5,461,961 )
OTHER INCOME (EXPENSE)		
Interest Income	14,591	23,031
Interest Expense	(72,231 )	(142,497 )
Other Income	13,536	33,009
Total Other Income (Expense)	(44,104 )	(86,457 )
LOSS BEFORE BENEFIT FOR INCOME TAXES	(4,207,358 )	(5,548,418 )
INCOME TAX BENEFIT	(73,446 )	(81,811 )
NET LOSS	\$(4,133,912 )	\$(5,466,607 )
BASIC EARNINGS PER SHARE	\$(0.05 )	\$(0.07 )
BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	82,687,789	82,228,974
DILUTED EARNINGS PER SHARE	\$(0.05 )	\$(0.07 )
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	82,687,789	82,228,974

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

F-3

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Comprehensive Loss

	YEAR ENDED DECEMBER 31,	
	2016	2015
Net Loss	\$ (4,133,912)	\$ (5,466,607)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	(39,229 )	(122,625 )
Other comprehensive loss	(39,229 )	(122,625 )
Comprehensive loss	\$ (4,173,141)	\$ (5,589,232)

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

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Changes in Stockholders' Equity

	Common Stock Issued	Common Stock Amount	Stock Warrants	Additional Paid-In Capital	Accumulated OCI	Accumulated Deficit	Total
Balance, January 1, 2015	81,656,763	\$81,657	\$ -	\$92,661,000	\$(147,515 )	\$(55,816,286)	\$36,778,856
Common stock issued under stock plan, option exercises	863,933	864	-	700,841			701,705
Stock compensation expense	-	-	-	299,337	-	-	299,337
Foreign currency translation loss					(122,625 )		(122,625 )
Net loss	-	-	-	-	-	(5,466,607 )	(5,466,607 )
Balance, December 31, 2015	82,520,696	\$82,521	\$ -	\$93,661,178	\$(270,140 )	\$(61,282,893)	\$32,190,666
Common stock issued under stock plan, restricted stock award vesting (net of shares withheld for taxes)	<b>209,438</b>	<b>209</b>	-	<b>(52,072 )</b>	-	-	<b>(51,863 )</b>
<b>Stock compensation expense</b>				<b>310,989</b>			<b>310,989</b>
<b>Foreign currency translation loss</b>					<b>(39,229 )</b>		<b>(39,229 )</b>
<b>Net loss</b>	-	-	-	-		<b>(4,133,912 )</b>	<b>(4,133,912 )</b>
<b>Balance, December 31, 2016</b>	<b>82,730,134</b>	<b>\$82,730</b>	<b>\$ -</b>	<b>\$93,920,095</b>	<b>\$(309,369 )</b>	<b>\$(65,416,805)</b>	<b>\$28,276,651</b>

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

F-5

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

	YEAR ENDED	
	DECEMBER 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$(4,133,912 )	\$(5,466,607 )
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Deferred income tax benefit	(17,937 )	(12,305 )
Depreciation expense	438,450	488,584
Provision for doubtful accounts	253,401	18,072
Amortization of intangibles	1,124,967	1,077,824
Amortization of deferred financing costs	-	10,304
Share-based compensation expense	310,989	299,337
Loss on disposal of equipment	-	1,259
Changes in assets and liabilities:		
Accounts receivable and unbilled receivables	4,380,778	(2,950,167 )
Inventories	(95,118 )	8,494
Prepaid expenses and other current assets	27,110	(13,214 )
Other assets	8,020	89,255
Accounts payable and accrued expenses	1,307,585	2,154,529
Income tax (payable) receivable	(75,539 )	49,080
Deferred revenue and other liabilities	(817,154 )	1,344,744
Net cash provided by (used in) operating activities	2,711,640	(2,900,811 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(274,659 )	(413,619 )
Software development costs	(332,894 )	(186,354 )
Proceeds from the sale of property and equipment	1,107	-
Net cash used in investing activities	(606,446 )	(599,973 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Advances on bank line of credit	18,254,362	21,995,057
Repayments of bank line of credit advances	(18,254,362)	(21,995,057)
Principal repayments of long term debt	(818,414 )	(2,186,354 )
Principal repayments under capital lease obligations	(30,990 )	(68,088 )
Restricted stock award tax liability payment	(32,331 )	-
Proceeds from exercise of stock options	-	701,705
Net cash used in financing activities	(881,735 )	(1,552,737 )



Net effect of exchange rate on cash and equivalents	(30,264 )	(170,875 )
NET INCREASE (DECREASE) IN CASH	1,193,195	(5,224,396 )
CASH, beginning of period	7,930,303	13,154,699
CASH, end of period	\$9,123,498	\$7,930,303

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

F-6

**WIDEPOINT CORPORATION AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

	YEAR ENDED DECEMBER 31,	
	2016	2015
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Cash paid for interest	\$67,437	\$157,472
Cash received from income tax refunds	\$20,529	\$110,649
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Insurance policies financed by short term notes payable	\$177,260	\$-

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

F-7

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Nature of Operations

#### *Organization*

WidePoint Corporation (“WidePoint” or the “Company”) was incorporated in Delaware on May 30, 1997 and conducts operations through several wholly-owned operating subsidiaries. The Company is a global provider of information technology (IT) based products, services, and solutions with sales and operational offices strategically located throughout the continental United States, Ireland, the Netherlands and the United Kingdom. The Company’s principal executive and administrative headquarters is located in McLean, Virginia.

#### *Nature of Operations*

We provide secure enterprise-wide information technology (IT) solutions to commercial enterprises, federal state and foreign governments in many different industry sectors. We use proprietary software, analytical tools and reporting solutions that enable our customers to actively manage their fixed and mobile communications assets and expenses and identity management requirements in an efficient and cost-effective manner in a safe and secure environment anywhere in the world.

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

### 2. Significant Accounting Policies

#### Basis of Presentation

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

### Principles of Consolidation

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

### Foreign Currency

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

## Segment Reporting

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

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

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

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

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

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

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

### *Use of Estimates*

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The more significant areas requiring use of estimates

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

*Fair Value Measurements*

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

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

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

- § Quoted prices for similar assets or liabilities in active markets
- § Quoted prices for identical or similar assets or liabilities in markets that are not active
- § Inputs other than quoted prices that are observable for the asset or liability
- § Inputs that are derived principally from or corroborated by observable market data by correlation or other means

Level 3 - Inputs that are unobservable and reflect the Company's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances (e.g., internally derived assumptions surrounding the timing and amount of expected cash flows). The Company measured the fair value of contingent seller financed promissory notes presented on the consolidated balance sheets at fair value on a recurring basis using significantly unobservable inputs (Level 3) during the years ended December 31, 2016 and 2015. See Note 4 for additional information regarding financial liabilities carried at fair value.

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

### *Going Concern Evaluation*

The Company adopted ASU No. 2014-15, *Presentation of Financial Statements – Going Concern* (“ASU No. 2014-15”). ASU No. 2014-15 effective with the quarter ended December 31, 2016. The amendments in ASU 2014-15 provide guidance regarding management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate for each annual and interim reporting period whether conditions exist that give rise to substantial doubt about the entity's ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. Disclosures are only required if conditions give rise to substantial doubt, whether or not the substantial doubt is alleviated by management's plans. No disclosures are required specific to going concern uncertainties if an assessment of the conditions does not give rise to substantial doubt. Substantial doubt exists when conditions and events, considered in the aggregate, indicate that it is probable that a company will be unable to meet its obligations as they become due within one year after the financial statement issuance date. The

Company has performed an annual assessment of its ability to continue as a going concern and concluded no additional disclosures are required.

Significant Customers and Concentration of Credit Risk

Significant Customers

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

Customer Name	YEARS ENDED	
	DECEMBER 31,	
	2016	2015
	As a	As a
	%	%
	of	of
	Revenues	Revenues
Department of Homeland Security (DHS)	62 %	49 %



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

Customer Name	DECEMBER 31,			
	2016		2015	
	As a % of		As a % of	
	<b>Receivables</b>		<b>Receivables</b>	
Department of Homeland Security (DHS)	47	%	51	%
US Airforce	—		14	%

Due to the nature of the Company's business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer and/or a delay in the continuation of an existing or new contract award could have a material adverse effect on its results of operations.

### Financial Instruments

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

### Cash and Cash Equivalents

The Company maintains interest-bearing cash deposits and short-term overnight investments with large financial institutions. The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents for purposes of these consolidated financial statements. Interest-bearing cash deposits maintained by financial institutions in the United States of America are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a maximum of \$250,000. At December 31, 2016 and 2015, the Company had deposits in excess of FDIC limits of approximately \$7,488,900 and \$5,575,800, respectively. The Company also maintains deposits with a financial institution in Ireland that are insured by the Central Bank of Ireland up to a maximum of €100,000 per financial institution. The Company also maintains deposits with a financial institution in the United Kingdom that are insured by Financial Services Compensation Scheme up to a maximum of £75,000 per financial institution. At December 31, 2016 and 2015, the Company had foreign bank deposits in excess of insured limits of approximately \$889,800 and \$16,700, respectively.

*Accounts Receivable*

The Company enters into contractual arrangements with federal, state, local and county governments using their respective master contract vehicles or individual purchase requisitions as may be required. A significant portion of our government contracts are awarded under a firm fixed price or time and materials basis not to exceed a specified target spend. Federal and state government customer orders are covered by a contract vehicle or master services agreement and specific goods and services are generally submitted through task orders or purchase requisitions under a master contract or under an individual purchase requisition. Contract billings against government contracts are due within 30 days of the invoice date. The Company may be required to resubmit an invoice at the request of the government for a number of reasons that may be beyond our control and ultimately delay our collection of outstanding invoices.

F-11

The Company enters into contractual arrangements with domestic and foreign commercial enterprises using a master service agreement and customized statement of work that outlines the product or services purchased, optional products and services and standard pricing based on volume or an hourly rate. Consulting services are charged based upon standard professional rates dependent upon level of expertise of the professionals involved. Also, the Company enters into fee arrangements for which the fees earned are based on a percentage of savings or other measures as may be determined in the applicable contract. Credit is extended to commercial customers based on evaluation of a customer's financial condition and, generally, collateral is not required. Commercial receivables generally have repayment terms that range from 30 to 90 days. Commercial receivables are stated at amounts due from customers net of an allowance for doubtful accounts if deemed necessary.

#### *Allowances for Doubtful Accounts*

The Company determines its allowance for doubtful accounts by considering a number of factors, including the type of customer, credit worthiness, payment history, length of time accounts receivable are past due, the Company's previous loss history, the customer's current ability to pay its obligation to the Company, and the condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they become uncollectible, and payments subsequently received on such receivables are credited to the allowance for doubtful accounts.

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

#### *Unbilled Accounts Receivable*

Unbilled accounts receivable represent revenues earned in connection with products and/or services delivered for which we are unable to issue a formal billing to the customer at the balance sheet due to either timing of invoice processing or delays due to fixed contractual billing schedules. A significant portion of our unbilled accounts receivable consist of carrier services and cybersecurity hardware and software products delivered but not invoiced at the end of the reporting period. To a lesser extent unbilled accounts receivable also consists of monthly managed

services performed but not invoiced at the end of the reporting period.

*Inventories*

Inventories consist of mobile devices and accessories and cybersecurity hardware components that will be used in custom identity management technology solutions and certain software licenses available for resale. Inventories are valued at the lower of cost, using first-in, first-out method, or market. The Company may record a write-down for inventories which have become obsolete or are in excess of anticipated demand or net realizable value. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes negatively impact the utility of inventory, we may be required to record additional write-downs, which would adversely affect our gross profit. For the year ended December 31, 2016, there were no inventory write-downs. For the year ended December 31, 2015, the Company recorded inventory write-downs related to obsolete inventory of approximately \$5,400 in the consolidated statements of operations within cost of revenues.

*Advance Billings and Customer Prepayments*

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

*Property and Equipment*

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

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

The Company assesses the recoverability of property and equipment by determining whether the depreciation of property and equipment over its remaining life can be recovered through projected undiscounted future cash flows. The amount of property and equipment impairment if any, is measured based on fair value and is charged to operations in the period in which property and equipment impairment is determined by management. As of December 31, 2016 and 2015, the Company’s management has not identified any material impairment of its property and equipment.

*Goodwill and Other Intangible Assets*

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

The Company’s intangible assets predominantly consist of intangibles recognized in connection with prior business combinations as explained in further detail below:

Acquired Intangible Assets. Intangible assets acquired in connection with a business combination are valued at fair value and amortized on a straight-line basis over the expected useful life which may range from three (3) to six (6) years or more depending on the intangible asset characteristics.

Internally Developed Intangible Assets. The Company capitalizes certain internal costs related to software development to deliver its information technology services including but not limited to its Intelligent Telecommunications Management System (ITMS™), Public Key Infrastructure (PKI) and Optimiser Telecom Data Intelligence (TDI™) applications. Significant development costs are capitalized from the point of demonstrated technological feasibility until the point in time that the product is available for general release to customers. Once the product is available for general release, capitalized costs are amortized based on units sold, or on a straight-line basis generally over the expected functional life which may range from two (2) to three (3) years.

The Company capitalizes certain costs related to its continuing Authority to Operate (ATO) which is key requirement in its credentialing solution. Capitalized costs are amortized on a straight-line basis over a period of one (1) to three (3) years.

#### *Revenue Recognition Principles*

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

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

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

§

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

Perpetual License - Revenue from software licenses which are sold as a perpetual license and which do not involve the significant production, modification or customization of the software are recognized when the software is delivered. Where an arrangement to deliver software involves significant production, modification or customization, the software revenue is not recognized until such time as the software has been accepted by the client.

Implementation fees are recognized over the term of the agreement once the software has been delivered.

Maintenance services, if contracted, are recognized ratably over the term of the maintenance agreement, generally twelve months.

F-14



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

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

*Policies:* Services performed include policy and contract permission based audits, accounts payable audits, and compliance reviews which are performed on a time and materials basis and contingent fee arrangement. Revenue on § time and material arrangements is recognized to the extent of billable rates times hours delivered plus material and other reimbursable costs incurred to deliver consulting services. Revenue on contingent-fee arrangements are recognized upon customer acceptance of proposed billing. This service is broadly classified as a managed service.

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

#### *Multiple Element Arrangements*

The Company enters into arrangements with multiple elements. In order to treat multiple element arrangements as separate units of accounting, the deliverables must have stand-alone value upon delivery. If the deliverables have stand-alone value upon delivery, the Company accounts for each deliverable separately.

When multiple elements included in an arrangement are separated into different units of accounting, the arrangement consideration is allocated to the identified separate units based on a relative selling price hierarchy. The Company determines the relative selling price for a deliverable based on its vendor-specific objective evidence of selling price ("VSOE"), if available, or its best estimate of selling price, if VSOE is not available. For certain professional services, the Company has established VSOE as a consistent number of stand-alone sales of the deliverable have been priced within a reasonably narrow range.

#### Product Development

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

For the years ended December 31, 2016 and 2015, the Company incurred product development costs of approximately \$699,000 and \$673,100, respectively. See Note 7 to the consolidated financial statements for additional information about capitalization of product development costs.

#### Income Taxes

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

## Basic and Diluted Earnings Per Share (EPS)

Basic EPS includes no dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted EPS includes the potential dilution that could occur if securities or other contracts to issue common and restricted stock were exercised or converted into common and restricted stock. The number of incremental shares from assumed conversions of stock options and unvested restricted stock awards included in the calculation of diluted EPS was calculated using the treasury stock method. See Note 13 to the consolidated financial statements for computation of EPS.

## *Employee Stock-Based Compensation*

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

## *Non-Employee Stock-Based Compensation*

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

## *Accounting Standards Update*

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which amended certain existing illustrative examples and adding additional illustrative examples to assist in the application of the guidance on principal versus agent considerations. The effective date and

transition of these amendments is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating the effect that ASU 2016-08 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, adoption date, or determined the effect of the standard on its ongoing financial reporting.

F-16

In August 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (Part 1), which included amendments to: 1) remove the requirement to defer recognition of excess tax benefits until such deduction results in a reduction in tax expense, 2) exclude excess tax benefits when applying the treasury stock method to compute diluted earnings per share, 3) clarify that excess tax benefits should be classified within the operating section of the statement of cash flows, and 4) estimation of forfeitures when calculating compensation cost. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The standard should be applied on a retrospective basis as of the beginning of the earliest comparative period presented and presented as a change in accounting principle with the cumulative effect on retained earnings and other components of equity disclosed. The Company is currently evaluating the effect that ASU 2016-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method, adoption date, or determined the effect of the standard on its ongoing financial reporting.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230). The new guidance is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The core principle of the ASU requires the classification of eight specific cash flow issues identified under ASC 230 to be presented as either financing, investing or operating, or some combination thereof, depending upon the nature of the issue. The ASU is effective for annual reporting periods, including interim periods within those annual periods, beginning after December 15, 2017. However, early adoption is permitted. Entities are required to use a retrospective transition approach for all of the issues identified to each period presented. We are currently evaluating the effect, if any, that the ASU will have on our consolidated financial statements and related disclosures.

In October 2016, the FASB issued ASU No. 2016-09, Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (Part 2), which included amendments to clarify statutory tax withholding requirements, classification of such taxes when paid by the employer and simplification of certain disclosures for privately-held companies. The new standard is effective for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The standard should be applied on a retrospective basis as of the beginning of the earliest comparative period presented and presented as a change in accounting principle with the cumulative effect on retained earnings and other components of equity disclosed. The Company has elected to adopt this ASU ahead of the effective date as permitted. The early adoption of this ASU will not have a material effect on the consolidated financial statements and disclosures as the Company's existing practices are similar to those included in this ASU.

### 3. Assets Held for Sale

In November 2016, the Company evaluated plans to either expand its current Lewis Center, Ohio ("Lewis Center Facility") or relocate to a larger facility that could accommodate the Company's growth and operational requirements.

In December 2016, the Company's management decided to put the Lewis Center Facility up for sale and identify a larger facility to lease. The Company expects to continue to fully utilize the Lewis Center Facility until the sale is closed. As of December 31, 2016, the Lewis Center Facility held for sale consisted of land and buildings with a historical cost of \$139,656 and \$537,398, respectively, and accumulated depreciation of \$82,678. The Lewis Center facility has an outstanding mortgage obligation of \$432,368 at December 31, 2016, of which \$20,187 is included in current portion of long term debt on the consolidated balance sheets. The net book value and mortgage obligation related to the Lewis Center Facility is separately classified as held for sale on the consolidated balance sheets.

The Company expects to close the sale of its Lewis Center Facility during the second quarter of 2017. The Company intends to use the net sales proceeds received to repay the mortgage obligation in full and use the balance to pay for leasehold improvements, computer hardware and any other costs to pay for lease improvement costs at a new facility. See Note 17 for additional information regarding a new facility lease.

#### 4. Fair Value Measurements

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

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

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

#### 5. Accounts Receivable and Unbilled Accounts Receivables

Accounts receivable consist of the following:

	DECEMBER 31,	
	2016	2015
Commercial	\$2,319,142	\$2,616,702
Government	3,178,362	8,021,789
Gross accounts receivable	5,497,504	10,638,491
Less: allowances for doubtful accounts	(344,411 )	(73,378 )
Accounts receivable, net	\$5,153,093	\$10,565,113

During the years ended December 31, 2016 and 2015, the Company recorded provisions for bad debt expense related to a single commercial customer totaling approximately \$274,000 (which was partially offset by recoveries of approximately \$20,000) and \$18,100, respectively. The Company has not historically maintained a bad debt reserve for its government customers as it has not experienced material or recurring bad debt charges and the nature and size of the contracts has not necessitated the Company's establishment of such a bad debt reserve.





Unbilled accounts receivable consist of the following:

	DECEMBER 31,	
	2016	2015
Commercial	\$278,862	\$422,138
Government	7,833,828	6,215,449
Unbilled accounts receivable	\$8,112,690	\$6,637,587

F-19

## 6. Property and Equipment

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

	DECEMBER 31,	
	2016	2015
Land and building	\$-	(1) \$677,054
Computer hardware and software	1,214,052	2,698,577
Furniture and fixtures	211,376	303,691
Leasehold improvements	486,467	568,642
Automobile	216,880	247,405
Gross property and equipment	2,128,775	4,495,369
Less: accumulated depreciation and amortization	(1,392,097)(1)	(2,982,062)
Property and equipment, net	\$736,678	\$1,513,307

As of December 31, 2016, the Company decided to sell its Lewis Center Facility and reclassified land and building (1) and related accumulated amortization under the caption assets held for sale on the consolidated balance sheets. See Note 3 for additional information.

For the years ended December 31, 2016 and 2015, depreciation expense recorded was approximately \$438,500 and \$488,600, respectively. For the year ended December 31, 2016 there were disposals of fully depreciated equipment with gross historical cost and accumulated depreciation of approximately \$1.8 million, respectively. For the year ended December 31, 2015 there were disposals of fully depreciated equipment with gross historical cost and accumulated depreciation of approximately \$446,200.

### Capital Leases

The gross value of assets under capital leases at December 31, 2016 and 2015 were approximately \$63,500 and \$372,600, respectively. For the years ended December 31, 2016 and 2015 there were no capital lease acquisitions, expiration or disposals of equipment leases. For the year ended December 31, 2015 there were disposals of certain expired equipment leases with a gross value and accumulated depreciation of approximately \$168,400, respectively. Depreciation expense for leased equipment for the years ended December 31, 2016 and 2015 was approximately \$14,200 and \$25,900, respectively, and accumulated depreciation at December 31, 2016 and 2015 was \$36,800 and \$351,400, respectively. Total net book value of assets under capital leases at December 31, 2016 and 2015 was approximately \$26,700 and \$21,200, respectively.

## 7. Intangible Assets

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

F-20

## DECEMBER 31, 2016

	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Weighted Average Amortization Period
Customer Relationships	\$ 1,980,000	\$ (1,237,500 )	\$ 742,500	4.5
Channel Relationships	2,628,080	(467,215 )	2,160,865	12.5
Telecommunications Software	2,796,756	(1,811,984 )	984,772	1.7
Cybersecurity Authority to Operate	444,665	(272,732 )	171,933	3.0
Trade Name and Trademarks	290,472	(51,640 )	238,832	8.0
	\$ 8,139,973	\$ (3,841,071 )	\$ 4,298,902	

## DECEMBER 31, 2015

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

Purchased Intangibles

For the years ended December 31, 2016 and 2015, the Company did not recognize any acquisition related intangible assets.

For the year ended December 31, 2016 the Company disposed of fully amortized purchased intangible assets with a historical cost and accumulated amortization of approximately \$610,000, respectively. For the year ended December 31, 2015 the Company disposed of fully amortized purchased intangible assets with a historical cost and accumulated amortization of approximately \$2.5 million, respectively.

Internally Developed

For the years ended December 31, 2016 and 2015 the Company recorded capitalized software costs related to our Cybersecurity Authority to Operate certification totaling approximately \$119,500 and \$186,300, respectively. The Company initially capitalized approximately \$441,000 of software development costs associated with its certificate-on-device solution set during the second and third quarter of 2016. During the fourth quarter of 2016, the Company wrote off all amounts capitalized due to loss of a key integrator for this solution. The Company did not capitalize any product development costs for the year ended December 31, 2015. For the years ended December 31, 2015 the Company did not dispose of any internally developed intangible assets.

F-21

The total weighted average remaining life of purchased and internally developed intangible assets is approximately 4.4 years and 2.1 years, respectively, at December 31, 2016.

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

	2017	2018	2019	2020	2021	Thereafter	Total
Customer Relationships	\$247,500	\$247,500	\$247,500	\$-	\$-		\$742,500
Channel Relationships	175,200	175,200	175,200	175,200	175,200	1,284,865	2,160,865
Telecommunications Software	462,800	230,100	133,700	73,600	73,600	10,972	984,772
Cybersecurity Software	135,700	36,233	-		-		171,933
Trade Name and Trademarks	19,400	19,400	19,400	19,400	19,400	141,832	238,832
	\$1,040,600	\$708,433	\$575,800	\$268,200	\$268,200	\$1,437,669	\$4,298,902

The aggregate amortization expense recorded was approximately \$1,125,000 and \$1,077,800 for the years ended December 31, 2016 and 2015, respectively.

## 8. Goodwill

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

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

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

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

As of December 31, 2016 and 2015, goodwill was not impaired and there were no accumulated impairment losses. There were no changes in goodwill during the years ended December 31, 2016 and 2015.

## 9. Line of Credit and Long Term Debt

### *Commercial Loan Agreement Facility*

On April 28, 2016, the Company entered into a Business Loan Agreement with Cardinal Bank (the "Loan Agreement"). On November 4, 2016, the Company entered into a modification of its Loan Agreement that: 1) decreased the Company's borrowing base as a percentage of qualified government and commercial receivables from 75% to 65% and 2) decreased the minimum after-tax net income requirement from \$200,000 to \$1.00 for the fourth quarter of 2016.

The Loan Agreement is for \$6.0 million and extended the maturity date of the credit facility is April 30, 2017. The available amount under the revolving line of credit is subject to a borrowing base, which is equal to the lesser of (i) \$6.0 million or (ii) 65% of qualified government and commercial accounts receivables, less any amounts outstanding on the Company's \$4.0 million term loan with Cardinal Bank. The interest rate for the revolving line of credit is the Wall Street Journal prime rate plus 0.75%, with a floor of 4.25%.

The Loan Agreement requires that the Company (i) maintain a minimum tangible net worth of at least \$6.5 million at December 31, 2016; (ii) generate a minimum after-tax net income of at least \$1.00 for the third and fourth quarter of 2016 and (iii) maintain a current ratio of 1.1:1 tested quarterly.

Under the credit facility the Company was advanced and repaid approximately \$18.2 million during year ended December 31, 2016. There was no balance outstanding against the Company's credit facility at December 31, 2016. As of December 31, 2016, the Company was not in compliance with its minimum after tax net income requirement of at least \$1.00 or its minimum tangible net worth requirement of \$6.5 million. The Company is working with Cardinal Bank to obtain a waiver for non-compliance. As of December 31, 2016, the Company was eligible to borrow up to \$3.5 million under the borrowing base formula.



*Long-Term Debt*

Long-term debt consisted of the following:

	DECEMBER 31,	
	2016	2015
Cardinal Bank mortgage dated December 17, 2010 (1)	\$432,367	\$450,770
Cardinal Bank term note dated December 31, 2011 (2)	74,681	874,692
Total	507,048	1,325,462
Less: current portion	94,868	893,706
Long-term debt, net of current portion	\$412,180	\$431,756
Long-term debt related to assets held for sale, net of current portion	\$412,180	\$-

(1) On December 17, 2010, the Company entered into a real estate purchase agreement to acquire the Lewis Center Facility for approximately \$677,000. In connection with the real estate purchase agreement the Company entered into a \$528,000 ten-year mortgage with Cardinal Bank to fund the unpaid portion of the purchase price. The mortgage loan bears interest at 6.0% with monthly principal and interest payments of approximately \$3,800, and matures on December 17, 2020. The mortgage loan principal and interest payments are based on a twenty-year amortization with the unpaid balance due at maturity. The mortgage loan is secured by the real estate. This mortgage obligation was classified separately as a liability held for sale on the consolidated balance sheets. See Note 3 for additional information regarding the planned sale of the Lewis Center Facility.

(2) On December 31, 2011, the Company entered into a \$4 million 5-year term note with Cardinal Bank to fund a portion of the purchase price paid in connection with the asset purchase agreement with AGS dated December 30, 2011. The term note bears interest at 4.50% with monthly principal and interest payments of approximately \$74,694, and matured on December 30, 2016. The Company paid the last scheduled installment payment on January 6, 2017.

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

Long-Term Debt	Other	Total
	Long-Term	
Related to Assets	Debt	Long-Term
		Debt

Held for Sale			
2017	\$ 20,187	\$ 74,681	\$ 94,868
2018	21,431	-	21,431
2019	22,753	-	22,753
2020	367,996	-	367,996
Total	\$ 432,367	\$ 74,681	\$ 507,048

#### Capital Lease Obligations

The Company has leased certain equipment and automobiles under capital lease arrangements that expire in 2017 and require final payments totaling approximately \$4,100 in 2017. There were no changes to existing lease arrangements during the year ended December 31, 2016. For the year ended December 31, 2016, the Company did not enter into any capital lease agreements. For the years ended December 31, 2016 and 2015 there were no disposals of equipment leases.

## 10. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". Under ASC 740, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. ASC 740 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized.

As of December 31, 2016, the Company had approximately \$31.9 million in net operating loss (NOL) carry forwards available to offset future taxable income for federal income tax purposes, net of the potential Section 382 limitations. These federal NOL carry forwards expire between 2020 and 2036. Included in the recorded deferred tax asset, the Company had a benefit of approximately \$28.5 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2036. Because of the change of ownership provisions of the Tax Reform Act of 1986, use of a portion of our domestic NOL may be limited in future periods. Further, a portion of the carryforwards may expire before being applied to reduce future income tax liabilities.

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

The Company files U.S. federal income tax returns with the Internal Revenue Service ("IRS") as well as income tax returns in various states and certain foreign countries. The Company may be subject to examination by the IRS for tax years 2003 and forward. The Company may be subject to examinations by various state taxing jurisdictions for tax years 2003 and forward. The Company may be subject to examination by various foreign countries for tax years 2014 forward. As of December 31, 2016, the Company is currently not under examination by the IRS, any state or foreign tax jurisdiction. The Company did not have any unrecognized tax benefits at either December 31, 2016 or 2015. In the future, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.



Income tax benefit is as follows for the years ended:

	DECEMBER 31,	
	2016	2015
Current provision (benefit)		
State	\$(63,457)	\$(110,930)
Foreign	7,948	41,424
Total	(55,509)	(69,506 )
Deferred provision (benefit)		
Foreign	(17,937)	(12,305 )
Total	(17,937)	(12,305 )
Income tax benefit	\$(73,446)	\$(81,811 )

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

	DECEMBER 31,			
	2016		2015	
Statutory federal income tax rate	34.0	%	34.0	%
State income tax rate (net of federal benefit)	-0.1	%	-0.1	%
Non-deductible expenses	-0.4	%	-0.7	%
Change in valuation allowance	-28.9	%	-40.7	%
Foreign rate differential	-2.8	%	3.6	%
Return to accrual difference true-ups	-0.4	%	2.4	%
Other	0.5	%	2.1	%
Combined effective tax rate	1.9	%	0.6	%

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

	DECEMBER 31,	
	2016	2015
Deferred tax assets:		
Net operating loss carryforwards	\$ 10,875,880	\$ 9,441,549
Alternative minimum tax credit	45,650	45,650
Share-based compensation	369,231	304,869
Intangible amortization	1,106,767	1,354,223
Foreign depreciation	16,244	17,763
Depreciation	-	36,763
Other assets	278,247	181,706
Total deferred tax assets	12,692,019	11,382,523
Less: valuation allowance	(9,791,680 )	(8,500,622 )
Total deferred tax assets, net	2,900,339	2,881,901
Deferred tax liabilities:		
Goodwill amortization	2,738,256	2,717,847
Depreciation	52,974	-
Foreign intangible amortization	447,811	447,811
Other liabilities	25,968	16,195
Foreign capitalized software costs	34,315	116,970
Total deferred tax liabilities	3,299,324	3,298,823
Net deferred tax liability	\$(398,985 )	\$(416,922 )

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

	DECEMBER 31,	
	2016	2015
Beginning balance	\$(8,500,622)	\$(6,139,958)
Increases	(1,291,058)	(2,360,664)
Ending balance	\$(9,791,680)	\$(8,500,622)

## 11. Stockholders' Equity

*Preferred Stock*

The Company's Certificate of Incorporation authorizes the Company to issue up to 10,000,000 shares of preferred stock, \$0.001 par value per share. Under the terms of the Company's Certificate of Incorporation, the board of directors is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue such shares of preferred stock in one or more series. Each such series of preferred stock shall have such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be determined by the board of directors. In November 2004, the Company filed a certificate of designation designating 2,045,714 shares of the Company's preferred stock as shares of Series A Convertible Preferred Stock, which shares were later issued. All of the shares of Series A Convertible Preferred Stock that was issued has been converted into common stock and may not be reissued. Accordingly, as of December 31, 2016, there were 7,945,286 undesignated shares of preferred stock remaining available for issuance. There were no issuances of preferred stock during the year ended December 31, 2016.

### *Common Stock*

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. As of December 31, 2016, there were 82,730,134 shares of common stock outstanding.

### Common Stock Issuances - Employee Stock Option Exercises

There were no stock option exercises during the year ended December 31, 2016. Shares of common stock issued as a result of stock option exercises for the year ended December 31, 2015 was 863,933. The Company realized gross proceeds of approximately \$701,700 from the exercise of stock options for year ended December 31, 2015. See Note 12 for additional information regarding stock option plans.

## 12. Stock Options and Award Programs

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

### Restricted Stock Awards

On November 18, 2010, the Company's Compensation Committee granted Steve L. Komar and James T. McCubbin each an award of 250,000 shares of restricted stock of the Company, the vesting of which is based upon the earlier to occur of (a) the seventh anniversary date of the grant, or (b) an acceleration event as determined on the date of grant by the Compensation Committee and set forth in the award agreement with respect to such grant.

A summary of RSA activity as of and for the years then ended are set forth below:



	<b>2016</b>	2015
<b>NON-VESTED AWARDS</b>		
Non-vested awards outstanding, January 1,	<b>500,000</b>	500,000
Vested (-)	<b>250,000</b> (1)	— (2)
Non-vested awards outstanding, December 31,	<b>250,000</b>	500,000

(1) The Company issued 209,438 shares of the Company's common stock in connection with this accelerated vesting event, of which Mr. Komar received 125,000 shares and Mr. McCubbin received 84,438 shares. Mr. McCubbin received less than 125,000 shares because he elected to have 40,562 of such shares withheld in satisfaction of the corresponding tax liability of approximately \$32,300. Shares withheld for tax withholding are considered treasury shares which were retired simultaneously with this transaction. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the Condensed Consolidated Statements of Cash Flows.

(2) During fiscal 2015, there were no shares purchased by the Company for tax withholding or any other purpose.

The total intrinsic value of RSAs vested during the year ended December 31, 2016 was approximately \$185,000. The intrinsic value of outstanding unvested RSAs as of December 31, 2016 was approximately \$202,500.

### Non-Qualified Stock Option Awards

During the year ended December 31, 2016 the Company granted 650,000 NQSOs to employees. The fair value of each these employee NQSOs were estimated on the date of grant using a Black-Scholes option pricing model (“Black-Scholes model”). The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model (“Black-Scholes model”), which requires an assumption of dividend yield, risk free interest rates, volatility, forfeiture rates and expected option life. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Expected volatilities are based on the historical volatility of our common stock over the expected option term. The expected term of options granted is based on analyses of historical employee termination rates and option exercises.

Option pricing model assumptions for NQSO awards granted were valued using the following assumptions for the years then ended as set forth below:

	DECEMBER 31,	
	2016	2015
Expected dividend yield	0%	0%
Expected volatility	68.0%-69.6%	66%-72%
Risk-free interest rate	1.4%-1.7%	0.9%-1.5%
Forfeiture rate	2.0%-3.0%	2.0%-3.0%
Expected life - Employees options	3-5 years	3-5 years
Expected life - Board of directors options	2-years	n/a

A summary of NQSO activity as of December 31, 2016 and 2015, and changes during the years then ended are set forth below:

	2016		2015	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
NON-VESTED AWARDS				

Edgar Filing: WIDEPOINT CORP - Form 10-K

Non-vested balances, January 1,	841,672	\$ 0.80	1,340,838	\$ 0.57
Granted (+)	650,000	\$ 0.40	180,000	\$ 0.70
Cancelled (-)	25,000	\$ 0.72	250,000	\$ 0.39
Vested (-)	546,672	\$ 0.69	429,166	\$ 0.29
Non-vested balances, December 31,	920,000	\$ 0.59	841,672	\$ 0.80

F-29

OUTSTANDING AND EXERCISABLE AWARDS	2016		2015	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Awards outstanding, January 1,	1,857,668	\$ 0.91	2,791,601	\$ 0.83
Granted (+)	650,000	\$ 0.70	180,000	\$ 1.45
Cancelled (-)	417,000	\$ 0.83	250,000	\$ 0.74
Exercised (-)	-	-	863,933	\$ 0.81
Awards outstanding, December 31,	2,090,668	\$ 0.86	1,857,668	\$ 0.91
Awards vested and expected to vest, December 31,	1,964,739	\$ 0.87	1,857,668	\$ 0.91
Awards outstanding and exercisable, December 31,	1,170,668	\$ 0.82	1,015,668	\$ 0.68

There were no NQSOs exercised during the year ended December 31, 2016. The aggregate intrinsic value of NQSOs exercised (the amount by which the fair value of the Company's stock exceeds the exercise price of the option) was \$713,400 during the year ended December 31, 2015.

During the year ended December 31, 2016 there were 187,000 vested NQSOs that expired unexercised at the end of the option term and 230,000 vested NQSOs that were cancelled due to termination of employment.

No tax benefit has been associated with the exercise of stock options for the years ended December 31, 2016 and 2015, respectively, because of the existence of net operating loss carryforwards. There will be no credit to additional paid in capital for such until the associated benefit is realized through a reduction of income taxes payable.

The weighted-average remaining contractual life of the NQSOs outstanding, exercisable, and vested and expected to vest was 3.2 years, 2.4 years and 2.4 years, respectively, as of December 31, 2016.

#### Stock Compensation Expense

Share-based compensation recognized under ASC 718-10 (including restricted stock awards) represents both stock options based expense and stock grant expense. The Company recognized share-based compensation expense for the years then ended December 31 as set forth below:

Edgar Filing: WIDEPOINT CORP - Form 10-K

	2016	2015
Restricted stock compensation expense	\$ 125,623(1)	\$ 87,144
Non-qualified stock compensation expense	185,366	212,193
Total share-based compensation before taxes	\$ 310,989	\$ 299,337

(1) Fiscal 2016 includes \$71,167 in additional compensation expense due to acceleration of unamortized RSA compensation expense associated with early vesting of 250,000 RSAs.

F-30

At December 31, 2016, the Company had approximately \$34,500 of total unamortized RSA compensation expense, related to the remaining 250,000 unvested RSAs that will be recognized over the weighted average remaining period of 0.9 years. At December 31, 2016, the Company had approximately \$274,400 of total unamortized compensation expense, net of estimated forfeitures, related to NQSOs that will be recognized over the weighted average period of 2.0 years.

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

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

	YEAR ENDED	
	DECEMBER 31,	
	2016	2015
Basic EPS Computation:		
Net (loss) income	\$(4,133,912 )	\$(5,466,607 )
Weighted average number of common shares	82,687,789	82,228,974
Basic EPS	\$(0.05 )	\$(0.07 )
Diluted EPS Computation:		
Net (loss) income	\$(4,133,912 )	\$(5,466,607 )
Weighted average number of common shares	82,687,789	82,228,974
Incremental shares from assumed conversions of stock options	-	-
Adjusted weighted average number of common shares	82,687,789	82,228,974
Diluted EPS	\$(0.05 )	\$(0.07 )

The dilutive effect of unexercised stock options and unvested restricted stock awards outstanding under the Company's stock plan excludes 2,340,668 and 2,357,668 of options from the computation of EPS for the years ended December 31, 2016 and 2015, respectively.

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

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

	YEAR ENDED	
	DECEMBER 31,	
	2016	2015
Balances, January 1	\$(270,140)	\$(147,515)
Net foreign currency translation loss	(39,229 )	(122,625)
Balances, December 31	\$(309,369)	\$(270,140)

F-31

## 15. Commitments and Contingencies

*Operating Lease Commitments*

The Company entered into property and equipment leasing arrangements that expire at various times between April 2017 and September 2027, with optional renewal periods. See Note 17 for additional information regarding a new facility lease agreement signed after December 31, 2016. Minimum lease payments range from \$1,000 to \$28,000 per month and may require additional rent to cover a proportionate share of taxes, maintenance, insurance and other shared expenses. Rents are generally increased annually by fixed amounts, subject to certain maximum amounts defined within individual agreements. Rent expenses under these operating leases for the years ended December 31, 2016 and 2015 were approximately \$865,500 and \$977,000, respectively.

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

	Property Leases	Equipment Leases	Net Lease Total
2017	\$762,000	\$144,000	\$906,000
2018	884,000	14,000	898,000
2019	570,000	-	570,000
2020	330,000	-	330,000
2021	334,000	-	334,000
Thereafter	1,232,625	-	1,232,625
Total	\$4,112,625	\$158,000	\$4,270,625

*Employment Agreements*

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

*Litigation*



The Company is not involved in any material legal proceedings.

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

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

Revenue Mix	YEAR ENDED DECEMBER 31,	
	2016	2015
Carrier Services	\$44,276,969	\$37,499,954
Managed Services	34,143,895	33,338,063
	\$78,420,864	\$70,838,017

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

Geographic Region	YEAR ENDED DECEMBER 31,	
	2016	2015
North America	\$73,526,658	\$65,349,884
Europe	4,894,206	5,179,498
Middle East	-	308,635
	\$78,420,864	\$70,838,017

## 17. Subsequent Events

### Lease Agreement

In March 2017, the Company entered into 10-year lease agreement for a 14,382 square foot facility to accommodate growth and operational requirements in Columbus, Ohio to replace our Lewis Center Facility that we expect to sell. The Lewis Center Facility is being built out to meet the Company's requirements and is expected to be ready for occupancy by no later than May 2017. The lease agreement includes six (6) months of free rent from May 1, 2017 (assumed commencement date) through October 31, 2017. The lease requires monthly minimum rent of approximately \$20,700, of which \$10,200 covers base minimum lease payments and \$10,500 covers estimated annual operating expenses and real estate taxes. Base minimum lease payments are subject to an annual escalation of approximately 3.5% beginning on October 1, 2018. The term of the lease expires on September 30, 2027, unless the Company elects to use an early termination provision that is available in October 2023. Any early termination election would require an immediate payment of a fixed penalty that may range from \$260,000 to \$265,000.

### Executive Management Transition

On January 6, 2017, the Company's Board of Directors appointed Jeffrey O. Nyweide to succeed Steve Komar as Chief Executive Officer and President of WidePoint Corporation. Mr. Nyweide was also appointed as a member of the Board of Directors. The Company's former Chief Executive Officer and President Steve Komar will assume the role of Executive Chairman, continuing to serve as a Member of WidePoint's Board.

