

Edgar Filing: WIDEPOINT CORP - Form 10-Q/A

WIDEPOINT CORP  
Form 10-Q/A  
November 15, 2001

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-Q/A No. 1  
(For Quarterly Period Ended September 30, 2001)

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

WIDEPOINT CORPORATION  
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(Exact name of Registrant as specified in its charter)

Delaware	000-23967	52-2040275
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(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

One Mid-America Plaza Oakbrook Terrace, Illinois	60181
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(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (630) 645-0003  
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The undersigned registrant hereby includes the following item of its  
Quarterly Report on Form 10-Q for the period ended September 30, 2001, as set  
forth on the pages attached hereto:

Part I. Item 1. Financial Statements

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

WIDEPOINT CORPORATION

By: /s/ James T. McCubbin  
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James T. McCubbin  
Vice President, Secretary  
and Treasurer

Date: November 15, 2001

WIDEPOINT CORPORATION

AMENDMENT NO. 1 TO QUARTERLY REPORT ON FORM 10-Q

WidePoint Corporation ("WidePoint" or the "Company") hereby files this  
Amendment No. 1 to its Quarterly Report on Form 10-Q for the period ended  
September 30, 2001, to correct an inadvertent transposition in the EDGAR  
conversion process of the amounts shown on (i) its Balance Sheet for Accounts  
Receivable as of September 30, 2001 and December 31, 2000, and (ii) its Cash

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Flow Statement for Net Increase (decrease) in Cash as of the Three Months Ended September 30, 2000 and the Nine Months Ended September 30, 2001.

### PART 1. FINANCIAL INFORMATION

#### ITEM 1. FINANCIAL STATEMENTS

#### WIDEPOINT CORPORATION AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 30, 2001	December 31, 2000
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,599,962	\$ 1,085,696
Accounts receivable, net of allowance of \$41,900 and \$208,832, respectively	639,421	1,880,165
Prepaid expenses and other assets	43,958	173,698
Total current assets	2,283,341	3,139,559
Property and equipment, net	166,799	335,935
Intangible assets, net	5,929,450	6,155,850
Other assets	57,146	59,045
Total assets	\$ 8,436,736	\$ 9,690,389
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 508,862	\$ 1,237,879
Current portion of capital lease obligation	21,949	29,830
Total current liabilities	530,811	1,267,709
Long-term capital lease obligation, net of current portion	10,189	24,430
Total liabilities	541,000	1,292,139
Shareholders' equity		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, None issued and outstanding	--	--
Common stock, \$0.001 par value, 50,000,000 shares authorized, 12,984,913 shares issued and outstanding as of September 30, 2001 and December 31, 2000	12,985	12,985
Stock warrants	140,000	140,000
Additional paid-in capital	41,931,484	41,931,484
Accumulated deficit	(34,188,733)	(33,686,219)

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Total shareholders' equity	7,895,736	8,398,250
	-----	-----
Total liabilities & shareholders' equity	\$ 8,436,736	\$ 9,690,389
	=====	=====

The accompanying notes are an integral part of these statements.

2

WIDEPOINT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended September 30,		End
	2001	2000	2001
	(unaudited)		
Revenues	\$ 1,252,994	\$ 3,055,321	\$ 5,098,7
Operating expenses:			
Cost of sales	632,633	1,682,578	2,668,7
Sales and marketing	103,383	426,018	532,0
General and administrative	506,937	2,279,565	2,021,7
Facilities closing expense	--	273,000	--
Disposition of subsidiary	--	694,220	--
Depreciation and amortization	135,666	238,624	410,3
	-----	-----	-----
Income (loss) from operations	(125,625)	(2,538,684)	(534,1
	-----	-----	-----
Other income (expenses):			
Interest income	11,204	25,592	35,6
Interest expense	(1,800)	(62,341)	(3,9
Other	--	--	--
	-----	-----	-----
Net income (loss)	\$ (116,221)	\$ (2,575,433)	\$ (502,5
	=====	=====	=====
Basic net income (loss) per share	\$ (0.01)	\$ (0.20)	\$ (0.
	=====	=====	=====
Basic and weighted average shares outstanding	12,984,913	12,984,913	12,984,9
	=====	=====	=====

The accompanying notes are an integral part of these statements.

3

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WIDEPOINT CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended September 30,		
	2001	2000	
	(unaudited)		
Cash flows from operating activities:			
Net (loss) income	\$ (116,221)	\$ (2,575,433)	\$ (5)
Adjustments to reconcile loss to net cash:			
Depreciation and amortization expense	135,666	238,624	4
Loss (Gain) on sale of property and equipment	207	--	
Disposition of subsidiary	--	694,220	
Changes in assets and liabilities:			
Accounts receivable	255,532	621,772	1,2
Prepaid expenses and other assets	78,854	76,149	1
Other assets	--	(47,455)	
Accounts payable and accrued expenses	(291,358)	229,091	(7)
	-----	-----	-----
Net cash provided by (used in) operating activities	62,680	(763,032)	5
	-----	-----	-----
Net cash used in investing activities:			
Purchases of property and equipment	--	(32,439)	(
Proceeds from sale of property and equipment	250	--	
	-----	-----	-----
Net cash used in investing activities	250	(32,439)	(
	-----	-----	-----
Net cash (used in) provided by financing activities:			
Net (payments) borrowings on long-term obligations	(7,550)	(9,119)	(
	-----	-----	-----
Net cash (used in) provided by financing activities	(7,550)	(9,119)	(
	-----	-----	-----
Net increase (decrease) in cash	55,380	(804,590)	5
	-----	-----	-----
Cash, beginning of period	1,544,582	2,325,503	1,0
	-----	-----	-----
Cash, end of period	\$ 1,599,962	\$ 1,520,913	\$ 1,5
	=====	=====	=====

The accompanying notes are an integral part of these statements.

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4

## WIDEPOINT CORPORATION AND SUBSIDIARIES

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PRESENTATION, ORGANIZATION, AND NATURE OF OPERATIONS:

The accompanying unaudited financial statements have been prepared in accordance with Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America ("US GAAP") for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the financial statements of WidePoint Corporation, as of December 31, 2000, and the notes thereto included in the Annual Report on Form 10-K filed by the Company. The results of operations for the three months and nine months ended September 30, 2001, are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

WidePoint Corporation (the "Company") focuses on implementing middle market companies' Information Technology ("IT") e-strategies. The Company helps its clients analyze, design, implement, and support e-business solutions that improves the value of their e-business initiatives.

In 1996, the Company acquired all of the outstanding shares of Century Services, Inc. ("CSI"), a corporation that provided re-engineering and information processing services to users of large-scale computer systems. In December 1998, the Company acquired all of the outstanding shares of Eclipse Information Systems, Inc. ("Eclipse"), a corporation that provides IT consulting services through several practice areas focused in distributed client server technologies. In October 1999, the Company acquired all of the outstanding shares of Parker Management Consulting, Ltd. ("PMC"), a corporation that provides IT consulting services focused in Enterprise Resource Planning ("ERP"). During 1999, the Company established a new subsidiary named WidePoint Corporation ("WidePoint-Subsidiary"). During the first half of 2000, the Company substantially consolidated all of the Company's IT services into its WidePoint-Subsidiary. Further, in June 2000, the Company merged CSI, Eclipse and WidePoint-Subsidiary into the Company, with the Company being the surviving entity in such mergers. In conjunction with such mergers, the Company changed its corporate name from ZMAX Corporation to WidePoint Corporation and changed the trading symbol for its common stock from "ZMAX" to "WDPT." On September 29, 2000, the Company sold all of the outstanding shares of its PMC subsidiary to a third-party purchaser.

The Company's operations are subject to certain risks and uncertainties, including among others, rapidly changing technology; current and potential competitors with greater financial, technological, production and marketing resources; reliance on certain significant customers; the need to develop additional products and services; the integration of acquired businesses; dependence upon strategic alliances; the need for additional technical personnel; dependence on key management personnel; management of growth; uncertainty of future profitability; and

5

possible fluctuations in financial results. The Company has devoted substantial resources to shifting its business mix to comprehensive e-business services and implementing a refined strategy. As a result, the Company experienced operating

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losses and negative cash flows from operations during 2000. These losses and negative operating cash flows may continue for additional periods in the future. There can be no assurance that the Company's operations will become profitable or will produce positive cash flows. The Company intends to fund its operational and capital requirements using cash on hand and with debt financing that it may be able to arrange in the future. There can be no assurance that such new financing will be available, or available on terms management finds acceptable.

### 2. Significant Accounting Policies:

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the acquired entities since their respective dates of acquisition. All significant intercompany amounts have been eliminated.

#### Use of Estimates

The preparation of consolidated financial statements in conformity with US GAAP 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. Actual results could differ from those estimates.

#### Cash and Cash Equivalents

Investments with purchased maturities of three months or less are considered cash equivalents for purposes of these condensed consolidated financial statements. The Company maintains cash and cash equivalents with various major financial institutions. At September 30, 2001 and 2000, cash and cash equivalents included investments in overnight sweep accounts of \$1,628,826 and \$1,081,807, respectively. At times, cash balances held at financial institutions were in excess of federally insured limits. The Company places its temporary cash investments with high-credit, quality financial institutions, and as a result, the Company believes that no significant concentration of credit risk exists with respect to these cash investments.

#### Revenue Recognition

Revenue on time-and-materials contracts is recognized based upon hours incurred at contract rates plus direct costs. Revenue on fixed-price contracts is recognized on the percentage-of-completion method based on costs incurred in relation to total estimated costs. Anticipated losses are recognized as soon as they become known. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Revenue from the resale of hardware products is recognized upon shipment.

6

Unbilled accounts receivable on time-and-materials contracts represent costs incurred and gross profit recognized near the period-end but not billed until the following period. Unbilled accounts receivable on fixed-price contracts consist of amounts incurred that are not yet billable under contract terms. Unbilled accounts receivable totaled \$5,227 and \$82,331 at September 30, 2001 and 2000, respectively. Significant Customers

For the three months ended September 30, 2001, three customers individually represented 16%, 13% and 11%, respectively, of revenue. For the nine months ended September 30, 2001, two customers individually represented 18% and 10%, respectively, of revenue. For the three months ended September 30,

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2000, one customer individually represented 13% of revenue. Due to the nature of the Company's business and the relative size of certain contracts, the loss of any single significant customer could have a material adverse effect on the Company's results of operations.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. Accounts receivable include amounts due from relatively large companies in a variety of industries. As of September 30, 2001, two customers individually represented 16% and 12% percent of accounts receivable. As of September 30, 2000, no customer individually represented more than 10% of accounts receivable.

### Income Taxes

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes." Under SFAS No.109, 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. SFAS No. 109 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.

### Basic and Diluted Net Loss Per Share

In March 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 128, "Earnings per Share." SFAS No. 128 requires dual presentation of basic and diluted earnings per share. Basic income or loss per share includes no dilution and is computed by dividing net income or loss by the weighted-average number of common shares outstanding for the period. Diluted income or loss per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. The treasury stock effect of options and warrants to purchase shares of common stock outstanding at September 30, 2001 and 2000 has not been included in the calculation of the net loss per share as such effect would have been antidilutive. As a result of these items, the basic and diluted loss per share for all periods presented are identical.

7

### Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform with the current year presentation.

### Stock-based compensation

The Company accounts for stock-based employee compensation arrangements using the intrinsic value method in accordance with the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure provisions of SFAS No. 123 "Accounting for Stock-Based Compensation." Under APB Opinion No. 25, compensation cost is generally recognized based on the difference, if any, on the date of grant between the fair value of the Company's common stock and the amount an employee must pay to acquire the stock.

### New accounting pronouncements

On July 20, 2001, the Financial Accounting Standards Board (FASB) issued

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Statement of Financial Accounting Standards No.141 (SFAS No. 141), "Business Combinations," and Statement of Financial Accounting Standards No. 142 (SFAS No. 142), "Goodwill and Intangible Assets." SFAS No. 141 is effective for all business combinations completed after June 30, 2001. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001; however, certain provisions of this Statement apply to goodwill and other intangible assets acquired between July 1, 2001, and the effective date of SFAS No. 142. Major provisions of these Statements and their effective dates for the Company are as follows:

1. All business combinations initiated after June 30, 2001 must use the purchase method of accounting. The pooling of interest method of accounting is prohibited except for transactions initiated before July 1, 2001.
2. Intangible assets acquired in a business combination must be recorded separately from goodwill if they arise from contractual or other legal rights or are separable from the acquired entity and can be sold, transferred, licensed, rented, or exchanged, either individually or as part of a related contract, asset, or liability.
3. Goodwill, as well as intangible assets with indefinite lives, acquired after June 30, 2001, will not be amortized. Effective January 1, 2002, all previously recognized goodwill and intangible assets with indefinite lives will no longer be subject to amortization.
4. Effective January 1, 2002, goodwill and intangible assets with indefinite lives will be tested for impairment annually and whenever there is an impairment indicator.
5. All acquired goodwill must be assigned to reporting units for purposes of impairment testing and segment reporting.

Goodwill (using current exchange rates) is currently being amortized at approximately \$76,000 quarterly and is projected to have a net carrying value of approximately \$5.9 million at the date of

8

adoption of this standard. The Company is currently evaluating the provisions of SFAS No. 142 and has not yet determined the effect that adoption of this standard will have on its financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") 101, "Revenue Recognition in Financial Statements," which provides guidance related to revenue recognition based on interpretations and practices followed by the SEC. SAB 101 requires companies to report any changes in revenue recognition as a cumulative change in accounting principles in accordance with Accounting Principles Board Opinion 20, "Accounting Changes." The SEC subsequently issued SAB 101A, "Amendment: Revenue Recognition in Financial Statements," which delayed implementation of SAB 101 until the Company's second fiscal quarter of 2000 and SAB 101B, which delayed the implementation date of SAB 101 until no later than the Company's fourth fiscal quarter of 2000. The Company has evaluated the implications of SAB 101 and has not identified any changes in the Company's historical practices with regards to revenue recognition.

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). This statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities.



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In June 1999, the FASB issued Statement of Financial Accounting Standards No. 137, which deferred the effective date of SFAS 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. The Company has adopted SFAS 133, as amended, for the fiscal quarter ending June 30, 2001. The Company does not expect the adoption of SFAS 133 to have a material impact on its financial position or results of operations.

### 3. Stock Warrants:

#### Stock Warrants

On September 20, 1999, the Company entered in a two-year agreement with an international investment banking firm to provide investment banking, mergers and acquisitions and strategic planning services. In conjunction with this agreement, the Company issued a stock warrant to purchase 200,000 shares of common stock at \$2.75 per share, an amount that exceeded the stock's trading price on that date. The Company used a fair-value option pricing model to value this stock warrant, and it was determined to have a fair value of approximately \$140,000 at the date of grant. The deferred compensation associated with the warrant was reflected as a separate component of stockholders' equity. As of September 30, 2001, because the exercise price of the warrant significantly exceeded the fair value of the Company's common stock, the fair value of the warrant as measured under a fair-value option pricing model is zero.

On October 1, 1999, the Company issued a stock warrant to purchase 200,000 shares of common stock at \$5.00 per share, an amount that exceeded the stock's trading price on that date, as part of the PMC acquisition. The warrant has a term of 3 years. The Company used a fair-value option pricing model to value this stock warrant at approximately \$140,000. This value has been reflected as part of stock warrants in the stockholders' equity section of the consolidated

9

balance sheet and has been included as part of the Company's purchase accounting for the PMC acquisition. This warrant remains outstanding subsequent to the sale of the PMC subsidiary.

### 4. Commitments and Contingencies:

#### Litigation

The Company is periodically a party to disputes arising from normal business activities. In the opinion of management, resolution of these matters will not have a material adverse effect upon the financial position or future operating results of the Company, and adequate provision for any potential losses has been made in the accompanying consolidated financial statements.

10