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, 2022
or

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

For the transition period from __________________ to ___________________

Commission File Number: 001-33035

WidePoint Corporation

(Exact name of Registrant as specified in its charter)

Delaware	**52-2040275**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

11250 Waples Mill Road, South Tower, Suite 210, Fairfax, Virginia 22030
(Address of principal executive offices) (Zip Code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value per share	WYY	NYSE AMERICAN

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 every Interactive Data File required to be submitted 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 such files): Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated Filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes ☐ No ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 American on the last business day of the registrant's most recently completed second fiscal quarter, was approximately $20.8 million.

As of March 23, 2023, there were 8,725,476 shares of the registrant's Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of WidePoint Corporation's proxy statement in connection with its 2023 Annual Meeting of Stockholders are incorporated by reference in Part III.

Cautionary Note Regarding Forward Looking Statements and Risk Factor Summary

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,” “may,” “objective,” “plan,” “potential,” “positioned,” “predict,” “should,” “target,” “will,” “would” and other similar expressions that are predictions of 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 the following risk factor summary:

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

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

- Inflationary pressures on costs, such as costs for devices, labor and distribution costs may impact our financial condition or results of operations.

- Our financial resources are limited and the failure of one or more new product or service offerings could materially harm our financial results.

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

- We may be unable to sustain profitability.

- Our credit facility contains covenants and expires on June 15, 2023 and if we are unable to renew the credit facility with our current lender or any other lender in the future, we may need to obtain additional funding or raise capital, which may not be available on favorable terms or at all.

- The loss of significant federal customer contracts could also have an adverse impact on our financial results.

- Federal agencies and certain large customers can unexpectedly terminate their contracts with us at any time without penalty and the loss of such customers would have an adverse impact on our financial results.

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

- Acquisitions we undertake may present integration challenges, fail to perform as expected, increase our liabilities, and/or reduce our earnings.

- We may be unable to successfully acquire complementary businesses, services or technologies to support our growth strategy.

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

- Although the Federal government budget was signed into law in December 2022, the process has been held up in connection with the U.S. debt ceiling debate, which could impact the timing of awards, as well as potential future delays in budget approvals will have a negative impact on our ability to grow within the Federal government sector.

- Security breaches or cybersecurity events could result in the loss of customers and negative publicity and materially harm our business.

- 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.

- The COVID-19 pandemic or another pandemic and the regulatory, social, and business responses thereto on the Company’s business, operations, employees, contractors, and clients.

- The negative impact of any catastrophic events, including acts of terrorism, civil unrest, outbreak of war or hostilities, such as the current conflict between Russia and Ukraine, adverse climate or weather events and pandemics or other public health emergencies, as well as our response to any of the aforementioned factors.

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 Technology Management as a Service (TMaaS) that consists of federally certified communications management, identity management, interactive bill presentment and analytics, and Information Technology as a Service solutions. We help our clients achieve their organizational missions for mobility management, information technology management, and cybersecurity objectives in this challenging and complex business environment.

We offer our TMaaS solutions through a flexible managed services model which includes both a scalable and comprehensive set of functional capabilities that can be used by any customer to meet the most common functional, technical and security requirements for mobility management. Our TMaaS solutions were 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. The flexibility of our TMaaS solutions enables our customers to be able to quickly expand or contract their mobility management requirements. Our TMaaS solutions are hosted and accessible on-demand through both a secure federal government certified proprietary portal and/or through a secure enterprise portal that provides our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy identity management solutions that provide secured virtual and physical access to restricted environments.

Our Solutions

Our TMaaS framework combines the strengths of our core capabilities into a single secure comprehensive enterprise-wide solution set that offers our customer's the ability to securely enable and manage their mobile IT and telecommunication assets as described below:

Telecom Lifecycle Management

We offer comprehensive telecom lifecycle management solutions to enterprises both in the public and the private sectors. Our solutions are delivered in a hosted and secure multi-modal delivery environment. Our solutions provide full visibility of telecom assets for our clients thereby enabling our clients to securely and efficiently manage all aspects of telecom assets, while reducing the overall cost of ownership. We offer state-of-the-art call centers that are available 24/7 to help our customers stay productive.

Mobile and Identity Management

As one of two DoD designated External Certificate Authorities, we offer several different federally certified digital certificates and credentials that enable our customers to provide the strong multifactor authentication (MFA) solution to conduct business through secure portals owned and managed by the U.S. federal government, access government facilities and secure mobile devices that are used to access corporation networks, databases and other IT assets. We also offer comprehensive mobile security solutions that protect users, devices, and corporate resources, including establishing effective policies to create a scalable, adaptable, successful mobile program. We also offer the same MFA solution to enterprise in the private sectors with the same level of cybersecurity assurance.

Digital Billing and Unified Communications Analytics Solutions

We offer innovative and interactive billing communications and analytics solutions to large communications service providers (CSPs). Our customized solutions give their end customers the ability to view and analyze their bills online via our advanced self-serve user portal 24/7. Our solutions are delivered in a hosted and secure environment and provide our CSPs with full visibility into their revenue model which drives a stronger customer experience and reduces their operating costs and improves profitability.

IT as a Service

We provide comprehensive information technology (IT) as a service offerings (ITaaS), including cybersecurity, cloud services, network operations, and professional services. We provide a complete outsourcing solution that includes hardware, software, network and associated management for our clients' IT needs. Additionally, we provide development operations support, artificial intelligence implementation, and the Microsoft stack of technologies to help our customers to be productive, agile, and efficient in a secure environment. provide the above solutions from the cloud that ensures scalability, resiliency, and security. We also provide "migration to the cloud" services that enables our customers to take advantage of cost savings through economies of scale and elimination of redundancy as well as taking advantage of built in scalability and resiliency of the cloud.

Sales Cycle

We sell service solutions to government and business enterprises. Our ability to successfully sell our services depends upon the relationships we build and maintain relationships with key decisions makers at existing customers and prospective customer organizations. Our sales cycle is long and is often affected by many factors outside of our control including but not limited to customer specific proposal and acquisition processes, unique customer service requirements, the customer's timetable and urgency, changes in key leadership and/or personnel that slows down the proposal or project, an evaluation by different functional groups within the prospective customers organization before a purchase decision is made by the organization, budgetary funding delays, intermittent U.S. federal government shutdowns, competitive bidding processes and other policy constraints, as well as additional 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.

It could take more than 12 months to enter into a contract with a customer from the time we first actively engage a prospective customer and then a full implementation could range from mere weeks to several months depending on the complexity of the customers statement of work and level of engagement by us and the customer to get the deployment completed. Contract closing and implementation timelines vary as a result of these factors, many of which are outside our control.

Sales Approaches

We approach selling our services under either a direct sales model under which we control the contract and key relationships or we partner with a large systems integrator and other strategic partners to provide our TMaaS solution as part of their overall total solution offering to the end customer. We have historically grown our business under the direct sales model; however, more recently we have closed a significant portion of our new sales through our partnerships with large systems integrators. While we believe we can continue to be successful growing our sales through both models, larger scale opportunities tend to require partnerships with large entrenched systems integrators and other strategic partners.

Our sales approaches are summarized below:

Systems Integrators. We partner with large systems integrators to collectively pursue large market opportunities that include our some or all of our TMaaS solution within the scope of the solicitations. In these types of arrangements, we generally operate as a subcontractor and manage the customer relationship closely with the prime contractor. We do not utilize any channel partners or third-party firms in this sales approach.

Strategic Partnerships. We partner with vendors who are leaders in their industries such as Healthcare, Telecommunication, Transportation, etc. to leverage their channels or reseller networks to sell our TMaaS solution. This approach allows us to sell into markets that would be otherwise be costly and difficult to reach. By leveraging these partners' existing customer relationships, we can shorten the sale cycle and have a higher success rate

Internal Sales Force. We have a team of sales professionals account managers and project managers that are responsible for identifying and pursuing commercial and government opportunities for our TMaaS offerings. We take a team approach for engaging with a potential customer. Our sales teams consists of sales lead, account managers, solution experts and other subject matter experts to assist with execution of product demonstrations, proposal creation and submission, contract negotiation, relationship management, sales closing and final transition of closed deals to the operations team. Sales commissions are calculated and paid based on net collected gross managed service revenues times a fixed commission rate that declines over the base term of the contract. There are no commissions paid after the base term expires. We plan to add resources for this effort to help manage our system integrator and strategic partnership efforts as well as increasing the number of qualified leads in our sales pipeline to further spur growth.

Upselling and Cross Selling. After a customer is on boarded, we focus on delivering our service promise and then upsell and cross sell our TMaaS solution offerings. We may enter into preferred supplier network programs agreements with our customers and offer our TMaaS solutions on similar terms and conditions to their suppliers and customer which in turn could increase our potential sales opportunities. We also directly ask our customers for referrals into their professional network, customer and supplier groups to drive additional sales opportunities.

Indirect Sales Approach. We may use an indirect sales approach to reach new target markets by outsourcing our lead generation and certain business development activities through a third-party channel partner. We do not use this sales approach very often due to the high cost of commissions charged by these channel partners as their commission terms often span the entire life of the customer relationship which may not be financially viable to the customer or us. We do not anticipate using this sales approach extensively to drive sales opportunities.

Our 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 markers 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 broad-based and targeted marketing campaigns designed to broaden market awareness of our solutions and expertise. Broad-based marketing campaigns include attending and speaking at industry and tradeshows, website marketing, publishing technical whitepapers and use case studies, topical webcasts, public relations campaigns, subject matter expert forums and industry visibility initiatives. Targeted marketing campaigns including internet search engine optimization, directed e-mail and direct mail, co-marketing strategies designed to leverage existing customer and network relationships.

Customer Concentrations

We derive a significant amount of our revenues from contracts funded by federal government agencies for which we act in capacity as the prime contractor, or as a subcontractor. We believe that contracts with federal government agencies in particular, will be the primary source of our revenues for the foreseeable future although we are working to increase our footprint with commercial customers through our relationships with large systems integrators and strategic partners. Accordingly, negative changes in federal government fiscal or spending policies (including continuing budget resolutions and government shutdowns) that impact the spending budgets of our key government customers, including Department of Homeland Security, will directly affect our financial performance.

We expect all of our customers to be motivated to meet their organizational needs for mobile management, IT management, and security objectives in this challenging environment. As a result of delivering our TMaaS service solution we can often save our customers a significant portion of their total spend on mobility and security management which translates into real cash savings. While most of our customers use their savings to purchase and upgrade their managed services, our customers could potentially negatively impact our billable revenue base and result in lower profit margins if they decide to retain the savings and not purchase additional higher margin services. We believe we have an attractive set of solutions and we also believe that government spending for mobility management and for cybersecurity services and solutions will increase for the foreseeable future.

Our government customer base is located predominantly in the Mid-Atlantic region of the U.S. while our commercial customer 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 federal government contracts in the United States.

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 customer contracts both in public and private sectors.

Government Contracts

We have numerous government contracts and contract vehicles. Our contracts with the federal government, and many contracts with other entities, permit the government customer 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.

Contract vehicles include Government Wide Acquisition Contracts (“GWACs”), and Blanket Purchase Agreements (“BPAs”) based upon 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 Homeland Security for Cellular Wireless Managed Services (CWMS) 2.0 Indefinite Delivery/Indefinite Quantity Contract (DHS CWMS 2.0 IDIQ).

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

  - NASA End-User Services and Technologies (NEST)
  - GSA Alliant 2
  - GSA Enterprise Infrastructure Solutions (EIS)
  - GSA Connections II
  - National Institutes of Health Chief Information Officer Solutions and Partners (CIO-SP3)
  - NASA Solutions for Enterprise-Wide Procurement (SEWP)
  - Department of Justice (DOJ) Enterprise Standard Architecture V (ESA V)

We will continue to build on our partnerships with key systems integrators and strategic partners to compete for public and private sector opportunities.

Product Development and Technology Solution Enhancements

We believe that our existing technology platforms are adequate and meet our operational obligations to our customers. 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 meeting our customer’s changing organizational requirements, as 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 heterogeneous services delivery platforms, and improving the security posture and delivery of our information technology services.

We utilize a standard architecture to ensure enhancements are subject to appropriate oversight and scrutiny and follow a consistent and efficient process. Our development team is comprised of professionals with hands-on technical and practical customer-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 as well as platform and portal integrations and other product and portal enhancements during the year. For the years ended December 31, 2022 and 2021, we incurred product development costs associated with our next generation TMaaS platform application, Secure Identity Management Solutions, Unified Communications Analytics (UCAS) solution, and data center of approximately $3.2 million and $2.6 million, respectively, which were capitalized. In 2023, we will continue to work with our strategic partners to continue and focus our product development efforts as well as with customer integrations.

Security Certification and Accreditation

Our TMaaS solution framework has received multiple security certifications and accreditations from the federal government. As a result we have multiple authorizations to operate (ATOs) from the Department of Homeland Security, the General Services Administration, the Department of Defense, and the Department of Commerce. The ATOs attest to the fact that we meet all of the cybersecurity requirements for processing sensitive data as ascribed by the Federal Information Management Act at the Moderate and High levels. These ATOs are difficult, time consuming, and costly to attain. Our security certification and accreditation represents a significant reduction of security risk for our customers both in public and private sectors.

Data Centers

We host our proprietary solutions and operate all servers, systems and networks multiple data centers located in North America and Europe, which we may consolidate in the future. We also host our proprietary solutions in the cloud and have plans to migrate more customers to the cloud 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 utilize monitoring technology software tools that continuously checks our servers and key underlying components at regular intervals for issues with system availability and performance, server and application security and penetration vulnerabilities, and other factors that may impact the availability of our systems 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 tools, 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 service as a solution, technology, operational 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 may be contested, circumvented or invalidated. Moreover, the rights that may be granted in those 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 patents and the other steps that we have taken to protect our intellectual property cannot be predicted with certainty.

Market Competition

Our TMaaS market is centered on mobile management, identity management, ITaaS and digital billing and analytics.

Target Markets. Our target market is highly fragmented and we compete with small and large companies that offer different components of TMaaS. We believe that we are presently the only provider of all four of these critical services offerings. We believe that our TMaaS solution offering gives us a strong competitive advantage over our competitors due to our distinctive technical competencies, long-standing client relationships, successful past contract performance with large commercial and government organizations, governmental certifications and authorizations to operate (ATOs) within this space, price and value of services delivered, reputation for quality, and key management personnel with subject matter expertise.

Market Pricing. Pricing for services in our market lacks transparency due to the way in which our competitors price their services. Our competitors take advantage of this lack of pricing transparency and prospective customer's lack of understanding and awareness of market pricing for services. Our competitors often take advantage of a prospective customer and will often heavily discount their prices to unprofitable levels thereby creating a commodity pricing environment that affects the value of the solution perceived by prospective customers, severely limits profitability for other service providers that provide better solutions, discourages further innovation and harms the customer in the end. The costs to switch solutions can be high for a prospective customer even if they know their current solution is not working.

Our prices for services are transparent and we attempt to match our customers need with the right level of services for a single inclusive fee whenever practical. We practice transparent pricing strategies that allow our customers to purchase our entire full-service solution or select only the services they require to meet their needs. We do not use introductory teaser rates to attract new customers or conduct bait and switch pricing tactics with our customers as is often practiced by our competitors. Pricing for our TMaaS offering will vary depending on our prospective customer's technology infrastructure, scale of their operations, workflow requirements and many other factors that can affect pricing.

We do not view our services as a commodity, and comparability of our TMaaS offering against other competitors' service offerings is not practical due to differences in pricing models described above and overall capabilities among competitors. As a result of this pricing differences between us and our competitors it can be difficult to compare to pricing models in our market.

All prospective customers tend to initially have price sensitivity and that often changes after we are able to demonstrate that our solutions are superior and will save them time and money. We believe our TMaaS solution pricing is competitive and reflects the value of the solutions provided to our customers. Our goal is providing the best solution for our customers that meets their needs.

Competition. Our TMaaS solution crosses into several different market segments and as a result we do not have competitors that compete in all of the market segments in which we conduct business. Some of our principal competitors include: MDSL/Calero, Tangoe, Inc., Brightfin, DMI, A&T Systems, and Turning Point Global Services, LLC; Identity Management – Entrust Corp., IdenTrust and XTec Inc.; Digital Billing & Analytics – Amdocs Britebill and Globys Inc.; ITaaS - BMC Software, HPE, StratCore; Next Level Technologies, and many others.

Our larger competitors often have more size and financial resources than us and they may be able to provide a wider array of technology solutions outside of our core capabilities. 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.

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.

Contracting

We prefer to serve as the prime contractor when we win contract awards; however, we will often serve as a subcontractor and partner with a large systems integrator to win a larger market opportunity. We also may enter into strategic teaming agreements with another competitor or a vertical supplier to capture a market opportunity. Prospective customers 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 (including blanket purchase agreements and similar indefinite delivery indefinite quantity 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.

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 carrier services revenues and 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. Additionally, because we derive a large percentage of our revenue from the U.S. Federal Government, their budgeting process also affects the purchasing patterns of our the agency customers that will significantly impact the quarter to quarter financial performance

Regulation

Our most significant source of regulation relates to compliance with laws and regulations relating to the formation, administration, and performance of U.S. government contracts, including:

- 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 Truthful Cost or Pricing Data Act (formerly known as Truth in Negotiations Act), which requires certification and disclosure of all cost or pricing data in connection with some contract negotiations;
- the Procurement Integrity Act;
- 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 (i) the use and dissemination of information classified for national security purposes, (ii) the exportation of specified solutions, technologies and technical data, and (iii) the use and dissemination of sensitive but unclassified data;
- the General Data Protection Regulation is a regulation in EU law on data protection and privacy in the European Union (EU) and the European Economic Area (EEA). It also regulates the transfer of personal data outside the EU and EEA areas

The federal government audits and reviews our performance on contracts, pricing practices, cost structure, and compliance with applicable laws, regulations, and standards. 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.

Human Capital

As of December 31, 2022, WidePoint employed 215 full time employees (183 in United States and 32 in Europe), 5 consultants, 3 part-time staff, and 15 subcontractors.

We consider our human capital to be one of the most important strategic assets or our company. As such, we seek to foster and maintain a safe, professional, and harassment free work environment. Each employee is required to conduct himself or herself as required by WidePoint's business code of conduct and ethics policy contained in the WidePoint Employee Handbook. Our core values are:

People. Attract, develop, and retain the best and the brightest talent for our business and strongly encourage intellectual curiosity to learn new ways to efficiently and effectively deliver our services. Value diversity of our people, foster an open and inclusive environment and treat each person in a manner that reflects our values.

Service. Deliver long-term customer satisfaction in all our TMaaS service offerings in a manner that enables WidePoint to meet or exceed established financial targets that will ultimately deliver greater shareholder value.

Integrity. Act with the highest integrity and ethics and inspire trust from our customers, employees, vendors, and other stakeholders by matching our behaviors to our words and taking responsibility for our actions.

We expect every WidePoint employee to adhere to these core values when dealing with colleagues, customers, suppliers, and any other potential stakeholder of WidePoint.

WidePoint provides a compensation package that is competitive within our industry such that we will attract, retain, motivate and reward superior employees who must operate in a highly competitive and technologically challenging environment. We seek to link annual changes in compensation to overall Company performance, as well as each individual's contribution to the results achieved. The emphasis on overall Company performance is intended to align the employee's financial interests with the interests of shareholders. Our compensation package also include a broad range of benefits such as healthcare insurance, career training and education tuition reimbursement, 401K retirement plan, annual paid time off, and many others.

We recognize the benefits of building a corporate culture that promotes diversity, equity and inclusion ("DEI") and build teams that focus on:

- cultivating an environment that encourages collaboration, flexibility and fairness to enable all employees to contribute to their full potential;
- promoting diversity in our talent management and succession planning processes and employee development programs; and
- ensuring leadership commitment in facilitating the Company's DEI efforts

We believe the combination of competitive compensation package and career growth and development opportunities have helped increase employee tenure and reduce voluntary turnover. As of December 31, 2022, the average tenure of our employees was approximately seven (7) years and more than one fourth of our employees have been employed by us for more than ten (10) years.

Corporate Information

We were incorporated on May 30, 1997 under the laws of the State of Delaware. Our principal executive offices are located at 11250 Waples Mill Rd., South Tower, Suite 210, Fairfax, Virginia 22030. Our internet address is www.widepoint.com. Information on our website is not incorporated into this Form 10-K. We make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission (the "SEC"). The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at http://www.sec.gov.

ITEM 1A. RISK FACTORS

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

RISKS RELATED TO OUR BUSINESS

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

We operate in a market that is highly fragmented, price sensitive and subject to fierce competition. Additionally, rapid changes in technology affect our ability to respond timely with new and innovative product offerings to address new market needs. We have a significant presence in the U.S federal marketplace and we expect the intensity of competition for government contracts, as well as commercial contracts to continue to increase in the future as existing competitors develop additional capabilities that better align with our core competencies and those of our target customer segment.

While we believe our customer service, strong customer retention and integrated technology solution sets are among our key differentiators, our competitors may offer introductory pricing and significantly discount their services to gain market share and/or in exchange for revenues with higher margin services in other areas or at later dates. 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. In addition, many of our competitors have greater financial resources than we have. If we are unable to compete effectively, it will be difficult for us to maintain our pricing rates and add and retain customers, have adequate financial resources to pay for and retain key personnel, and our business, financial condition and results of operations will be harmed.

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

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 world. 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 and harm our profit margins.

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.

The loss of significant customer contracts, including our IDIQ with the Department of Homeland Security, could also have an adverse impact on our financial results.

While we believe that our business relationships with key decision makers are strong and represent a strong competitive advantage for us; however, it is possible that the strength of our relationship could diminish if our primary customer contacts leave their firm or the customer is acquired by another firm that uses a competitor to deliver the same services. We estimate that the loss of any large contract with annual managed service revenues of more than $1 million, without any offsetting aggregate contract wins, could have a significant adverse impact on our operating cash flow and financial results; and we would likely be faced with a decision to initiate cost reduction actions that would largely include reductions in force for personnel and assets affected by the contract loss. Approximately 39% of our managed service revenue in 2022 was generated under our DHS contracts. If DHS CWMS 2.0 IDIQ were terminated, it would have a material adverse impact on our future revenue, profitability and cash flows.

Inflationary pressures on costs, such as inputs for devices, labor and distribution costs may impact our financial condition or results of operations.

As a provider of TMaaS services, we sell equipment manufactured by various suppliers and depend on suppliers to provide us, directly or through other suppliers, with items such as network equipment, customer premises equipment, and wireless-related equipment and other connected devices. In 2021 and throughout 2022, the costs of these inputs and the costs of labor necessary to develop and maintain our networks and our products and services have rapidly increased. In addition, many of these inputs are subject to price fluctuations and supply issues from a number of factors, including, but not limited to, market conditions, demand for raw materials used in the production of these devices and network components, weather, climate change, energy costs, currency fluctuations, supplier capacities, governmental actions, war (including the conflict between Ukraine and Russia), import and export requirements (including tariffs), and other factors beyond our control. Although we are unable to predict the impact on our ability to source materials in the future, we expect these supply and inflationary pressures to continue into 2023.

Our attempts to offset these cost pressures, such as through increases in the selling prices of some of our products and services, may not be successful. Higher product prices may result in reductions in sales volume. Consumers may be less willing to pay a price differential for our products and may increasingly purchase lower-priced offerings, or may forego some purchases altogether, during an economic downturn. To the extent that price increases are not sufficient to offset these increased costs adequately or in a timely manner, and/or if they result in significant decreases in sales volume, our business, financial condition or operating results may be adversely affected. Furthermore, we may not be able to offset any cost increases through productivity and cost-saving initiatives.

Risks from acquisitions include integration challenges, a failure to achieve objectives, and the assumption of liabilities.

Acquisitions, such as our acquisition of ITA Authorities, often present significant challenges and risks. The risks from an acquisition include the Company failing to achieve strategic objectives and anticipated revenue and profit improvements, as well as failing to retain the key personnel of the acquired business. Additionally, failure to meet financial objectives of an acquisition could lead to impairment charges of intangible assets and goodwill in future periods. Finally, the assumption of liabilities related to litigation or other legal proceedings involving the acquired business may present a significant risk. There can be no assurance that any acquisition we complete achieves the results and/or synergies that we expected.

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 a 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.

Our financial resources are limited and the failure of one or more new product or service offerings could materially harm our financial results.

Product research and development can be time consuming and costly, without any guarantee of a return on our investment. The failure of one of our products or services to gain market acceptance could cause us financial harm due to the costs involved in developing or acquiring new products and services and , thereafter, marketing such new products and services. Any failure to gain market acceptances of our products and services could have a material adverse impact on our financial results. In addition, many of our competitors have greater resources than us and we if we cannot keep pace with the intense competition in our marketplace, our business, financial condition and results of operations will suffer.

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

A high percentage of our operating expenses, particularly personnel, rent and communications costs, are fixed in advance of any particular quarter. As a result, an unanticipated or prolonged 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 and cash flow for that quarter. An unanticipated termination, decrease or delay in the implementation of a significant anticipated customer contract could require us to maintain underutilized employees and that could have a material adverse effect on our cash flow, financial condition and results of operations. Other factors that may negatively affect our earnings from quarter to quarter include changes in:

- the contractual terms and timing of completion of projects, including achievement of certain business results;
- acceptance of our products to commercial or government customers;
- budgets for government customers;
- the implementation of new projects;
- the adequacy of provisions for losses and bad debts;
- the accuracy of our estimates of resources required to complete ongoing projects;
- personnel, including the loss of key highly skilled personnel necessary to complete projects;
- labor shortages;
- supply chain issues;
- inflationary pressures;
- natural disasters, cyberattacks, war and/or terrorist attacks;
- global pandemics, such as the coronavirus (COVID 19); and
- general economic conditions and international hostilities including war, such as the current conflict between Russia and Ukraine.

These factors could adversely affect customer demand, the Company’s operations, and its ability to source and deliver services to its customers, which could have a material adverse effect on the Company’s financial results.

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

We have access to a credit facility, which consists of a variable line of credit primarily to meet short-term working capital requirements and to partially fund acquisition growth. Our credit facility agreement requires us to maintain certain financial covenants on a quarterly and annual basis. The Company was not in compliance with its Tangible Net Worth covenant at December 31, 2022; however, the lender provided a waiver of that December 31, 2022 covenant violation. The Company expects to be out of compliance with its covenants in the period through the June 15, 2023 expiration of the credit facility and is working with the bank to obtain a waiver as necessary, though there is no certainty that such a waiver will be provided. If we are unable to meet future covenants, our lender could take adverse actions that might include raising our variable interest rate, accelerating in part or in full payment of all unpaid principal and interest, reducing the amount of our credit facility, or offering renewal terms that are unfavorable, all of which could have a material adverse impact on our ability to meet periodic short term operational cash flow requirements and manage through prolonged government shutdowns. Similarly, our credit facility expires in June 2023 and if we are unable to renew the credit facility with our current lender or any other lender in the future, our business and operating results will suffer and we may need to obtain additional funding or raise capital, which may not be available on favorable terms or at all.

***We may be unable to sustain profitability*.**

Although we achieved profitability during the prior three years, we have a long history of losses prior thereto. A significant contributing factor driving such prior net operating losses were investments in sales and marketing and product development projects that did not produce the expected return on investment; and as a result placed a significant cumulative strain on our networking capital and overall financial position. There is no guarantee that we will be able to sustain our recent improvements in financial performance and meet our financial goals of growing top line revenue and positive net income without closing significant new business and incremental contract expansions. An inability to successfully grow our sales pipeline and close on new business that is profitable could affect our long-term viability, profitability and ultimately limit the financial resources we have available to grow our business and achieve our desired financial results.

Federal agencies and certain large customers can unexpectedly terminate their contracts with us at any time without penalty.

All of our government contracts, including but not limited to the DHS IDIQ, contain a standard clause which allows the government to cancel our contract for convenience without penalty. In addition, our contracts with the federal government permit the governmental agency to modify, curtail or terminate the contract at any time for the convenience of the government.

Some of our commercial contracts with large enterprises also contain contract clauses that include the ability to cancel a contract for convenience by the customer for convenience with limited advance notice and without significant penalty. Termination, delay or modification of a contract by any large government or commercial customer could result in a loss of expected revenues and additional expenses for staff that were allocated to that customer’s project. We could be required to maintain underutilized employees who were assigned to the terminated contract or we could ultimately lose the subject matter expertise for that contract and be required to retain more expensive staffing resources to perform the contract when it resumes. The unexpected cancellation or significant reduction in the scope of any of our large projects could have an immediate material adverse effect on our business, financial condition and results of operations.

Our inability to accurately price and sell our product offerings at an acceptable profit margin that customers are willing to pay will have a negative impact on our business that could extend for a number of years.

Most of our contracts with customers have terms of three (3) to five (5) years, with optional additional renewal periods. Our government contracts generally consist of a base period award with 4 option periods depending on the needs of the agency issuing the contract award. Our commercial contracts have contractual terms of 3 or more years with automatic annual renewals in most cases. Most of our contracts are offered at firm fixed price per performance obligation such as price per unit managed. Due to the long-term nature of our firm fixed price contracts, any failure on our part to accurately define the scope of work and properly manage scope creep, properly price our products to match the customer's operating environment to properly factor in inflation and labor costs, or to effectively manage our costs to deliver against these performance obligations could have an adverse negative impact to our financial position and results of operations over a number of years. Accordingly, we may be unable to pass on the recent increases in costs for labor and supplies as a result of general inflationary conditions to such customers. Additionally, our failure to complete our contractual performance obligations in a manner consistent with the contract could adversely affect our overall profitability and could have a material adverse effect on our business, financial condition and results of operations.

If we fail to effectively manage and develop our strategic relationships with key systems integrators, or if those third parties choose not to market and sell our TMaaS offering, our operating results would suffer.

The successful implementation of our strategic goals is dependent in part on strategic relationships with key systems integrators and other strategic partners. While our relationships with key systems integrators and other strategic partners is relatively a new strategy, we believe that our business relationship is strong and continuing to grow and we believe that our key systems integrators and other strategic partners will continue to support the inclusion of our TMaaS offering as part of their overall technology solution offering.

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 believe may exist. 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 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 executives, 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 person 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 customers 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 customers 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 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.

The COVID-19 pandemic or another pandemic could have a material adverse impact on our business and operations.

We continue to monitor the impact of the COVID-19 pandemic and taking steps to mitigate the risks to us posed by its spread, including by working with our customers, employees, suppliers and other stakeholders. The pandemic has in the past and continues to adversely affect certain elements of our business and our operations due to quarantines, government orders and guidance, facility closures, illness, travel restrictions, implementation of precautionary measures and other restrictions. Furthermore, the pandemic has impacted and may further impact the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates and interest rates. Our offices remain operational, and we are maintaining social distancing and enhanced cleaning protocols and usage of personal protective equipment, where appropriate. However, the COVID-19 pandemic or another pandemic could lead to an extended disruption of economic activity and high unemployment levels, and disruption of the global supply chain, and as such, cause a material negative impact on our consolidated results of operations, financial position and cash flows.

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.

We may be unable to successfully acquire complementary businesses, services or technologies to support our growth strategy.

We have in the past and may in the future acquire or invest in complementary and supplementary businesses, services or technologies, such as our acquisition in October 2021 of substantially all of the assets of IT Authorities, Inc. 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 acquire strategic assets. 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.

***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 TMaaS solution and our ability to compete with the manufacturers of such devices or the competitors using such systems in providing similar services*.**

Our TMaaS 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 TMaaS offering to potential customers*.**

Our ability to provide our TMaaS offering 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 and the financial feasibility of our TMaaS offering.

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.

RISKS RELATED TO BUSINESS WITH GOVERNMENT AGENCIES

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

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

- curtailment of the federal government's use of technology services firms;
- a significant decline in spending by the federal government, in general, or by specific agencies such as the Department of Homeland Security;
- 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;
- government inability to approve a budget and operate under a "Continuing Resolution";
- 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;
- redirection of federal government funds to address priorities or unforeseen emergent events such as a pandemics, wars, etc., and
- general economic and political conditions, including any event, such as the coronavirus, 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 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 governments, 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.

Our failure to obtain and maintain security certifications and necessary security clearances may limit our ability to perform classified work directly for government customers 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 customer 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 customers 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 customers with rights and remedies not typically found in commercial contracts. These rights and remedies allow government customers, 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 customers;
- 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 customer 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 customer were to unexpectedly terminate, cancel, or decline to exercise an option to renew with respect to one or more of our significant contracts, such as the DHS IDIQ, or suspend or debar us from doing business with the federal government, our revenues and operating results would be materially harmed.

RISKS RELATED TO PRIVACY, CYBERSECURITY AND TECHNOLOGY

Security breaches or cybersecurity events could result in the loss of customers and negative publicity and materially harm our business.

Many of the services we provide involve managing and protecting information involved in sensitive or classified government functions. A security breach or cybersecurity event 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 customers. In addition, sensitive personal data could be illegally accessed and/or stolen through a cybersecurity event. We could incur losses from such a security breach that could exceed the policy limits under our 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.

Many states have enacted laws requiring companies to notify consumers of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our customers to lose confidence in the effectiveness of our data security measures. Any security breach or cybersecurity event, whether successful or not, would harm our reputation and could cause the loss of customers. Any of these events could have material adverse effects on our business, financial condition, and operating results.

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, and 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.

We may be liable to our customers 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 customers' businesses. If we fail to perform our services correctly, we may be unable to deliver applications or systems to our customers 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 customers 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 customers 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 customers 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.

Our ability to provide services to our customers depends on our customers' continued high-speed access to the internet and the continued reliability of the internet infrastructure.

Our business depends on our customers' continued high-speed access to the internet, as well as the continued maintenance and development of the internet infrastructure. The future delivery of our solutions will depend on third-party internet service providers to expand high-speed internet access, to maintain a reliable network with the necessary speed, data capacity and security, and to develop complementary solutions and services, including high-speed modems, for providing reliable and timely internet access and services. All of these factors are out of our control. To the extent that the internet continues to experience an increased number of users, frequency of use, or bandwidth requirements, the internet may become congested and be unable to support the demands placed on it, and its performance or reliability may decline. Any internet outages or delays could adversely affect our ability to provide services to our customers.

Defects or errors in our TMaaS platform 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.

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.

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 customers, 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.

RISKS RELATED TO REGULATION

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 customers 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.

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

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 regular 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 true or not true.

RISKS RELATED TO OUR SECURITIES AND CAPITAL STRUCTURE

Our common stock price has been volatile and is likely to be volatile in the future.

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;
- externally published articles and analyses about us by retail investors and non-analysts;
- changes in analysts’ earnings estimates;
- information in third party chat rooms, third party publications and social media outlets;
- the failure to meet the expectations of analysts;
- fluctuations in operating results;
- additional financings or capital raises;

- introductions of new products or services by us or our competitors;
- announcements of technological innovations;
- additional sales of our common stock or other securities;
- trading by individual investors that causes our stock prices to straddle at a low price for prolonged periods of time;
- our inability to gain market acceptance of our products and services;
- general economic conditions and events, including adverse changes in the financial markets, terrorist attacks, health pandemics such as COVID-19, government shutdowns, war, adverse weather events and other disasters; and
- Impairment of goodwill resulting from the fair value of our single reporting unit below its carrying value.

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.

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.

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 five 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. We believe we can obtain additional facilities required to accommodate projected needs without difficulty and at commercially reasonable prices, although no assurance can be given that we will be able to do so. The following table presents our property locations at December 31, 2022 for our U.S. locations:

Physical Street Address	City, State Zip Code	Lease Expiration	Approx. Sqft	Base Cost per Sqft	Base Annual Cost	Description of use
11250 Waples Mill Rd S. Tower, Suite 210	Fairfax, VA 22030	March 2029	11,852	$ 28	$ 328,000	Headquarters, Sales, Operations
8351 N High Street, Suite 200	Columbus, OH 43235	September 2038	18,833	$ 10	$ 189,000	Sales and Operations
2101 Executive Drive, Suite 400	Hampton, VA 23669	December 2024	6,440	$ 17	$ 109,000	Customer Support

The following table presents our property locations at December 31, 2022 for our international locations:

Physical Street Address	Country Postal Code	Lease Expiration	Approx. Sqft	Cost per Sqft	Annual Cost	Description of use
South County Business Park	Dublin 18, Ireland	March 2026	6,000	$ 31	$ 185,000	Europe office

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.

PART II

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

Market Information

Our common stock is listed on the NYSE American under the symbol "WYY".

Holders

As of the close of business on March 23, 2023, there were 80 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 our 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.

At The Market Offering Agreement

On August 18, 2020, the Company entered into an At-The-Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. ("B. Riley FBR"), The Benchmark Company, LLC ("Benchmark") and Spartan Capital Securities, LLC ("Spartan", and together with B. Riley FBR and Benchmark, the "Sales Agents") which establishes an at-the-market equity program pursuant to which the Company may offer and sell shares of our common stock, par value $0.001 per share, from time to time as set forth in the Sales Agreement. The Sales Agreement provides for the sale of shares of the Company's common stock ("Shares") having an aggregate offering price of up to $24,000,000.

The Company did not sell any shares during the year ended December 21, 2022. During the three-month period ended March 31, 2021, the Company sold 100,687 shares for gross proceeds of $1.1 million and incurred $62,700 of offering costs. On March 27, 2023, we provided notice to the Sales Agents that we were terminating the Sales Agreement. Accordingly, no future sales will be made pursuant to the Sales Agreement.

Repurchases of Equity Securities

On October 7, 2019, the Company announced that its Board of Directors approved a stock repurchase plan (the "Repurchase Plan") to purchase up to $2.5 million of the Company's common stock. Any repurchases will be made in compliance with the SEC's Rule 10b-18 if applicable, and may be made in the open market or in privately negotiated transactions, including the entry into derivatives transactions. During November 2021, the Board increased the size of the Repurchase Plan to up to $5.0 million of the Company's common stock, increasing the amount available for future purchases under the Repurchase Plan to $4.6 million. During the three-month period ended March 31, 2022, we repurchased 196,586 shares of our common stock for a total of $818,200 and subsequently in March of 2022, the Board suspended the repurchase plan in order to use the company's excess funds to invest into the business. No shares were repurchased during the quarter ended December 31, 2022.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plan or Programs
	-	$ -	-	$ 3,361,023
March	196,586	$ 4.16	196,586	$ 818,200
Total	196,586	$ 4.16	196,586	$ 2,542,823

ITEM 6. [RESERVED]

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 "Cautionary Note Regarding Forward Looking Statements and Risk Factor Summary." 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 Technology Management as a Service (TMaaS) that consists of federally certified communications management, identity management, and interactive bill presentment and unified communication analytics solutions and IT as a Service. We help our clients achieve their organizational missions for mobility management and security objectives in this challenging and complex business environment.

We offer our TMaaS solutions through a flexible managed services model which includes both a scalable and comprehensive set of functional capabilities that can be used by any customer to meet the most common functional, technical and security requirements for mobility management. Our TMaaS solutions were 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. The flexibility of our TMaaS solutions enables our customers to be able to quickly expand or contract their mobility management requirements. Our TMaaS solutions are hosted and accessible on-demand through a secure federal government certified proprietary portal that provides our customers with the ability to manage, analyze and protect their valuable communications assets, and deploy identity management solutions that provide secured virtual and physical access to restricted environments.

Strategy

We executed on our key initiative for 2022 by obtaining FedRAMP "In Process" status for ITMS™ and completing the integration of our newly acquired assets of IT Authorities, Inc. In addition, we focused on increasing our customer base and our sales pipeline and leveraging our strategic relationships with key system integrators and strategic partners to capture additional market share. In fiscal 2023, we will continue to focus on the following key goals:

- selling high margin managed services,
- executing cross-sell opportunities identified from ITA acquisition, including Identity Management (IdM), Telecommunications Lifecycle Management (TLM) and Digital Billing & Unified Communication Analytics (DB&UCA) solutions,

- growing our sales pipeline by continue to invest in our business development and sales team assets,
- pursuing additional opportunities with our key systems integrator and strategic partners, and
- expanding our solution offerings into the commercial space.

Our longer-term strategic focus and goals are driven by our need to expand our critical mass so that we have more flexibility to fund investments in technology solutions and introduce new sales and marketing initiatives in order to expand our marketplace share and increase the breadth of our offerings in order to improve company sustainability and growth.

In fiscal 2022, we continue to focus on the following key goals:

- Continue to find additional avenues for capturing new sales opportunities in the post pandemic environment,
- Continue to provide unmatched level of services to our current customer base,
- Attain full FedRAMP certification in 2022 and continued technology refresh of our delivery infrastructure,
- Grow our recurring high margin managed services revenues,
- Add incremental capabilities to our Technology Management solution set and develop and acquire new high margin business lines,
- Enhance our software platforms to grow our SaaS revenues and take advantage of the opportunities emerging from the growth in remote working,
- Expand our customer base organically and inorganically,
- Continue to leverage the R2v3 Certification to further our ESG commitment
- Executing cross-sell opportunities identified from ITA acquisition, including Identity Management (IdM), Telecommunications Lifecycle Management (TLM) and Digital Billing & Analytics (DB&A) solution,
- Growing our sales pipeline by continuing to invest in our business development and sales team assets,
- Pursuing additional opportunities with our key systems integrator and strategic partners, and
- Expanding our solution offerings into the commercial space.

Our strategy for achieving our longer-term goals include:

- Establishing a market leadership position in the trusted mobility management (TM2) sector,
- pursuing accretive and strategic acquisitions to expand our solutions and our customer base,
- delivering new incremental offerings to add to our existing TM2 offering,
- developing and testing innovative new offerings that enhance our TM2 offering, and
- transitioning our data center and support infrastructure into a more cost-effective and federally approved cloud environment to comply with perceived future contract requirements.

We believe these actions could drive a strategic repositioning our TM2 offering and may include the sale of non-aligned offerings coupled with acquisitions of complementary and supplementary offerings that could result in a more focused core set of TM2 offerings.

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.

We operate in one segment based on the consolidated information used by our CODM in evaluating the financial performance of our business and allocation resources. This single segment represents our Company’s business, which is providing managed services for government and commercial clients that include Identity Management (IdM), secure Mobility Managed Services (MMS), Telecom Lifecycle Management, Digital Billing & Analytics and IT as a service (ITaaS).

We present a single segment for purposes of financial reporting and prepared consolidated financial statements upon that basis.

Revenue Recognition

Our managed services solutions may require a combination of labor, third party products and services. Our managed services are generally not interdependent and our contract performance obligations are delivered consistently on a monthly basis. We do not typically have undelivered performance obligations in these arrangements that would require us to spread our revenue over a longer period of time. In the event there are undelivered performance obligations our practice is to recognize the revenue when the performance obligation has been satisfied.

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 is summarized and shown below:

- *Managed 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.

- *Identity service*s are delivered as an on-demand managed service through the cloud to an individual or organization or sold in bulk to an organization capable of self-issuing credentials. There are two aspects to issuing an identity credential to an individual that consists of identity proofing which is a significant part of the service and monthly credential validation services which enable the credential holder to access third party systems. Identity proofing services are not bundled and do not generally include other performance obligations to deliver. Revenue is recognized from the sales of identity credentials to an individual or organization upon issuance less a portion deferred for monthly credential validation support services. In the case of bulk sales or credential management system revenue is recognized upon issue or availability to the customer for issuance. There is generally no significant performance obligation to provide post contract services in relation to identity consoles delivered. Identity certificates issued have a fixed life and cannot be modified once issued.

- *Proprietary software revenue* for software sold as a term license is recognized ratably over the license term from the date the software is accepted by the customer. Maintenance services, if contracted, are recognized ratably over the term of the maintenance agreement, generally twelve months. Revenue for fixed price software licenses that are sold as a perpetual license with no significant customization are recognized when the software is delivered. Implementation fees are recognized when the work is completed. Revenue from this service does not require significant accounting estimates.

Our revenue recognition policies for our labor services is summarized and shown below:

- *Billable 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. We recognize revenues for professional services performed based on actual hours worked and actual costs incurred.

Our revenue recognition policies for our reselling services is summarized and shown below:

- *Reselling services* require the Company to acquire third party products and services to satisfy customer contractual obligations. We recognize revenues and related costs on a gross basis for such arrangements whenever we control the products and services before they are transferred to the customer. We are the principal 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 only recognize revenues earned for arranging the transaction and any related costs.

Our revenue recognition policies for our billable carrier services is summarized and shown below:

- *Carrier services* are delivered on a monthly basis and consist of phone, data and satellite and related mobile services for a connected device or end point. These services require us to procure, process and pay communications carrier invoices. We recognize revenues and related costs on a gross basis for such arrangements whenever we control the services before they are transferred to the customer. We are the principal 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 control we recognize revenues and related costs on a net basis.

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.

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. As a result of the significant decrease in the Company's publicly quoted share price and market capitalization during the second quarter of 2022, the Company conducted additional testing of its goodwill, definite-lived intangibles, and other long-lived assets as of June 30, 2022. As a result of this review and additional testing, the Company did not identify an impairment to its definite-lived intangible assets or other long lived assets, but the Company did identify an impairment to goodwill resulting in recording a $16.3 million non-cash goodwill impairment charge for the three month period ended June 30, 2022.

The Company performed its additional goodwill impairment test with support from an external consultant and estimated the fair value of its single reporting unit based on a combination of the income (estimates of future discounted cash flows) and the market approach (market multiples for similar companies). The income approach uses a discounted cash flow (DCF) method that utilizes the present value of cash flows to estimate fair value of our reporting unit. The future cash flows for the reporting unit were projected based upon our estimates of future revenue, operating income and other factors such as working capital and capital expenditures. As part of our DCF analysis, the Company projected revenue and operating profits, and assumed a long-term revenue growth rates in the terminal year. The market approach utilizes multiples of earnings before interest expense, taxes, depreciation and amortization (EBITDA) to estimate the fair value of our reporting unit. The market multiples used for our single reporting unit were based on a group of comparable companies' market multiples applied to the Company's revenue and EBITDA.

As compared to the Company's impairment testing on December 31, 2021, for the June 30, 2022 testing the Company updated certain inputs into the valuation models, including the discount rate used in the DCF analysis which increased reflecting, in part, higher interest rates and market volatility, and also the market factors used in the market approach. In addition, the Company reviewed its estimated future cash flows used in the impairment assessment and due to updated business conditions made reductions to those estimates, including revenues, margin, and capital expenditures, to reflect its best estimates as of such date.

The Company performed its annual impairment assessment as of December 31, 2022, using the same external consultant as used in the previous impairment analyses. In connection with its annual budgeting and forecast process, the Company projected future cashflows based on existing business, projected new business as well considering modifications to the Company's cost structure. The market approach utilizes multiples of earnings before interest expense, taxes, depreciation and amortization (EBITDA) to estimate the fair value of our reporting unit. The market multiples used for our single reporting unit were based on a group of comparable companies' market multiples applied to the Company's revenue and EBITDA. The assessment did not result in any additional impairment of goodwill at December 31, 2022.

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 related to prior business acquisitions. 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.

During the year ended December 31, 2022, the Company recorded an additional valuation allowance against all domestic deferred tax assets because management determined that it is more likely than not that the Company will not earn income sufficient to realize the deferred tax assets during the carry forward period.

Business Combinations

The application of the acquisition method of accounting for business combinations requires the use of significant estimates, assumptions and judgments in the determination of the estimated fair value of assets acquired and liabilities assumed in order to properly allocate the purchase price at the acquisition date. For the ITA acquisition, the Company used valuation methods including the "monte carlo simulation" method to estimate the fair value of the contingent consideration, the "multi-period excess earnings method" to estimate the fair value of customer relationships and the "relief from royalty" method to estimate the fair value of the acquired tradename. Although we believe the estimates, assumptions and judgments we have made are reasonable, they are based in part on historical experience, industry data, information obtained from the management of the acquired companies and assistance from independent third-party appraisal firms and are inherently uncertain.

Contingent Consideration

To value both the cash and warrant portions of the contingent consideration, we used a Monte Carlo Simulation Model, which incorporates significant inputs that are not observable in the market. Fluctuations in the fair value of contingent obligations are impacted by several unobservable inputs that are estimated by management, including forecasted revenue growth rates, forecasted costs and expenses, volatility, and discount rates. Significant changes in any of those inputs in isolation may result in a significantly higher or lower fair value measurement. The unobservable inputs utilized for measuring the fair value of the contingent consideration reflect management's own assumptions about the assumptions that market participants would use in valuing the contingent consideration.

2022 Results of Operations

Year Ended December 31, 2022 Compared to the Year ended December 31, 2021

Revenues

Revenues for the year ended December 31, 2022 were approximately $94.1 million, an increase of approximately $6.8 million (or 8%), as compared to approximately $87.3 million in 2021. Our mix of revenues for the periods presented is set forth below:

	YEARS ENDED DECEMBER 31,	
	2022	2021
Carrier Services	**$53,339,949**	$49,730,949
Managed Services:		
Managed Service Fees and Billable Fees	**28,102,695**	25,215,996
Reselling and Other Services	**12,660,721**	12,391,152
Total Managed Services:	**40,763,416**	37,607,148
	$94,103,365	$87,338,097

- Our carrier services revenues increased by $3.6 million to $53.3 million from $49.7 million last year, primarily due to a large federal government customer increasing the number of phone lines we manage by approximately 75% during 2022. Additionally, carrier credits of approximately $1.7 million were experienced in 2021 that did not occur in 2022.

- Our managed and billable service fees increased by $2.9 million from $25.2 million to $28.1 million as a result of the acquisition of IT Authorities ("ITA") which added $ 5.1 million as a result of a full year of ITA results compared to only one quarter of results in 2021 as a result of the acquisition timing in 2021. The increase was partially offset by lower sales in our legacy lines of business.

- Reselling and other services increased by $0.3 million as a result of the acquisition of ITA which added $2.4 million for the full year of 2022, compared to only one quarter of results in 2021 as a result of the acquisition timing in 2021. The increase was partially offset by lower sales in our legacy lines of business. Reselling and other services are transactional in nature and as a result the amount and timing of revenue will vary significantly from quarter to quarter.

Revenues by customer type for the periods presented is set forth below:

Customer Type	**YEARS ENDED DECEMBER 31, 2022**	**2021**	**Dollar Variance**
U.S. Federal Government	**$74,416,288**	$73,130,465	$1,285,823
U.S. State and Local Governments	**411,511**	240,473	171,038
Foreign Governments	**146,538**	69,718	76,820
Commercial Enterprises	**19,129,028**	13,897,441	5,231,587
	$94,103,365	$87,338,097	$6,765,268

- Our sales to federal government customers increased primarily as a result of the increase phone-lines managed and a decrease in carrier credits occurring in 2022.

- Our sales to state and local government customers increased primarily due to increased activity in Identity Management solutions.

- Our sales to foreign government customers increased as compared to last year due to increased activity in our Unified Communications Analytics offering.

- Our sales to commercial enterprise customers increased primarily as a result of the addition of ITA which contributed approximately $7.5 million of the increase.

Cost of Revenues

Cost of revenues for the year ended December 31, 2022 were approximately $79.5 million (or 85% of revenues) as compared to approximately $70.9 million (or 81% of revenues) in 2021. The increase in the percentage relative to sales was driven by the increase in lower margin carrier services and higher cost of sales relative to revenues in ITA compared with our legacy business lines. The increased costs are also a result of higher labor costs to support professional services. Our cost of revenues may fluctuate due to our revenue mix.

Gross Profit

Gross profit for the year ended was approximately $14.6 million (or 15% of revenues), as compared to approximately $16.4 million (or 19% of revenues) in 2021. The dollar and percentage of sales decrease in gross profit is primarily a result of an increase in lower gross margin carrier services as compared to last year, and lower margins in the ITA business than are experienced in our legacy businesses.

Operating Expenses

Sales and marketing expense for the year ended December 31, 2022 was approximately $2.1 million (or 2% of revenues) and was relatively flat, as compared to approximately $2.0 million (or 2% of revenues) in 2021.

General and administrative expenses for the year ended December 31, 2022 were approximately $14.7 million (or 16% of revenues), as compared to approximately $12.7 million (or 15% of revenues) in 2021. The increase in general and administrative expense is primarily due to recognition of a qualified payroll tax credit of $1.3 million in 2021 and increased general and administrative costs related to a full year of ITA expenses compared to only the fourth quarter of expenses in 2021. The increased expenses in 2022 are also a result of higher labor costs to support professional services.

Goodwill impairment charge for the year ended December 31, 2022 was $16.3 million following goodwill impairment testing performed as a result of sustained decreases in our publicly quoted share price and market capitalization. There was no goodwill impairment during the same period in 2021.

Depreciation and amortization expense for the year ended December 31, 2022 was approximately $1.1 million, as compared to approximately $1.0 million in 2021.

Other (Expense) Income

Net other income for the year ended December 31, 2022 was approximately $1.1 million as compared to net other income of approximately $374,000 in 2021. The increase in 2022 is primarily driven by the fair value adjustments of contingent consideration.

Provision for Income Taxes

Income tax provision for the year ended December 31, 2022 was approximately $5.1 million, as compared to approximately $0.6 million in 2021. During the year ended December 31, 2022, the Company recorded an additional valuation allowance against all domestic deferred tax assets because management determined that it is more likely than not that the Company will not earn income sufficient to realize the deferred tax assets during the carry forward period.

Net (Loss) Income

As a result of the one-time goodwill impairment charge, an increase lower margin and increase in expenses in 2022, net loss for the year ended December 31, 2022 was approximately $23.6 million as compared to a net income of approximately $341,100 in 2021.

Liquidity and Capital

Net Working Capital

Our immediate sources of liquidity include cash and cash equivalents, accounts receivable, unbilled receivables and access to a working capital credit facility with Atlantic Union Bank for up to $7.0 million. Access to the credit facility depends on our ability (i) to maintain a minimum consolidated adjusted EBITDA of no less than $1.0 million on a trailing 12-month basis determined on a quarterly basis: and (ii) maintain a minimum adjusted tangible net worth of at least $6.5 million measured quarterly. The Company was not in compliance with the Tangible Net Worth covenant as of December 31, 2022; however, the lender provided a waiver of that December 31, 2022 covenant violation. The Company expects to be out of compliance with the financial covenants through the June 15, 2023 expiration of the credit facility, and is working with the lender to obtain a waiver as necessary. There can be no assurance that the Company will be able to negotiate a more favorable covenant, or at all. The Company believes that if it is unable to successfully renegotiate the covenant, or renew it credit facility in June 2023, it will remain liquid utilizing its cash on hand and curtaining expenditures. Further, the Company believes it can secure alternate financing sources, though there can be no assurance it will be able to do so.

ATM Sales Program

On August 18, 2020, we entered into an At-The-Market Issuance Sales Agreement (the “Sales Agreement”) with B. Riley Securities, Inc., The Benchmark Company, LLC and Spartan Capital Securities, LLC which establishes an ATM equity program pursuant to which we may offer and sell up to $24.0 million of shares of our common stock, par value $0.001 per share, from time to time as set forth in the Sales Agreement. We have no obligation to sell any of the Shares, and, at any time, we may suspend offers under the Sales Agreement or terminate the Sales Agreement. No shares were sold during the year ended December 31, 2022. The Company had remaining capacity of $18.2 million as of December 31, 2022. On March 27, 2023, the Company provided notice to the Sales Agents that we were terminating the Sales Agreement. Accordingly, no future sales will be made pursuant to the Sales Agreement.

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 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, including intermittent U.S. federal government shutdowns related to budgetary funding issues.

For the year ended December 31, 2022, net cash provided by operations was approximately $6.1 million driven by collections of accounts receivable and collection of the Employee Retention Tax Credit (ERTC) of approximately $1.3 million, that was reflected in 2021 and temporary payable timing difference, as compared to approximately $1.2 million net cash used in operations for the year ended December 31, 2021.

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, 2022, cash used in investing activities was approximately $3.4 million and consisted of $3.4 million of computer hardware and software purchases and capitalized internally developed software costs of computer hardware and software purchases and capitalized internally developed software costs, primarily associated with upgrading our ITMS™ and Soft-ex platform, secure identity management technology and network operations center.

For the year ended December 31, 2021, cash used in investing activities was approximately $7.4 million and consisted of $4.7 million related to acquisition of assets of ITA, and $2.8 million of computer hardware and software purchases and capitalized internally developed software costs of computer hardware and software purchases and capitalized internally developed software costs, primarily associated with upgrading our ITMS™ and Soft-ex platform, secure identity management technology and network operations center.

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, 2022, cash used in financing activities was approximately $1.5 million and reflects lease principal repayments of approximately $600,400, repurchases of common stock of $818,200 and withholding taxes paid on behalf of employees on net settled restricted stock awards of approximately $49,200.

For the year ended December 31, 2021, cash used in financing activities was approximately 0.7 million and consisted of finance lease principal repayments of approximately $572,000, proceeds from issuance of common stock through the ATM sales program of $1.1 million, net of issuance costs, and repurchases of our common stock of $1.2 million. The Company did not use its line of credit during the year.

Net Effect of Exchange Rate on Cash and Equivalents

For the year ended December 31, 2022, the gradual depreciation of the Euro relative to the US dollar decreased the translated value of our foreign cash balances by approximately $140,800 as compared to last year. For the year ended December 31, 2021, the depreciation of the Euro relative to the US dollar decreased the translated value of our foreign cash balances by approximately $145,000.

Credit Facilities and Other Commitments

At December 31, 2022, there were no outstanding borrowings against the Company’s $7.0 million working capital credit facility with Atlantic Union Bank. At December 31, 2022, 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 available amount under the working capital line of credit is subject to a borrowing base, which is equal to the lesser of (i) $7.0 million or (ii) sum of 90% of the net unpaid balance of the Company’s eligible government accounts receivable and 80% of the net unpaid balance of the Company’s eligible commercial accounts receivable. The facility is secured by a first lien security interest on all of the Company’s personal property, including its accounts receivable, general intangibles, inventory and equipment maintained in the United States. The maturity date of the credit facility is June 15, 2023.

The credit facility requires that the Company meet the following financial covenants of (i) maintaining a minimum consolidated adjusted EBITDA of no be less than $1.0 million on a trailing 12-month basis determined on a quarterly basis: and (ii) maintain a minimum adjusted tangible net worth of at least $6.5 million. The Company received a waiver of its tangible net worth covenant as of December 31, 2022.

We believe our working capital credit facility, provided it is renewed or replaced upon its expiration on June 15, 2023, along with cash on hand should be sufficient to meet our minimum requirements for our current business operations. If the facility is not renewed, we may need to defer certain expenditures which could delay planned growth initiatives, or 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.

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

Not required for smaller reporting companies.

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 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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 (ICOFR) was effective as of December 31, 2022.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting because we are not an “accelerated filer” or a “large accelerated filer”. Our management’s report was not subject to attestation by our independent registered public accounting firm pursuant to rules of the SEC that permit us to provide only management’s report in this Annual Report on Form 10-K.

Our system of ICOFR 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

There were no changes in the Company’s ICOFR during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s ICOFR.

ITEM 9B. OTHER INFORMATION

None.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our directors, executive officers, and corporate governance is incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to the 2023 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to the 2023 Annual Meeting of Stockholders.

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

Information about security ownership is incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to the 2023 Annual Meeting of Stockholders.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2022, with respect to the Company’s compensation plans under which its Common Stock is authorized for issuance:

Directors, Nominees and Executive Officers	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of Securities remaining available for future issuance (excluding securities reflected in column (a))
Equity Compensation Plans:			
Approved by security holders	7,500	$ 4.90	241,273
Not approved by security holders	-	$ 0.00	-
Total	7,500	$ 4.90	241,273

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

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to the 2023 Annual Meeting of Stockholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated herein by reference to our definitive proxy statement to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year covered by this Form 10-K with respect to the 2023 Annual Meeting of Stockholders.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

■ Financial Statements and Financial Statement Schedule

Financial Statements:

Report of Independent Registered Public Accounting Firm (Moss Adams LLP, San Diego, California PCAOB firm ID: 659)

Consolidated Balance Sheets as of December 31, 2022 and 2021

Consolidated Statements of Operations for the Years Ended December 31, 2022 and 2021

Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2022 and 2021

Consolidated Statements of Cash Flow for the Years Ended December 31, 2022 and 2021

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:

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.)
3.1.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.1 to Form 8-K filed on October 29, 2020.)
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))
4.1	Description of Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1924 (Incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-K filed on March 23, 2021).
4.2	Form of Warrant (Incorporated herein by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 4, 2021.).
10.1	Employment Agreement, between WidePoint Corporation and Jin Kang. * (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 4, 2020.)
10.2	Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 15, 2017).
10.2.1	First Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on February 19, 2018).
10.2.2	Second Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 1, 2018).
10.2.3	Fourth Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on May 8, 2019).
10.2.4	Fifth Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 30, 2020).
10.2.5	Sixth Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 30, 2021).3
10.2.6	Seventh Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 22, 2022).
10.2.7	Eighth Modification to Loan and Security Agreement with Access National Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on June 30, 2022).

10.3	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)
10.4	WidePoint Corporation 2017 Omnibus Incentive Plan* (incorporated by reference from Appendix A to the Company's definitive proxy statement filed October 31, 2017)
10.5	Cellular Wireless Managed Services Contract with U.S. Department of Homeland Security (incorporated by reference from Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on December 2, 2020)
10.6	Employment Agreement, between WidePoint Corporation and Jason Holloway. * (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on May 4, 2020.)
10.7	Employment Agreement, between WidePoint Corporation and Kellie H. Kim. * (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on May 4, 2020.)
10.8	Asset Purchase Agreement (Incorporated herein by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on October 4, 2021.)
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
101.	INS+ XBRL Instance Document
101.	SCH+ XBRL Taxonomy Extension Schema Document
101.	CAL+ XBRL Taxonomy Extension Calculation Linkbase Document
101.	DEF+ XBRL Taxonomy Definition Linkbase Document
101.	LAB+ XBRL Taxonomy Extension Label Linkbase Document
101.	PRE+ XBRL Taxonomy Extension Presentation Linkbase Document

* 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, 2023

s/ JIN H. KANG
Jin H. Kang
Chief Executive Officer

Date: March 30, 2023

/s/ Robert J. George
Robert J. George
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, 2023

/s/ JIN H. KANG
Jin H. Kang
Director, Chief Executive Officer and President
(Principal Executive Officer)

Dated: March 30, 2023

/s/ PHILIP GARFINKLE
Philip Garfinkle
Chairman of the Board

Dated: March 30, 2023

/s/ JULIA A. BOWEN
Julia A. Bowen
Director

Dated: March 30, 2023

/s/ JOHN J. FITZGERALD
John J. Fitzgerald
Director

Dated: March 30, 2023

/s/ J. BERNARD RICE
J. Bernard Rice
Director

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
WidePoint Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of WidePoint Corporation and subsidiaries (the “Company”) as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders’ equity, and cash flows for the years then ended, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022 and 2021, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. 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, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures to respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

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Valuation of Goodwill

As described in Note 2 to the consolidated financial statements, the Company tests goodwill for impairment annually as of December 31 or 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. In the second quarter of the year, the Company concluded an interim assessment should be performed and this resulted in a goodwill impairment expense of $16,277,000. The annual test performed as of December 31 did not result in any additional goodwill impairment expense. 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, which is estimated by using 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 method).

The principal considerations for our determination that the goodwill impairment test is a critical audit matter were that our evaluation of management’s valuation methods and assumptions utilized in estimating the fair value of the reporting unit involved significant audit effort, including the use of specialists, as well as especially challenging and subjective auditor judgment when performing audit procedures and evaluating the results of those procedures. The determination of the estimated fair value of the reporting unit is impacted by the relative weight that management assigns to the valuations indicated by the market and income approaches. The key assumptions used in the market approach included identifying suitable guideline public companies and weighting the value indicated by identified market multiples. The key assumptions used in the income approach included projected revenue growth rates, operating margins, and discount rate.

The primary procedures we performed to address this critical audit matter included:

- Testing management’s process for determining the fair value estimate of the reporting unit by performing the following procedures:

    - Evaluating the methodologies used by management, including the relative weight assigned to the valuations indicated by the market and income approaches, and assessing management’s specialist’s knowledge, skill, and ability as well as the specialist’s relationship to the Company.

    - Testing the completeness, accuracy, and reliability of underlying data used in the valuation model, including the mathematical accuracy of the analysis.

    - Evaluating the reasonableness of the guidelines companies and market multiples used by management.

    - Evaluating the reasonableness of significant assumptions used by management, including projected revenue, projected operating margin, discount rate, including performing arithmetic analysis to replicate management’s model, and sensitivity analysis.

    - Utilizing valuation specialists to assist in evaluating the appropriateness of methods used and reasonableness of significant assumptions applied in the valuation model.

/s/ Moss Adams LLP

San Diego, California
March 30, 2023

We have served as the Company’s auditor since 2007.

WIDEPOINT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

	DECEMBER 31, 2022	DECEMBER 31, 2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 7,530,864**	$ 6,479,980
Accounts receivable, net of allowance for doubtful accounts of $51,666 and $62,988 in 2022 and 2021, respectively	**9,277,109**	12,536,584
Unbilled accounts receivable	**10,244,101**	10,937,415
Other current assets	**935,978**	3,194,009
Total current assets	**27,988,052**	33,147,988
NONCURRENT ASSETS		
Property and equipment, net	**978,218**	841,133
Lease right of use asset, net	**4,723,899**	6,273,211
Intangible assets, net	**7,398,160**	6,228,886
Goodwill	**5,811,578**	22,088,578
Deferred tax assets, net	**86,909**	5,127,482
Other long-term assets	**2,025,845**	1,782,060
Total assets	**$ 49,012,661**	$ 75,489,338
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 12,515,081**	$ 10,263,015
Accrued expenses	**11,327,269**	12,344,426
Deferred revenue	**1,704,933**	2,280,894
Current portion of lease liabilities	**596,529**	794,175
Current portion of contingent consideration	**-**	358,000
Total current liabilities	**26,143,812**	26,040,510
NONCURRENT LIABILITIES		
Lease liabilities, net of current portion	**4,745,909**	6,025,691
Contingent consideration, net of current portion	**6,900**	1,347,000
Deferred revenue, net of current portion	**364,837**	400,142
Total liabilities	**31,261,458**	33,813,343
Commitments and contingencies (Note 19)	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, $0.001 par value; 10,000,000 shares authorized; 2,045,714 shares issued and none outstanding	-	-
Common stock, $0.001 par value; 30,000,000 shares authorized; 8,725,476 and 8,842,026 shares issued and outstanding, respectively	**8,726**	8,842
Additional paid-in capital	**101,194,185**	101,424,922
Accumulated other comprehensive loss	**(350,234)**	(241,586)
Accumulated deficit	**(83,101,474)**	(59,516,183)
Total stockholders’ equity	**17,751,203**	41,675,995
Total liabilities and stockholders’ equity	**$ 49,012,661**	$ 75,489,338

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

WIDEPOINT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations

	YEARS ENDED DECEMBER 31,	
	2022	2021
REVENUES	**$ 94,103,365**	$87,338,097
COST OF REVENUES (including amortization and depreciation of $1,455,262 and $632,399, respectively)	**79,527,893**	70,970,391
GROSS PROFIT	**14,575,472**	16,367,706
OPERATING EXPENSES		
Sales and marketing	**2,134,240**	2,008,733
General and administrative expenses (including share-based compensation of $528,582 and $883,763, respectively)	**14,720,497**	12,724,522
Goodiwll impairment	**16,277,000**	-
Depreciation and amortization	**1,077,440**	1,026,838
Total operating expenses	**34,209,177**	15,760,093
(LOSS) INCOME FROM OPERATIONS	**(19,633,705)**	607,613
OTHER INCOME (EXPENSE)		
Interest income	**41,831**	4,158
Interest expense	**(259,644)**	(273,228)
Other (expense) income	**1,344,102**	643,000
Total other income (expense)	**1,126,289**	373,930
(LOSS) INCOME BEFORE INCOME TAX PROVISION	**(18,507,416)**	981,543
INCOME TAX PROVISION	**5,077,875**	640,447
NET (LOSS) INCOME	**$(23,585,291)**	$ 341,096
BASIC EARNINGS PER SHARE	**$ (2.70)**	$ 0.04
BASIC WEIGHTED-AVERAGE SHARES OUTSTANDING	**8,732,203**	9,069,903
DILUTED EARNINGS PER SHARE	**$ (2.70)**	$ 0.04
DILUTED WEIGHTED-AVERAGE SHARES OUTSTANDING	**8,732,203**	9,160,195

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

WIDEPOINT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income

	YEARS ENDED DECEMBER 31,	
	2022	2021
NET (LOSS) INCOME	**$(23,585,291)**	$ 341,096
Other comprehensive (loss) income:		
Foreign currency translation adjustments, net of tax	**(108,648)**	(136,971)
Other comprehensive loss	**(108,648)**	(136,971)
COMPREHENSIVE (LOSS) INCOME	**$(23,693,939)**	$ 204,125

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

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WIDEPOINT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity

	Common Stock		Additional	Accumulated	Accumulated	
	Issued	Amount	Paid-In Capital	OCI	Deficit	Total
Balance, January 1, 2021	8,876,515	$ 8,876	$100,504,741	$ (104,615)	$ (59,857,279)	$40,551,723
Common stock repurchased	(299,494)	(299)	(1,242,770)	-	-	(1,243,069)
Issuance of common stock — options exercises	41,086	40	179,233	-	-	179,273
Issuance of common stock — restricted	123,232	124	(141,018)	-	-	(140,894)
Issuance of common stock through at-the-market offering program, net of issuance costs of $62,716	100,687	101	1,070,973	-	-	1,071,074
Issuance of warrants in acquisition of IT Authorities, Inc.	-	-	170,000	-	-	170,000
Stock compensation expense — restricted	-	-	804,192	-	-	804,192
Stock compensation expense — non-qualified stock options	-	-	79,571	-	-	79,571
Foreign currency translation — (loss)	-	-	-	(136,971)	-	(136,971)
Net income	-	-	-	-	341,096	341,096
Balance, December 31, 2021	8,842,026	$ 8,842	$101,424,922	$ (241,586)	$ (59,516,183)	$41,675,995

	Common Stock		Additional	Accumulated	Accumulated	
	Issued	Amount	Paid-In Capital	OCI	Deficit	Total
Balance, January 1, 2022	**8,842,026**	**$ 8,842**	**101,424,922**	**(241,586)**	**(59,516,183)**	**41,675,995**
Common stock repurchased	**(196,586)**	**(197)**	**(818,014)**	**-**	**-**	**(818,211)**
Issuance of common stock — restricted	**80,036**	**81**	**(49,305)**	**-**	**-**	**(49,224)**
Issuance of common stock — warrants	**-**	**-**	**108,000**	**-**	**-**	**108,000**

Stock compensation expense — restricted	**-**	**-**	**528,582**	**-**	**-**	**528,582**
Foreign currency translation — (loss)	**-**	**-**	**-**	**(108,648)**	**-**	**(108,648)**
Net loss	**-**	**-**	**-**	**-**	**(23,585,291)**	**(23,585,291)**
Balance, December 31, 2022	**8,725,476**	**$ 8,726**	**$101,194,185**	**$ (350,234)**	**$(83,101,474)**	**$ 17,751,203**

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	YEARS ENDED DECEMBER 31, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	**$(23,585,291)**	$ 341,096
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income tax expense	**5,034,385**	470,355
Depreciation expense	**1,084,001**	1,026,080
Goodwill impairment charge	**16,277,000**	-
(Recovery) provision for doubtful accounts	**11,852**	(24,544)
Amortization of intangibles	**1,451,091**	632,399
Share-based compensation expense	**528,582**	883,763
Change in fair value of contingent consideration	**(1,340,100)**	(590,000)
Changes in assets and liabilities:		-
Accounts receivable and unbilled receivables	**3,945,175**	27,283,860
Inventories	**367,551**	400,565
Other current assets	**1,887,717**	(1,774,725)
Other assets	**27,967**	27,159
Accounts payable and accrued expenses	**1,252,212**	(30,187,502)
Income tax payable	**69,901**	(1,631)
Deferred revenue and other liabilities	**(585,816)**	290,463
Other liabilities	**(358,000)**	**-**
Net cash provided by (used in) operating activities	**6,068,227**	(1,222,662)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of IT Authorities, net of cash acquired	**-**	(4,688,829)
Purchases of property and equipment	**(244,953)**	(258,176)
Capitalized hardware and software development costs	**(3,163,726)**	(2,496,520)
Net cash used in investing activities	**(3,408,679)**	(7,443,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
Advances on bank line of credit	**15,298,792**	-
Repayments of bank line of credit advances	**(15,298,792)**	-
Principal repayments under finance lease obligations	**(600,438)**	(572,083)
Withholding taxes paid on behalf of employees on net settled restricted stock awards	**(49,224)**	(140,894)
Common stock repurchased	**(818,211)**	(1,243,069)
Issuance of common stock/At-the-market offering, net of issuance costs	**-**	1,071,074
Proceeds from exercise of stock options	**-**	179,273
Net cash used in financing activities	**(1,467,873)**	(705,699)
Net effect of exchange rate on cash and equivalents	**(140,791)**	(144,982)
NET INCREASE (DECREASE) IN CASH	**1,050,884**	(9,516,769)
CASH AND CASH EQUIVALENTS, beginning of period	**6,479,980**	15,996,749
CASH AND CASH EQUIVALENTS, end of period	**$ 7,530,864**	$ 6,479,980

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

WIDEPOINT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

	YEARS ENDED DECEMBER 31,	
	2022	2021
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	**$ 194,754**	$ 254,926
Cash paid for income taxes	**$ 27,559**	$ 214,736
NONCASH INVESTING AND FINANCING ACTIVITIES		
Capitalized hardware and software development costs in accounts payable	**$ 34,923**	$ 110,209
Contingent consideration	**$ -**	$2,295,000
Warrants issued in connection with ITA acquisition	**$ -**	$ 170,000
Leased assets obtained in exchange for new lease liabilities	**$ -**	$ 876,281
Leased assets and lease liabilities terminated	**$ 876,281**	$ -

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

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 its wholly-owned operating subsidiaries in the United States, Ireland, the Netherlands and the United Kingdom. The Company's principal executive and administrative headquarters is located in Fairfax, Virginia.

Nature of Operations

The Company is a leading provider of Technology Management as a Service (TMaaS). The Company's TMaaS platform and service solutions enable its customers to efficiently secure, manage and analyze the entire lifecycle of their mobile communications assets through its federally compliant platform Intelligent Telecommunications Management System (ITMS™). The Company's ITMS platform is SSAE 18 compliant and was granted an Authority to Operate by the U.S. Department of Homeland Security. Additionally, the Company was granted an Authority to Operate by the General Services Administration with regard to its identity credentialing component of its TMaaS platform. The Company's TMaaS platform is internally hosted and accessible on-demand through a secure customer portal that is specially configured for each customer. The Company can deliver these solutions in a number of configurations ranging from utilizing the platform as a service to a full-service solution that includes full lifecycle support for all end users and the organization.

A significant portion of the Company's expenses, such as personnel and facilities costs, are fixed in the short term and may be not be easily modified to manage through changes in the Company's market place that may create pressure on pricing and/or costs to deliver its services.

The Company has periodic capital expense requirements to maintain and upgrade its internal technology infrastructure tied to its hosted solutions and other such costs may be significant when incurred in any given 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, its wholly owned subsidiaries and acquired entities since their respective dates of acquisition. All significant inter-company amounts were eliminated in consolidation.

Government Subsidies

On March 27, 2020, the U.S. government enacted the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which among other things, provides employer payroll tax credits for qualified wages and options to defer payroll tax payments for a limited period. Based on our evaluation of the CARES Act, in certain circumstances, we qualify for certain employer payroll tax credits as well as the deferral of payroll tax payments in the future. The Company records government subsidies as offsets to the related operating expenses. During the year ended December 31, 2021, qualified payroll credits reduced general and administrative expenses by $1.3 million in our consolidated statements of operations. The Company recorded the payroll tax credit as a receivable in other current assets on the consolidated balance sheets as of December 31, 2021. The Company collected the amount during the year ended December 31, 2022.

Deferred payroll tax payments of $246,000 was included in accrued liabilities on our consolidated balance sheets as of December 31, 2021. There are no payments remaining due as of December 31, 2022

Accounting Standards Update

Accounting Standards under Evaluation

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instrument (“Topic 326”). Topic 326 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. This ASU update affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. This update is effective for the company for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The adoption of ASU 2016-03 did not have a material impact on the Company’s consolidated financial statements.

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 18 for additional information.

Segment Reporting

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 evaluating financial performance. The Company’s CODM is its chief executive officer.

The Company’s customers view our market as a singular business and demand an integrated and scalable suite of enterprise-wide solutions. The Company’s TMaaS offerings are substantially managed service driven solutions that use our proprietary technology platform to deliver our services. The amount of labor required to perform our contract obligations may vary significantly contract to contract depending on the customer’s specific requirements; however, the way in which we perform these services is consistent across the company and requires a connected group of internal subject matter experts and support personnel.

In order to evaluate a managed service business model the Company’s CODM and the senior executive team measure financial performance based on our overall mixture of managed and carrier services and related margins. These financial metrics provide a stronger indication of how we are managing our key customer relationships; and it also determines our overall profitability.

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

Software Development Costs

The Company applies the principles of FASB ASC 350-40, *Accounting for the Cost of Computer Software Developed or Obtained for Internal Use* ("ASC 350-40"). ASC 350-40 requires that internal use software development costs incurred before the preliminary project stage be expensed as incurred. We capitalize development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed, and the software will be used to perform the function intended.

The Company also applies the principles of FASB ASC 985-20, *Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed* ("ASC 985-20"). ASC 985-20 requires that software development costs incurred in conjunction with development of computer software to be sold to be charged to research and development expense until technological feasibility is established. Thereafter, until the product is released for sale, development costs of computer software to be sold are capitalized and reported at the lower of unamortized cost or net realizable value of the related product.

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, contingent consideration, 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:

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

<u>Level 2</u> - 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

<u>Level 3</u> - 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 consideration using unobservable inputs (level 3).

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.

The Company identifies the individual assets acquired and liabilities assumed in connection with a business combination and purchase consideration in each business combination. The Company utilizes third party valuation professionals to estimate the initial fair value of significant assets acquired and liabilities assumed.

See Note 3 for a detailed description of a material business combination and see Note 4 for changes in fair value of liabilities recorded in connection with material business combinations that are measured at fair value on a recurring basis.

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, 2022 and 2021, the Company had deposits in excess of FDIC limits of approximately $5.1 million and $3.1 million, 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, 2022 and 2021, the Company had foreign bank deposits in excess of insured limits of approximately $1.3 million and $1.7 million, respectively.

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 are deemed to be uncollectible, having exhausted all collection efforts. 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.

Inventories

Inventories consist of mobile devices and accessories and identity credential hardware components. 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 years ended December 31, 2022 and 2021, there were no inventory write-downs.

Property and Equipment

Property and equipment 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 lease arrangements. The estimated useful lives of the assets are as follows:

	Estimated Useful Life
Computer hardware and software	3-5 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, 2022 and 2021, the Company’s management has not identified any material impairment of its property and equipment.

Leases

The Company has operating and finance leases for corporate offices, data centers, computer hardware and automobiles that are accounted for under ASC 842, Leases (Topic 842). The leases have remaining lease terms ranging from one year to eighteen years.

The Company determines if an arrangement is a lease at inception. The Company considers any contract where there is an identified asset and that it has the right to control the use of such asset in determining whether the contract contains a lease. A right-of-use (“ROU”) asset represents the Company’s right to use an underlying asset for the lease term and the lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company’s operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available on the adoption date in determining the present value of lease payments. The operating lease ROU assets include any lease payments made prior to the rent commencement date. Lease expense for lease payments are recognized on a straight-line basis over the lease term.

Goodwill and Other Intangible Assets

The Company accounts for goodwill and other indefinite-lived intangible assets in accordance with ASC 350, Intangibles (Topic 350). Under ASC Topic 350, goodwill and certain indefinite-lived intangible assets are not amortized but are subject to an annual impairment test as of December 31, 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 a single reporting unit and all goodwill relates to that reporting unit. The Company performs its annual goodwill impairment test at December 31 each fiscal year or more frequently if changes in circumstances or the occurrence of events suggest that an impairment exists.

The Company recorded a non-cash goodwill impairment charge of $16.3 million during 2022 following goodwill impairment testing performed as a result of sustained decreases in our publicly quoted share price and market capitalization. There was no goodwill impairment during 2021.

Revenue from Contracts with Customers

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct and accounted for as separate performance obligations. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

The Company reports products and services under the categories managed services and carrier services as described below:

Carrier Services. The Company bills for costs incurred to deliver phone, data and satellite and related mobile services for a connected device or end point. These services require us to procure, process and pay communications carrier invoices. We recognize revenues and related costs on a gross basis for such arrangements whenever we control the products and services before they are transferred to the customer. We are the principal 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. A significant portion of our overall reported revenue is tied to this service component; however, it represents an insignificant portion of our overall reported gross profit. This is a commodity type service and margins are nominal, but this is a necessary service to deliver to federal government customers that engage us to provide a full-service solution. The Company does not provide these services at risk for commercial customers due to the increased credit risk involved.

Managed Services. The Company delivers managed services under a full-service, quasi full-service or self-service solution to suit our customers' needs. A significant portion of our reported gross profit is tied to this service component. Revenue is accrued based on what the Company expects will be ultimately invoiced. Differences between accrued revenues and actual billed revenues are adjusted in the period that billings are prepared and such differences have not historically been material. Managed services are not interdependent and there are no undelivered performance obligations in these arrangements. The Company aggregates its billable revenue under the following groupings:

- Managed Service Fees: The Company delivers managed services under firm fixed price contracts that may include multiple performance obligations.

- o Revenue for fixed price services are generally completed and billed in the same accounting period and we charge a fixed fee for each performance obligation which may be tied to the number of units managed, percentage of supplier spend and/or savings, units delivered, certificates issued by the Company, certificate validation services installed in a customer’s environment, accessories sold and billable hours. Revenue from this service requires accounting estimates due to delays between completion of the service and the normal billing cycle.

- o Revenue for fixed price software sold as a term license is recognized ratably over the license term from the date the software is accepted by the customer. Maintenance services, if contracted, are recognized ratably over the term of the maintenance agreement, generally twelve months. Revenue for fixed price software licenses that are sold as a perpetual license with no significant customization are recognized when the software is delivered. Implementation fees are recognized when the work is completed. Revenue from this service does not require significant accounting estimates.

- o Revenue is recognized from the sales of identity credentials to an individual or organization upon issuance less a portion deferred for monthly credential validation support services. In the case of bulk sales or credential management system revenue is recognized upon issue or availability to the customer for issuance. There is generally no significant performance obligation to provide post contract services in relation to identity consoles delivered. Identity certificates issued have a fixed life and cannot be modified once issued.

- · Billable Service Fees. The Company delivers subject matter expertise either offsite or onsite for certain customers at a fixed hourly rate or fixed monthly fee. Billable services are generally completed and billed in the same accounting period and we charge a fixed fee based on actual hours worked and actual costs incurred. Revenue is accrued based on what the Company expects will be ultimately invoiced. Differences between accrued revenues and actual billed revenues are adjusted in the period that billings are prepared and such differences have not historically been material

- · Reselling and Other Service Fees. The Company delivers third party products and services to satisfy customer contractual obligations. We recognize revenues and related costs on a gross basis for such arrangements whenever we control the products and services before they are transferred to the customer. We are the principal 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 only recognize revenues earned for arranging the transaction and any related costs.

Judgments and Estimates

The Company’s contracts with customers often include promises to transfer multiple products and services to a customer under a fixed rate or fixed fee arrangement. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require judgment. Components of our managed service solution are generally distinct performance obligations that are not interdependent and can be completed within a month. The Company’s products are generally sold with a right of return. Historically the returns have been immaterial and recognized in the period which the products are returned. The Company may provide other event driven credits or disincentives for not meeting performance obligations which are accounted for as variable consideration and recognized in the period which the event occurs.

Contract Balances

A significant portion of contract balances represent revenues earned on federal government contracts. Timing of revenue recognition may differ materially from the timing of invoicing to customers due a long-standing practice of issuing a consolidated managed service invoice. A consolidated invoice usually requires data such as billable hours, units managed, credentials issued, accessories sold and usage data from telecommunications providers and other suppliers. As a result it could take between thirty (30) to sixty (60) days after all performance obligations have been met to deliver a complete customer invoice. As a result, the Company may have both accounts receivables (invoiced revenue) and unbilled receivables (revenue recognize but not yet invoiced) that could represent one or more months of revenue. Additionally, the Company may be required under contractual terms to bill for services in advance and deferred recognition of revenue until all performance obligations have been met.

Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within thirty (30) to ninety (90) days. Payment terms and conditions for government and commercial customers are described below:

- Government contract billings are generally due within thirty (30) days of the invoice date. Government accounts receivable payments could be delayed due to administrative processing delays by the government agency, continuing budget resolutions that may delay availability of contract funding, and/or administrative only invoice correction requests by contracting officers that may delay payment processing by our government customer.

- Commercial contracts are billed based on the underlying contract terms and conditions which generally have repayment terms that range from thirty (30) to ninety (90) days. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined our contracts generally do not include a significant financing component.

The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers.

The allowance for doubtful accounts reflects the Company’s best estimate of probable losses inherent in uncollected accounts receivable. Customer accounts receivable balances that remain uncollected for more than 45 days are reviewed for collectability and are considered past due after 90 days unless different contractual repayment terms were extended under a contract with a customer. The Company determines its allowance for doubtful accounts after considering factors that could affect collectability of past due accounts receivable and such factors regularly include the customers’ financial condition and credit worthiness, recent payment history, type of customer and the length of time accounts receivable are past due. 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 accounts receivable balances that remain uncollected for more than 120 days and/or that have not been settled in accordance with contractual repayment terms and for which no firm payment commitments exist are placed with a third-party collection agency and a reserve is established for the entire uncollected balance. 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.

Costs to Obtain a Contract with a Customer

The Company does not recognize assets from the costs to obtain a contract with a customer and generally expenses these costs as incurred. The Company primarily uses internal labor to manage and oversee the customer acquisition process and to finalize contract terms and conditions and commence customer start-up activities, if any. Internal labor costs would be incurred regardless of the outcome of a contract with a customer and as such those costs are not considered incremental to the cost to obtain a contract with a customer. The Company does not typically incur significant incremental costs to obtain a contract with a customer after such contract has been awarded. Incremental costs to obtain a contract with a customer may include payment of commissions to certain internal and/or external sales agents upon collection of invoiced sales from the customer. The Company does not typically prepay sales commissions in advance of being paid for services delivered.

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. Costs incurred during the implementation of product development and enhancements are capitalized and amortized to cost of revenue over the estimated lives of the solution.

For the years ended December 31, 2022 and 2021, the Company incurred product development costs associated with TMaaS platform application of approximately $3.2 million and $2.6 million, respectively, which were capitalized. See Note 10 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.

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.

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 17 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. See Note 16 to the consolidated financial statements for additional information about stock-based compensation programs.

3. Business Combination

On October 1, 2021, the Company completed the acquisition of specified assets of IT Authorities, Inc. (ITA) to increase its capabilities and broaden its footprint in the commercial sector. The closing purchase price paid by the Company consisted of $4.75 million in cash and 75,000 fully vested warrants to purchase an equal number of shares of the Company’s common stock at an exercise price of $5.33 per share (“Warrants”) exercisable for a period of four years. In addition, the Company agreed to pay contingent consideration to the seller as follows: (i) up to an additional $250,000 and 75,000 Warrants exercisable for four years depending on the EBITDA of the business in 2021; (ii) up to an additional $1.0 million and 150,000 Warrants exercisable for three years depending on the EBITDA of the business in 2022; (iii) up to an additional $1.0 million and 125,000 Warrants exercisable for three years depending on the EBITDA of the business in 2023; and (iv) up to an additional $1.0 million and 125,000 Warrants exercisable for three years depending on the EBITDA of the Business in 2024. In addition, the Company entered into employment agreements with two of the founders of the seller and in the event of the termination of either employee without cause (or by the employee for good reason), the contingent consideration payable under the purchase agreement will be deemed earned and payable for earn-out periods that have not been completed at the time of termination. During the first quarter of 2022, the Company issued 75,000 warrants and paid cash of approximately $250,000 related to ITA achieving EBITDA target for 2021.

Supplemental Unaudited Pro Forma Information

	YEAR ENDED DECEMBER 31, 2021
	(a)
Revenues	$ 94,839,000
Net Income	848,000

(a) To reflect on a pro forma basis unaudited consolidated financial information for the year ended December 31, 2021 for the Company. The unaudited financial information presented herein were derived from historical internally prepared financial statements with certain adjustments for ITA and WidePoint’s Form 10-K audited financial statements.

4. Fair Value Measurements

The consolidated financial statements include financial instruments for which the fair 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.

The following table present information about the Company's liabilities measured at fair value on a recurring basis in the consolidated balance sheets:

Description	**DECEMBER 31, 2022**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Liabilities:				
Contingent consideration - cash settled	**$ -**	**$ -**	**$ -**	**$ -**
Contingent consideration - warrants	**-**	**-**	**-**	**-**
Contingent consideration - cash settled, net of current portion	**6,500**	**-**	**-**	**6,500**
Contingent consideration - warrants, net of current portion	**400**	-	-	**400**
Total liabilities measured and recorded at fair value	**$ 6,900**	**$ -**	**$ -**	**$ 6,900**

Description	**DECEMBER 31, 2021**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Unobservable Inputs (Level 3)**
Liabilities:				
Contingent consideration - cash settled	$ 250,000	$ -	$ -	$ 250,000
Contingent consideration - warrants	108,000	-	-	108,000
Contingent consideration - cash settled, net of current portion	1,095,000	-	-	1,095,000
Contingent consideration - warrants, net of current portion	252,000	-	-	252,000
Total liabilities measured and recorded at fair value	$ 1,705,000	$ -	$ -	$ 1,705,000

The Company's contingent consideration is categorized as Level 3 within the fair value hierarchy. The contingent consideration has been recorded at their fair value using a Monte Carlo simulation model. This model incorporates probability of achievement of certain milestones, risk-free rates and volatility. The development and determination of the unobservable inputs for Level 3 fair value measurements and fair value calculations are the responsibility of the Company's management with the assistance of a third-party valuation specialist.

Management estimates the fair value of the contingent consideration liability based on financial projections of ITA's business and forecasted results, including revenue growth rates, costs and expenses, volatility, and discount rates. The Company evaluates, on a routine, periodic basis, the estimated fair value of the contingent consideration and quarterly changes in estimated fair value are reflected in other income in the consolidated statements of operations. Changes in the fair value of contingent consideration obligations may result from changes in changes of any of the key assumptions that are used. Changes in the estimated fair value of contingent consideration liability may have a material impact on the Company's operating results.

The following table presents a reconciliation of the change in fair value of contingent consideration for the year ended December 31, 2022:

Contingent consideration, December 31, 2021	**$ 1,705,000**
Change in fair value (gain) reported in the consolidated statement of operations	**(1,340,100)**
Contingent consideration settled - cash	**(250,000)**
Contingent consideration settled - warrants	**(108,000)**
Contingent consideration, December 31, 2022	**$ 6,900**

5. Accounts Receivable and Significant Concentrations

A significant portion of the Company's revenue arrangements consist of firm fixed price contracts with agencies of the U.S. federal government and several large multinational publicly traded and private corporations. Accounts receivable consist of the following by customer type in the table below as of the periods presented:

	DECEMBER 31, 2022	DECEMBER 31, 2021
U.S. Federal, State, and Local Government (1)	**$ 7,272,993**	$ 11,010,794
Commercial (2)	**2,055,782**	1,588,778
Gross accounts receivable	**9,328,775**	12,599,572
Less: allowances for doubtful accounts (3)	**51,666**	62,988
Accounts receivable, net	**$ 9,277,109**	$ 12,536,584

(1) Government contracts are generally firm fixed price not to exceed arrangements with a term of five (5) years, which consists of a base year and four (4) annual option year renewals. Government receivables are billed under a single consolidated monthly invoice and are billed approximately thirty (30) to sixty (60) days in arrears from the date of service and payment is generally due within thirty (30) days of the invoice date. Government accounts receivable payments could be delayed due to administrative processing delays by the government agency, continuing budget resolutions that may delay availability of contract funding, and/or administrative only invoice correction requests by contracting officers that may delay payment processing by our government customer.

(2) Commercial contracts are generally fixed price arrangements with contract terms ranging from two (2) to three (3) years. Commercial accounts receivables are billed based on the underlying contract terms and conditions which generally have repayment terms that range from thirty (30) to ninety (90) days. Commercial receivables are stated at amounts due from customers net of an allowance for doubtful accounts if deemed necessary.

(3) During the year ended December 31, 2022 and 2021, the Company did not recognize any material provisions of recoveries of existing provision for bad debt. 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.

Significant Concentrations

The following table presents revenue by customer for each of the periods presented:

Customer Type	YEARS ENDED DECEMBER 31, 2022	2021
U.S. Federal Government (1)	79.1%	83.7%
U.S. State & Local and Foreign Governments	0.6%	0.4%

(1) Sales to the U.S. federal government include sales from contracts for which we are the prime contractor, as well as those for which we are a subcontractor and the ultimate customer is the U.S. government.

6. Unbilled Accounts Receivable and Significant Concentrations

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.

The following table presents customers that represent ten (10) percent or more of consolidated unbilled accounts receivable as of the periods presented below:

Customer Type	**DECEMBER 31, 2022 As a % of Receivables**	DECEMBER 31, 2021 As a % of Receivables
U.S. Federal Government	**97%**	97%

7. Other Current Assets and Other Long Term Assets

Other current assets consisted of the following as of the periods presented below:

	DECEMBER 31, 2022	DECEMBER 31, 2021
Inventories	**$ 222,279**	$ 590,065
Prepaid rent, insurance and other assets	**713,699**	1,307,548
Qualified payroll credit receivable	**-**	1,296,396
Total other current assets	**$ 935,978**	$ 3,194,009

Other long term assets consisted of the following as of the periods presented below:

	DECEMBER 31, 2022	DECEMBER 31, 2021
Security deposits	$ 67,748	$ 94,908
Capital work in progress	1,958,097	1,687,152
Other long term assets	$ 2,025,845	$ 1,782,060

8. Property and Equipment

Major classes of property and equipment consisted of the following as of the periods presented below:

	DECEMBER 31, 2022	DECEMBER 31, 2021
Computer hardware and software	$ 3,158,428	$ 2,700,807
Furniture and fixtures	502,391	454,401
Leasehold improvements	284,321	298,352
Automobiles	122,524	137,105
Gross property and equipment	4,067,664	3,590,665
Less: accumulated depreciation and amortization	3,089,446	2,749,532
Property and equipment, net	$ 978,218	$ 841,133

During the years ended December 31, 2022 and 2021, the Company purchased for cash property and equipment totaling approximately $245,000 and $258,200, respectively.

During the years ended December 31, 2022 and 2021, property and equipment depreciation expense was approximately $397,700 and $333,800, respectively.

During the years ended December 31, 2022 and 2021, there were no material disposals of owned property and equipment.

There were no changes in the estimated useful lives used to depreciate property and equipment during the years ended December 31, 2022 and 2021.

9. Leases

The Company entered into leases for corporate and operational facilities (“real estate leases”), computer hardware for datacenters and automobiles (collectively “all other leases”).

Real estate leases. Substantially all real estate leases have remaining terms of six (6) to nine (9) years, with additional five (5) year extensions available. All of these leases require a fixed lease payment that contains an annual lease payment escalation provision ranging from 3% to 4% per year. Certain leases contain early termination provisions that would require payment of unamortized tenant improvements, real estate broker commissions paid, and up to six (6) months of rent to compensate the landlord for early termination. The cost to exit a lease would be significant and potentially range $0.2 million to $0.8 million. The earliest any lease termination provisions could be exercised would be in 2023.

The components of lease expense were as follows:

	YEARS ENDED DECEMBER 31, 2022	2021
Operating lease expense	**$ 16,351**	$ 15,043
Finance lease expense:		
Amortization of right of use assets	**$682,102**	$ 703,530
Interest on finance lease liabilities	**241,444**	273,224
Total finance lease expense	**$923,546**	$ 976,754

Operating lease expense is included in general and administrative expenses in the consolidated statement of operations. Amortization of right of use assets is include in depreciation and amortization in the consolidated statement of operations.

Supplemental cash flow information related to leases was as follows:

	YEARS ENDED DECEMBER 31, 2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from leases	**$257,795**	$ 288,267
Financing cash flows from leases	**600,438**	572,083

Supplemental balance sheet information related to leases was as follows:

	DECEMBER 31, 2022	2021
Lease right of use assets, net	**$4,723,899**	$6,273,211
Current portion of lease liabilities	**596,529**	794,175
Lease liabilities, net of current portion	**4,745,909**	6,025,691
Weighted average remaining lease term		
Operating leases	**11.0**	10.9
Weighted average discount rate		
Operating leases	**3.5%**	3.5%
Finance leases	**-**	3.5%

Maturities of lease liabilities as of December 31, 2022, were as follows:

2022	$ 809,072
2023	830,028
2024	737,787
2025	627,236
2026	633,663
Thereafter	2,924,061
Total undiscounted operating lease payments	6,561,847
Less: Imputed interest	1,219,409
Total lease liability	$5,342,438

During the year ended December 31, 2021, the Company entered into a lease agreement, with a related party, for 4,410 square feet of office space in Tampa, Florida. The lease commenced on December 15, 2021 and was for a term of five years, with a monthly rent obligation of $15,000, subject to annual rent increases of 3% per year. The Company recorded approximately $876,300 of right of use assets and lease-related liabilities, respectively. The lease liability was discounted using the Company's incremental borrowing rate of 3.5%. On January 1, 2022, the Company entered into an amendment to its lease agreement for its Tampa office to amend the term and the extension option. The amendment updated the term of the lease from sixty (60) calendar months ending December 31, 2026 to terminate the lease on June 30, 2022. As a result of the amendment, on January 1, 2022 the Company removed the lease right of use asset and lease liability for its Tampa office from its consolidated balance sheet. The Company accounted for the lease as month to month and recorded the monthly rent expense in its consolidated statement of operations.

10. 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. 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 fifteen (15) years or more depending on the intangible asset characteristics.

The Company's intangible assets also include internally developed software used in the sales and delivery of its information technology service offerings. 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 five (5) years.

The following tables summarize purchased and internally developed intangible assets subject to amortization as of the periods presented below:

	DECEMBER 31, 2022		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Book Value**
Customer Relationships	**$ 2,392,000**	**$ (299,000)**	**$2,093,000**
Channel Relationships	**2,628,080**	**(1,518,446)**	**1,109,634**
Internally Developed Software	**5,665,957**	**(2,546,407)**	**3,119,550**
Trade Name and Trademarks	**1,330,472**	**(254,496)**	**1,075,976**
	$12,016,509	**$ (4,618,349)**	**$7,398,160**

	DECEMBER 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer Relationships	$ 2,392,000	$ (61,650)	$2,330,350
Channel Relationships	2,628,080	(1,343,241)	1,284,839
Internally Developed Software	3,082,705	(1,633,516)	1,449,189
Trade Name and Trademarks	1,330,472	(165,964)	1,164,508
	$ 9,433,257	$ (3,204,371)	$6,228,886

Purchased Intangibles

For the year ended December 31, 2022, there were no disposals or sales of purchased intangible assets. For the year ended December 31, 2021, the Company disposed of fully amortized purchased intangible assets with a historical cost and accumulated amortization of approximately $1,980,000.

Internally Developed

For the year ended December 31, 2022, the Company capitalized $3.2 million of internally developed software costs, primarily associated with upgrading our ITMS™ (Intelligent Technology Management System), next generation TDI™ application, secure identity management technology and secure network operations center of which $2.6 million was transferred from capital work in progress to internally developed software and $316,900 was transferred from capital work in progress to property and equipment during the year. Capital work in progress is included in other long-term assets in the consolidated balance sheet.

For the year ended December 31, 2021 the Company capitalized $2.5 million of internally developed software costs, primarily associated with upgrading our ITMS™ secure identity management technology and secure network operations center of which $1.2 million was transferred from capital work in progress to internally developed software during the year and $348,300 was transferred from capital work in progress to property and equipment during the year. Capital work in progress is included in other long-term assets in the consolidated balance sheet.

The aggregate amortization expense recorded was approximately $1,451,100 and $632,400 for the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, estimated annual amortization for our intangible assets for each of the next five years is approximately:

2023	$1,918,641
2024	1,704,101
2025	1,030,318
2026	511,170
2027	511,170
Thereafter	1,722,760
Total	$7,398,160

11. Goodwill

The following table summarizes the changes in the carry amount of goodwill for the years ended December 31, 2022 and 2021:

	DECEMBER 31, 2022	DECEMBER 31, 2021
Balances, January 1	**$ 22,088,578**	$ 18,555,578
Acquisition of IT Authorities, Inc. (See Note 3)	**-**	3,533,000
Impairment	**(16,277,000)**	-
Balances, December 31	**$ 5,811,578**	$ 22,088,578

As of December 31, 2021, goodwill was not impaired and there were no accumulated impairment losses.

As a result of the significant decrease in the Company's publicly quoted share price and market capitalization, during the second quarter of 2022, the Company conducted additional testing of its goodwill, definite-lived intangibles, and other long-lived assets during the quarter ended June 30, 2022 As a result of this review and additional testing, the Company did not identify an impairment to its definite-lived intangible assets or other long lived assets, but the Company did identify an impairment to goodwill resulting in recording a $16.3 million non-cash goodwill impairment charge for the three month period ended June 30, 2022, and accordingly that amount is also reflected in the full year 2022 results.

The Company performed its additional goodwill impairment test with support from an external consultant and estimated the fair value of its single reporting unit based on a combination of the income (estimates of future discounted cash flows) and the market approach (market multiples for similar companies). The income approach uses a discounted cash flow (DCF) method that utilizes the present value of cash flows to estimate fair value of our reporting unit. The future cash flows for the reporting unit were projected based upon our estimates of future revenue, operating income and other factors such as working capital and capital expenditures. As part of our DCF analysis, the Company projected revenue and operating profits, and assumed a long-term revenue growth rates in the terminal year. The market approach utilizes multiples of earnings before interest expense, taxes, depreciation and amortization (EBITDA) to estimate the fair value of our reporting unit. The market multiples used for our single reporting unit were based on a group of comparable companies' market multiples applied to the Company's revenue and EBITDA.

As compared to the Company's impairment testing on December 31, 2021, for the June 30, 2022 testing the Company updated certain inputs into the valuation models, including the discount rate used in the DCF analysis which increased reflecting, in part, higher interest rates and market volatility, and also the market factors used in the market approach. In addition, the Company reviewed its estimated future cash flows used in the impairment assessment and due to updated business conditions made reductions to those estimates, including revenues, margin, and capital expenditures, to reflect its best estimates as of such date.

The company performed its annual impairment assessment as of December 31, 2022, using the same external consultant as used in the previous impairment analyses. In connection with its annual budgeting and forecast process, the Company projected future cashflows based on existing business and margins, projected new business as well considering modifications to the Company's cost structure. The market approach utilizes multiples of earnings before interest expense, taxes, depreciation and amortization (EBITDA) to estimate the fair value of our reporting unit. The market multiples used for our single reporting unit were based on a group of comparable companies' market multiples applied to the Company's revenue and EBITDA. The assessment did not result in any additional impairment of goodwill at December 31, 2022.

12. Other Current Liabilities

Accrued expenses consisted of the following as of the periods presented below:

	DECEMBER 31, 2022	DECEMBER 31, 2021
Carrier service costs	**$ 8,402,770**	$ 8,771,660
Salaries and payroll taxes	**1,637,628**	2,213,356
Inventory purchases, consultants and other costs	**1,205,209**	1,345,900
Severance costs	**7,612**	7,612
U.S. income tax payable	**61,490**	(23,562)
Foreign income tax payable	**12,560**	29,460
Total accrued expenses	**$11,327,269**	$ 12,344,426

13. Line of Credit

On June 15, 2017, the Company entered into a Loan and Security Agreement with Atlantic Union Bank (formerly known as Access National Bank) (the "Loan Agreement"). The Loan Agreement provides for a $5.0 million working capital revolving line of credit.

Effective, June 15, 2022, the Company entered into a seventh modification agreement ("Modification Agreement") with Atlantic Union Bank to amend the existing Loan Agreement. The Modification Agreement (i) extended the maturity date of the facility from June 15, 2022 through June 15, 2023, (ii) removed the current ratio and interest coverage ratio financial covenants, (iii) increased the tangible net worth covenant from $2,000,000 to $6,500,000 measured quarterly, (iv) added a minimum EBITDA covenant that requires that the Company's Adjusted EBITDA to not be less than $1,000,000 on a trailing 12-month basis as of the last day of each quarter and (v) modified the definition of Borrowing Base.

Effective June 27, 2022, the Company entered into an eighth Modification Agreement with Atlantic Union Bank to amend the existing Loan Agreement to increase the working capital revolving line of credit from $5.0 million to $7.0 million.

The available amount under the working capital line of credit is subject to a borrowing base, which is equal to the lesser of (i) $7.0 million or (ii) sum of 90% of the net unpaid balance of the Company's eligible government accounts receivable and 80% of the net unpaid balance of the Company's eligible commercial accounts receivable. The facility is secured by a first lien security interest on all of the Company's personal property, including its accounts receivable, general intangibles, inventory and equipment maintained in the United States. As of December 31, 2022, the Company was eligible to borrow up to $7.0 million under the borrowing base formula.

At December 31, 2022, the Company was not in compliance with the tangible net worth covenant as its tangible net worth was approximately $4,500,000 instead of the required $6,500,000; however, the lender provided a waiver of that December 31, 2022 violation.

14. Income Taxes

Income tax provision (benefit) is as follows for the years ended:

	DECEMBER 31,	
	2022	2021
Current provision		
State	**$ 20,000**	$ 100,000
Foreign	**26,982**	50,165
Total	**46,982**	150,165
Deferred provision (benefit)		
Federal	**4,717,527**	567,316
State	**298,832**	(83,032)
Foreign	**14,534**	5,998
Total	**5,030,893**	490,282
Income tax (benefit) provision	**$5,077,875**	$ 640,447

Income tax provision (benefit) effective rates, which differs from the federal and state statutory rate as follows for the years ended:

	DECEMBER 31,	
	2022	2021
Statutory federal income tax rate	**21.0%**	21.0%
State, net of federal benefit	**4.0%**	7.5%
Non-deductible expenses	**-5.7%**	-19.7%
Change in valuation allowance	**-45.9%**	-15.1%
Foreign rate differential	**0.0%**	-3.8%
Return to accrual difference true-ups	**0.3%**	-15.1%
Other	**-0.2%**	-0.1%
Deferred tax adjustment and true-up	**-1.0%**	88.2%
Combined effective tax rate	**-27.4%**	62.9%

The tax effects of temporary differences that give rise to significant portions of the Company's deferred tax assets (liabilities) consisted of the following:

	DECEMBER 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	**$ 10,584,372**	$ 9,501,008
Alternative minimum tax credit	**45,650**	45,650
Share-based compensation	**475,297**	659,338
Intangible amortization	**(48,740)**	208,036
Lease liability	**1,555,503**	1,554,888
Other assets	**167,825**	251,553
Total deferred tax assets	**12,779,907**	12,220,473
Less: valuation allowance	**(10,503,243)**	(1,999,630)
Total deferred tax assets, net	**2,276,664**	10,220,843
Deferred tax liabilities:		
Goodwill amortization	**116,530**	3,041,451
Depreciation	**324,959**	210,755
Foreign intangible amortization	**334,973**	409,269
Other liabilities	**11,354**	12,830
Lease asset	**1,401,939**	1,419,056
Total deferred tax liabilities	**2,189,755**	5,093,361
Net deferred tax asset	**$ 86,909**	$ 5,127,482

As of December 31, 2022, the Company had approximately $37.7 million in net operating loss (NOL) carry forwards available to offset future taxable income for federal income tax purposes that consist of $29.8 million that will expire between 2022 and 2036 and $7.9 million related to years after December 31, 2017 that does not have an expiration under current tax law. NOLs arising in tax years beginning in 2018, 2019, and 2020 may only reduce 80 percent of taxable income every year but can be carried forward indefinitely. Included in the recorded deferred tax asset, the Company had a benefit of approximately $47.4 million available to offset future taxable income for state income tax purposes. These state NOL carry forwards expire between 2024 and 2040.

Under the provisions of the Internal Revenue Code, the net operating losses ("NOL") and tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service and state tax authorities. NOL and tax credit carryforwards may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50%, as defined under Sections 382 and 383 of the Internal Revenue Code of 1986, respectively, as well as similar state tax provisions. This could limit the amount of tax attributes that the Company can utilize annually to offset future taxable income or tax liabilities. The amount of the annual limitation, if any, will be determined based on the value of the Company immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years. Utilization of the net operating loss and tax credits carryforwards may be limited by "ownership change" rules, as defined in Section 382 of the Internal Revenue Code of 1986, as amended, and similar state provisions. This annual limitation may result in the expiration of the net operating losses and credits before utilization.

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

	DECEMBER 31,	
	2022	2021
Beginning balance	**$ (1,999,630)**	$(2,152,768)
Decreases (increases)	**(8,503,613)**	153,138
Ending balance	**$(10,503,243)**	$(1,999,630)

The Company's valuation allowance predominantly consisted of domestic net operating loss carryforwards and certain state net operating loss carryforwards. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. On the basis of this evaluation, management recorded a valuation allowance against all domestic deferred tax assets because management has determined that it is more likely than not that the Company will not earn income sufficient to realize the deferred tax assets during the carry forward period. During the year ended December 31, 2022, the Company increased the valuation allowance by $8.4 million. 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 2017 forward. As of December 31, 2022, 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, 2022 or 2021. In the future, any interest and penalties related to uncertain tax positions will be recognized in income tax expense.

15. 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 were issued was converted into common stock and may not be reissued. Accordingly, as of December 31, 2022, there were 7,954,286 undesignated shares of preferred stock remaining available for issuance. There were no issuances of preferred stock during the years ended December 31, 2022 and 2021.

Common Stock

The Company is authorized to issue 30,000,000 shares of common stock, $0.001 par value per share. As of December 31, 2022, there were 8,842,026 shares issued and outstanding.

Common Stock Issuances - Employee Stock Option Exercises

There were no stock option exercises during the year ended December 31, 2022. Shares of common stock issued as a result of stock option exercises and realized gross proceeds for the year ended December 31, 2021 were 40 and $179,273, respectively.

Common Stock Issuances – Restricted Stock Awards

During the year ended December 31, 2022, there were 91,316 shares of common stock vested in accordance with the vesting terms of the RSAs. Three employees received less than the shares vested because they elected to have a total of 11,280 shares withheld in satisfaction of the employees corresponding tax liability of approximately $49,300. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the consolidated statement of cash flows.

During the year ended December 31, 2021, there were 123,356 shares of common stock were issued in accordance with the vesting terms of the RSAs. Two employees received less than the shares vested because they elected to have a total of 12,526 shares withheld in satisfaction of each of the employees corresponding tax liability of approximately $140,900. The Company's payment of this tax liability was recorded as a cash flow from financing activity on the consolidated statement of cash flows.

See Note 16 for additional information regarding stock option plans.

Warrants Issued

On March 31, 2022, the Company issued a warrant to purchase 75,000 shares of common stock as part of the contingent consideration earned by ITA for 2021 EBITDA achievement. The warrant contains a strike price of $5.33 and has a four-year contractual term. The warrant is classified within stockholders' equity at its fair value. The fair value of the warrant was determined to be $108,000 utilizing the Black-Scholes-Merton option-pricing model at the time of issuance. Following such issuance, the Company has outstanding warrants to acquire 150,000 shares of common stock at a strike price of $5.33 that expire at terms through October 1, 2025.

Stock Repurchase Program

On October 7, 2019, the Company announced that its Board of Directors approved a stock repurchase plan (the "Repurchase Plan") to purchase up to $2.5 million of the Company's common stock. Any repurchases will be made in compliance with the SEC's Rule 10b-18 if applicable, and may be made in the open market or in privately negotiated transactions, including the entry into derivatives transactions. During November 2021, the Board increased the size of the Repurchase Plan to up to $5.0 million of the Company's common stock, increasing the amount available for future purchases under the Repurchase Plan to $4.6 million. During the three month period ended March 31, 2022, we repurchased 196,586 shares of our common stock for a total of $818,200 and subsequently in March of 2022, the Board suspended the repurchase plan in order to use the company's excess funds to invest into the business. The Company retired all common stock it repurchased.

At The Market Offering Agreement

On August 18, 2020, the Company entered into an At-The-Market Issuance Sales Agreement (the "Sales Agreement") with B. Riley Securities, Inc. ("B. Riley FBR"), The Benchmark Company, LLC ("Benchmark") and Spartan Capital Securities, LLC ("Spartan", and together with B. Riley FBR and Benchmark, the "Sales Agents") which establishes an at-the-market equity program pursuant to which the Company may offer and sell shares of our common stock, par value $0.001 per share, from time to time as set forth in the Sales Agreement. The Sales Agreement provides for the sale of shares of the Company's common stock ("Shares") having an aggregate offering price of up to $24,000,000.

The Company did not sell any shares during the year ended December 21, 2022. During the three month period ended March 31, 2021, the Company sold 100,687 shares for gross proceeds of $1.1 million and incurred $62,700 of offering costs.

Effective March 27, 2023, the Company provided notice to the sales agents under its At the Market Sales Agreement that it was terminating the agreement. Accordingly, no additional sales of shares of common stock will be made pursuant to such agreement.

16. 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.

Valuation of Stock Awards

Restricted Stock. The Company records the fair value of all restricted stock awards based on the grant date fair value and amortizes stock compensation on a straight-line basis over the vesting period. Restricted stock award shares are issued when granted and included in the total number of common shares issued and outstanding. During the years ended December 31, 2022 and 2021, the Company granted 163,903 RSAs and 83,326 RSAs, respectively.

Non-Qualified Stock Options. The Company estimates the fair value of nonqualified stock awards using a Black-Scholes Option Pricing model (“Black-Scholes model”). The fair value of each stock award is estimated on the date of grant using the 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. The Company did not grant NQSOs during the years ended December 31, 2022 and 2021.

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Restricted Stock Awards

A summary of RSA activity as of December 31, 2022 and 2021, and changes for the years then ended are set forth below:

NON-VESTED AWARDS	**2022**	2021
Non-vested awards outstanding, January 1,	**121,316**	173,748
Granted (+)	**163,903**	83,326
Cancelled (-)	**5,000**	-
Vested (-)	**91,316**	135,758
Non-vested awards outstanding, December 31,	**188,903**	121,316
Weighted-average remaining contractual life (in years)	**0.7**	0.9
Unamortized RSA compensation expense	**$280,440**	$ 338,263
Aggregate intrinsic value of RSAs non-vested, December 31	**$343,822**	$ 476,772
Aggregate intrinsic value of RSAs vested, December 31	**$346,694**	$1,388,903

Non-Qualified Stock Option Awards

A summary of NQSO activity as of December 31, 2022 and 2021, and changes during the years then ended are set forth below:

	2022		2021	
NON-VESTED AWARDS	**Shares**	**Weighted Average Grant Date Fair Value**	Shares	Weighted Average Grant Date Fair Value
Non-vested balances, January 1,	**25,000**	**$ 3.98**	52,500	$ 3.93
Vested/Exercised (-)	**-**	**-**	27,500	$ 0.00
Non-vested balances, December 31,	**25,000**	**$ 3.98**	25,000	$ 3.98

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OUTSTANDING AND EXERCISABLE AWARDS	2022 Shares	2022 Weighted Average Exercise Price	2021 Shares	2021 Weighted Average Exercise Price
Awards outstanding, January 1,	**140,000**	**$ 5.79**	187,334	$ 5.66
Cancelled (-)	**5,000**	**$ 4.40**	834	$ 4.60
Expired (-)	**127,500**	**$ 5.89**	5,000	$ 13.04
Exercised (-)	**-**	**-**	41,500	$ 4.38
Awards outstanding, December 31,	**7,500**	**$ 4.90**	140,000	$ 3.54
Awards vested and expected to vest, December 31,	**7,500**	**$ 4.90**	140,000	$ 5.79
Awards outstanding and exercisable, December 31,	**7,500**	**$ 4.90**	115,000	$ 5.63

The weighted-average remaining contractual life and the aggregate intrinsic value (the amount by which the fair value of the Company's stock exceeds the exercise price of the option) of the stock options outstanding, exercisable, and vested and expected to vest as of December 31, 2022 are as follows:

	Outstanding	Vested and Expected to Vest	Outstanding and Exercisable
Weighted-average remaining contractual life (in years)	0.65	0.65	0.65
Aggregate intrinsic value	$ -	$ -	$ -

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:

	YEAR ENDED DECEMBER 31, 2022 Shared-Based Compensation Expense			YEAR ENDED DECEMBER 31, 2021 Shared-Based Compensation Expense		
	Employees	**Directors**	**Total**	Employees	Directors	Total
Restricted share-based compensation expense	**$ 265,704**	**$262,878**	**$528,582**	$ 539,658	$264,534	$804,192
Non-qualified option share-based compensation expense	**-**	**-**	**-**	79,571	-	79,571
Total share-based compensation before taxes	**$ 265,704**	**$262,878**	**$528,582**	$ 619,229	$264,534	$883,763

17. Earnings Per Common Share (EPS)

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

	YEARS ENDED DECEMBER 31,	
	2022	2021
Basic Earnings Per Share Computation:		
Net (loss) income	**$(23,585,291)**	$ 341,096
Weighted average number of common shares	**8,732,203**	9,069,903
Basic (Loss) Earnings Per Share	**$ (2.70)**	$ 0.04
Diluted Earnings Per Share Computation:		
Net (loss) income	**$(23,585,291)**	$ 341,096
Weighted average number of common shares	**8,732,203**	9,069,903
Incremental shares from assumed conversions of dilutive securities	**-**	90,292
Adjusted weighted average number of common shares	**8,732,203**	9,160,195
Diluted (Loss) Earnings Per Share	**$ (2.70)**	$ 0.04

18. Accumulated Other Comprehensive (Loss) Income

Changes in the Company's cumulative foreign currency translation adjustments due to translation of its foreign subsidiaries' Euro currency financial statements into the Company's reporting currency were as and for the periods presented below:

	YEARS ENDED DECEMBER 31,	
	2022	2021
Balances, January 1	**$(241,586)**	$ (104,615)
Net foreign currency translation loss	**(108,648)**	(136,971)
Balances, December 31	**$(350,234)**	$ (241,586)

19. Commitments and Contingencies

Employment Agreements

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

Legal Matters

The Company is not involved in any material legal proceedings.

20. Revenue by Service Type, Customer Type and by Geographic Region

The Company recognized revenues by the following broad service types:

	YEARS ENDED DECEMBER 31,	
	2022	2021
Carrier Services	**$53,339,950**	$49,730,946
Managed Services	**40,763,415**	37,607,151
	$94,103,365	$87,338,097

The Company recognized revenues for the following customer types as set forth below:

	YEARS ENDED DECEMBER 31,	
	2022	2021
U.S. Federal Government	**$74,416,288**	$73,130,465
U.S. State and Local Governments	**411,511**	240,473
Foreign Governments	**146,538**	69,718
Commercial Enterprises	**19,129,028**	13,897,441
	$94,103,365	$87,338,097

The Company recognized revenues from customers in the following geographic regions:

	YEARS ENDED DECEMBER 31,	
	2022	2021
North America	**$90,786,554**	$83,016,107
Europe	**3,316,811**	4,321,990
	$94,103,365	$87,338,097