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SKTF ENTERPRISES INC  
Form 10QSB/A  
December 09, 2002

U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SECOND AMENDED  
FORM 10-QSB/A

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2002

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE  
ACT OF 1934

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

COMMISSION FILE NUMBER: 000-49688

SKTF ENTERPRISES, INC.  
(Exact name of registrant as specified in its charter)

FLORIDA  
(State or other jurisdiction of  
incorporation or organization)

33-0961488  
(I.R.S. Employer  
Identification No.)

1059 E. SKYLER DRIVE  
DRAPER, UTAH  
(Address of principal executive offices)

84020  
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (801) 361-7644

Check whether the issuer (1) filed all reports required to be filed by  
Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 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 X No.  
-----

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS

Check whether the registrant filed all documents and reports required to be  
filed by Section 12, 13 or 15(d) of the Exchange Act after the distribution of  
securities under a plan confirmed by a court. Yes \_\_\_\_\_ No \_\_\_\_\_.

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of  
common equity, as of the latest practicable date. As of August 1, 2002, there

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were 6,013,000 shares of common stock issued and outstanding.

TRANSITIONAL SMALL BUSINESS DISCLOSURE FORMAT  
(check one):

Yes \_\_\_\_\_ No  X  
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SKTF ENTERPRISES, INC.

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PART I

This Quarterly Report includes forward-looking statements within the meaning of the Securities Exchange Act of 1934 (the "Exchange Act"). These statements are based on management's beliefs and assumptions, and on information currently available to management. Forward-looking statements include the information concerning possible or assumed future results of operations of the Company set forth under the heading "Management's Discussion and Analysis of Financial Condition or Plan of Operation." Forward-looking statements also include statements in which words such as "expect," "anticipate," "intend," "plan," "believe," "estimate," "consider" or similar expressions are used.

Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. The Company's future results and shareholder values may differ materially from those expressed in these forward-looking statements. Readers are cautioned not to put undue reliance on any forward-looking statements.

ITEM 1 FINANCIAL STATEMENTS

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SKTF ENTERPRISES, INC.  
(A FLORIDA DEVELOPMENT STAGE CORPORATION)

BALANCE SHEET

|   | 06/30/02 |
|---|----------|
| <b>ASSETS</b>   |          |
| Cash . . . . .  | \$ -     |
| Total Assets . . . . .  | \$ -     |
|   | =====    |
| <b>LIABILITIES AND EQUITY</b>   |          |
| Accounts payable and accrued liabilities . . . . .                        | \$ 9,861 |
| Commitments and contingencies (See Note 4) . . . . .                      | -        |
| Shareholders' equity:   |          |
| Preferred stock, \$0.001 par value; 5,000,000 shares authorized;. . . . . | -        |
| No shares issued or outstanding at June 30, 2002                          |          |
| Common stock, \$0.001 par value; 100,000,000 shares authorized; . . . . . | 6,013    |
| 6,013,000 shares issued and outstanding at June 30, 2002                  |          |
| Additional paid in capital . . . . .                                      | 14,095   |
| Deficit accumulated during development . . . . .                          | (29,969) |
|   | -----    |
| Total shareholders' equity . . . . .                                      | (9,861)  |
| Total Liabilities and Shareholders' Equity . . . . .                      | \$ -     |
|   | =====    |

The accompanying notes are an integral part of these statements.

SKTF ENTERPRISES, INC.  
(A FLORIDA DEVELOPMENT STAGE CORPORATION)

STATEMENT OF OPERATIONS

|   | THREE MONTHS<br>ENDED<br>06/30/02 | THREE MONTHS<br>ENDED<br>06/30/01 | SIX MONTHS<br>ENDED<br>6/30/02 | INCEPTION<br>03/27/01<br>THROUGH<br>06/30/01 |
|---|-----------------------------------|-----------------------------------|--------------------------------|--|
|   | -----                             | -----                             | -----                          | -----  |
| Revenue . . . . .                       | \$ -                              | \$ -                              | \$ -                           | \$ -   |
| Costs and expenses - Organization costs | \$ 2,031                          | \$ 308                            | \$ 9,225                       | \$ 308                                       |
|   | -----                             | -----                             | -----                          | -----  |
| Net Loss . . . . .                      | \$ (2,031)                        | \$ (308)                          | \$ (9,225)                     | \$ (308)                                     |
|   | =====                             | =====                             | =====                          | =====  |
| Net loss per share available to common  |                                   |                                   |                                |  |

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|                                   |           |        |           |        |           |        |           |        |    |        |
|-----------------------------------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|----|--------|
| stockholders                      |           |        |           |        |           |        |           |        |    |        |
| Basic and Diluted. . . . .        | \$        | (0.00) | \$        | (0.00) | \$        | (0.00) | \$        | (0.00) | \$ | (0.00) |
| Weighted average number of common |           |        |           |        |           |        |           |        |    |        |
| shares outstanding . . . . .      | 6,013,000 |        | 4,681,319 |        | 6,013,000 |        | 4,484,211 |        |    |        |

The accompanying notes are an integral part of these statements.

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SKTF ENTERPRISES, INC.  
(A FLORIDA DEVELOPMENT STAGE CORPORATION)

STATEMENT OF STOCKHOLDERS' EQUITY

|  | COMMON STOCK<br>SHARES | PAR VALUE | ADDITIONAL<br>PAID-IN<br>CAPITAL | DEFICIT<br>ACCUMULATED<br>DURING<br>DEVELOPMENT | TOTAL  |
|--|------------------------|-----------|----------------------------------|---|--------|
|  | -----                  | -----     | -----                            | -----   | -----  |
| Founder stock, \$0.0001 per share,<br>issued April 20, 2001. . . . . | 6,000,000              | \$ 6,000  | \$ (5,400)                       | \$ -  | \$     |
| Common stock, \$0.10 per share,<br>issued August 8, 2001. . . . .    | 12,000                 | 12        | 1,188                            |   | 1,     |
| Common stock, \$0.10 per share,<br>issued August 24, 2001 . . . . .  | 1,000                  | 1         | 99                               |   |        |
| Contributed capital-services . . . . .                               |                        |           | 14,199                           |   | 14,    |
| Net loss . . . . .   |                        |           |                                  | (20,744)  | (20,   |
| Balance, December 31, 2001 . . . . .                                 | 6,013,000              | \$ 6,013  | \$ 10,086                        | \$ (20,744)                                     | \$ (4, |
| Contributed capital-services . . . . .                               |                        |           | 2,569                            |   | 2,     |
| Net loss . . . . .   |                        |           |                                  | (7,194)   | (7,    |
| Balance, March 31, 2002. . . . .                                     | 6,013,000              | \$ 6,013  | \$ 12,655                        | \$ (27,938)                                     | \$ (9, |
| Contributed capital-services. . . . .                                |                        |           | 1,440                            |   | 1,     |
| Net loss. . . . .  |                        |           |                                  | (2,031)   | (2,    |
| Balance, June 30, 2002. . . . .                                      | 6,013,000              | \$ 6,013  | \$ 14,095                        | \$ (29,969)                                     | (9,    |

The accompanying notes are an integral part of these statements.

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SKTF ENTERPRISES, INC.  
(A FLORIDA DEVELOPMENT STAGE CORPORATION)

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STATEMENT OF CASH FLOWS

|  | SIX<br>MONTHS<br>06/30/02 | INCEPTION<br>03/27/01<br>THROUGH<br>06/30/01 | INCEPT<br>03/27/<br>THROUGH<br>06/30/ |
|--|---------------------------|--|---------------------------------------|
| Cash flows from operating activities -   |                           |  |                                       |
| Net loss. . . . .  | \$ (9,225)                | \$ (308)                                     | \$ (29,                               |
| Adjustments to reconcile net loss to cash<br>used in operating activities -. . . . . | -                         | -  |                                       |
| Contributed capital for services rendered at no charge. . . . .                      | 4,009                     | -  | 18,                                   |
| Changes in assets and liabilities -  |                           |  |                                       |
| Increase in payables. . . . .  | 5,216                     | 25   | 9,                                    |
| Cash used in operating activities . . . . .  | -                         | (283)  | (1,                                   |
| Cash flows from investing activities -. . . . .                                      | -                         | -  |                                       |
| Cash provided by investing activities . . . . .                                      | -                         | -  |                                       |
| Cash flows from financing activities -   |                           |  |                                       |
| Proceeds from issuance of common stock. . . . .                                      | -                         | 600  | 1,                                    |
| Cash provided by financing activities . . . . .                                      | -                         | 600  | 1,                                    |
| Net increase in cash. . . . .  | -                         | 317  |                                       |
| Cash, beginning of the period . . . . .  | -                         | -  |                                       |
| Cash, end of the period . . . . .  | \$ -                      | \$ 317                                       | \$                                    |

Supplemental information -  
No amounts were paid for interest or taxes during the period.

The accompanying notes are an integral part of these statements.

SKTF ENTERPRISES, INC.  
(A FLORIDA DEVELOPMENT STAGE CORPORATION)

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES

NATURE OF OPERATIONS. The Company incorporated in Florida on March 27, 2001. The fiscal year end of the Company is December 31. Planned principal operations of the Company have not yet commenced; activities to date have been limited to forming the Company, developing its business plan, and obtaining initial capitalization. Initially, the Company will focus its efforts to develop, market and distribute branded and licensed headwear targeting niche markets. The Company plans to focus on high-end events such as, the World Series, the Super Bowl, the Indianapolis 500, the Republican and Democratic National

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Conventions, and others.

PRINCIPLES OF ACCOUNTING. The accompanying financial statements have been prepared in conformity with generally accepted accounting principles.

ACCOUNTING ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

SHARES ISSUED IN EXCHANGE FOR SERVICES. The fair value of shares issued in exchange for services rendered to the Company is determined by the Company's officers and directors, as there is currently no market for the Company's stock. As of June 30, 2002, no shares have been issued for services.

CASH AND CASH EQUIVALENTS. The Company includes cash on deposit and short-term investments with original maturities less than ninety days as cash and cash equivalents in the accompanying financial statements.

ORGANIZATION COSTS. Organization costs, primarily professional fees, of approximately \$29,969 have been charged against operating income.

RESEARCH AND DEVELOPMENT. Research and development costs are expensed as incurred as required by Statement of Financial Accounting Standards No. 2, "Accounting for Research and Development Costs." As of June 30, 2002, no costs had been incurred.

STOCK-BASED COMPENSATION. In accordance with the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," (FAS 123), the Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," (APB 25) and related interpretations in accounting for its employee stock option plans. Under APB 25, if the exercise price of the Company's employee stock options equals or exceeds the fair value of the underlying stock on the date of grant, no compensation is recognized. As of June 30, 2002, no options had been issued for services.

INCOME TAXES. The Company has made no provision for income taxes because of financial statement and tax losses since its inception. A valuation allowance has been used to offset the recognition of any deferred tax assets due to the uncertainty of future realization. The use of any tax loss carryforward benefits may also be limited as a result of changes in Company ownership.

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### 1. NATURE OF OPERATIONS AND ACCOUNTING POLICIES (CONTINUED)

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FAIR VALUE OF FINANCIAL INSTRUMENTS. The Company considers all liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments generally mature between three months and six months from the purchase date. All cash and short-term investments are classified as available for sale and are recorded at market using the specific identification method; unrealized gains and losses are reflected in other comprehensive income. Cost approximates market for all classifications of cash and short-term investments; realized and unrealized gains and losses were not material.

NET LOSS PER COMMON SHARE. Basic loss per common share (Basic EPS) excludes dilution and is computed by dividing net loss available to common shareholders

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(the numerator) by the weighted average number of common shares outstanding (the denominator) during the period. Diluted loss per common share (Diluted EPS) is similar to the computation of Basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. In addition, in computing the dilutive effect of convertible securities, the numerator is adjusted to add back the after-tax amount of interest recognized in the period associated with any convertible debt. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net loss per share. All potential common shares are anti-dilutive; therefore, Basic EPS equals Diluted EPS.

### 2. STOCKHOLDERS' EQUITY

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**FOUNDERS' STOCK.** The Company issued 6,000,000 shares of common stock on April 20, 2001 for cash totaling \$600.

**STOCK-BASED COMPENSATION.** The Company did not issue nor did it recognize stock-based compensation from Inception, March 27, 2001, through June 30, 2002.

**PRIVATE PLACEMENT MEMORANDUM.** On June 1, 2001, the Company began offering 100,000 shares of common stock at \$0.10 per share pursuant to a Private Placement Memorandum. All proceeds from the offering are to be used for pre-incorporation expenditures, consulting fees and working capital. Through June 30, 2002, a total of 13,000 shares were sold for \$1,300 cash.

**STOCK OPTION PLAN.** The Company's Board and shareholders approved a Stock Option Plan, effective June 1, 2001. The plan limits the aggregate number of shares available to 600,000. Each award under the plan will be evidenced by a Stock Purchase Agreement; each agreement will establish the vesting requirements and the maximum term of the options granted. As of June 30, 2002, no options had been granted.

**CONTRIBUTED CAPITAL.** The Company's president elected to forego a salary during the early developmental stages. Additionally, he does not charge the Company for the use of his home office. The Company estimates the value of these services, since inception, at \$1,900 and has recorded contributed capital and the related organizational expense in the accompanying financial statements.

The Company's corporate counsel has elected to provide professional services to the Company free of charge; however, the Company must reimburse him for all out of pocket costs. The value of contributed services, since inception, determined based on hours incurred, were \$16,309 and has been recorded as organizational costs (and contributed capital) in the accompanying financial statements.

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### 3. RELATED PARTY TRANSACTIONS

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**LEGAL SERVICES.** The Company has engaged a shareholder as its corporate counsel. All out of pocket costs are billed as incurred; billings to date total \$1,485. See "Contributed Capital" and "Stockholder Loans and Advances" for more information about transactions with the Company's corporate counsel.

**STOCKHOLDERS LOANS AND ADVANCES.** From time to time, certain Company stockholders loan or advance monies to the Company. Loans bear interest at rates established at the time of the loan; advances bear no interest. While these loans and advances have no maturity dates, they are expected to be repaid as early as practicable. At June 30, 2002, the Company's corporate counsel had

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advanced \$9,270 for organizational costs.

### 4. COMMITMENTS, CONTINGENCIES, RISKS AND UNCERTAINTIES

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GOING CONCERN CONTINGENCY. The Company has minimal capital resources presently available to meet obligations that normally can be expected to be incurred by similar companies, and with which to carry out its planned activities. These factors raise doubt about the Company's ability to continue as a going concern. Management is seeking additional equity financing to fund planned operations; management believes actions currently being taken provide the opportunity for the Company to continue as a going concern. However, there is no assurance that the Company will be able to obtain such financing. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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### ITEM 2 MANagements DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The Company is currently engaged in a public offering of up to \$1,000,000 pursuant to a Form SB-2 filed with the Securities and Exchange Commission. No shares of our common stock have been sold under the offering. Until the completion of the offering, management anticipates that SKTF will engage in very little business activity, will not hire any employees, and will not enter into any material contracts. As a result, our cash requirements will be minimal, related only to the cost of maintaining the company in good standing. Our two primary shareholders, Mr. Berg and Mr. Lebrecht, have agreed to advance funds to us to fund these minimal cash requirements.

Upon the completion of the offering, management intends to seek to have a market maker file an application to list our securities on the OTC Bulletin Board.

Even if we are successful in raising the full \$1,000,000 under the offering, we do not know how long this cash will last. It is a best-efforts offering with no minimum, therefore, we may raise less than \$1,000,000. Cash will be used to acquire hat and clothing licenses, to pay for the manufacturing of products for sale, to market the products, and to hire sales people located at upcoming events. We have not taken action to complete any of these steps, and will not do so until after this offering is completed. We do not know what action will be taken to achieve any of these steps, and we do not know how long any of the steps will take.

Although we had hoped to offer products focused on the 2002 Winter Olympics, we did not take any steps to obtain the necessary licenses or manufacture the products to do so, and did not successfully market any products at that event. Upon completion of the offering, we will develop a timetable of steps to be taken in order offer products for future events.

It is not anticipated that current management will be paid a salary during the next twelve months.

Management does not anticipate that we will engage in any material product research and development because we will negotiate for the acquisition of licenses to manufacture and sell products that are already in existence.

Management does not anticipate that we will purchase a plant or significant equipment because we will enter into agreements with existing hat and clothing manufacturers to manufacture the products.



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Management anticipates that over the next twelve months we will hire up to five full-time employees to oversee a temporary sales force at each location where we will sell our products. The temporary sales people will either be paid a commission based on sales, or will be paid an hourly wage plus a commission based on sales, depending on applicable laws at that location. The temporary sales people will not be offered benefits.

Our financial statements have been prepared assuming we will continue as a going concern. Because we have not generated any revenues to date and have minimal capital resources, our auditors included an explanatory paragraph in their report raising substantial doubt about our ability to continue as a going concern. We have not identified any critical accounting issues.

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### PART II

#### ITEM 1 LEGAL PROCEEDINGS

None.

#### ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

None.

#### ITEM 3 DEFAULTS UPON SENIOR SECURITIES

There have been no events which are required to be reported under this Item.

#### ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There have been no events which are required to be reported under this Item.

#### ITEM 5 OTHER INFORMATION

None.

#### ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

##### (a) Exhibits

99.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002

##### (b) Reports on Form 8-K

None.

### SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SKTF ENTERPRISES, INC.

/s/ Carl M. Berg

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Dated: November 20, 2012

-----  
Carl M. Berg  
President, Director,  
Chief Executive Officer,  
Chief Financial Officer

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le="TEXT-INDENT: 0pt; DISPLAY: block; MARGIN-LEFT: 0pt; MARGIN-RIGHT: 0pt" align="left">1 Excluding rooms signed on US Army bases (Q1 2014 = 1k, Q1 2013 = 4k)

### High quality system and pipeline

#### Group system size

Net rooms up 2.2% year on year to 689k rooms (4,704 hotels).

9k rooms (49 hotels) opened in the quarter, led by the Americas and Greater China, which each opened 3k rooms.

Key openings included the first Holiday Inn and Holiday Inn Express hotels in Jakarta, Indonesia, one of IHG's ten priority markets, and the 990 room InterContinental Chengdu Global Centre in China.

We remain on track to open the first property for our new EVEN Hotels brand in the US by the end of the first half of 2014 and expect to open the first HUALUXE Hotels and Resorts branded hotel in Greater China by the end of 2014.

7k rooms (42 hotels) were removed from the system, mostly in the Americas, in-line with our ongoing commitment to maintain the high quality of the estate. For the full year, we expect room removals to trend back to within the 2%-3% range.

#### Group pipeline

IHG's high quality pipeline now stands at 182k rooms (1,146 hotels), with over 45% under construction and over 50% in developing markets. IHG has a 13% share of the active industry global hotel pipeline, positioning us well for future growth.

13k rooms (96 hotels) were signed, up 14% year on year on an underlying<sup>1</sup> basis, led by the Americas and Greater China. In the Americas, the combination of strong RevPAR performance and continuing improvement in debt financing is generating increased hotel development activity, particularly in the upper midscale segment. In Greater China, the breadth of our portfolio of brands combined with our continued industry outperformance is driving both conversion and new build deals.

Signings were particularly strong for the Holiday Inn brand family with over 9k rooms added (66 hotels).

### Industry-leading insight and innovation

Maintaining our industry-leading position in the use of technology, IHG entered into a strategic relationship with Amadeus during the quarter. This will ensure that IHG continues to offer the most innovative and efficient technological solutions to enhance guest experience at all stages of the Guest Journey.

IHG Rewards Club, which was re-launched in July 2013, has been awarded second place in the inaugural J.D. Power 2014 Hotel Loyalty/Rewards Program Satisfaction Report in the US. In addition, IHG Rewards Club won five awards at the 2014 Annual Freddie Awards, more than any other hotel loyalty programme.

### Strategy for further asset disposals

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The disposals of InterContinental Mark Hopkins San Francisco and an 80% interest in InterContinental New York Barclay were completed during the first quarter, with combined gross proceeds of \$394m. IHG has secured long term management contracts on both hotels. InterContinental New York Barclay will close at the end of June for its planned c. \$175m refurbishment programme which is expected to take around 18 months.

Global demand for prime hotel assets is particularly strong at present. Accordingly, we are reviewing opportunities for further asset disposals.

### Financial position

The financial position of the group remains robust.

Reflecting the recent completion of major asset sales, IHG's strategy to have an efficient balance sheet whilst maintaining an investment grade credit rating, and our commitment to return surplus funds to shareholders, a \$750m special dividend with share consolidation will be paid in July 2014, subject to shareholder approval.

This will take the total funds returned to shareholders since 2003 to \$10.3bn, including \$1.6bn in ordinary dividends, and reinforces a long standing strategy that will yield additional returns into the future resulting from both further asset sales and the highly cash generative nature of IHG's business model.

### Other events

As previously disclosed, in the quarter there was one individually significant liquidated damages receipt of \$4m in the Americas franchise business.

1 Excluding rooms signed on US Army bases (Q1 2014 = 1k, Q1 2013 = 4k)

### Appendix 1: First quarter RevPAR movement summary

| Group    | RevPAR | Q1 2014 |         |
|----------|--------|---------|---------|
|          |        | Rate    | Occ.    |
| Group    | 6.0%   | 1.9%    | 2.4%pts |
| Americas | 6.6%   | 2.4%    | 2.5%pts |
| Europe   | 6.1%   | 0.8%    | 3.1%pts |
| AMEA     | 3.8%   | 3.5%    | 0.2%pts |
| G. China | 3.9%   | (1.0)%  | 2.6%pts |

### Appendix 2: First quarter system & pipeline summary (rooms)

| Group    | Openings | Removals | System |         | YoY%  | Pipeline |         |
|----------|----------|----------|--------|---------|-------|----------|---------|
|          |          |          | Net    | Total   |       | Signings | Total   |
| Group    | 8,591    | (6,947)  | 1,644  | 688,517 | 2.2%  | 13,239   | 182,140 |
| Americas | 2,907    | (3,837)  | (930)  | 450,494 | 0.4%  | 8,619    | 80,068  |
| Europe   | 1,425    | (1,755)  | (330)  | 101,736 | 0.5%  | 981      | 17,065  |
| AMEA     | 1,297    | 102      | 1,399  | 66,237  | 7.3%  | 450      | 31,305  |
| G. China | 2,962    | (1,457)  | 1,505  | 70,050  | 12.2% | 3,189    | 53,702  |

### Appendix 3: Status of share buyback programme

The \$500m share buyback programme is almost complete, with 17.0 million shares repurchased for \$489m since the start of the programme in November 2012. Year to date 3.1 million shares have been repurchased for \$99m.

Appendix 4: Definitions

RevPAR: Revenue per available room.

For further information, please contact:

Investor Relations (Catherine Dolton, Isabel Green): +44 (0)1895 512176 +44 (0) 7808 098724

Media Relations (Yasmin Diamond, Zoe Bird): +44 (0)1895 512008 +44 (0) 7736 746167

High resolution images to accompany this announcement are available for the media to download free of charge from [www.vismedia.co.uk](http://www.vismedia.co.uk). This includes profile shots of key executives.

Conference call for Analysts and Shareholders:

A conference call with Richard Solomons (Chief Executive Officer) and Paul Edgecliffe-Johnson (Chief Financial Officer) will commence at 9:30am UK time on 2 May and can be accessed on [www.ihgplc.com/Q1](http://www.ihgplc.com/Q1). There will be an opportunity to ask questions.

UK Toll +44 (0) 20 3003 2666

UK Toll Free 0808 109 0700

US Toll +1 646 843 4608

Passcode: IHG

A replay of the 9:30am conference call will be available following the event - details are below:

UK Toll +44 (0) 20 8196 1998

Replay pin 9415605

US conference call and Q&A:

There will also be a conference call, primarily for US investors and analysts, at 9:00am Eastern Standard Time on 2 May with Richard Solomons (Chief Executive Officer) and Paul Edgecliffe-Johnson (Chief Financial Officer). There will be an opportunity to ask questions.

UK Toll +44 (0) 20 3003 2666

US Toll +1 646 843 4608

US Toll Free 866 966 5335

Passcode: IHG

A replay of the 9:00am US conference call will be available following the event - details are below:

UK Toll +44 (0) 20 8196 1998

US Toll +1 866 583 1035

Replay pin 5272065

Website:

The full release and supplementary data will be available on our website from 7:00 am (London time) on 2 May. The web address is [www.ihgplc.com/Q1](http://www.ihgplc.com/Q1).

Notes to Editors:

IHG (InterContinental Hotels Group) [LON:IHG, NYSE:IHG (ADRs)] is a global organisation with a broad portfolio of nine hotel brands, including InterContinental® Hotels & Resorts, Hotel Indigo®, Crowne Plaza® Hotels & Resorts, Holiday Inn® Hotels & Resorts, Holiday Inn Express®, Staybridge Suites®, Candlewood Suites®, EVEN™ Hotels and HUALUXE® Hotels and Resorts.

IHG manages IHG® Rewards Club, the world's first and largest hotel loyalty programme with nearly 79 million members worldwide. The programme was relaunched in July 2013, offering enhanced benefits for members including free internet across all hotels, globally.

IHG franchises, leases, manages or owns over 4,700 hotels and 688,000 guest rooms in nearly 100 countries and territories, with more than 1,100 hotels in its development pipeline.

InterContinental Hotels Group PLC is the Group's holding company and is incorporated in Great Britain and registered in England and Wales.

Visit [www.ihg.com](http://www.ihg.com) for hotel information and reservations and [www.ihgrewardsclub.com](http://www.ihgrewardsclub.com) for more on IHG Rewards Club. For our latest news, visit: [www.ihg.com/media](http://www.ihg.com/media), [www.twitter.com/ihg](http://www.twitter.com/ihg), [www.facebook.com/ihg](http://www.facebook.com/ihg) or [www.youtube.com/ihgplc](http://www.youtube.com/ihgplc).

Cautionary note regarding forward-looking statements:

This announcement contains certain forward-looking statements as defined under US law (Section 21E of the Securities Exchange Act of 1934). These forward-looking statements can be identified by the fact that they do not relate to historical or current facts. Forward-looking statements often use words such as 'anticipate', 'target', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe' or other words of similar meaning. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty. There are a number of factors that could cause actual results and developments to differ materially from those expressed in or implied by, such forward-looking statements. Factors that could affect the business and the financial results are described in 'Risk Factors' in the InterContinental Hotels Group PLC Annual report on Form 20-F filed with the United States Securities and Exchange Commission.

## 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.

InterContinental Hotels Group PLC  
(Registrant)

By: /s/ H. Patel  
Name: H. PATEL  
Title: COMPANY SECRETARIAL OFFICER  
  
Date: 02 May 2014

For the quarter ended March 31, 2006, Allowance for doubtful accounts \$ -- \$ 1,590 \$ 1,590 \$ --  
For the quarter ended March 31, 2007, Allowance for doubtful accounts \$ -- \$ -- \$ -- \$ --

Unbilled accounts receivable on time-and-materials contracts represent costs incurred and gross profit recognized near the period-end but not billed until the following period. Unbilled accounts receivable on fixed-price contracts consist of amounts incurred that are not yet billable under contract terms. At March 31, 2007 and December 31, 2006, unbilled accounts receivable totaled \$248,576 and \$354,123, respectively.

### *Revenue Recognition*

The majority of the Company's revenues are derived from cost-plus, or time-and-materials contracts. Under cost-plus contracts, revenues are recognized as costs are incurred and include an estimate of applicable fees earned. For time-and-material contracts, revenues are computed by multiplying the number of direct labor-hours expended in the performance of the contract by the contract billing rates and adding other billable direct costs. In the event of a termination of a contract, all billed and unbilled amounts associated with those task orders where work has been performed would be billed and collected. The termination provisions of the contract would be accounted for at the time of termination. Any deferred and/or amortization cost would either be billed or expensed depending upon the termination provisions of the contract. Further, the Company has had no material history of losses nor has it identified any material specific risk of loss at March 31, 2007 or on December 31, 2006.

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due to termination provisions and thus has not recorded provisions for such events.

The Company's other revenues are derived from the delivery of non-customized software. In such cases revenue is recognized when there is persuasive evidence that an arrangement exists (generally a purchase order has been received or contract signed), delivery has occurred, the charge for the software is fixed or determinable, and collectibility is probable.

### *Significant Customers*

For the quarter ended March 31, 2007, one customer, the Defense Information Security Agency (DISA), represented approximately 24% of revenues. Due to the nature of our business and the relative size of certain contracts, which are entered into in the ordinary course of business, the loss of any single significant customer could have a material adverse effect on results. For the quarter ended March 31, 2006, one customer, Baxter Healthcare Corporation, individually represented approximately 10% of revenues.

### *Fair value of financial instruments*

The Company's financial instruments include cash equivalents, accounts receivable, accounts payable, and short-term debt and other financial instruments associated with the issuance of the common stock warrants attributable to the preferred stock capital investment in the Company in October of 2004. The carrying values of cash equivalents, accounts receivable and accounts payable approximate their fair value because of the short maturity of these instruments. The carrying amounts of the Company's bank borrowings under its credit facility approximate fair value because the interest rates are reset periodically to reflect current market rates.

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### *Concentrations of Credit Risk*

Financial instruments potentially subject the Company to credit risk, which consist of cash and cash equivalents and accounts receivable. As of March 31, 2007, one customer, Defense Information Security Agency (DISA), accounted for approximately 24% of accounts receivable. As of December 31, 2006, one customer, Headquarters Cryptologic Systems Group (HQ CPSG), represented 54% of accounts receivable.

### *Income Taxes*

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has also adopted the provisions of Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109.

### *Property and Equipment*

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Property and equipment consisted of the following:

|   | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---|---------------------------|------------------------------|
| Computers, equipment and software               | \$ 324,229                | \$ 301,840                   |
| Less- Accumulated depreciation and amortization | \$ (121,100)              | \$ (96,609)                  |

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|  | <b>March 31,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|--|---------------------------|------------------------------|
|  | \$ 203,129                | \$ 205,231                   |

Depreciation expense is computed using the straight-line method over the estimated useful lives of three years.

In accordance with the American Institute of Certified Public Accountants Statement of Position 98-1 Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, the Company capitalizes costs related to software and implementation in connection with its internal use software systems.

*Software Development Costs*

WidePoint accounts for software development costs related to software products for sale, lease or otherwise marketed in accordance with SFAS No. 86, Accounting for the Costs of Computer Software to be Sold, Leased, or Otherwise Marketed. For projects fully funded by the Company, 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 over a six-year period or other such shorter period as may be required. WidePoint recorded approximately \$14,000 of amortization expense for PKI-I and \$31,000 for PKI-II for the three month period ending March 31, 2007. WidePoint recorded approximately \$183,000 of amortization expense for PKI-I and PKI-II for the year ended December 31, 2006. Capitalized software costs included in Other Intangibles at March 31, 2007 and December 31, 2006 were approximately \$0.6 million and \$0.7 million, respectively.

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*Goodwill, Other Intangible Assets, and Long-Lived Assets*

Goodwill represents costs in excess of fair values assigned to the underlying net assets acquired. The Company has adopted the provisions of SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. These standards require the use of the purchase method of accounting for business combinations, set forth the accounting for the initial recognition of acquired intangible assets and goodwill and describe the accounting for intangible assets and goodwill subsequent to initial recognition. Under the provisions of these standards, goodwill is not subject to amortization and annual review is required for impairment. The impairment test under SFAS No. 142 is based on a two-step process involving (i) comparing the estimated fair value of the related reporting unit to its net book value and (ii) comparing the estimated implied fair value of goodwill to its carrying value. Impairment losses are recognized whenever the implied fair value of goodwill is less than its carrying value. The Company's annual impairment testing date is December 31.

The Company recognizes an acquired intangible apart from goodwill whenever the intangible arises from contractual or other legal rights, or when it can be separated or divided from the acquired entity and sold, transferred, licensed, rented or exchanged, either individually or in combination with a related contract, asset or liability. Such intangibles are amortized over their useful lives. Impairment losses are recognized if the carrying amount of an intangible subject to amortization is not recoverable from expected future cash flows and its carrying amount exceeds its fair value.

The Company reviews its long-lived assets, including property and equipment, identifiable intangibles, and goodwill annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows will be less than the carrying amount of the assets.

*Basic and Diluted Net Earnings (Loss) Per Share*

Basic earnings or loss per share includes no dilution and is computed by dividing net earnings or loss by the weighted-average number of common shares outstanding for the period. Diluted earnings or loss per share includes the potential dilution that could occur if securities or other

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contracts to issue common stock were exercised or converted into common stock. The treasury stock effect of the conversion of preferred stock to common stock, options and warrants to purchase 6,293,514 and 6,779,233, shares of common stock outstanding for the three months ended March 31, 2007 and 2006, respectively, has not been included in the calculation of the net loss per share as such effect would have been anti-dilutive.

### *Stock-based compensation*

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), Share-Based Payment, ( SFAS No. 123R ). This statement requires that the costs of employee share-based payments be measured at fair value on the awards grant date and recognized in the financial statements over the requisite service period.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R using the modified prospective application transition method. Under this method, compensation cost for the portion of awards for which the requisite service has not yet been rendered that are outstanding as of the adoption date is recognized over the remaining service period. The compensation cost for that portion of awards is based on the grant-date fair value of those awards as calculated for pro forma disclosures under SFAS No. 123, as originally issued. All new awards that are modified, repurchased, or cancelled after the adoption date are accounted for under provisions of SFAS No. 123R. Prior periods have not been restated under this transition method. The Company recognizes share-based compensation ratably using the straight-line attribution method over the requisite service period. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating share-based compensation, instead of accounting for forfeitures as they occur, which was the Company's practice prior to the adoption of SFAS 123R. As of January 1, 2006, the cumulative effect of adopting the estimated forfeiture method was not material.

The amount of compensation expense recognized under SFAS 123(R) during the three months ended March 31, 2007 and 2006, respectively, under our plans was comprised of the following:

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|  | Three Months ended |                |
|--|--------------------|----------------|
|  | March 31, 2007     | March 31, 2006 |
| General and administrative expense                                       | \$ 63,976          | \$ 61,063      |
| Share-based compensation before taxes                                    | 63,976             | 61,063         |
| Related income tax benefits  | --                 | --             |
| Share-based compensation expense   | \$ 63,976          | \$ 61,063      |
| Net share-based compensation expenses per basic and diluted common share | \$ 0.01            | \$ 0.01        |

Since we have cumulative operating losses as of March 31, 2007 for which a valuation allowance has been established, we recorded no income tax benefits for share-based compensation arrangements. Additionally, no incremental tax benefits were recognized from stock options exercised during the quarter ended March 31, 2007, which would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model. Expected volatilities are based on the historical volatility of our common stock. The expected term of options granted is based on analyses of historical employee termination rates and option exercises. The risk-free interest rates are based on the U.S. Treasury yield for a period consistent with the expected term of the option in effect at the time of the grant. Share-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. The estimated forfeiture rates are based on analyses of historical data, taking into account patterns of involuntary termination and other factors. A summary of the option activity under our plans during the quarter ended March 31, 2007 is presented below:

| # of Shares | Weighted average<br>Grant date fair value<br>per share |
|-------------|--|
|-------------|--|



NON-VESTED

|                               |         |    |      |
|-------------------------------|---------|----|------|
| Non-vested at January 1, 2007 | 753,477 | \$ | 0.67 |
| Granted                       | --      |    | --   |
| Vested                        | 323,183 | \$ | 0.58 |
| Forfeited                     | 29,250  | \$ | 0.43 |
| Non-vested at March 31, 2007  | 401,044 | \$ | 0.76 |

OUTSTANDING AND EXERCISABLE

|                                      |           |    |      |
|--------------------------------------|-----------|----|------|
| Total outstanding at January 1, 2007 | 7,103,261 | \$ | 0.36 |
| Issued                               | --        |    | --   |
| Cancelled                            | 30,250    | \$ | 0.48 |
| Exercised                            | 75,800    | \$ | 0.34 |
| Total outstanding at March 31, 2007  | 6,997,211 | \$ | 0.36 |
| Total exercisable at March 31, 2007  | 6,596,167 | \$ | 0.32 |

The aggregate remaining contractual lives in years for the options outstanding and exercisable on March 31, 2007 was 4.04 and 3.77, respectively.

Aggregate intrinsic value represents total pretax intrinsic value (the difference between WidePoint's closing stock price on March 31, 2007 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on March 31, 2007. This amount changes based on the fair market value of WidePoint's stock. The total intrinsic value of options outstanding as of March 31, 2007 was \$10,297,767. The total intrinsic value of options exercisable on March 31, 2007 was \$9,964,507. The total intrinsic value of options exercised for the first quarter of fiscal 2007 was \$111,088. The Company issues new shares of common stock upon the exercise of stock options.

At March 31, 2007, 4,884,738 shares were available for future grants under the Company's 1997 Stock Compensation Plans. This includes options for 1,012,150 shares previously issued and cancelled under the Company's 1997 Stock Compensation Plans. This does not include 3,999,999 warrants granted and vested to members of the senior management team that were not issued under the Company's 1997 Stock Compensation Plans.

At March 31, 2007, the Company had approximately \$300,000 of total unamortized compensation expense, net of estimated forfeitures, related to stock option plans that will be recognized over the weighted average period of 4.04 years.

**3. Debt**

As of December 31, 2006 and March 31, 2007, the Company maintained no outstanding balances under our senior lending agreement with RBC-Centura Bank, which expired on June 1, 2006. The senior lending agreement was executed on October 25, 2004 and had a maturity date of October 25, 2005, which was extended until June 1, 2006 at which time it expired. The Agreement provided for a \$2.5 million revolving credit facility. Borrowings under the Agreement were collateralized by the Company's eligible contract receivables, inventory, all of its stock in certain of our subsidiaries and certain property and equipment, and bore interest at the prime rate.

WidePoint's credit facility required that the Company maintain specified financial covenants relating to fixed charge coverage, interest coverage, and debt coverage, and maintain a certain level of consolidated net worth. As of and during the quarter ended March 31, 2006 and during the year ended December 31, 2006, WidePoint was either in compliance with each of these financial covenants, received waivers, or was allowed to continue to utilize the credit facility through June 1, 2006. There were no weighted average borrowings under the revolving portion of the

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facility during the quarters ended March 31, 2007 and March 31, 2006. There were no interest fees paid during the quarters ended March 31, 2007 and 2006.

WidePoint has been provided a term sheet to provide a line of credit for up to \$2.0 million under a revolving credit facility by Cardinal Bank for which the Company is presently undergoing a collateral review by Cardinal Bank, prior to initiating the line of credit. If completed, the line of credit will be collateralized by the Company's eligible accounts receivable, inventory, all of its stock in certain of our subsidiaries and certain property and equipment, and bear interest at the prime rate less 0.25%. The credit facility will maintain specific financial covenants related to working capital levels and consolidated net worth and be for a period of one year.

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#### 4. Goodwill and Intangible Assets

Effective January 1, 2002, WidePoint adopted SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS 142 requires, among other things, the discontinuance of goodwill amortization. Under SFAS 142, goodwill is to be reviewed at least annually for impairment; the Company has elected to perform this review annually on December 31<sup>st</sup> of each calendar year. These reviews have resulted in no adjustments in goodwill.

During 2004, WidePoint completed the acquisition of Operational Research Consultants, Inc ( ORC ). The Company has also capitalized software development costs associated with its PKI initiative, established the purchase price allocation of the assets acquired and allocated the purchase price of the components and software capitalization of goodwill and other intangibles as follows:

| Amortized Intangible Assets  | As of March 31, 2007     |                             |
|--|--------------------------|-----------------------------|
|  | Gross Carrying<br>Amount | Accumulated<br>Amortization |
|  |                          |                             |
| (1) ORC Intangible (Includes customer relationships and PKI business opportunity purchase accounting preliminary valuations) | \$ 1,145,523             | \$ (534,272)                |
| (2) PKI-I Intangible (Related to internally generated software)  | \$ 334,672               | \$ (140,659)                |
| (3) PKI-II Intangible (Related to internally generated software)   | \$ 649,991               | \$ (198,150)                |
| Total  | \$ 2,130,186             | \$ (873,081)                |
| <b>Aggregate Amortization Expense:</b>   |                          |                             |
| For quarter ended 3/31/07  | \$ 101,107               |                             |
| <b>Estimated Amortization Expense:</b>   |                          |                             |
| For year ended 12/31/07  | \$ 404,429               |                             |
| For year ended 12/31/08  | \$ 404,429               |                             |
| For year ended 12/31/09  | \$ 374,272               |                             |
| For year ended 12/31/10  | \$ 175,082               |                             |

- (1) The ORC intangible is made up of the estimated preliminary purchase accounting associated with the valuation assigned by the Company to ORC's customer relationships and PKI business opportunity. The PKI business opportunity intangible has an estimated life of 6 years and ORC's customer relationships have an estimated life of 5 years. The PKI business opportunity was estimated based upon the contractual life assigned to the authority to issue PKI certificates by the federal government. The fair value of the PKI business opportunity was estimated using the expected present value of future cash flows estimated by the Company for ORC's PKI business opportunity. ORC's customer relationship intangible was

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estimated based upon an analysis of the historic life of ORC's present customer relationships and their present contract opportunities. A fair value was estimated using the expected present value of the estimated future cash flows generated from those relationships. The weighted average remaining life of this intangible asset class is 3.5 years.

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- (2) The PKI-I intangible is related to internally generated software that was associated with ORC's PKI-I development of its phase I software offerings. ORC commenced sales of its PKI-I service in August of 2004. It has a weighted average remaining life of 3.5 years and is based upon the contractual life assigned to the authority to issue PKI certificates by the federal government.
- (3) The PKI-II intangible is related to a secondary PKI software development effort by ORC. ORC commenced sales of its PKI-II service in August of 2005. It has a weighted average remaining life of 3.5 years and is based upon the contractual life assigned to the authority to issue PKI certificates by the federal government.

The total weighted average remaining life of all of the intangibles is approximately 3.5 years.

There were no amounts of research and development assets acquired during the quarter ended March 31, 2007 nor any written-off in the period.

There were no changes in the carrying amount of goodwill for the quarter ended March 31, 2007.

The goodwill acquired is associated with the acquisition of ORC in October of 2004. No impairment was required as of March 31, 2007.

### 5. Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under SFAS No. 109, deferred tax assets and liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the enacted marginal tax rate. SFAS No. 109 requires that the net deferred tax asset be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the net deferred tax asset will not be realized. The Company has further adopted the provisions of Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes—An Interpretation of FASB Statement No. 109. As required by FIN 48, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

The Company has determined that its net deferred tax asset did not satisfy the recognition criteria set forth in SFAS No. 109 and, accordingly, established a valuation allowance for 100 percent of the net deferred tax asset, less the deferred liability related to the Section 481(a) adjustment.

As of March 31, 2007, the Company had net operating loss carry forwards of approximately \$21 million to offset future taxable income. These carry forwards expire between 2010 and 2026. Under the provision of the Tax Reform Act of 1986, when there has been a change in an entity's ownership of 50 percent or greater, utilization of net operating loss carry forwards may be limited. As a result of WidePoint's equity transactions, the Company's net operating losses will be subject to such limitations and may not be available to offset future income for tax purposes. Upon review and analysis by the Company we have concluded that no FIN 48 effects are present as of March 31, 2007 and our tax position has not materially changed since December 31, 2006.

### 6. Stockholders Equity

The Company is authorized to issue 110,000,000 shares of common stock, \$.001 par value per share. During the quarter ended March 31, 2007 1,952,140 shares of common stock were issued as the result of the conversion of 195,214 Preferred Shares by Barron Partners LP, and 75,800 shares of common stock were issued as the result of the exercise of employee stock options for 75,800 shares. As of March 31, 2007 there were 52,522,699 shares of common stock outstanding. The rights, preferences and privileges of holders of common stock are subject to, and may be adversely affected by the rights of the holders of shares of Series A Convertible Preferred Stock and of any additional series of preferred stock that may be designated and issued in the future.

### 6. Stockholders Equity

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### *Preferred Stock*

Our certificate of incorporation authorizes the Company to issue up to 10,000,000 shares of preferred stock, \$0.001 par value per share, of which 0 and 195,214 shares were outstanding at March 31, 2007 and December 31, 2006, respectively. Preferred stock of 195,214 shares were converted during the quarter ended March 31, 2007 into 1,952,140 shares of Common Stock.

### *Common Stock*

On October 25, 2004, WidePoint completed the acquisition of Operational Research Consultants, Inc., or ORC, a privately held IT and engineering firm providing mission-critical sensitive and strategic information security solutions to the United States Government. Pursuant to the terms of a Purchase Agreement entered into on October 25, 2004, between the Company and the ORC shareholders, the Company issued 5,555,556 common shares of the Company's stock and placed it into an escrow to be released to the ORC shareholders in the event they attained certain performance parameters in 2004 and 2005. As of December 31, 2005, no common shares were earned and the 5,555,556 shares were returned to the Company and cancelled during the second quarter of 2006.

On April 30, 2004, the Company closed upon the acquisition of all the issued and outstanding shares of Chesapeake Government Technologies, Inc. (Chesapeake), pursuant to the terms of an Agreement and Plan of Merger, dated as of March 24, 2004. This transaction was accounted for as a consulting arrangement because Chesapeake did not meet the definition of a business under FAS 141. WidePoint issued 4,082,980 shares of its common stock to stockholders of Chesapeake in consideration for all of the issued and outstanding shares of Chesapeake owned by them. In conjunction with this closing, the Chesapeake stockholders also entered into an escrow agreement and deposited 3,266,384 shares of the 4,082,980 newly issued shares of WidePoint common stock into escrow. The 3,266,384 shares of common stock placed into escrow were not recorded in equity at the time of the acquisition and were only to be released to the Chesapeake shareholders in the event of the satisfaction of certain conditions set forth in the merger agreement, which provided that during the period commencing after the closing of the merger and ending on December 31, 2005, the 3,266,384 shares of common stock would be released to the Chesapeake shareholders in a ratio based on the amount of revenues actually received by the Company from the business acquired as a result of activities originated and consummated by Chesapeake. The December 31, 2005 escrow expiration date could have been extended for one additional year in the event that it was determined that Chesapeake had achieved certain performance levels in the latter part of 2005, which did not occur. All shares earned were charged to expense through December 31, 2006. Of the 3,266,384 shares of common stock held in escrow, 816,596 and 1,905,390 were released in 2005 and 2006, respectively, with the 544,398 remaining shares cancelled in 2006.

### *Stock Warrants*

On November 1, 2005, the Company issued a warrant to purchase 54,878 shares of common stock at a price of \$0.80 per share to Hawk Associates as part of a consulting agreement in which Hawk Associates agreed to act as the Company's investor relations representative. The warrant has a term of 5 years. We are accounting for this award in accordance with EITF 96-18.

On October 27, 2004 and November 22, 2004, the Company issued two warrants to purchase 30,612 shares and 5,556 shares of common stock at a price of \$0.49 and \$0.45 per share, respectively, to Liberty Capitol as part of a consulting agreement in which Liberty Capitol assisted the Company in arranging its senior debt financing with RBC-Centura Bank. The warrants have a term of 5 years. The Company used a fair-value option pricing model to value these stock warrants at approximately \$14,291. This value has been reflected as part of stock warrants in the stockholders' equity section of the consolidated balance sheet.

## **7. Segment reporting**

Segments are defined by SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, as components of a company in which separate financial information is available and is evaluated by the chief operating decision maker, or a decision making group, in deciding how to allocate resources and in assessing performance.

During 1998, the Company adopted SFAS No. 131 and until December 31, 2005 the Company was comprised of a single segment, which was comprised of our consulting services segment within our Commercial and Federal Government Marketplaces. As of January 1, 2006, the Company added a second segment, which consists of PKI credentialing and managed services. The PKI credentialing and managed services segment provides PKI credentialing and managed services to United States federal agencies and federal contractors as a result of regulatory compliance requirements.

Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment. These administrative function costs include costs for corporate office support, all office facility costs, costs relating to accounting and finance, human resources, legal, marketing, information technology and company-wide business development functions, as well as costs related to overall corporate management.

The following table presents information about reported segments along with the items necessary to reconcile the segment information to the totals reported in the accompanying consolidated financial statements:

|   | <b>Three Months Ended<br/>March 31</b> |                        |
|---|--|------------------------|
|   | <b>2007</b>                            | <b>2006</b>            |
| <b>Consulting services:</b>   |  |                        |
| Revenues  | \$ 2,542,303                           | \$ 2,461,010           |
| Operating income  | 19,131                                 | 29,940                 |
| Total assets  | 3,436,310                              | 2,787,582              |
| <b>PKI Credentialing and Managed Services:</b>  |  |                        |
| Revenues  | \$ 310,067                             | \$ 222,896             |
| Operating loss (includes amortization expense of \$45,838 and \$45,838, respectively) | 95,890                                 | 34,179                 |
| Total assets  | 1,199,559                              | 1,077,253              |
| Credentials issued  | 2,843                                  | 1,733                  |
| <b>Total Company</b>  |  |                        |
| Revenues  | \$ 2,852,370                           | \$ 2,683,906           |
| Operating loss  | 389,083 <sup>(1)</sup>                 | 267,957 <sup>(2)</sup> |
| Depreciation expense  | 15,550                                 | 6,976                  |
| Interest income (expense), net  | 28,533                                 | 16,753                 |
| Other income  | --                                     | --                     |
| Net loss  | \$ (376,100)                           | \$ (258,180)           |
| Total Corporate assets  | \$ 5,994,789                           | \$ 5,312,197           |

(1) Includes \$55,270 of amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$257,054 in unallocated corporate costs in general and administrative expense.

(2) Includes \$55,270 of amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$208,448 in unallocated corporate costs in general and administrative expense.

## 8. Litigation

The Company is not involved in any material legal proceedings.

### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis of the financial condition and results of operations of the Company should be read in conjunction with the financial statements and the notes thereto which appear elsewhere in this quarterly report and the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

The information set forth below includes forward-looking statements. Certain factors that could cause results to differ materially from those projected in the forward-looking statements are set forth below. Readers are cautioned not to put undue reliance on forward-looking statements. The Company disclaims any intent or obligation to update publicly these forward-looking statements, whether as a result of new information, future events or otherwise.

#### Overview

WidePoint Corporation (WidePoint or the Company) is a technology-based provider of products and services to both the government sector and commercial markets. We specialize in providing systems engineering, information technology services and information assurance in the form of identity management services. Our subsidiary, Operational Research Consultants, Inc. (ORC), is the leading provider of E-Authentication federal credentialing and federal compliant Public Key Infrastructure (PKI) managed services to the federal government. We intend to grow over the next few years through a combination of organic growth, the acquiring of selective strategic assets and by operational efficiencies among our subsidiaries.

On October 25, 2004, we completed the acquisition of ORC. ORC specializes in IT integration and secure authentication processes and software, and providing services to the United States Government. ORC has been at the forefront of implementing Public Key Infrastructure (PKI) technologies. PKI technology is rapidly becoming the technology of choice to enable security services within and between different computer systems utilized by various agencies and departments of the U.S. Government. Based on asymmetric key cryptography, PKI technology uses a class of algorithms in which a user can receive two electronic keys, consisting of a public key and a private key, to encrypt any information and/or communication being transmitted to or from the user within a computer network and between different computer networks. The user provides his or her public key to any and all desired persons or entities. The user does not share the private key with anyone else. The public key will encrypt all information and/or communication from any sender and the private key will allow only the holder of the private key to unlock and decrypt such information and/or communication. Thus, the algorithms used in PKI technologies help to achieve authentication of users and information, integrity of all data and communications, non-repudiation or rejection of data and communications, and support confidentiality of data and communications. PKI also speeds up and simplifies the delivery of products and services by providing electronic approaches to processes that historically have been paper based. These electronic solutions depend on PKI for identification and authentication; data integrity; confidentiality of information and transactions; and non-repudiation to facilitate mission-related transactions internal to an organization and with external organizations. ORC is currently one of only a few organizations that has been designated by the United States Government as fully compliant to issue certificates for the U.S. Government. As such, ORC is authorized to issue all permissible certificate types and services in accordance with Defense Information Systems Agency and National Security Agency standards, necessary for the interoperable, secure exchange of information between U.S. Governmental agencies, contractors, and international allies such as members of NATO.

With the addition of the customer base and the increase in revenues attributable from the ORC acquisition, WidePoint's opportunity to leverage and expand further into the federal marketplace has improved dramatically. ORC's past client successes, top security clearances in their facilities and with their personnel, and additional breadth of management talent have expanded the Company's reach into markets that previously were not accessible to WidePoint. WidePoint intends to continue to leverage the synergies between the newly acquired operating subsidiaries and cross sell those technical capabilities into each separate marketplace serviced by its respective subsidiaries. Further, WidePoint is continuing to actively search out new synergistic acquisitions that we believe will further enhance the present base of business, which has been augmented by our recent acquisitions activity and internal growth initiatives.

As a result of these actions WidePoint's total revenues increased by approximately \$0.2 million from \$2.7 million for the three months ended March 31, 2006 to \$2.9 million for the three months ended March 31, 2007.

Our PKI credentialing and managed services segment experienced revenue growth of approximately 40% with revenues increasing approximately \$87,000 from approximately \$223,000 for the three months ended March 31, 2006, to approximately \$310,000 for the three months ended March 31, 2007, as a result of continuing adoption of several of the Federal Government's mandates under Homeland Security Presidential Directive No. 12 ( HSPD-12 ) and the External Certificate Authority ( ECA ) program by the Department of Defense. We issued 2,843 PKI electronic identification credentials ( PKI credentials ) to our customers for the three months ended March 31, 2007 as compared to 1,733 PKI credentials for the three months ended March 31, 2006. We anticipate that PKI credential sales will continue to grow as our PKI credentialing and managed services segment expands as we fulfill recent contract wins and we witness the further adoption of the ECA program and the HSPD-12 program is increasingly adopted by the Federal Government agencies and departments.

Our consulting services segment experienced a slight increase in revenues of approximately \$81,000 from approximately \$2,461,000 for the three months ended March 31, 2006 as compared to approximately \$2,542,000 for the three months ended March 31, 2007. The slight increase in revenues for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006 was materially the result of decreases in our commercial consulting services as we experienced difficulties in identifying and deploying consultants suitable for new project opportunities, partially offset by slight increases in revenues by our government consulting services clients.

Based upon estimates provided by independent analyst and U.S. government estimates, management believes there is a base of 5 million to 15 million users for the Company's PKI credentials that is comprised of U.S. Federal Government agencies employees and their contractors. The Company further believes that there is a developing market place for PKI credentials within the state and local governments and other national programs that extend beyond the U.S. Federal Government agencies employees and their contractors. These other opportunities relate to the requirements underlying the mandates for the HSPD-12 program that effect state and local governments as well as other national programs. The Company's PKI credentials are currently priced from approximately \$27.50 to \$150.00 per user on government pricing schedules depending upon the quantity purchased and the level of managed services and support selected by the customer. Pricing of the Company's PKI credentials by user are driven by a competitive marketplace and may change at any time. The Company believes it is well-positioned to effectively compete within this market segment as a result of its past successes and experience within the PKI field.

A number of factors, including the progress of contracts, revenues earned on contracts, the number of billable days in a quarter, the timing of the pass-through of other direct costs, the commencement and completion of contracts during any particular quarter, the schedule of the government agencies for awarding contracts, the term of each contract that we have been awarded and general economic conditions may subject our revenues and operating results to significant variation from quarter to quarter. 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.

With our recent acquisition of ORC we rely upon a larger portion of our revenues from the Federal Government directly or as a subcontractor. The Federal Government's fiscal year ends September 30. If a budget for the next fiscal year has not been approved by that date, our clients may have to suspend engagements that we are working on until a budget has been approved. Such suspensions may cause us to realize lower revenues in the fourth quarter and/or first quarter of the year. Further, a change in presidential administrations and in senior government officials may negatively affect the rate at which the Federal Government purchases the services that we offer.

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As a result of the factors above, period-to-period comparisons of our revenues and operating results may not be meaningful. You should not rely on these comparisons as indicators of future performance as no assurances can be given that quarterly results will not fluctuate, causing a possible material adverse effect on our operating results and financial condition.

In addition, most of WidePoint's current costs consist primarily of the salaries and benefits paid to WidePoint's technical, marketing and administrative personnel. As a result of our plan to expand WidePoint's operations through a combination of internal growth initiatives and merger and acquisition opportunities, WidePoint expects such costs to increase. WidePoint's profitability also depends upon both the volume of services performed and the Company's ability to manage costs. As a significant portion of the Company's cost is labor related, WidePoint must effectively manage these costs to achieve and grow its profitability. To date, the Company has attempted to maximize its operating margins through efficiencies achieved by the use of its proprietary methodologies, and by offsetting increases in consultant salaries with increases in consultant fees received from its clients. The uncertainties relating to the ability to achieve and maintain profitability, obtain additional funding to partially fund the Company's growth strategy and provide the necessary investment to continue to upgrade its management reporting systems to meet the continuing demands of the present regulatory changes affect the comparability of the information reflected in the financial information presented above.

### Results of Operations

#### Three Months Ended March 31, 2007 as Compared to Three Months Ended March 31, 2006

*Revenues, net.* Revenues for the three month period ended March 31, 2007 were approximately \$2,852,000 as compared to approximately \$2,684,000 for the three month period ended March 31, 2006. The increase in revenues was primarily attributable to growth within our PKI credentialing and managed services segment augmented by a slight increase within our consulting services segment. Our PKI credentialing and managed services segment experienced revenue growth of approximately 40% with revenues increasing approximately \$87,000 from approximately \$223,000 for the quarter ended March 31, 2006, to approximately \$310,000 for the quarter ended March 31, 2007. We issued 2,843 PKI credentials for the three months ended March 31, 2007, as compared to 1,733 PKI credentials for the three months ended March 31, 2006. We anticipate that PKI credentials sales should continue to increase as we fulfill recent contract wins and we witness the continued adoption of the ECA program by the Department of Defense and the HSPD-12 program is further rolled out and adopted by the Federal Government agencies and departments.

*Cost of sales.* Cost of sales for the three month period ended March 31, 2007, was approximately \$2,197,000, or 77% of revenues, an increase of approximately \$230,000 from cost of sales of approximately \$1,967,000, or 73% of revenues, in the three month period ended March 31, 2006. The increase in cost of sales was primarily attributable to higher fringe benefit and applied overhead costs, along with slightly higher direct labor costs and a slightly higher mix of software sales in support of our consulting services that were recognized during the quarter ending March 31, 2007.

*Gross profit.* As a result of the above, gross profit for the three month period ended March 31, 2007, was approximately \$656,000, or 23% of revenues, a decrease of approximately \$61,000 from gross profit of approximately \$717,000, or 27% of revenues, for the three month period ended March 31, 2006.

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*Sales and marketing.* Sales and marketing expense for the three month period ended March 31, 2007, was approximately \$203,000, or 7% of revenues, a decrease of approximately \$1,000, as compared to approximately \$204,000, or 8% of revenues, for the three month period ended March 31, 2006. The slight decrease was materially attributable to lesser direct expenses incurred during the quarter ending March 31, 2007.

*General and administrative.* General and administrative expenses for the three month period ended March 31, 2007, were approximately \$841,000, or 29% of revenues, an increase of approximately \$61,000, as compared to approximately \$780,000, or 29% of revenues, incurred by the Company for the three month period ended March 31, 2006. The increase in general and administrative expenses for the three months ended March 31, 2007, was primarily attributable to approximately \$55,000 in non-recurring legal expenses associated with contract and document reviews during quarter ending March 31, 2007.

*Depreciation.* Depreciation expense for the three month period ended March 31, 2007, was approximately \$16,000, or less than 1% of revenues, an increase of approximately \$9,000, as compared to approximately \$7,000 of such expenses, or less than 1% of revenues, recorded by



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the Company for the three month period ended March 31, 2006. The increase in depreciation expense for the three month period ended March 31, 2007, was primarily attributable to greater amounts of depreciable assets.

*Interest income.* Interest income for the three month period ended March 31, 2007, was approximately \$32,000, or less than 1% of revenues, an increase of approximately \$14,000 as compared to approximately \$18,000, or less than 1% of revenues, for the three month period ended March 31, 2006. The increase in interest income for the three month period ended March 31, 2007, was primarily attributable to greater amounts of cash and cash equivalents along with higher short-term interest rates that were available to the Company on investments in money market accounts.

*Interest expense.* Interest expense for the three month period ended March 31, 2007, was \$3,305, or less than 1% of revenues, an increase of \$1,709 as compared to \$1,596, or less than 1% of revenues, for the three month period ended March 31, 2006. The increase in interest expense for the three month period ended March 31, 2007 was primarily attributable to an increase in interest expense associated with capital leases that the Company entered into in 2006.

*Net Loss.* As a result of the above, the net loss for the three month period ended March 31, 2007, was approximately \$376,000 as compared to the net loss of approximately \$258,000 for the three months ended March 31, 2006.

The following table sets forth selected segment and consolidated operating results and other operating data for the periods indicated. Segment operating income consists of the revenues generated by a segment, less the direct costs of revenue and selling, general and administrative costs that are incurred directly by the segment. Unallocated corporate costs include costs related to administrative functions that are performed in a centralized manner that are not attributable to a particular segment.

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|  | Three Months Ended<br>March 31 |                        |
|--|--------------------------------|------------------------|
|  | 2007                           | 2006                   |
| <b>Consulting services:</b>  |                                |                        |
| Revenues   | \$ 2,542,303                   | \$ 2,461,010           |
| Operating income   | 19,131                         | 29,940                 |
| Total assets   | 3,436,310                      | 2,787,582              |
| <b>PKI Credentialing and Managed Services:</b>   |                                |                        |
| Revenues   | \$ 310,067                     | \$ 222,896             |
| Operating loss (includes amortization expense of<br>\$45,838 and \$45,838, respectively) | 95,890                         | 34,179                 |
| Total assets   | 1,199,559                      | 1,077,253              |
| Credentials issued   | 2,843                          | 1,733                  |
| <b>Total Company</b>   |                                |                        |
| Revenues   | \$ 2,852,370                   | \$ 2,683,906           |
| Operating loss   | 389,083 <sup>(1)</sup>         | 267,957 <sup>(2)</sup> |
| Depreciation expense   | 15,550                         | 6,976                  |
| Interest income (expense), net   | 28,533                         | 16,753                 |
| Other income   | --                             | --                     |
| Net loss   | \$ (376,100)                   | \$ (258,180)           |
|  | \$ 5,994,789                   | \$ 5,312,197           |

**Three Months Ended  
March 31**

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Total Corporate assets

(1) Includes \$55,270 of amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$257,054 in unallocated corporate costs in general and administrative expense.

(2) Includes \$55,270 of amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes \$208,448 in unallocated corporate costs in general and administrative expense.

### Liquidity and Capital Resources

The Company has, since inception, financed its operations and capital expenditures through the sale of preferred and common stock, seller notes, convertible notes, convertible exchangeable debentures, senior secured loans and the proceeds from the exercise of the warrants related to a convertible exchangeable debenture. During 2006 and through the period ended March 31, 2007, operations were materially financed with working capital, and the proceeds from a convertible preferred stock issuance which occurred in October 2004.

Net cash provided by operating activities for the quarter ended March 31, 2007, was approximately \$3,000 as compared to cash used in operating activities of approximately \$324,500 for the quarter ended March 31, 2006. The increase in cash balances available for operating activities for the quarter ended March 31, 2007, was primarily a result of an improvement in the collection of accounts receivable partially offset by a decrease in our accounts payable. Net cash used in investing activities for the quarter ended March 31, 2007, was approximately \$22,000 as compared to \$11,000 in the quarter ended March 31, 2006. The increase in net cash used in investing activities resulted from increased expenditures in property and equipment. Net cash used in financing activities amounted to approximately \$14,000 in the quarter ended March 31, 2007, as compared to \$279,000 of net cash used in financing activities in the quarter ended March 31, 2006. The change primarily resulted from a decrease in costs related to our registration and a warrant exercise, partially offset by a decrease in proceeds related to the exercise of stock options and an increase in principal payments made under our capital lease obligations during the quarter ended March 31, 2007. Capital expenditures in property and equipment were approximately \$22,000 for the quarter ended March 31, 2007, as compared to capital expenditures in property and equipment of approximately \$11,000 for the quarter ended March 31, 2006.

As of March 31, 2007, the Company had a net working capital of approximately \$3.5 million. WidePoint's primary source of liquidity consists of approximately \$2.7 million in cash and cash equivalents and approximately \$3.3 million of accounts receivable. The decrease in accounts receivable was primarily the result of a decrease in days sales outstanding of accounts receivable and the collection attributable to a material sale which occurred at the end of the fourth quarter of 2006. Current liabilities include approximately \$2.5 million in accounts payable and accrued expenses. The substantial decrease in current liabilities is predominately the result of the payoff of the account payable attributable to a material sale referenced in this paragraph.

The Company's business environment is characterized by rapid technological change, experiences times of high growth and contraction and is influenced by material events such as mergers and acquisitions that can substantially change the Company's outlook.

Since 2002, WidePoint has embarked upon several new initiatives to counter the current negative environment within our industry and expand our capacity to restore revenue growth. The Company requires substantial working capital to fund the future growth of its business, particularly to finance accounts receivable, sales and marketing efforts, and capital expenditures.

There are currently no commitments for capital expenditures. Future capital requirements will depend on many factors, including the rate of revenue growth, if any, the timing and extent of spending for new product and service development, technological changes and market acceptance of the Company's services.

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On October 25 and 29, 2004, WidePoint completed financings with Barron Partners LP ( Barron ), a private equity fund that engages in investing primarily in private investments in publicly traded entities, for an aggregate amount of \$3,580,000, under a preferred stock purchase agreement and related agreements. Net proceeds from the financing after costs and expenses, including fees of finders and agents, were approximately \$3,030,000. WidePoint issued an aggregate of 2,045,714 shares of its Series A Convertible Preferred Stock that were convertible into an aggregate of 20,457,143 shares of its Common Stock at a conversion rate equal to \$0.175 per share. In addition, WidePoint issued to Barron a warrant to purchase up to an additional 10,228,571 shares of its Common Stock at an exercise price of \$0.40 per common share. Through March 31, 2007, Barron has converted all of its Series A Convertible Preferred Stock and has fully exercised its warrant. Barron's conversion of its Series A Convertible Preferred Stock and its warrant exercises were subject to contractual restrictions which restrict the ability of Barron and its affiliates to acquire shares of Common Stock which equal no more than 4.99% of the outstanding shares of WidePoint's Common Stock at any time. This contractual restriction could have been removed upon 61 days notice to WidePoint from Barron, but in the event Barron elects to remove this restriction, then Barron and its affiliates agreed that Barron and its affiliates could only vote the shares of Common Stock held by Barron and its affiliates which result in Barron and its affiliates having no more than 22% of the total voting power of all outstanding shares of WidePoint's Common Stock at any time. As a result of the Barron financing transaction, WidePoint issued warrants to Westcap Securities, Inc., a registered broker-dealer ( Westcap ) and WidePoint's placement agent in such transaction, to purchase 511,428 shares of Common Stock at an exercise price of \$0.40 per share, which warrants expire in October 2009. As of March 31, 2007 all of the Westcap warrants had been exercised.

Pursuant to the registration rights agreement between Barron and WidePoint related to the stock issuances described in the preceding paragraph, WidePoint filed a registration statement on January 5, 2005, covering the resale of the shares of Common Stock issuable upon conversion and/or exercise of the Series A Convertible Preferred Stock and the warrants issued to Barron. Under the agreement, if the registration statement was not declared effective by April 23, 2005 and thereafter kept effective through October 20, 2007, subject to permissible blackout periods and registration maintenance periods, then WidePoint would be required to pay Barron a maximum penalty of up to \$20,000 for each month the registration statement was not effective. Barron waived this penalty provision through February 9, 2006, when the registration statement was declared effective by the SEC.

WidePoint believes that its current cash position is sufficient to meet capital expenditure and working capital requirements for the near term. However, the growth and technological change of the market make it difficult to predict future liquidity requirements with certainty. Over the longer term, the Company must successfully execute its plans to increase revenue and income streams that will generate significant positive cash flows if it is to sustain adequate liquidity without impairing growth or requiring the infusion of additional funds from external sources. Additionally, a major expansion, such as occurred with the acquisition of ORC or any other major new subsidiaries, might require external financing that could include additional debt or equity capital. The Company raised approximately \$3.6 million dollars in connection with the aforementioned equity investments by Barron Partners LP, that were used in the acquisition of ORC. Further, the Company raised approximately \$4.1 million dollars in connection with the attached warrants associated with the aforementioned equity investments by Barron Partners LP during the year ended 2005. There can be no assurance that additional financing, if required, will be available on acceptable terms, if at all, for future acquisitions and/or growth initiatives.

### **Off-Balance Sheet Arrangements**

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

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are not exposed to market risks related to changes in interest rates and changes in the market value of our investments as we have no borrowings outstanding under a bank credit agreement as of March 31, 2007 and we only invest our excess cash in marketable securities in a money market account which due to the short maturity and our availability to withdraw those securities at any time does not present any material market exposure.

### **ITEM 4. CONTROLS AND PROCEDURES.**

### **Conclusions regarding disclosure controls and procedures**

The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by it in its periodic reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Securities Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures required by paragraph (b) of Securities Exchange Act Rule 13a-15, our disclosure controls and procedures were not effective. That conclusion was based on the fact that the Company was not aware that it was required to include its management's annual report on internal control over financial reporting and the attestation report of the Company's registered public accounting firm in its Form 10-K for the year ended December 31, 2006, as discussed in further detail below.

### **Management's Annual Report on Internal Control Over Financial Reporting and Attestation Report of the Company's Registered Public Accounting Firm**

SEC rules require that a company that is an accelerated filer, as defined by Rule 12b-2 under the Securities Exchange Act, must set forth in its annual report on Form 10-K a management's annual report on internal control over financial reporting pursuant to Rule 13a-15(f). The Company did not become an accelerated filer until December 31, 2006, based on the calculation called for by paragraph (i) of the definition of that term under Rule 12b-2. During 2006, prior to the Company's becoming an accelerated filer, the SEC extended the deadline date for compliance with that requirement for non-accelerated filers until the first fiscal year ending on or after December 15, 2007. At the time that the Company filed its Annual Report on Form 10-K for the year ended December 31, 2006, the Company believed that since it was a non-accelerated filer at the time of the SEC's granting of that extended compliance deadline, the Company was not required to set forth its management's annual report on internal control over financial reporting and the attestation report of the Company's registered public accounting firm in its Form 10-K for the year ended December 31, 2006. As a result of subsequent discussions with the SEC, the Company now understands that it was not entitled to rely on the extended compliance deadline as a result of the Company becoming an accelerated filer on December 31, 2006 and that the Company should have filed its management's annual report on internal control over financial reporting and the attestation report of the Company's registered public accounting firm in its Form 10-K for the year ended December 31, 2006. In accordance with the Company's discussions with the SEC, the Company will set forth such reports in its Form 10-K for the year ended December 31, 2007.

### **Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rule 13a-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Subsequent to December 31, 2006, the Company became aware of its obligation to file its annual report on internal control over financial reporting and related auditor attestation report in the Form 10-K for the year ended December 31, 2006, and the Company will include such reports in its Form 10-K for the year ended December 31, 2007.

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## **PART II.**

### **OTHER INFORMATION**

#### **ITEM 1A. RISK FACTORS**

Item 1A ( Risk Factors ) of the Company's Annual Report on Form 10-K for the year ended December 31, 2006 sets forth information relating to important risks and uncertainties that could materially adversely affect the Company's business, financial condition or operating results. Those risk factors continue to be relevant to an understanding of the Company's business, financial condition and operating results. Certain of those risk factors have been revised below to provide updated information. References to we, our and us in these risk factors refer to the Company.

**We could issue additional shares of common stock, which might dilute the book value of our common stock.**

We have a total of 110,000,000 authorized shares of common stock, of which 52,522,699 shares were issued and outstanding as of March 31, 2007. In addition, we had warrants and options outstanding as of that date with respect to which 7,088,257 shares of common stock were reserved for issuance. Our board of directors has the authority, without action or vote of our stockholders in most cases, to issue all or a part of any authorized but unissued shares of our common stock. 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 that we may need at today's stock prices, 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. You may incur additional dilution of net tangible book value if holders of stock options or warrants, whether currently outstanding or subsequently granted, exercise their options or warrants to purchase shares of our common stock.

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**The sale of a large number of shares of our common stock could depress our stock price.**

As of March 31, 2007, we had reserved 7,088,257 shares of common stock for issuance upon exercise of stock options and warrants. As of March 31, 2007, holders of warrants and options to purchase an aggregate of 6,687,213 shares of our common stock may exercise those securities and transfer the underlying common stock at any time subject, in some cases, to Rule 144 of the Securities Act of 1933. In addition, in connection with our financing with Barron, we have registered (i) all of the shares of common stock issuable upon conversion of the Series A Convertible Preferred Stock that we issued and sold in the Barron financing and (ii) all of the shares of common stock that are issuable upon exercise of the warrants issued to Westcap in connection with the financing. The Series A Convertible Preferred Stock was initially convertible into 20,457,143 shares of our common stock and the warrants initially entitled the holders to acquire an additional 10,739,999 shares of our common stock. In January and February of 2007, Barron converted all of its remaining shares of Series A Convertible Preferred Stock, which conversion resulted in the issuance to Barron of a total of 1,952,140 shares of our Common Stock. From January 1 through December 31, 2006, Barron converted a portion of its shares of Series A Convertible Preferred Stock into 10,005,000 shares of common stock. During April, May, September, October, and December 2005, Barron converted a portion of its shares of Series A Convertible Preferred Stock into 8,500,000 shares of common stock and exercised warrants to purchase 7,428,572 shares of common stock. In December 2005, Barron transferred warrants to purchase 2,800,000 shares of common stock to other institutional investors. In December 2005, the holders of such warrants to acquire such 2,800,000 shares of common stock exercised such warrants. These shares of common stock are registered for possible resale by the holders thereof under the Securities Act of 1933. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, or the perception that these sales could occur. These sales might also make it more difficult for us to issue equity securities in the future at a price that we think is appropriate, or at all.

**Financial investors may have interests different than our stockholders or WidePoint, and may be able to impact corporate actions requiring stockholder approval because they own a significant amount of our common stock.**

In future financings, we may issue securities that are convertible into or exercisable for a significant number of shares of our outstanding common stock. Financial investors may have short-term financial interests different from our long-term goals and the long-term goals of our management and other stockholders. In addition, based on the significant ownership of our outstanding common stock, financial investors may be able to impact corporate actions requiring stockholder approval.

**ITEM 6. EXHIBITS.**

- (a) Exhibits
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**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: May 10, 2007

/s/ STEVE L. KOMAR

Steve L. Komar  
President and Chief Executive Officer

/s/ JAMES T. MCCUBBIN

James T. McCubbin  
Vice President - Principal Financial  
and Accounting Officer