WIDEPOINT CORP
Form 10-K
April 14, 2008

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the fiscal year ended December 31, 2007.

OR

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.
For the transition period from _____ to _____.

Commission File Number 000-23967

WIDEPOINT CORPORATION

(Exact name of registrant as specified in its charter.)

Delaware	52-2040275
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Lincoln Centre, Oakbrook Terrace, IL	60181
(Address of principal executive offices)	(Zip Code)

Registrant s phone number, including area code: (630) 629-0003

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

Title of each class

Common Stock, $.001 par value per share

Name of each exchange on which registered

American Stock Exchange

Securities registered pursuant to section 12(g) of the Act: None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ___ Accelerated filer ___ Non-accelerated filer ___
Smaller Reporting Company _X_

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ___ No _X_

State the aggregate market value of the registrant s voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter. $123,807,418.

As of March 24, 2008, the registrant had 54,090,697 shares of its Common Stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information called for by Part III of the Form 10-K is incorporated by reference from the registrant s definitive proxy statement which will be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS.

Background and Environment

WidePoint Corporation (WidePoint or the Company) is a technology-based provider of product 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 a leading provider of E-Authentication Federation credential services and federal compliant Public Key Infrastructure (PKI) managed services to the federal government. On January 4, 2008 we acquired iSYS LLC (iSYS), a leading provider of mobile telecom managed services to the United States Federal Government expanding our service offerings. We intend to grow over the next few years through a combination of organic growth, the acquiring of selective strategic assets and acquisitions, and by operational efficiencies among our subsidiaries.

The Company is comprised of the following two segments: (i) consulting services and (ii) PKI credentialing and managed services. For additional information related to our segments, see Note 12 to our financial statements included in this Form 10-K.

WidePoint was incorporated in Delaware on May 30, 1997. Our staff consists of business process and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today s rapidly changing technological environment in business. Our organization emphasizes an intense commitment to our people, our customers, and the quality of our solutions offerings. As a services organization, our customers are our primary focus. We have developed thorough, comprehensive policies, procedures and controls to mitigate the threat, or potential threat, of

intentional, unintentional, physical, natural or electronic compromise or disruption of any portion of our systems or services. The talent and technology are available, and the resident expertise experienced in working together, to ensure goals are achieved quickly and seamlessly. Contract instruments are already in place and a substantive reference base with an assortment of federal agencies are available.

On October 25, 2004, we completed the acquisition of ORC. ORC specializes in Information Technology (IT) systems integration and secure authentication processes and software, and providing services to the United States Government. ORC has been at the forefront of implementing E-Authentication Federation and PKI technologies. These identity management technologies are 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 effectively deploys a public key and a private key to each individual and or device, ensuring that the private key is only accessible to that individual and/ or device. Thus, the algorithms used in PKI achieve a level of authentication of users and information that maintains a high integrity of all data and communications, non-repudiation of data and communications, and confidentiality of data and communications. The public key also enables encryption of all information and/or communication from any sender, where the associated private key allows only the holder of that key to unlock and decrypt such information and/or communication. PKI and E-Authentication technologies also speed up and simplify the delivery of products and services by providing a common, secure, electronic approach to processes that historically have been paper based and single or reduced sign-on to multiple electronic applications without degrading security across mission-related transactions internal to an organization and with external organizations. ORC is designated by the United States Government as the first External Certificate Authority for the U.S. Government. 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.

WidePoint offers these *iDentity Management and eAuthentication Services*© based on existing technology and open systems standards, providing Identification and Authentication (I&A) interoperability among users and relying parties (Government, businesses, trading partners, and citizens) at the assurance level and rigor required by the owner of the protected resource. These services include four major US Government Certifications:

GSA E-Authentication Federation
US Government External Certificate Authority (ECA)
GSA Access Certificates for Electronic Services (ACES)
GSA Shared Service Provider (SSP), supporting the Federal PKI Common Policy Framework, HSPD-12, and Federal Information Processing Standard (FIPS) 201 initiatives

These *iDentity Management and eAuthentication Services*© fully support Business-to-Government, Government-to-Government, and Citizen-to-Government secure digital transaction requirements, and, because our *PIVotal ID*© digital credentials are an allowable direct charge (ODC) under the Federal Acquisition Regulation rules, the cost of such services and products can be passed-on by ORC s customers in government contracts and/or proposals.

Over the past several years WidePoint focused on the consolidation of its acquisition of ORC, accelerating the rollout of the ORC E-Authentication Federation and PKI identity management initiatives, and continuing to implement our project based enterprise strategy, emphasizing our industry-wide best practices disciplines. With the addition of the customer base and the increase in revenues attributable to the ORC acquisition, WidePoint s opportunity to leverage and expand further into the federal marketplace has improved dramatically. ORC s past client successes, top facility security clearances, security personnel expertise, and additional breadth of management talent have expanded our reach into markets that previously were not accessible to WidePoint. We intend to continue to market and sell our technical capabilities into the governmental and commercial marketplace. Further, we are continuing to actively search out new synergistic acquisitions that we believe may further enhance our present base of business and service offerings, and in January 2008 we acquired iSYS, which augmented our information assurance offerings and expanded our reach into the federal government.

Looking forward, the strong authenticated identity management market opportunity expands by orders of magnitude as information is increasingly circulated on the internet among limited, but frequently changing audiences of specifically named individuals. Society has dictated that digital transactions must have the capability to prove who the provider of a piece of information is (by name, not simply office), as well as to verify that no one has modified the information subsequent to its issuance. Federal, State and local legislation increasingly demands that there must be no question as to exactly when information is published, that there must be a means of reviewing an auditable history of transactions and there must also be a means to archive all information securely, as well as a means to recall the information from the secure archive at a later time. The information age has created an urgent need for these requirements to be realized in an environment that is easy to use, suitable for senior executives and managers, highly reliable, and that supports the increasingly mobile demands of our democracy.

WidePoint and our wholly-owned subsidiary, ORC, are strategically postured to help federal agencies and commercial concerns implement meaningful and efficient security into internet/intranet operations to protect sensitive information and billions of dollars in transactions each day. *ORC s Common Identity Enabling Infrastructure (CIEI)*© and *PIVotal ID*© services fully support these needs by leveraging existing infrastructures and creating a digital credential for each individual and device recognized and accepted both internally to an organization and externally by any other infrastructure recognizing federally authorized credentials as trustworthy.

The iSYS acquisition in January 2008 further expands our customer base and our information assurance offerings while adding forensic informatics and mobile telecom managed services to the services that we provide. iSYS was formed in 2002 as a single member limited liability corporation with operations in the greater Washington, D.C. area and Columbus, Ohio. They provide services predominately to the United States federal government and have recently expanded their operations into local and state jurisdictions and to commercial enterprises. We believe that the introduction of our capabilities in providing credentialing services to the iSYS client base will provide cross-selling opportunities and differentiation of our newly expanded services as a result of the acquisition of iSYS.

WidePoint has solidly established our reputation as an elite provider of these information assurance and security of digital transactions for the U.S. Department of Defense (DoD), the U.S. Navy, the U.S. Air Force, the U.S. National Security Agency (NSA), the U.S. Coast Guard, U.S. Office of Management and Budget (OMB), U.S. General Services Administration (GSA), the U.S. General Accounting Office (GAO), several state governments and Fortune 500 commercial clients. WidePoint has distinguished itself by providing the highest levels of professionalism, on-time delivery of solutions and superior managed services. WidePoint anticipates capturing a significant market share within the identity management marketplace for which we believe has the potential of providing significant revenue growth for the Company.

Most of our current costs consist of salaries and benefits paid to our technical, marketing and administrative personnel, as well as the solutions required to maintain the secure facilities and infrastructure that support our information assurance and security offerings. As a result of our plan to expand operations through a combination of internal growth initiatives and acquisition opportunities, such costs are expected to increase. Our profitability depends upon both the volume of services performed and the ability to manage costs. A significant portion of our cost structure is labor related and we must effectively manage these costs in order to achieve growth and profitability. To date, we have attempted to maximize our operating margins through efficiencies achieved by the use of our proprietary methodologies and by offsetting increases in consultant salaries with increases in consultant fees charged to our clients.

Enterprise Strategy

In the continuing effort to differentiate our services and overcome the highly competitive environment within the general IT marketplace, we have modified our strategic plan; including the launch of a federal sector business initiative, continued development of new capabilities, and the initiation and expansion of several alliances and relationships to expand our ability to penetrate new market segments.

WidePoint s acquisition of ORC provided a number of large indefinite delivery, indefinite quantity (IDIQ) contracts that extend WidePoint s capability to expand our revenue base, including, but not limited to:

Information Technology Professional Services, FSC Group 70, GSA FSS # GS-35F-0164J $100 million ceiling for each contract action offers a full range of IT Professional Services to all federal Government agencies on a fee-for-service basis. This contract is also available to state and local governments under a cooperative procurement agreement. Most significant under this contract ORC also holds:

Special item categories 132-60, 132-61, and 132-62 for Authentications services under the GSA IT Professional Services contract. This certified ORC as the first contractor authorized to provide authentication products and services to provide for authentication of individuals for purposes of physical and logical access control, electronic signature, performance of e-business transactions and delivery of government services. Authentication products and services consist of hardware, software components and supporting services that provide for identity assurance.

The Managed Validation Service (MVTS) contract provides PKI certificate validation services for those e-Gov initiatives and other Federal agency information applications that elect to use it. The MVTS contract directly benefits stakeholders, including Federal, State, and local government entities, private industry, the scientific community, and the public. It

improves efficiencies and reduces costs by providing identity authentication services in a consistent fashion.

Worldwide Federal Supply Schedule for Management, Organizational and Business Improvement Services (MOBIS), FSC Group 874, GSA FSS # GS-10F-0152M $100 million ceiling contract that offers a full range of services and products to enable all Federal Government Agencies to improve performance, quality, timeliness and efficiency throughout their organizations.

Worldwide Federal Supply Schedule for Professional Engineering Services (PES), FSC Class 871, GSA FSS # GS-23F-0162L $100 million ceiling contract that offers a full range of Professional Engineering Services to all federal Government agencies on a fee-for-service basis. There are four primary engineering disciplines (Chemical, Civil, Electrical and Mechanical) addressed under PES.

GSA Solutions and More (SAM), FSC Group 61 Part V, GSA FSS # GS-07F-0099L $100 million ceiling contract that offers supply power distribution equipment, generators, and batteries worldwide.

SeaPort-e Contract N00178-04-D-4099 $100 million ceiling contract to provide engineering, technical, and programmatic support services to the Naval Surface Warfare Centers (NSWC) and the Naval Undersea Warfare Centers (NUWC).

In addition, WidePoint has extended its business development reach with strategic partners who package our identity management solutions and services under branded offerings. Partnerships with companies such as RSA the Security Division of EMC, Siemens, Maximus, Tumbleweed, American Management Systems, and Wave Systems have added additional marketing personnel to our sales team.

We intend to leverage our internal resources and these partnerships to expand our revenue base, as we continue to seek and analyze growth alternatives via selective acquisition growth opportunities and service offering expansion opportunities. In addition, we are actively seeking the acquisition of other companies with complementary technical capabilities in IT, software and information assurance related services to the federal government (both defense and civilian), state governments, local governments, and commercial entities. If successful in our organic growth and acquisition activities, we anticipate that we will become a larger company with broader capabilities and resources.

Business Strategy and Services

Our strategy for our project-based initiatives is to apply a structured delivery methodology based on industry standard best practices, enhanced with a set of deliverable templates that boost productivity and effectiveness through the services of our staff. We focus on providing end results with significant, tangible business benefits through personnel that possess recognized industry-standard certifications, expertise and years of successful project execution experience. The ancillary strategy of staff augmentation services provides our customer base with value added services based on the best to market practices developed internally that utilizes a rapid response capability tailored to our clients needs.

WidePoint s focus is on planning, implementing and supporting IT-based initiatives with the following services:

Systems Engineering and Integration

Systems engineering and integration consists of working with government and commercial clients to develop a plan, policies and specific requirements that are tailored to their unique needs. An electronic information approach, policy and implementation plan for any customer is developed after conducting an analysis of that customer s requirements, including:

Survey of existing systems hardware and software;
Review/ audit of current requirements, directives, etc.;
Presentation of tools, systems and techniques available to support customer needs;
Consultation with and advice to customer concerning optimum investment options within available budget, including phasing recommendations;
Information assurance and security technology update and refresh;
Support services such as training, education and help desk;
Data archiving; and

Consulting for application development, establishment of enterprise directories and establishment of validation capabilities across a heterogeneous environment.

By the use of our leverage standards based, mature commercial-off-the-shelf components that have been proven in the technology market, our identity management and other services offer the efficiency of a common solution for multiple applications within an enterprise and interoperability with the Federal Government and trading partners. We can also replicate these services (in part or whole) to provide an enterprise the following advantages:

Enabling organization s applications with multiple IA/validation interfaces rapidly;
Enabling enterprise applications to have enterprise or local access to account data;
Centralizing enterprise configuration management, managing information with multiple authentication methods;
Enabling local policy to determine trusted authentications by each application (i.e., application does not inherit trust that is not wanted);
Implementing of components designed to manage specific tasks so that applications do not have to support all authentication functions natively;
Enabling an easy migration path from less elegant eAuthentication schemes through higher assurance, including full PKI implementations and federated identities; and,
Enabling organizations to leverage a government approved solution.

Focused in the medium to high assurance level market, our CIEI© and PIVotal ID© branding allows enterprise and application owners to begin where they currently are architecturally and migrate toward a vision of a secure network identity model. We are poised to support these secure network identity enterprise requirements (in-house or outsourced), by providing seamless integration of four services:

iDentity Management providing infrastructure and processes that provide for creation and maintenance of an identity, including centralized administration and self-service of user accounts.
eAuthentication providing authoritative repositories for identity, network and/or resource profiles combined with security services that enable identification, validation and support for authorization.
Access Management providing authorization, audit functions and session management that enable enterprise and application owners to define access rights for individuals carrying out roles such as business partners, suppliers, customers or employees.
Provisioning and Workflow implementing business policies across enterprises, applications and data that support a higher degree of automation (devices such as identity tokens, credit cards, cell phones and personal computers).

Architecture and Planning Services

Preparing an IT Architecture requires analysis, evaluation, integration, administration and maintenance. We are in an era where many government and commercial entities have an increasingly urgent need to enhance their digital presence while protecting sensitive business and personal information from the internet information thieves of our time. Indeed, some would argue that protecting shared information and having the opportunity to guarantee trusted digital identity verification must be assured before full communications can take place. WidePoint has an established reputation for developing solutions individually tailored to a customer s many needs, while remaining within that customer s schedule and time constraints. We are an advisor to our clients, not a sales organization for specific equipment or software.

We believe that effective IT communications and computer systems need not be seen as requiring huge dollar outlays, inevitably requiring wholesale replacement of existing systems, servers, hardware, software and security tools/firewalls, etc. Through our operating subsidiaries, we apply open systems technology and commercial off-the-shelf (COTS) tools, which complement rather than replace existing systems wherever possible. Further, our preferred recommendation is to migrate as many existing systems as possible from their current capabilities to more effective, robust capabilities by augmenting those systems with supported products. One objective is to make changes that are largely invisible to operators and managers so there is little in the way of training challenges for the customer and only modest requirements for equipment investment. We do not design unique and proprietary software that forces the customer to work through us or tie them to a costly internal IT development organization when subsequent (and inevitable) upgrades are required.

WidePoint s strength is that we value our people, our customers, and the quality of the services we provide. As a services organization, the focus of our business is our customers. We have developed thorough, comprehensive policies, procedures and controls to mitigate the threat, or

potential threat, of compromise or disruption to any portion of our systems as a result of intentional, unintentional, physical, natural or electronic means. These policies, procedures and controls are implemented and adhered to by those individuals fulfilling various trusted roles key to our customer service.

The people selected to fill trusted roles have proven to be diligent and trustworthy. The functions performed in these roles form the basis of trust our clients have in our capabilities. For our managed services, we also assign roles and functions responsible for security among several people, so that any malicious activity would require collusion. Through sound security planning based on proven techniques and industry standards, our systems are operated and maintained to provide the highest level of reliability and availability to our clients depending on these services. These policies, procedures and controls are periodically reviewed for currency. Random testing is performed and documented for use as a tool to further refine the means and methods used to maintain the integrity of our managed services.

WidePoint s management staff is composed of people-oriented systems engineering professionals with leadership competence capable of determining the most effective ways to meet the client s requirements. Our client focused management team includes facilitators, integrators, team builders, and relationship managers. Within our requirements-driven, performance-based, people-oriented environment, our project managers have responsibility and authority for all project requirements. They are responsible to the client for applying the systems engineering discipline to ensure that the technical, cost and schedule requirements are clearly defined and communicated and quality products and/or services are rendered. Our project managers are responsible for getting the job done correctly, on time, and on budget.

Our mid-level management team are people-oriented engineering professionals capable of determining the most effective ways to execute delegated assignment(s). They are complimented by competency specialists (or subject matter experts) focused on area(s) of expertise that meet our customer requirements and provide quality products and services. WidePoint develops our member competencies from the apprentice through expert level by matching task assignments with skill and knowledge. Competency expertise varies depending on project requirements. Individuals with certain skills may be added or removed from projects, as required. On the job training at our Company is key to developing expertise.

IT Outsource Solutions

By leveraging our systems engineering experiences, we have become one of the nation s premier systems engineering firms with a specialization in managed information assurance and security solutions. This is evidenced by the following accomplishments:

- Distinguished as the first designated DoD Interim External Certificate Authority (IECA-1) and more recently the first US Government External Certificate Authority.
- Distinguished as one of only three GSA Access Certificates for Electronic Services contract recipients.
- Distinguished as the first commercial GSA eAuthentication Service Provider.

Our ORC subsidiary had been engaged as the lead systems engineer for the DoD PKI.

ORC is certified by the GSA E-Authentication Program Management Office as an E-Authentication Federation Service Provider to facilitate public access to the services offered by Federal Government agencies through use of information technologies, including on-line access to computers for purposes of reviewing, retrieving, providing, and exchanging information. Our ORC subsidiary offers various authentication credentials that include Userid/Password (Level 1 and 2 assurance), as well as Digital Certificates (Level 3 and 4 assurance).

Our E-Authentication Federation services, defined by the System Security Plan for Operational Research Consultants (ORC) Information Assurance/ Identity Management (IA/ IDM)© supports multiple authentication methods, from Level 1 Userid/Password to Level 3 Digital Certificates to authenticate users and validate their credentials. Real-time consumer and business authentication methods are used to extend ORC s eAuthentication offering, allowing an organization to address broad audiences of users for eGovernment and internal applications in a timely manner. These are proven capabilities that are compliant with existing laws and regulations that can be integrated and rapidly deployed. ORC s eAuthentication services apply a variety of proven methods that can be incorporated and validated quickly, developing confidence among users and relying applications.

ORC is certified as a trusted third party under the US Government ECA program, as defined by the ORC External Certification Authority (ECA) Certification Practice Statement© and the ORC External Certification Authority (ECA) Key Recovery Practice Statement©". ORC is currently one of two ECA authorized providers to issue Server (Device) Certificates and Code Signing Certificates, in addition to personal certificates.

- Server Certificates provide trusted verification of the identity of web/application servers and enable those servers to support encrypted (Secure Sockets Layer) transaction protection.

Code Signing Certificates provide trusted verification of the integrity of software and documents.

ORC is a certified trusted third party under the GSA ACES program to provide digital certificates to the citizenry of the United States, as defined by the ORC ACES Certification Practice Statement©". The ACES certificates are available to provide each and every American citizen, as well as federal, state and local government and business entities the accepted digital certificate to conduct business electronically with Federal agencies, such as the Veteran s Administration, Social Security Administration and any other agency offering services via the internet. In addition to the ACES contract, ORC is authorized as a trusted third party to sell ACES certificates directly to the business and private citizen communities. This offering has currently migrated to an ORC ACES/Shared Service Provider (SSP) capability that will expand the ACES program to offering full B2G and G2G PKI services.

The documents, described above, define the system and process intellectual property that allows us to be the leader in this market.

Our ability to successfully expand requires significant revenue growth from increased services performed for existing and new clients, as well the potential for strategic acquisitions and/or mergers. The realization of these events depends on many factors, including successful strategic sales and marketing efforts and the identification and acquisition of appropriate businesses. Any difficulties encountered in our expansion through successful sales and marketing efforts and/or acquisitions could have an adverse impact on our revenues and operating results.

Clients

Our commercial client base is located predominantly in the continental United States, while our government client base is located in the Mid-Atlantic region of the United States. We have experience and expertise in the successful completion and staff augmentation of projects in the following industries: Federal Government agencies and associated contractor suppliers, manufacturing, consumer product goods, direct marketing, healthcare and financial services.

Historically, we have derived, and may continue to derive in the future, a significant percentage of our total revenues from a relatively small number of clients. However, for the year ended December 31, 2007, no one customer represented more than 10% of our revenues. For the year ended December 31, 2006, one customer, Headquarters Cryptologic Systems Group (HQ CPSG), represented 29% of our revenues, and we therefore were materially dependent on such customer. 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 may have a material adverse effect on our business and financial results.

Marketing and Sales

We focus sales and marketing efforts on targeting federal government and corporate clients with significant IT and identity management budgets and requirements. While we perform work for companies in various industries, the majority of our revenues for 2007 and 2006 were derived from contracts and projects with U.S. federal government agencies, U.S. federal government contractors, manufacturing clients, consumer products clients, healthcare clients, and financial services clients. Prospectively, we expect a majority of our revenue to be derived from contracts with the federal government and related contracting opportunities.

We market our solutions through our direct sales force, and alliances with several strategic partnerships in specific industries. The direct sales force is responsible for providing highly responsive, quality service and ensuring client satisfaction with our services. Strategic partnerships and alliances provide us with additional access to potential clients.

Because of the mandates of the federal government and the urgency of our country s critical infrastructure protection, we believe our proven CIEI© and services will scale well to the commercial market. By eliminating the lead-time needed to become operational while waiting for in-house development efforts, we can enable an organization to quickly deploy a fully operational capability, providing the highest levels of authentication of users and devices, securing of sensitive data, time-stamping and archiving of data, and an auditable process flow. Further, the credentials used to accomplish all of these requirements are interoperable with any other agency or organization choosing to accept Federal-compliant credentials. The resulting answers can be immediately realized, thereby mitigating overall costs dramatically.

Government Contracts

Our contracts with the U.S. Government, and many contracts with other entities, permit the government client to modify, curtail or terminate the contract at any time for the convenience of the government or for default by the contractor. If a contract is terminated for convenience, we are generally reimbursed for our allowable costs through the date of termination and are paid a proportionate amount of the stipulated profit or fee attributable to the work actually performed. Although contract and program modifications, curtailments or terminations have not had a material adverse effect on us in the past, no assurance can be given that such modifications, curtailments or terminations will not have a material adverse effect on our financial condition or results of operations in the future.

In addition, the U.S. Government and other government entities may terminate a contract for default. If a contract is terminated for default, we may be unable to recover amounts billed or billable under the contract and may be liable for other costs and damages. Although terminations for default have not occurred to us in the past and, thus, have not had a material adverse effect on us in the past, no assurance can be given that such terminations will not have a material adverse effect on our financial condition or results of operations in the future.

Competition

The market for the services that we provide is highly competitive, includes a large number of competitors, and is subject to rapid change. Our primary competitors include participants from a variety of market segments, including publicly and privately held firms, large accounting and consulting firms, systems consulting and implementation firms, application software firms, service groups of computer equipment companies, and other general management consulting firms. Increasingly, companies with third-world and emerging markets operations bases are also targeting this market. Competition generally is based on quality, timeliness, cost of services, and relevant targeted expertise.

With relation to systems engineering in the governmental sector, our long-range concern is the uncertainty in the federal budget, and its impact upon competition among the many contractors. We believe that the best way to meet the challenge of this market is to maintain a low overhead, employ quality personnel, and continue to deliver a product of the highest quality. Many corporations that are active in this market have reputable corporate histories and a great number of employees from which to draw. They have the ability to absorb losses in operation. Additionally, they have an established network to assimilate data and formulate strategy in today s competitive environment. Their strength is often their mass that gives them flexibility in both proposing and responding to new requirements. Also, while there are advantages to being small, name recognition is a problem in major contracts even if we have been successful in our past performance.

However, some of these same corporations have higher overhead costs. They have policies and procedures in effect that quite frequently require a longer response time to meet the needs of the customer. Management personnel can be far removed from their workforce, thus fostering employee dissatisfaction.

Within the information security market the competition is still minimal. The most significant competition is in the planning and analysis portion of the market, in which many of the same companies referred to above, also participate, such as: Booz-Allen Hamilton, SAIC, CACI/AMS, BAE Systems, Northrop Grumman, and others. However, the market in which we provide our CIEI© products and services has limited competition. Most of that competition (such as Verisign and Digital Signature Trust) are focused on low to medium levels of assurance. We believe we are presently the only company that has satisfied all of the certification requirements to serve the more targeted medium to high level assurance market, and, as such, we believe that we maintain an advantage over our competition.

Additionally, we believe our advantages in each of the markets described above are two-fold: highly experienced personnel and relatively low overhead. Our professional staff has a proven record of success in meeting service needs of both private industry and public sector clients. Our senior staff personnel include individuals with advanced degrees in science, engineering, and operations research, specializing in the resolution of complex operational problems. Experienced personnel, competitive overhead, and being first to market should allow us to continue to be very competitive.

Intellectual Property

Our intellectual property primarily consists of methodologies developed for use in application development solutions. The services, described above, define the system and process intellectual property that allows us to be the leader in our markets. In addition, our ORC subsidiary holds a patent for a digital parsing tool that provides a secure repository gateway that will allow users, including first time users, the ability to immediately establish and access accounts by presenting their certificates to a directory validated by the gateway. In this manner, we rely upon a combination of trade secrets, copyright and trademark laws, and contractual restrictions to establish and protect the ownership of our proprietary methodologies. We generally enter into nondisclosure and confidentiality agreements with our employees, partners, consultants, independent sales agents and clients. As the number of our competitors increase, the likelihood that such competitors will use similar methodologies increases. Although our methodologies have never been subject to an infringement claim, there can be no assurance that third parties will not

assert infringement claims against us in the future; that the assertion of such claims will not result in litigation; or that we would prevail in such litigation or be able to obtain the license for the use of any allegedly infringed intellectual property from a third party on commercially reasonable terms. Further, regardless of its outcome, litigation can result in substantial costs and divert management s attention from our operations. Although we are not aware of any basis upon which a third party could assert an infringement claim, any infringement claim or litigation could materially adversely affect our business, operating results and financial condition.

Personnel

As of December 31, 2007, we had a total of 52 employees with 46 full time employees and 6 part-time employees. We also periodically employ additional consultants and temporary employees. With the acquisition of iSYS in January 2008 we have added approximately 35 full time employees.

Our offices are located in areas populated by military (both retired and active duty) and highly skilled civilian personnel. Potential employees possessing the unique qualifications required are readily available for both part-time and full-time employment. The primary method of soliciting personnel is through recruiting resources directly utilizing all known sources that include electronic databases, public forums, and personal networks of friends and former coworkers.

We believe that our future success will depend in part on our continued ability to attract and retain highly skilled managerial, technical, sales and support personnel. There can be no assurance that we will be able to continue to attract and retain personnel necessary for the development of our business. We generally do not have employment contracts with our employees, but we do maintain employment agreements with our key employees. However, confidentiality and non-disclosure agreements are in place with many of our employees. None of our employees are subject to a collective bargaining agreement. We believe that our relations with our employees are good.

Available Information

Our internet address is www.widepoint.com. We make available through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC

ITEM 2. PROPERTIES.

The Company s principal executive office consists of approximately 3,500 square feet of office space located at One Lincoln Centre, Suite 1100, Oakbrook Terrace, Illinois, which is leased through July 2007 for approximately $8,900 per month. The annual rent including a pro rata share of real estate taxes and operating expenses for this office is approximately $106,400, plus a pro rata share of increases in real estate taxes and operating expenses.

WidePoint s ORC subsidiary has its principal offices at 1723 South Park Court, Chesapeake, Virginia in approximately 2,400 square feet under a month-to-month lease that expires on April 30, 2009. The annual rent for this office is approximately $30,700, plus a pro rata share of increases in real estate taxes and operating expenses.

ORC also maintains a secure facility in Fairfax, VA. The Fairfax office is located at 11250 Waples Mill Road, South Tower, Suite 210, Fairfax, Virginia 22030. The lease for this office expires March 15, 2009 and costs approximately $*32,*200 per month. ORC also maintains a office located at 1625 Prince Street, Suite 350, Alexandria, Virginia.

Our acquisition of iSYS in January 2008 added two facilities that are leased; the iSYS corporate headquarters located at 7926 Jones Branch Drive, McLean, VA with an annual rent of approximately $48,900 expiring November 30, 2009 and a call center for the iSYS mobile telecom managed services group in Columbus, OH with an annual rent of approximately $50,300 expiring May 31, 2012.

WidePoint believes that it can obtain additional facilities required to accommodate its projected needs without difficulty and at commercially reasonable prices, although no assurance can be given that it will be able to do so.

ITEM 3. LEGAL PROCEEDINGS.

We are not involved in any material legal proceedings.

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

None.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT.

The following sets forth information regarding the executive officers and certain significant employees of the Company as of March 15, 2008:

Name	Age	Position
Steve L. Komar	66	Chief Executive Officer and Chairman of the Board
James T. McCubbin	43	Vice President, Chief Financial Officer, Secretary, Treasurer, and Director
Mark F. Mirabile	45	Vice President and Chief Operations Officer
Daniel E. Turissini	48	Vice President, Chief Technology Officer and Chief Executive Officer and President - Operational Research Consultants, Inc.
Jin Kang	43	Chief Executive Officer and President - iSYS LLC.

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

James T. McCubbin has served as a director and as our Secretary and Treasurer since November 1998. Since August 1998, Mr. McCubbin has also served as our Vice President and Chief Financial Officer. Prior to that time, from December 1997 to August 1998, Mr. McCubbin served as Vice President, Controller, Assistant Secretary and Treasurer. Prior to the commencement of his employment with WidePoint in November 1997, Mr. McCubbin held various financial management positions with several companies in the financial and government sectors. Mr. McCubbin is a graduate of the University of Maryland with a Bachelor of Science Degree in Finance and a Masters Degree in International Management. Mr. McCubbin is also a director and chairman of the audit committee for Red Mile Entertainment, Inc. Red Mile Entertainment, Inc. is a worldwide developer and publisher of interactive entertainment software. Headquartered in Sausalito, California, the company creates, incubates and licenses premier intellectual properties and develops products for console video game systems, personal computers and other interactive entertainment platforms.

Mark F. Mirabile served as a director from April 2002 until March 5, 2007. Mr. Mirabile also continues to serve as Vice President and Chief Operations Officer, a position he has held since December 2001. From June 2000 to November 2001, Mr. Mirabile served as Vice President of Sales and Marketing. Prior to that time, from November 1992 to May 2000, Mr. Mirabile served as the Vice President of Eclipse Information Systems, Inc., a wholly-owned subsidiary of WidePoint. Mr. Mirabile was a co-founder of Eclipse Information Systems, Inc. prior to its acquisition by WidePoint in December 1998. Mr. Mirabile has over 20 years experience in IT at both the executive and technical levels. He has an Associates degree in Applied Science-Accounting from Daley Community College in Chicago.

Daniel E. Turissini has served as the Vice President and Chief Technology Officer of WidePoint since December 2005. Mr. Turissini has also served as the Chief Executive Officer of Operational Research Consultants, Inc. (ORC), a wholly-owned subsidiary, since our acquisition of ORC on October 25, 2004. Mr. Turissini was a founding partner of ORC in 1991 and served as ORC s principal operating officer since its inception. An innovator in systems engineering and integration, Mr. Turissini has focused in the field of Information Assurance and Information Security while at ORC. While under his leadership, ORC has played a key systems integrator role for the DoD Public Key Infrastructure (PKI), the standard information assurance program being implemented across all branches of the DoD (a user community of approximately 36 million personnel, devices, and applications) and has been certified as the first of three certificate authorities for the Department of Defense s External Certificate Authority (ECA) program and by the General Services Administration to provide Access Certificates for Electronic Services (ACES). From 1982 until 1991, Mr. Turissini held various systems engineering and acquisition management positions in support of the U.S. Federal Government with a variety of companies including Tracor Applied Sciences, Inc., National Technologies Associates, Inc., and Gibbs and Cox, Inc. From 1981 to 1982, Mr. Turissini served in the Merchant Marine on various vessels as Engineer and Mate. Mr. Turissini is a graduate of the

United States Merchant Marine Academy with a Bachelor of Science Degree in Engineering and holds a Masters of Engineering Administration from The George Washington University.

Jin Kang serves as the Chief Executive Officer and President of iSYS LLC. (iSYS), a wholly-owned subsidiary of the Company, since our acquisition of iSYS on January 4, 2008. Mr. Kang founded the company in 1999 and has managed iSYS since its inception. Mr. Kang has over 20 years of professional experience in the Federal Government Information Technology Services field. Prior to founding iSYS, Mr. Kang was a Division Manager for Science Applications International Corporation (SAIC). His responsibilities included the Combined DNA Index System (CODIS), a marquee program for the FBI Laboratory Division. As the Engineering Manager for Northrop Grumman Corporation, Mr. Kang played a critical role in the successful management of the Defense Medical Information Systems/Systems Integration, Design Development, Operations and Maintenance Services (D/SIDDOMS) contract from its inception with zero revenues to a program of $190 million in sales. Mr. Kang had management responsibility for all personnel and contract performance for the D/SIDDOMS contract for U.S. Health Affairs. Mr. Kang received a Bachelor and a Masters Degrees in Computer Science and Computer Systems Management from the University of Maryland.

Our executive officers are appointed by and serve at the discretion of the board of directors. There are no family relationships among any of our executive officers or directors.

PART II

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

The Company s Common Stock has been quoted on the American Stock Exchange since September 26, 2006 under the symbol WYY and the Frankfurt and Berlin exchanges under the symbol ZMX . From July 6, 2000 to September 25, 2006 the Company s Common Stock was traded on the OTC Bulletin Board under the symbol WDPT . From July 5, 2000 to March 1, 2001 the Company s Common Stock was traded on the NASDAQ SmallCap Market under the symbol WDPT .

The stock prices listed below represent the high and low closing prices of the Common Stock on the AMEX since September 26, 2006, and the high and low closing bid prices of the Common Stock on the OTC Bulletin Board for each of the periods indicated:

2007	High	Low
Fourth Quarter	$ 1.19	$ 0.80
Third Quarter	0.98	0.70
Second Quarter	1.98	0.81
First Quarter	2.42	1.74

2007	High	Low
Fourth Quarter	$ 3.05	$ 2.14
Third Quarter	3.00	2.73
Second Quarter	3.08	2.57
First Quarter	3.13	2.10

As of March 19, 2008 there were 163 registered holders of record of the Company s Common Stock.

Equity Compensation Plan Information

The following table sets forth information as of December 31, 2007, with respect to the Company s compensation plans under which its Common Stock is authorized for issuance:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted average exercise price of outstanding options, warrants, and rights	(c) Number of securities remaining available for future issuance (excluding securities reflected in column (a))
Equity Compensation Plans:			
Approved by security holders	3,085,212	$ 0.53	6,010,638
Not approved by security holders	4,091,045	$ 0.25	- 0 -
Total	7,176,257	$ 0.37	6,010,638

Dividend Policy

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

Recent Sales of Unregistered Securities

In January 2008, WidePoint issued to Mr. Jin Kang, the sole owner of iSYS, 1,500,000 shares in its Common Stock in connection with its acquisition of iSYS. WidePoint also issued into escrow 3,000,000 shares in its Common Stock to Mr. Kang subject to earnout provisions under a stock purchase agreement between WidePoint and Mr. Kang. All such shares were sold pursuant to the private offering exemption under Section 4(2) of the Securities Act of 1933. The price of WidePoint s common stock at the closing of the iSYS transaction on January 8, 2008 was $1.20 per common share.

Repurchases of Equity Securities

The Company repurchased no shares of its Common Stock during the fourth quarter of 2007.

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

Forward Looking Statements

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 product 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 credential 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. In January 2008, we acquired iSYS, LLC, a United States federal contractor with specific services in mobile telecom management services, forensic informatics, and information assurance.

WidePoint was incorporated in Delaware on May 30, 1997. Our staff consists of business and computer specialists who help our government and civilian customers augment and expand their resident technologic skills and competencies, drive technical innovation, and help develop and maintain a competitive edge in today s rapidly changing technological environment in business. Our organization emphasizes an intense commitment to our people, our customers, and the quality of our solutions offerings. As a services organization, our customers are our primary focus. We have developed thorough, comprehensive policies, procedures and controls to mitigate the threat, or potential threat, of intentional, unintentional, physical, natural or electronic compromise or disruption of any portion of our systems or services. The talent and technology are available, and the resident expertise experienced in working together, to ensure goals are achieved quickly and seamlessly. Contract instruments are already in place and a substantive reference base with an assortment of Federal agencies are available.

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 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 designated by the United States Government as an External Certificate Authority 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.

Over the past several years WidePoint focused on the consolidation of its recent acquisition of ORC, accelerating the rollout of the ORC E-Authentication and PKI identity management initiatives, and continuing to implement our project based enterprise strategy, emphasizing our industry-wide best practices disciplines. With the addition of the customer base and the increase in revenues attributable to the ORC acquisition, WidePoint s opportunity to leverage and expand further into the federal marketplace improved dramatically. ORC s past client successes, top facility security clearances, security personnel expertise, and additional breadth of management talent have expanded our reach into markets that previously were not accessible to WidePoint. We intend to continue to market and sell our technical capabilities into the governmental and commercial marketplace. Further, we are continuing to actively search out new synergistic acquisitions that we believe may further enhance our present base of business and service offerings, such as our recent acquisition of iSYS LLC in January 2008 that augments our prior acquisition of ORC.

The Company s revenues for the period ending December 31, 2007 decreased by approximately 22% from approximately $18.0 million in 2006 to $14.1 million in 2007. This decrease was materially attributable to a reduction in revenues in our consulting services segment that was not wholly offset by the growth in revenues in our PKI credentialing and managed services segment.

Our PKI credentialing and managed services segment experienced revenue growth of approximately 103% with revenues increasing approximately $1,812,000 from approximately $1,751,000 for the year ended December 31, 2006, to approximately $3,563,000 for the year ended December 31, 2007, as a result of continuing adoption of the Federal Government s HSPD-12 program and the continuing adoption of the Department of Defense External Certificate Program (ECA) program. In the long-term we anticipate that our PKI credentialing and managed service segment should continue to increase as we witness further adoption of the ECA program and the Homeland Security Presidential Directive Number 12 (HSPD-12) program is increasingly adopted by the federal government agencies and departments. In the short-term we do anticipate a greater variability in revenue growth as we move from the pilot to the full deployment stage in programs with several federal

government initiatives associated with the Department of Defense, the Department of Homeland Security, and several other state and Local government programs.

Based upon estimates provided by independent analyst and U.S. government estimates, management believes there is a base of several million of users for the Company s PKI services 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 credentials are currently priced 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 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.

Our consulting services segment experienced decreasing revenues of approximately $5.6 million from approximately $16.2 million for the year ended December 31, 2006 as compared to approximately $10.6 million for the year ended December 31, 2007. The decrease in revenues for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was materially the result of a reduction in the sale of software associated with the various HSPD-12 programs that did not re-occur in 2007 as a result of budget delays, as well as to a reduction in consultants billable hours in 2007. In 2006, there were two sales of OEM software to a single customer that aggregated to approximately $7,000,000 that did not recur in 2007. The reduction in billable hours in 2007 as compared to 2006 was a result of difficulties in sourcing candidates for available open positions with the necessary skills throughout the year.

As the Company attempts to implement its strategy of strategic growth driven both by internal growth and potential merger and acquisition activity, we believe that future performance may continue to affect the comparability of the information reflected in the selected consolidated financial information presented above.

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 acquisition of ORC and our subsequent acquisition of iSYS in January 2008, 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 and implements the services that we offer.

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 to provide the necessary investment to continue to upgrade its management reporting systems to meet the continuing demands of the present regulatory changes may also affect the comparability of the information reflected in the financial information presented above.

Critical Accounting Policies and Estimates

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. These accounting principles require us to make certain estimates, judgments and assumptions. WidePoint believes that the estimates, judgments and assumptions upon which the Company relies are reasonably based upon information available to it at the time that these estimates, judgments and assumptions are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. To the extent there are material differences between these estimates, judgments and assumptions and actual results, the Company s financial statements will be affected. The significant accounting policies that WidePoint believes are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue recognition;

Allowance for Doubtful Accounts;

Goodwill;

Intangibles;

Accounting for income taxes;

Stock based compensation.

In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management s judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. The Company s senior management has reviewed these critical accounting policies and related disclosures with its Audit Committee. See Notes to Consolidated Financial Statements, which contain additional information regarding accounting policies and other disclosures required by U.S. GAAP.

Revenue Recognition

The majority of WidePoint 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 fixed-price contracts, revenue is generally recorded as delivery is made. 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 specific risk of loss at December 31, 2007 due to termination provisions and thus has not recorded provisions for such events.

The Company also recognizes revenue including multiple element arrangements, in accordance with the provisions of SAB No. 104 and EITF 00-21. Revenue arrangements with multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered item has value to the customer on a stand-alone basis and whether there is objective and reliable evidence of the fair value of the undelivered items. Revenue is recognized as specific elements indicated in sales contracts are executed. If an element is essential to the functionality of an arrangement, the entire arrangement s revenue is deferred until that essential element is delivered. The fair value of each undelivered element that is not essential to the functionality of the system is deferred until performance or delivery occurs. The fair value of an undelivered element is based on vendor specific objective evidence or third party evidence of fair value as appropriate. If an undelivered element exists, the Company will determine the fair value of the undelivered element and subtract the fair value of the undelivered element from the total consideration under the arrangement. The residual amount is the Company s estimate of the fair value of the delivered element. Costs associated with inconsequential or perfunctory elements in multiple element arrangements are accrued at the time of revenue recognition.

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.

Allowance for Doubtful Accounts

WidePoint determines its Allowance by considering a number of factors, including the length of time trade accounts receivable are past due, previous loss history, the customer s current ability to pay its obligations, and the condition of the general economy and the industry as a whole. The Company makes judgments as to its ability to collect outstanding receivables based on these factors and provide allowances for these receivables when collections become doubtful. Provisions are made based on specific review of all significant outstanding balances. Because of the Company s history of minimal credit losses and the nature of the Company s customers at the time, no allowance for doubtful accounts was believed necessary at December 31, 2007 or at December 31, 2006.

Goodwill

Goodwill represents costs in excess of fair values assigned to the underlying net assets acquired. The Company has adopted the provisions of Statement of Financial Accounting Standards (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. Goodwill is a significant item on the Company s balance sheet and represents approximately 22% of our total assets as of December 31, 2007. Goodwill is identified on the face of the Balance Sheet.

Intangibles

The Company adopted SFAS No. 142, Goodwill and Other Intangible Assets on January 1, 2006. Intangible assets are recorded at cost and amortized over their estimated useful lives using the straight-line method. Each asset is continually evaluated by management to determine if its carrying value will be realized based upon the estimated discounted cash flow expected from the asset. Additional amortization is recognized in the period a decline in value is identified.

The Company also 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. The application of purchase accounting to a business acquisition requires that the Company identify the individual assets acquired and liabilities assumed and estimate the fair value of each.

The intangibles recognized in the acquisition are amortized over the Company s estimate of 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 and identifiable intangibles 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.

As of December 31, 2007, the Company is not aware of any known trends, demands, commitments, events or uncertainties that are reasonably likely to occur and materially affect the methodology or the assumptions the Company has used to value long-lived assets. Long-lived assets are a significant item on the Company s balance sheet and represent approximately 38% of our total assets. Any impairment as a result of the estimate utilizing undiscounted net cash flows to determine the assumed value of long-lived assets could have a significant impact on the Company s financial condition, changes in financial condition and results of operations. Long-lived assets are identified on the face of the Balance Sheet as Intangibles. Amortization of Intangibles is identified on the face of the Statement of Operations within Cost of Sales.

Specific intangibles arose as a result of the Company s acquisition of ORC. The Company allocated approximately $1,145,000 ($445,000 net book value at December 31, 2007) to customer list and relationships and $2,526,000 to goodwill. The Company s senior management has discussed the development and selection of the accounting estimates relating to the purchase accounting for the ORC acquisition, the amortization period of the acquired intangibles and the lack of impairment of the assets, and the MD&A disclosure regarding those estimates, with the audit committee of the Company s board of directors. Also, the Company engaged MP&S Valuations to perform an independent analysis to provide a qualified opinion on the Company s methodology and calculations in determining the related intangibles valuations

associated with the purchase accounting for the ORC acquisition.

Accounting for Income Taxes

WidePoint accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Under the asset and liability method of SFAS No. 109, deferred income taxes are recognized for the expected future tax consequences of temporary differences between financial statement carrying amounts, and the tax bases of existing assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The Company has incurred historical net operating losses, or NOLs, for federal income tax purposes. Accordingly, no federal income tax provision has been recorded to date and there are no taxes payable. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible.

Based upon the level of historical losses that may limit utilization of NOL carry forwards in future periods, management is unable to predict whether these net deferred tax assets will be utilized prior to expiration. The unused NOL carry forwards expire in years 2010 through 2027. As such, the Company has recorded a full valuation allowance against net deferred tax assets. WidePoint believes that its estimates are reasonable, given the lack of historical earnings and the fact that there may be significant limitations placed on the use of the NOL carryforwards. There is, however, a significant possibility that the Company will have sufficient income in the future to utilize substantial portions of the deferred tax assets. No assurance can be given that the final outcome of these matters will not be different than that which is described above. Such a change in the estimate reflected in the historical income tax provisions could have a material effect on the income tax provision and net income in the period in which such determination is made.

Stock based compensation

The Company adopted SFAS 123R effective January 1, 2006, which requires recognition of compensation expense for all stock option or other equity-based awards that vest or become exercisable after the option s effective date. The Company elected the modified prospective application transition method of adoption and, as such, prior period financial statements have not been restated. Under this method, the fair value of all stock options granted or modified after adoption must be recognized in the Consolidated Statement of Operations and total compensation cost related to non-vested awards not yet recognized, as determined under the original provisions of SFAS 123, must also be recognized in the Consolidated Statement of Operations as vesting occurs.

As part of our implementation, management has established assumptions required for a basis of determining the fair value of stock options as calculated using the Black-Scholes option-pricing model. Management believes the results and conclusions relating to the assumptions, including; expected term, volatility, risk-free interest rate, and dividend rate are reasonable based on historical trends and expected future events. Management is not aware of any matters that would materially alter the assumptions used in the valuation of the stock options under the Black-Scholes option-pricing model. The forfeiture rates utilized in conjunction with the recognized stock compensation expense is reasonable and reflective of the expected rates for potentially cancelled, unvested stock options. Stock based compensation recognized during the period is properly stated and calculated as promulgated by SFAS 123R.

Results of Operations

Year Ended December 31, 2007 Compared to the Year ended December 31, 2006

Revenues. Revenues for the year ended December 31, 2007, were approximately $14.1 million, a decrease of $3.9 million, as compared to revenues of approximately $18.0 million for the year ended December 31, 2006. This decrease was materially attributable to decreased sales associated with consulting services and software, partially offset by increased sales associated with the rollout of contract awards in support of the federal government s HSPD-12 mandate and the DOD s ECA program.

Our PKI credentialing and managed services segment experienced revenue growth of approximately 103% with revenues increasing $1,812,000 from approximately $1,751,000 for the year ended December 31, 2006, to approximately $3,563,000 for the year ended December 31, 2007, as a result of continuing adoption of the Federal Government s mandate under HSPD-12 and the continuing adoption of the ECA program by the Department of Defense and its federal contractors. In the long-term we anticipate that our PKI credentialing and managed services sales should continue to increase as we witness the continued adoption of the ECA program by the Department of Defense federal contractors and the HSPD-12 program is increasingly adopted by the Federal Government agencies and departments. In the short-term we do anticipate a greater variability in revenue growth as we either await contract awards that have been delayed or as certain pilot programs expand to fully implemented

programs in support of the HSPD-12 initiative.

Our consulting services segment experienced decreased revenues of $5.6 million from approximately $16.2 million for the year ended December 31, 2006 as compared to approximately $10.6 million for the year ended December 31, 2007. The decrease in revenues for the year ended December 31, 2007 as compared to the year ended December 31, 2006 was materially the result of a reduction in the sale of software associated with the various HSPD-12 programs that did not recur in 2007 as a result of budget delays, along with a reduction in consultants billable hours in 2007. In 2006, there were two sales of OEM software to a single customer that aggregated to approximately $7,000,000 that did not recur in 2007. The reduction in billable hours in 2007 as compared to 2006 was a result of difficulties in sourcing candidates for available open positions with the necessary skills throughout the course of the year.

Cost of Sales. Cost of sales for the year ended December 31, 2007, was approximately $10.6 million, or 75% of revenues, a decrease of approximately $3.7 million below cost of sales of approximately $14.3 million, or 79% of revenues, for the year ended December 31, 2006. The absolute dollar decrease in cost of sales was materially attributable to lower revenues while the improvement in the gross profit margin was materially attributable to an improvement in the sales mix of higher margin services. The proportion of PKI products and services in 2007 was 25% of total revenue compared to 10% of total revenue in 2006. The PKI products and services generate higher profit margins for the Company.

The cost elements related to consultant salaries, benefits and expenses at both ORC and WidePoint are substantially similar.

Gross profit. Gross profit for the year ended December 31, 2007, was approximately $3.6 million, or 25% of revenues, a decrease of $134,000 as compared to gross profit of approximately $3.7 million, or 21% of revenues, for the year ended December 31, 2006.

Sales and marketing. Sales and marketing expenses for the year ended December 31, 2007 were approximately $0.9 million, or 6% of revenues, as compared to approximately $0.9 million, or 5% of revenues, for the year ended December 31, 2006. The slight increase in sales and marketing expenses for the year ended December 31, 2007, was primarily attributable to an increase in the amount of sales and marketing expenditures for additional labor as a result of increased bid and proposal efforts related to the expansion of our PKI managed services segment.

General and administrative. General and administrative expenses for the year ended December 31, 2007 were approximately $3.2 million, or 22% of revenues, as compared to $3.3 million, or 19% of revenues, for the year ended December 31, 2006. The $0.1 million decrease in general and administrative expenses in 2007 was primarily attributable to the recognition of lower employee stock options expense of approximately $0.2 million for the year ended December 31, 2007 as compared to approximately $0.4 million for the year ended December 31, 2006.

Depreciation expense. Depreciation expense for year ended December 31, 2007, was approximately $83,000, or less than 1% of revenues, an increase of $48,000, as compared to approximately $35,000 of such expenses, or less than 1% of revenues, recorded by the Company for the year ended December 31, 2006. The increase in depreciation expenses for the year ended December 31, 2006, was primarily attributable to the increased pool of depreciable assets.

Interest income (expense). Interest income for the year ended December 31, 2007 was $104,000, an increase of $12,000 as compared to $93,000 for the year ended December 31, 2006. The increase in interest income in 2007 was primarily attributable to greater amounts of available cash and other securities. Interest expense for the year ended December 31, 2007 was $14,000 an increase of $4,000 as compared to $10,000 of interest expense for the year ended December 31, 2006. The increase in interest expense in 2007 was primarily attributable to capital lease purchases by ORC.

Income tax benefit. There was no income tax benefit for 2007, as compared to an income tax benefit for the year ended December 31, 2006 of $83.

Net loss. As a result of the above, the net loss for the year ended December 31, 2007 was approximately $0.5 million, an increase of $0.1 million, as compared to the net loss of approximately $0.4 million for the year ended December 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.

	Year ended December 31, 2007	Year ended December 31, 2006
Consulting services		
Revenues	$ 10,566,366	$ 16,202,217
Operating income	$ 527,861	$ 505,537
Total assets	$ 4,706,116	$ 6,877,676
PKI Credentialing and Managed Services		
Revenues	$ 3,563,073	$ 1,750,992
Operating income	$ 133,159	$ 355,457
Total assets	$ 1,490,195	$ 1,214,489
Total Company		
Revenues	$ 14,129,439	$ 17,953,209
Operating loss	$ 607,888 (1)	$ 517,594 (2)
Depreciation expense	$ 83,458	$ 35,131
Interest income (expense), net	$ 90,709	$ 82,956
Income tax benefit	--	$ 83
Net loss	$ 517,179	$ 434,555
Total Corporate assets	$ 5,067,645	$ 5,512,206
Total assets	$ 11,263,956	$ 13,604,371

(1) Includes $221,078 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes $964,372 in unallocated corporate costs in sales, general and administrative expense.

(2) Includes $221,078 in amortization expense in cost of sales associated with the purchase of ORC, which is not allocated among the segments and includes $1,122,379 in unallocated corporate costs in sales, 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 2007 and 2006, operations were primarily financed with working capital, senior debt, and stock option and warrant exercises.

Cash used by operating activities for the year ended December 31, 2007, was approximately $455,000 as compared to cash provided by operating activities of approximately $508,000 for the year ended December 31, 2006. The decrease in cash balances available for operating activities for the year ended December 31, 2007, was primarily a result of a reduction in accounts payable and deferred revenues. Capital expenditures in property and equipment were approximately $132,000, excluding any capital leases for the year ended December 31, 2007, as compared to capital expenditures in property and equipment of approximately $72,000, excluding capital leases for the year ended December 31, 2006. During the fourth quarter of 2007, the Company entered into a secured credit facility with Protexx, a PKI software and services company with which we have a strategic business relationship. The credit facility for approximately $100,000 was fully utilized and drawn down through December 31, 2007. The credit facility is collateralized by all of the assets of Protexx. During the first quarter of 2008, the credit facility was extended until June 30, 2008 and increased to $200,000. The facility bears interest at 10% simple interest.

The Company had decreases in its balance sheet in cash and cash equivalents, accounts receivables, prepaid expenses, and intangibles, offset by an increase in property and equipment and other assets, with decreases in accounts payable, accrued expenses, and deferred revenue, further offset by increases in capital lease obligations as of December 31, 2007 as compared to December 31, 2006. The decrease in assets and decrease in the liabilities in the Company s balance sheet were primarily due to the reduction in revenues in 2007 as compared to 2006.

As of December 31, 2007, the Company had net working capital of approximately $3.3 million. WidePoint s primary source of liquidity consists of approximately $1.8 million in cash and cash equivalents and approximately $4.8 million of accounts receivable. Current liabilities include approximately $3.4 million in accounts payable and accrued expenses. The Company s business environment is characterized by rapid technological change, experiencing times of high growth and contraction, and is influenced by material events such as mergers and acquisitions that can substantially change the Company s performance and outlook.

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 material 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.

WidePoint believes that its current cash position is sufficient to meet capital expenditure and working capital requirements through 2008. 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 might require external financing that could include additional debt or equity capital. In January 2008, the Company acquired iSYS LLC with proceeds of approximately $3.8 million from the Company s credit facility with Cardinal Bank. 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.

On January 2, 2008, the Company entered into a Commercial Loan Agreement with Cardinal Bank relating to a $5,000,000 revolving credit facility and a $2,000,000 term loan. Advances under the revolving credit facility will bear interest at a variable rate equal to the prime rate plus 0.25% and the repayment date for such facility is April 30, 2009. This new revolving credit facility replaces the Company s prior $2,000,000 revolving credit facility with Cardinal Bank. The term loan bears interest at 7.5% annually and the repayment date of such term loan is January 1, 2012.

On January 4, 2008, the Company completed the closing of the acquisition of all the issued and outstanding membership interests of iSYS from Mr. Jin Kang, the sole owner-member of iSYS, pursuant to the terms of a Membership Interest Purchase Agreement, dated as of January 2, 2008, between the Company, iSYS, and Jin Kang. Pursuant to the terms of the Membership Interest Purchase Agreement, the Company paid Jin Kang the following consideration at the closing: (i) $5,000,000 in cash, (ii) $2,000,000 principal amount in an Installment Cash Promissory Note, which bears simple annual interest at the initial rate of 7% through December 31, 2008, and thereafter the simple interest rate will increase to 10% from January 1, 2009 through the date of maturity, which will be on the earlier of either April 1, 2009 or the filing by the Company of its Annual Report on Form 10-K for the year ending December 31, 2008, and (iii) the issuance of 1,500,000 shares of Company common stock. The Company also issued an additional 3,000,000 shares of Company common stock in the name of Jin Kang, which shares were delivered into escrow to be held subject to the satisfaction of certain earnout provisions under the Membership Interest Purchase Agreement, and which shares are subject to return to the Company in the event such earnout provisions are not achieved under the terms of the Membership Interest Purchase Agreement. Under the terms of the Membership Interest Purchase Agreement, Jin Kang also entered into an Employment and Non-Compete Agreement, dated as of January 4, 2008.

The subsequent credit facility and acquisition will increase the amount of debt and interest expense the Company will need to support, along with corresponding increases in assets and estimated proforma projected revenues and profits from operations. For the fiscal year ended December 31, 2007, iSYS is projected to have approximately $20 million in revenues and net income of approximately $1.4 million dollars. The estimated proforma financials representing both the Company and iSYS for the period ending December 31, 2007 reflects pro forma revenues of approximately $34 million and pro forma positive cashflows for such year after allowing for interest expense from the increased debt service of the credit facility to acquire iSYS. For more information concerning our acquisition of iSYS and the estimated proforma impact of the acquisition, please see our Form 8-K/A no. 1 filing on March 21, 2008.

Off-Balance Sheet Arrangements

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

Other

Inflation has not had a significant effect on the Company s operations, as increased costs to the Company have generally been offset by increased prices of products and services sold, although this has been more recently compromised by some of the competitive pricing pressures referenced under Competition in Item 1 of this document.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could substantially differ from those estimates.

This report contains forward-looking statements setting forth the Company s beliefs or expectations relating to future revenues and profitability. Actual results may differ materially from projected or expected results due to changes in the demand for the Company s products and services, uncertainties relating to the results of operations, dependence on its major customers, risks associated with rapid technological change and the emerging services market, potential fluctuations in quarterly results, and its dependence on key employees and other risks and uncertainties affecting the technology industry generally. 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA.

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

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

Effective January 1, 2007, Epstein, Weber & Conover, PLC (EWC) combined its practice with Moss Adams LLP (Moss Adams) and therefore resigned as the independent registered public accounting firm of WidePoint. The Company was notified of such resignation on January 22, 2007. According to information provided to the Company, all of the partners of EWC have become partners of Moss Adams.

On February 24, 2006, the Company engaged EWC as its independent registered public accounting firm. From the date of engagement of EWC through January 22, 2007, there were no disagreements (within the meaning of Item 304 of Regulation S-K) between the Company and EWC on any matters of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to the satisfaction of EWC, would have been referred to in its report. EWC s report on the Company s financial statements for the year ended December 31, 2005 did not contain an adverse opinion or a disclaimer of opinion and was not qualified or modified as to uncertainty, audit scope, or accounting principles.

On January 22, 2007, the Audit Committee of the Board of Directors of the Company engaged the independent accounting firm of Moss Adams to serve as its new independent accounting firm effective January 22, 2007.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to provide reasonable assurance that material information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that the information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. We performed an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the existence of the material weaknesses discussed below in Management s Report on Internal Control Over Financial Reporting, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were not effective at the reasonable assurance level as of the end of the period covered by this report.

We do not expect that our disclosure controls and procedures will prevent all errors and all instances of fraud. Disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Further, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits must be considered relative to their costs. Because of the inherent limitations in all disclosure controls and procedures, no evaluation of disclosure controls and procedures can provide absolute assurance that we have detected all our control deficiencies and instances of fraud, if any. The design of disclosure controls and procedures also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;

provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and

provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Additionally, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*.

Based on this assessment, management concluded that our internal control over financial reporting was not effective as of December 31, 2007 due to the existence of the material weaknesses as of December 31, 2007, discussed below. A material weakness is a control deficiency, or a combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Inadequate segregation of duties within a significant account or process. We did not have appropriate segregation of duties within our internal controls that would ensure the consistent application of procedures in our financial reporting process by existing personnel. We also did not have appropriate software application controls as a result of the inadequate segregation of duties to ensure the integrity of our financial consolidation schedules and footnote disclosure reports are consistent and accurate. This control deficiency could result in a misstatement to substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

Inadequate documentation of the components of internal control. We did not maintain documented policies and evidence of compliance with our internal controls that would ensure the consistent application of procedures in our financial reporting process by existing personnel. This control deficiency could result in a misstatement to substantially all of our financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that this control deficiency constitutes a material weakness.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Remediation Plan for Material Weaknesses

The material weaknesses described above in Management s Report on Internal Control Over Financial Reporting comprise control deficiencies that we discovered in the fourth quarter of fiscal year 2007 and in the financial close process for fiscal year 2007.

Beginning during the fourth quarter of fiscal 2007 and in the first quarter of fiscal year 2008, we formulated a remediation plan and initiated remedial action to address those material weaknesses. The elements of the remediation plan are as follows:

Inadequate segregation of duties within a significant account or process. We commenced a thorough review of our accounting staffs duties and where necessary we have been segregating such duties with other personnel.
Inadequate documentation of the components of internal control. We commenced a thorough review of our documentation and where necessary we have put into place policies and procedures to document such evidence to comply with our internal control requirements. We have also retained a financial consultant to assist us in further reviewing and improving our internal control processes.

We believe that these measures, if effectively implemented and maintained, will remediate the material weaknesses discussed above.

Changes in Internal Control Over Financial Reporting

During the fourth quarter of fiscal year 2007 and the first quarter of 2008, we undertook a number of measures to remediate the material weaknesses discussed under Management s Report on Internal Control Over Financial Reporting, above. Those measures, described under Remediation Plan for Material Weaknesses, initiated during the fourth quarter of fiscal year 2007, have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Other than as described above, there have been no changes in our internal control over financial reporting during the fourth quarter of fiscal year 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION.

None.

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Except for the information regarding executive officers required by Item 401 of Regulation S-K, which is included in Part I of this Annual Report on Form 10-K as Item 4A, pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 11. EXECUTIVE COMPENSATION.

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

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

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

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

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

Pursuant to General Instruction G(3) of Form 10-K, the information called for by this item is hereby incorporated by reference from our definitive proxy statement or amendment hereto to be filed pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this report.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Financial Statements and Financial Statement Schedule

(1) Financial Statements:

Report of Moss Adams LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Operations for the Years Ended December 31, 2007 and 2006.

Consolidated Statements of Changes in Stockholders Equity for the Years Ended December 2007 and 2006.

Consolidated Statements of Cash Flow for the Years Ended December 31, 2007 and 2006.

Notes to Consolidated Financial Statements

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

(b) Exhibits: The following exhibits are filed herewith or incorporated herein by reference:

EXHIBIT NO.	DESCRIPTION
2.1	Membership Interest Purchase Agreement, dated as of January 2, 2008, between the Company, iSYS LLC, and Jin Kang. (Incorporated herein by reference to Exhibit 2.1 to the Registrant s Current Report on Form 8-K filed on January 8, 2008.)
3.1	Amended and Restated Certificate of Incorporation of WidePoint Corporation. (Incorporated herein by reference to Exhibit A to the Registrant s Definitive Proxy Statement, as filed on December 27, 2004.)
3.2	Bylaws of ZMAX Corporation. (Incorporated herein by reference to Exhibit 3.6 to the Registrant s Registration Statement on Form S-4 (File No. 333-29833).)
4.1	Certificate Of Designations, Rights And Preferences Of The Series A Convertible Preferred Stock between WidePoint Corporation and Barron Partners LP (Incorporated herein by reference to Exhibit 10.4 to the Registrant s Current Report on Form 8-K/A filed on November 2, 2004.)
10.1	Employment Agreement between WidePoint Corporation and Steve Komar, dated July 1, 2002.* (Incorporated herein by reference to Exhibit 10.26 to Registrant s Report of Form 10Q, as filed on August 15, 2002 (File No. 000-23967)
10.2	Employment Agreement between WidePoint Corporation and James McCubbin, dated July 1, 2002.* (Incorporated herein by reference to Exhibit 10.26 to Registrant s Report of Form 10Q, as filed on August 15, 2002 (File No. 000-23967)
10.3	Employment Agreement between WidePoint Corporation and Mark Mirabile, dated July 1, 2002.* (Incorporated herein by reference to Exhibit 10.26 to Registrant s Report of Form 10Q, as filed on August 15, 2002 (File No. 000-23967)
10.4	Preferred Stock Purchase Agreement Between WidePoint Corporation and Barron Partners LP. (Incorporated herein by reference to Exhibit 10.1 to the Registrant s Current Report on Form 8-K/A filed on November 2, 2004.)
10.5	Common Stock Purchase Warrant between WidePoint Corporation and Barron Partners LP. (Incorporated herein by reference to Exhibit 10.2 to the Registrant s Current Report on Form 8-K/A filed on November 2, 2004.)
10.6	Registration Rights Agreement between WidePoint Corporation and Barron Partners LP. (Incorporated herein by reference to Exhibit 10.3 to the Registrant s Current Report on Form 8-K/A filed on November 2, 2004.)

* Management contract or compensatory plan.

EXHIBIT NO. DESCRIPTION

10.7	Stock Purchase Agreement between WidePoint Corporation, Operational Research Consultants, Inc. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K/A filed on November 2, 2004.)
10.8	Master Amendment between WidePoint Corporation and Barron Partners L.P. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 11, 2004.)
10.9	Loan and Security Agreement, dated as of October 22, 2004, by and between RBC Centura Bank and the Registrant. (Incorporated herein by reference to Exhibit 10.46 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with Form 10-K/A No. 1 thereto.)
10.10	Letter Amendment to Loan and Security Agreement, dated as of February 7, 2005, by and between RBC Centura Bank and the Registrant. (Incorporated herein by reference to Exhibit 10.47 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2004, as filed with Form 10-K/A No. 1 thereto.)

10.11 Form of Letter Agreement between Goldman, Sachs & Co., Barron Partners L.P. and WidePoint Corporation, as executed on April 26, 2005. (Filed as Exhibit 10.46 to the Registrant's Amendment No. 1 to Form S-1 as filed on May 5, 2005.)

10.12 Form of Letter Agreement between Goldman, Sachs & Co., Barron Partners L.P. and WidePoint Corporation, as executed on April 28, 2005. (Filed as Exhibit 10.47 to the Registrant's Amendment No. 1 to Form S-1 as filed on May 5, 2005.)

10.13 Employment and Non-Compete Agreement between WidePoint Corporation, Operational Research Consultants, Inc and Daniel Turissini.* (Incorporated herein by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2006.)

10.14 Addendum to Employment and Non-Compete Agreement between the Registrant and Daniel E. Turssini, effective as of July 25, 2007. *(Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 30, 2007.)

10.15 Commercial Loan Agreement, dated August 16, 2007, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on August 21, 2007.)

10.16 Security Agreement, dated August 16, 2007, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on August 21, 2007.)

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* Management contract or compensatory plan.

EXHIBIT NO.	DESCRIPTION

10.17 Promissory Note, dated August 16, 2007, issued by the Company in favor of Cardinal Bank. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on August 21, 2007.)

10.18 Promissory Note, dated November 5, 2007, between Protexx, Inc. and its subsidiaries, including but not limited to 22THEN LLC, as borrower, WidePoint Corporation, as lender, and Peter Letizia, as guarantor. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 10-Q filed on November 9, 2007.)

10.19 Revolving Line of Credit Agreement, dated as of November 5, 2007, by and among Protexx, Inc. and its subsidiaries, including but not limited to 22THEN LLC, as borrower, Peter Letizia, as guarantor, and WidePoint Corporation, as lender. (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 10-Q filed on November 9, 2007.)

10.20 Security Agreement, dated as of November 5, 2007, given by Protexx, Inc. and each of its subsidiaries and 22THEN LLC, collectively, as debtors, to and in favor of WidePoint Corporation, as secured party. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 10-Q filed on November 9, 2007.)

10.21 Software Escrow Agreement, dated as of November 5, 2007, between 22THEN LLC and Protexx Incorporated, collectively, as supplier, WidePoint Corporation, as user, and Foley & Lardner LLP, as escrow agent. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 10-Q filed on November 9, 2007.)

10.22 $2,000,000 Installment Cash Promissory Note, dated January 4, 2008, issued by the Company in favor of Jin Kang. (Incorporated herein by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)

10.23 Employment and Non-Compete Agreement, dated as of January 4, 2008, between the Company, iSYS LLC and Jin Kang. * (Incorporated herein by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)

10.24 Commercial Loan Agreement, dated January 2, 2008, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)

10.25 Security Agreement, dated January 2, 2008, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)

* Management contract or compensatory plan.

EXHIBIT NO.	DESCRIPTION
10.26	$5,000,000 Promissory Note, dated January 2, 2008, issued by the Company in favor of Cardinal Bank. (Incorporated herein by reference to Exhibit 10.5 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)
10.27	Security Agreement, dated January 2, 2008, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.6 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)
10.28	$2,000,000 Promissory Note, dated January 2, 2008, issued by the Company in favor of Cardinal Bank. (Incorporated herein by reference to Exhibit 10.7 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)
10.29	Debt Subordination Agreement, dated January 2, 2008, between the Company and Cardinal Bank. (Incorporated herein by reference to Exhibit 10.8 to the Registrant's Current Report on Form 8-K filed on January 8, 2008.)
21	Subsidiaries of WidePoint Corporation (Filed herewith).
23.1	Consent of Moss Adams LLP(Filed herewith).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(Filed herewith).
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(Filed herewith).
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(Filed herewith).

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: April 11, 2008 /s/ STEVE L. KOMAR
Steve L. Komar
Chief Executive Officer

Date: April 11, 2008 /s/ JAMES T. MCCUBBIN
James T. McCubbin
Vice President - Principal Financial Officer

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

Dated: April 11, 2008 /s/ STEVE L. KOMAR
Steve L. Komar
Director and Chief Executive Officer

Dated: April 11, 2008 /s/ JAMES T. MCCUBBIN

James T. McCubbin
Director, Vice President and Chief Financial Officer

Dated:	April 11, 2008	/s/ JAMES M. RITTER *James M. Ritter* Director
Dated:	April 11, 2008	/s/ MORTON S. TAUBMAN *Morton S. Taubman* Director
Dated:	April 11, 2008	/s/ RON S. OXLEY *Ron Oxley* Director
Dated:	April 11, 2008	/s/ OTTO GUENTHER *Otto Guenther* Director
Dated:	April 11, 2008	/s/ GEORGE NORWARD *George Norward* Director

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of WidePoint Corporation:

We have audited the accompanying consolidated balance sheets of WidePoint Corporation and subsidiaries as of December 31, 2007 and 2006 and the related consolidated statements of operations, stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion of these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of WidePoint Corporation and subsidiaries as of December 31, 2007 and 2006 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/Moss Adams LLP
Scottsdale, Arizona
April 11, 2008

WIDEPOINT CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets

	December 31,	
	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	$ 1,831,991	$ 2,774,813
Accounts receivable	4,808,832	6,220,444
Prepaid expenses and other assets	328,539	463,369
Total current assets	6,969,362	9,458,626
Property and equipment, net	435,859	205,231
Goodwill	2,526,110	2,526,110
Intangibles, net	1,165,461	1,358,212
Other assets	167,164	56,192 tyle="font-size:10.0pt;">)
Cash proceeds from issuance of common stock from initial public offering, net of issuance costs	53,827	
Net cash provided by financing activities	53,879	88,084
Net change in cash and cash equivalents	31,694	44,696
Cash and cash equivalents at beginning of period	16,815	
Cash and cash equivalents at end of period	$ 48,509	$ 44,696
Supplemental disclosure of cash flow information:		
Non-cash financing activities:		
Investment by Ikaria, Inc., net	$	$ 7,491

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

Table of Contents

BELLEROPHON THERAPEUTICS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

(1) Organization, Nature of the Business and Management s Plans Regarding Financing of Future Operations

Bellerophon Therapeutics, Inc., or the Company, is a clinical-stage therapeutics company focused on developing innovative products at the intersection of drugs and devices that address significant unmet medical needs in the treatment of cardiopulmonary and cardiac diseases. The Company has two programs in advanced clinical development. The first program, INOpulse, is based on the Company s proprietary pulsatile nitric oxide delivery device. The Company is currently developing two product candidates under its INOpulse program: one for the treatment of pulmonary arterial hypertension, or PAH, for which the Company intends to commence Phase 3 clinical trials in the second half of 2015, and the other for the treatment of pulmonary hypertension associated with chronic obstructive pulmonary disease, or PH-COPD, which is in Phase 2 development. The Company plans to present detailed results from the Preservation 1 trial for its Bioabsorbable Cardiac Matrix (BCM) program, for which top line results were announced on July 27, 2015, at the European Society of Cardiology meeting in London on September 1, 2015. The Company does not intend to proceed with further clinical development of BCM until and unless the Company can determine an alternative path forward. This may involve a different patient group or a combination treatment with cell therapies.

The Company s business is subject to significant risks and uncertainties, including but not limited to:

- The risk that the Company will not achieve success in its research and development efforts, including clinical trials conducted by it or its potential collaborative partners.

- The expectation that the Company will experience operating losses for the next several years.

- Decisions by regulatory authorities regarding whether and when to approve the Company s regulatory applications as well as their decisions regarding labeling and other matters which could affect the commercial potential of the Company s products or product candidates.

- The risk that the Company will fail to obtain adequate financing to meet its future capital and financing needs.

- The risk that key personnel will leave the Company and/or that the Company will be unable to recruit and retain senior level officers to manage its business.

The Company was formerly the research and development operating segment of Ikaria, Inc. (a subsidiary of Mallinckrodt plc), or Ikaria. During the third quarter of 2013 in conjunction with Ikaria s financing activities, Ikaria began reporting financial information for two operating segments: its research and development business and its commercial business. During the fourth quarter of 2013, Ikaria completed an internal reorganization of the assets and subsidiaries of its two operating segments. In connection with the internal reorganization, Ikaria formed the Company as a new wholly-owned subsidiary and transferred the research and development-related assets related to INOpulse for PAH and INOpulse for PH-COPD to the Company and/or its subsidiaries.

On December 24, 2013, Ikaria and Madison Dearborn Partners, or MDP, entered into an agreement and plan of merger, under which MDP would acquire a majority ownership position in Ikaria and existing shareholders retained a minority ownership position in Ikaria through certain merger transactions, or the Merger.

On February 12, 2014, prior to the Merger, Ikaria distributed all of the Company s outstanding units to Ikaria s stockholders in a pro rata distribution through a special dividend, which is referred to as the Spin-Out.

In the Spin-Out, each holder of Ikaria common stock received one voting limited liability company interest in the Company for each share of Ikaria common stock held.

In connection with the Spin-Out, $80.0 million of cash was distributed to the Company. At the time of the Spin-Out, $18.5 million of the $80.0 million cash held by the Company was deposited in escrow to guarantee payment of the monthly services fees payable by the Company to Ikaria in exchange for the services to be provided by Ikaria pursuant to the Company s transition services agreement with Ikaria, or the TSA, during the 24 months following the Spin-Out. At June 30, 2015, the escrowed cash balance was approximately $6.2 million and is classified as restricted cash, all of which is reflected as current, on the condensed consolidated balance sheet at June 30, 2015. See Note 7 *Related-Party Transactions*. On July 9, 2015, the Company entered into an amendment to the TSA advancing the termination date from February 9, 2016 to September 30, 2015. Pursuant to this amendment, within five business days after September 30, 2015, the Company will receive from escrow $3.3 million, which is equal to the amount it deposited to pay amounts owed to Ikaria under the TSA for the period from October 1, 2015 to February 9, 2016. See Note 12 *Subsequent Events*.

Table of Contents

On February 19, 2015, the Company completed the sale of 5,000,000 shares of common stock, or the IPO, at a price to the public of $12.00 per share, resulting in net proceeds to the Company of $51.9 million after deducting underwriting discounts and commissions of $4.2 million and offering costs of $3.9 million. The Company s common stock began trading on the NASDAQ Global Market under the symbol BLPH on February 13, 2015.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying unaudited condensed consolidated financial statements were prepared following the requirements of the Securities and Exchange Commission for interim reporting. As permitted under those rules, certain footnotes or other financial information that are normally required by accounting principles generally accepted in the United States of America, or U.S. GAAP, can be condensed or omitted.

The Company is responsible for the unaudited condensed consolidated financial statements. The condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of the Company s financial position, results of operations, comprehensive loss and its cash flows for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements for the year ended December 31, 2014 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2014. The results of operations for the three and six months ended June 30, 2015 for the Company are not necessarily indicative of the results expected for the full year.

On February 2, 2015, the Company effected a reverse unit split of its outstanding units at a ratio of one unit for every 12.5257 units previously held. All unit/share and per unit/per share data included in these condensed consolidated financial statements reflect the reverse unit split.

In February 2015, the Company converted from a limited liability company to a C-corporation.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of costs and expenses during the reporting period, including accrued research and development expenses, stock-based compensation, income taxes and valuation of long-lived assets. Actual results could differ from those estimates.

For periods prior to the Spin-Out, the financial statements were carved out of the consolidated financial statements of Ikaria. Management believes that the statements of operations for the six months ended June 30, 2014 (which include a period of forty-two days prior to the Spin-Out) include reasonable allocations of costs and expenses incurred by Ikaria which benefited the Company. However, such amounts may not be indicative of the actual level of costs and expenses that would have been incurred by the Company if it had operated as an independent stand-alone company or of the costs and expenses expected to be incurred in the future. As such, the financial information for the six months ended June 30, 2014 may not necessarily reflect the results of operations and cash flows of the Company had it been an independent stand-alone company for the period, or the results of operations and cash flows expected in the future.

(b) Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity date of three months or less to be cash equivalents.

(c) Restricted Cash

Restricted cash represents amounts held on deposit with a bank in relation to the TSA. The funds are held in an account to settle the required payment to Ikaria for services to be provided in connection with the TSA. The required payments to be paid in excess of one year from the balance sheet date are classified as long-term restricted cash. See Note 7 *Related-Party Transactions*.

(d) Stock-Based Compensation

The Company accounts for its stock-based compensation in accordance with Accounting Standards Codification, or ASC, 718 *Compensation Stock Compensation*, which establishes accounting for share-based awards, including stock options and restricted stock, exchanged for services and requires companies to expense the estimated fair value of these awards over the requisite service period. The Company recognizes stock-based compensation expense in operations based on the fair value of the award on the date of the grant. The resulting compensation expense is recognized on a straight-line basis over the requisite service period or sooner if the awards immediately vest. The Company determines the fair value of stock options issued using a Black-Scholes-Merton option pricing model. Certain assumptions used in the model include expected volatility, dividend yield, risk-free interest rate, and expected term. See Note 6 *Stock-Based Compensation* for a description of these assumptions.

Prior to the date of the Spin-Out, stock-based compensation expense for the Company represented an allocation of Ikaria s

Table of Contents

stock-based compensation expense based on the allocation percentages of the Company s cost centers, which were determined based on specific identification or the proportionate percentage of employee time or headcount to the respective total Ikaria employee time or headcount.

(e) Deferred Transaction Costs

Deferred transaction costs are IPO related costs primarily associated with third-party professional legal, accounting and printing fees associated with the initial public offering of the Company s shares. These IPO related costs are deferred and charged against the gross proceeds of the offering when the public offering of equity securities is complete as a reduction of additional paid-in capital. As of June 30, 2015, the Company charged all deferred transaction costs against the gross proceeds of the offering.

(f) Income Taxes

Prior to its conversion to a Delaware corporation in February 2015, the Company was a Delaware limited liability company that passed through income and losses to its members for U.S. federal and state income tax purposes. As a result of its conversion to a Delaware corporation, the Company recognized deferred income taxes through income tax expense related to temporary differences that existed as of the date of its tax status change. The Company uses the asset and liability approach to account for income taxes as required by ASC 740, *Income Taxes*, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized, on a more likely than not basis. The Company recognizes the benefit of an uncertain tax position that it has taken or expects to take on income tax returns it files if such tax position is more likely than not to be sustained on examination by the taxing authorities, based on the technical merits of the position. These tax benefits are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate resolution.

As of the date of the conversion to a taxable corporation, the Company recognized approximately $17.9 million of deferred tax assets which consisted principally of excess tax-over-book basis in intangible assets and property, plant and equipment and certain accruals that were transferred from the limited liability company to the corporation. The Company also recognized a full valuation allowance since it has a cumulative loss position and no positive evidence of taxable income to support recovery of its deferred tax assets. The Company incurred transaction costs of approximately $8.1 million in connection with the IPO which were recorded as a reduction of equity. These costs are nondeductible until and if the Company liquidates or terminates, which is not expected in the foreseeable future. Therefore, the Company did not recognize a deferred tax asset for such costs.

The Company s estimated tax rate for 2015 is expected to be zero because the Company expects to generate additional losses and currently has a full valuation allowance. The deferred tax assets balance before valuation allowance as of June 30, 2015 was approximately $27.3 million. The increase in deferred tax assets after the corporate conversion is principally due to the year-to-date loss, adjusted for nondeductible items including stock compensation expense related to the Company s equity incentive plan, the nondeductible portion of the orphan drug costs, and the orphan drug credits. The valuation allowance is required until the Company has sufficient positive evidence of taxable income necessary to support realization of its deferred tax assets. A valuation allowance release is generally recognized in income tax expense (as a benefit). The Company did not have material uncertain tax positions as of June 30, 2015.

(g) Short-term Investments

The Company s short-term investments consist of federally insured certificates of deposit classified as available-for-sale and are valued at amortized cost, which approximates fair value.

(h) Research and Development Expense

Research and development costs are expensed as incurred. These expenses include the costs of the Company s proprietary research and development efforts, as well as costs incurred in connection with certain licensing arrangements. Upfront and milestone payments made to third parties in connection with research and development collaborations are expensed as incurred up to the point of regulatory approval. Payments made to third parties upon or subsequent to regulatory approval are capitalized and amortized over the remaining useful life of the related product. The Company also expenses the cost of purchased technology and equipment in the period of purchase if it believes that the technology or equipment has not demonstrated technological feasibility and it does not have an alternative future use. Nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities are deferred and are recognized as research and development expense as the related goods are delivered or the related services are performed.

(3) Liquidity

In the course of its development activities, the Company has sustained operating losses and expects such losses to continue over the next several years.

The Company had cash and cash equivalents of $48.5 million, restricted cash of $6.2 million, and short-term investments of $4.2 million as of June 30, 2015. The Company received net proceeds of $51.9 million in February 2015 as a result of the IPO, after deducting underwriting discounts and commissions of $4.2 million and offering costs of $3.9 million. The Company s cash and short-term investments will be used primarily to fund the first of two INOpulse for PAH Phase 3 trials, in which the Company expects to enroll the first patient by the end of 2015. The Company expects these funds will be sufficient to complete this Phase 3 trial and is working on a detailed restructuring plan to that end. The Company believes, as of June 30, 2015, it has sufficient funds to satisfy its operating cash needs for at least the next 12 months.

Table of Contents

The Company s ultimate success depends on the outcome of its research and development activities. Management recognizes the Company will need to raise additional capital through the potential issuance of additional equity or borrowings or entering into strategic alliances with partner companies to fund all necessary research and development activities to successfully commercialize its product candidates. However, if such financing is not available at adequate levels or strategic alliances with partner companies do not occur, the Company will need to reevaluate its plans.

The Company s estimates and assumptions may prove to be wrong, and the Company may exhaust its capital resources sooner than expected. The process of testing product candidates in clinical trials is costly, and the timing of progress in clinical trials is uncertain. Because the Company s product candidates are in clinical development and the outcome of these efforts is uncertain, the Company cannot estimate the actual amounts that will be necessary to successfully complete the development and commercialization, if approved, of its product candidates or whether, or when, the Company may achieve profitability.

The Company held short-term investments in federally insured certificates of deposit of $4.2 million with maturities of three months or less as of June 30, 2015.

(4) Property, Plant and Equipment

At the date of the Spin-Out, Ikaria transferred specifically identified assets to the Company at the carrying amount of the assets as of February 12, 2014. Prior to the date of the Spin-Out, property, plant and equipment and accumulated depreciation were either specifically identified or allocated to the Company by Ikaria. Property, plant and equipment as of June 30, 2015 and December 31, 2014 consisted of the following (in thousands):

	June 30, 2015	December 31, 2014
Machinery, equipment and furniture	$ 2,943	$ 2,943
Less accumulated depreciation	(1,430)	(1,247)
	$ 1,513	$ 1,696

(5) Income Taxes

The effective tax rate for each of the three and six months ended June 30, 2015 and 2014 was 0.0%. For the three and six months ended June 30, 2015, the effective rate was lower than the federal statutory rates primarily due to the losses incurred and the full valuation allowance on deferred tax assets. For the three and six months ended June 30, 2014, the effective rate was lower than the federal statutory rates because the Company was a limited liability company and a pass through entity for tax purposes.

As of June 30, 2015, there were no material uncertain tax positions. There are no tax positions for which a material change in any unrecognized tax benefit liability is reasonably possible in the next twelve months.

(6) Stock-Based Compensation

Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions, including the fair value of the Company s units (prior to the IPO date) and for options, the expected term of the option and expected volatility. The Company uses the Black-Scholes-Merton option pricing model to value its stock option awards. The assumptions used in calculating the fair value of stock-based awards represent management s best estimates and involve inherent uncertainties and the application of management s judgment. As a result, if factors change and management uses different assumptions, stock-based compensation expense could be materially different for future awards. The expected term of stock options is estimated using the simplified method, as the Company has no historical information to develop reasonable expectations about future exercise patterns and post- vesting employment termination behavior for its stock options grants. The simplified method is based on the average of the vesting tranches and the

Table of Contents

contractual life of each grant. For volatility, the Company uses comparable public companies as a basis for its expected volatility to calculate the fair value of option grants due to its limited history as a public company. The risk-free interest rate is based on U.S. Treasury notes with a term approximating the expected term of the option. The estimation of the number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from the Company s current estimates, such amounts will be recorded as an adjustment in the period in which estimates are revised.

Bellerophon 2015 and 2014 Equity Incentive Plans

During the six months ended June 30, 2015, the Company adopted the 2015 Equity Incentive Plan, or the 2015 Plan, which provides for the grant of options and other forms of equity compensation. As of June 30, 2015, the Company is authorized to issue options under the 2015 Plan in an amount up to an aggregate of 500,162 shares to eligible employees, directors and consultants.

Compensation expense is measured based on the fair value of the option on the grant date and is recognized on a straight-line basis over the requisite service period, or sooner if vesting occurs sooner than on a straight-line basis. Options are forfeited if the employee ceases to be employed by the Company prior to vesting.

During the year ended December 31, 2014, the Company adopted the 2014 Equity Incentive Plan, or the 2014 Plan, which provides for the grant of options. Following the effectiveness of the Company s registration statement filed in connection with its initial public offering, no options may be granted under the 2014 Plan. The awards granted under the 2014 Plan generally have a vesting period of four years, of which 25% of the awards vest on the second anniversary of grant date, 25% vest on the third anniversary and the remaining 50% vest on the fourth anniversary of the grant date.

The weighted average grant-date fair value of options issued during the six months ended June 30, 2015 and 2014 was $7.25 and $9.98, respectively. The following are the weighted average assumptions used in estimating the fair value of options issued during the six months ended June 30, 2015 and 2014.

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Valuation assumptions:		
Risk-free rate	1.56%	1.71%
Expected volatility	80.23%	90.29%
Expected term (years)	6.1	6.2
Dividend yield	0.00%	0.00%

A summary of option activity under the 2015 and 2014 Plans for the six months ended June 30, 2015 is presented below:

	Bellerophon 2015 and 2014 Equity Incentive Plans	
		Weighted Average

	Shares	Range of Exercise Price	Weighted Average Price	Remaining Contractual Life (in years)
Options outstanding as of December 31, 2014	508,280	$ 13.28	$ 13.28	9.5
Granted	325,007	7.78 - 12.00	10.24	
Exercised				
Forfeited	(27,614)	10.22 - 13.28	11.78	
Options outstanding as of June 30, 2015	805,673	$ 7.78 - 13.28	$ 12.10	9.2
Options vested and exercisable as of June 30, 2015	202,013	$ 10.22 - 13.28	$ 12.95	8.9

As of June 30, 2015, there was approximately $4.7 million of total unrecognized compensation expense related to non-vested stock options. This expense is expected to be recognized over a weighted-average period of 3.0 years.

No tax benefit was recognized during the six months ended June 30, 2015 related to stock-based compensation expense since the Company incurred operating losses and has established a full valuation allowance to offset all the potential tax benefits associated with its deferred tax assets.

Table of Contents

Ikaria Equity Incentive Plans prior to February 12, 2014

In February 2014, prior to the Spin-Out, each Ikaria stock option, other than options held by non-accredited investors who were also not employees of Ikaria, was adjusted such that it became an option to acquire the same number of shares of Ikaria non-voting common stock as were subject to the Ikaria stock option, or an Adjusted Ikaria Option, and an option to acquire the same number of non-voting limited liability company units of the Company as the number of shares of Ikaria non-voting common stock that were subject to the Ikaria stock option, or a Bellerophon Option. There were 618,212 Bellerophon Options issued as a result of the adjustment of Ikaria stock options. The vesting of each Adjusted Ikaria Option and Bellerophon Option was fully accelerated on the date of the Spin-Out and all related compensation expense was recognized as an expense by Ikaria.

Prior to and in connection with the Spin-Out, the exercise price of each Adjusted Ikaria Option and Bellerophon Option was adjusted by allocating the relative post Spin-Out estimated fair values of Ikaria and the Company in a ratio of 85% and 15%, respectively, to the original Ikaria option exercise price. The expiration date of the options was not modified. The Company s allocable portion of Ikaria s stock-based compensation expense related to options for the period from January 1, 2014 through February 11, 2014 was approximately $0.1 million.

A summary of option activity under the assumed Ikaria 2007 stock option plan and the assumed Ikaria 2010 long term incentive plan for the six months ended June 30, 2015 is presented below:

	Ikaria Equity Incentive Plans				
	Shares		Range of Exercise Price	Weighted Average Price	Weighted Average Remaining Contractual Life (in years)
Options outstanding as of December 31, 2014	577,975	$	0.26 - 17.92	$ 7.11	4.5
Granted					
Exercised	(6,513)		7.77	7.77	
Forfeited	(13,490)		8.27 - 15.66	10.19	
Options outstanding as of June 30, 2015	557,972	$	0.26 - 17.92	$ 7.03	3.0
Options vested and exercisable as of June 30, 2015	557,972	$	0.26 - 17.92	$ 7.03	3.0

The intrinsic value of options exercised during the six months ended June 30, 2015 was deminimis. The intrinsic value of options outstanding, vested and exercisable as of June 30, 2015 was $0.9 million.

Restricted Stock Units

In February 2014, prior to the Spin-Out, each Ikaria restricted stock unit, or RSU, was adjusted such that it became an RSU with respect to the same number of shares of Ikaria non-voting common stock as were subject to the Ikaria RSU, or an Adjusted Ikaria RSU, and an RSU with respect to the same number of non-voting limited liability company units of the Company as were subject to the Ikaria RSU, or a Bellerophon RSU. In connection with the Merger and the Spin-Out, the vesting of each Adjusted Ikaria RSU and Bellerophon RSU was fully accelerated. The compensation expense incurred upon the acceleration of the RSUs was recognized by Ikaria. Fully vested Bellerophon RSUs of 372,947 became Bellerophon non-voting units as of the date of the Spin-Out.

Ikaria had granted RSUs to employees that generally vested over a four-year period. RSUs granted prior to January 1, 2011 vested 25% annually. RSUs granted on and after January 1, 2011 vested 25% on the second and third anniversary of the date of grant and 50% on the fourth anniversary of the date of grant. Shares of Ikaria non-voting common stock were delivered to the employee upon vesting, subject to payment of applicable withholding taxes, which were paid in cash or an equivalent amount of shares withheld. Compensation expense for all RSUs was based on the grant date fair value of the RSU issued, which was based on the fair value of common stock of Ikaria. Compensation expense for RSUs was recognized by Ikaria on a straight-line basis over the requisite service period. The RSU expense allocated from Ikaria totaled $0.2 million for the period from January 1, 2014 through February 11, 2014.

Stock-Based Compensation Expense, Net of Estimated Forfeitures

The following table summarizes the stock-based compensation expense by the unaudited condensed consolidated statement of operations and comprehensive loss line item for the three and six months ended June 30, 2015 and 2014. For comparison purposes, the following disclosures include share-based compensation expenses recognized under the 2015 Plan and the 2014 Plan and expenses for dates prior to the Spin-Out that were allocated to the Company related to Ikaria share-based awards.

Table of Contents

(in thousands)	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Research and development	$ 77	$	$ 242	$ 272
General and administrative	286	764	565	764
Total expense	363	764	807	1,036
Tax benefit				
Expense, net of tax benefit	$ 363	$ 764	$ 807	$ 1,036

(7) Related-Party Transactions

Separation and Distribution Agreement

In connection with the Spin-Out, in February 2014, the Company and Ikaria entered into a separation and distribution agreement which sets forth provisions relating to the separation of the Company s business from Ikaria s other businesses. The separation and distribution agreement described the assets and liabilities that remained with or were transferred to the Company and those that remained with or were transferred to Ikaria. The separation and distribution agreement provides for a full and complete release and discharge of all liabilities between Ikaria and the Company, except as expressly set forth in the agreement. The Company and Ikaria each agreed to indemnify, defend and hold harmless the other party and its subsidiaries, and each of their respective past and present directors, officers and employees, and each of their respective permitted successors and assigns, from any and all damages relating to, arising out of or resulting from, among other things, the Company s business and certain additional specified liabilities or Ikaria s business and certain additional specified liabilities, as applicable.

License Agreement

In February 2014 the Company entered into a cross-license, technology transfer and regulatory matters agreement with a subsidiary of Ikaria. Pursuant to the terms of the license agreement, Ikaria granted to the Company a fully paid-up, non-royalty-bearing, exclusive license under specified intellectual property rights controlled by Ikaria to engage in the development, manufacture and commercialization of nitric oxide, devices to deliver nitric oxide and related services for or in connection with out-patient, chronic treatment of patients who have PAH, PH-COPD or idiopathic pulmonary fibrosis, or PH-IPF. Pursuant to the terms of the license agreement, the Company granted Ikaria a fully paid-up, non-royalty-bearing, exclusive license under specified intellectual property rights that the Company controls to engage in the development, manufacture and commercialization of products and services for or used in connection with the diagnosis, prevention or treatment, whether in- or out-patient, of certain conditions and diseases other than PAH, PH-COPD or PH-IPF and for the use of nitric oxide to treat or prevent conditions that are primarily managed in the hospital. The Company agreed that, during the term of the license agreement, it will not, without the prior written consent of Ikaria, grant a sublicense under any of the intellectual property licensed to the Company under the license agreement to any of its affiliates or any third party, in either case, that directly or indirectly competes with Ikaria s nitric oxide business.

On July 27, 2015, the Company entered into an amendment to the license agreement to expand the scope of the Company s license to allow the Company to develop its INOpulse program for the treatment of three additional indications: chronic thromboembolic pulmonary hypertension, or CTEPH, pulmonary hypertension associated with sarcoidosis and pulmonary hypertension associated with pulmonary edema from high altitude sickness. Subject to the terms set forth therein, the amendment to the license agreement also provides that the Company will pay Ikaria a royalty equal to 5% of net sales of any commercialized products for the three additional indications. See Note 12 *Subsequent Events*.

Agreements Not to Compete

In September 2013, October 2013 and February 2014, the Company and each of its subsidiaries entered into an agreement not to compete with a subsidiary of Ikaria, or, collectively, the agreements not to compete. Pursuant to the agreements not to compete, the Company and each of its subsidiaries agreed not to engage, anywhere in the world, in any manner, directly or indirectly, until the earlier of five years after the effective date of such agreement not to compete or the date on which Ikaria and all of its subsidiaries are no longer engaged in such business, in:

(1) the development, manufacture, commercialization, promotion, sale, import, export, servicing, repair, training, storage, distribution, transportation, licensing, or other handling or disposition of any product or service (including, without limitation, any product or service that utilizes, contains or includes nitric oxide for inhalation, a device intended to deliver nitric oxide or a service that delivers or supports the delivery of nitric oxide), bundled or unbundled, for or used in connection with (a) the diagnosis, prevention, or treatment, in both adult and/or pediatric populations, and whether in- or out-patient, of:

Table of Contents

(i) hypoxic respiratory failure associated with pulmonary hypertension, (ii) pulmonary hypertensive episodes and right heart failure associated with cardiovascular surgery, (iii) bronchopulmonary dysplasia, (iv) the management of ventilation perfusion mismatch in acute lung injury, (v) the management of ventilation perfusion mismatch in acute respiratory distress syndrome, (vi) the management of pulmonary hypertension episodes and right heart failure in congestive heart failure, (vii) pulmonary edema from high altitude sickness, (viii) the management of pulmonary hypertension episodes and right heart failure in pulmonary or cardiac surgery, (ix) the management of pulmonary hypertension episodes and right heart failure in organ transplant, (x) sickle cell vaso-occlusive crisis, (xi) hypoxia associated with pneumonia, or (xii) ischemia-reperfusion injury, or (b) the use of nitric oxide to treat or prevent conditions that are primarily managed in the hospital; or

(2) any and all development, manufacture, commercialization, promotion, sale, import, export, storage, distribution, transportation, licensing, or other handling or disposition of any terlipressin or any other product within the pressin family, (a) intended to treat (i) hepatorenal syndrome in any form (HRS), (ii) bleeding esophageal varices or (iii) septic shock, or (b) for or in connection with the management of low blood pressure.

On July 27, 2015, in connection with entering into the amendment to the license agreement, as discussed above, the Company and each of its subsidiaries entered into amendments to the agreements not to compete to extend the term of the non-compete periods until five years after the effective date of the amendments to the agreements not to compete. See Note 12 *Subsequent Events*.

Transition Services Agreement

In February 2014, the Company and Ikaria entered into the TSA, pursuant to which Ikaria agreed to use commercially reasonable efforts to provide certain transition services to the Company for an original twenty-four month term, which services include management/executive, human resources, real estate, information technology, accounting, financial planning and analysis, legal, quality and regulatory support. Ikaria also has agreed to use reasonable efforts to provide the Company with the use of office space at Ikaria s headquarters in Hampton, New Jersey pursuant to the terms of the TSA. In exchange for the services, beginning in February 2014, the Company is obligated to pay Ikaria monthly services fees in the amount of $772,000 plus out of pocket expenses and certain other expenses. At the time of the Spin-Out, the Company deposited the sum of $18.5 million, representing the aggregate of the $772,000 monthly service fees payable by the Company under the TSA, in escrow to guarantee payment of the monthly services fees by the Company. The escrowed cash is classified as restricted cash as of June 30, 2015. The Company recorded expenses of $2.3 million and $4.6 million for the three and six months periods ended June 30, 2015, respectively, in connection with the TSA. The Company recorded expenses of $2.3 million and $3.6 million for the three and six months periods ended June 30, 2014, respectively, in connection with the TSA. At June 30, 2015, the Company had accrued expenses due to Ikaria of $0.5 million in connection with the TSA.

On July 9, 2015, the Company entered into an amendment to the TSA advancing the termination date from February 9, 2016 to September 30, 2015. Pursuant to this amendment, within five business days after September 30, 2015, the Company will receive from escrow $3.3 million, which is equal to the amount it deposited to pay amounts owed to Ikaria under the TSA for the period from October 1, 2015 to February 9, 2016. See Note 12 *Subsequent Events*.

Effective as of January 1, 2015, the Company entered into a services agreement with Ikaria, or the 2015 Services Agreement, pursuant to which the Company has agreed to use commercially reasonable efforts to provide certain services to Ikaria, including services related to regulatory matters, drug and device safety, clinical operations, biometrics and scientific affairs. In connection with the execution of the 2015 Services Agreement, Ikaria paid the Company a one-time service fee in the amount of $916,666 and will be obligated to pay the Company a service fee in

the amount of $83,333 per month for an original term of 13 months, subject to performance of the services. During the three and six months ended June 30, 2015, the Company recorded $0.3 million and $1.4 million, respectively, of service fees related to the 2015 Services Agreement reflected in Other operating income on the accompanying unaudited condensed consolidated statement of operations and comprehensive loss. In addition, pursuant to the 2015 Services Agreement, Ikaria has agreed to use commercially reasonable efforts to provide services to the Company, including information technology and servicing and upgrades of devices, for which the Company will pay approximately $0.2 million, subject to termination of the 2015 Services Agreement. During the six months ended June 30, 2015, the Company recorded $0.1 million, respectively, of operating expenses related to the 2015 Services Agreement reflected in general and administrative expenses on the accompanying condensed consolidated statement of operations and comprehensive loss. The Company has a $0.2 million receivable due from Ikaria in connection with this agreement as of June 30, 2015.

On July 9, 2015, the Company entered into an amendment to the 2015 Services Agreement advancing the termination date from February 8, 2016 to September 30, 2015. See Note 12 *Subsequent Events*.

Supply Agreements

In February 2014, the Company entered into drug supply and device supply agreements with a subsidiary of Ikaria. Under these agreements, Ikaria has agreed to use commercially reasonable efforts to supply inhaled nitric oxide and nitric oxide delivery devices for

Table of Contents

use in the Company s clinical trials, in each case at Ikaria s manufacturing cost plus a 20% mark-up, and in the case of the drug supply agreement, the Company has agreed to purchase its clinical supply of inhaled nitric oxide from Ikaria. The Company also granted Ikaria a right of first negotiation in the event that the Company desires to enter into a commercial supply agreement with a third party for supply of nitric oxide for inhalation. As of June 30, 2015, the amount due to Ikaria under the drug supply agreement was approximately $0.7 million. The device supply agreement expired on February 9, 2015 and no amounts were due to Ikaria under that agreement as of December 31, 2014 or June 30, 2015.

(8) Segments and Geographic Information

The Company operates in one reportable segment and solely within the United States. Accordingly, no segment or geographic information has been presented.

(9) Commitments and Contingencies

Legal Proceedings

The Company periodically becomes subject to legal proceedings and claims arising in connection with its business. The ultimate legal and financial liability of the Company in respect to all proceedings, claims and lawsuits, pending or threatened, cannot be estimated with any certainty.

BioLineRx Ltd., or BioLine, previously indicated to the Company that it believed that the Company had breached the license agreement in several ways, including, but not limited to, failure to use commercially reasonable efforts to develop BCM, failure to provide BioLine with material information concerning the development and commercialization plans for BCM and failure to notify BioLine in advance of material public disclosures regarding BCM. The Company and BioLine also previously disagreed about the timing of a certain milestone payment that the Company would owe BioLine based upon progress in the Company s BCM clinical development program. The Company believed it had complied with its obligations under the license agreement to use commercially reasonable efforts to develop BCM and was not in breach of its other obligations under the license agreement. No amounts were previously accrued for this matter since no loss was probable as of December 31, 2014. On January 8, 2015, the Company and BioLine agreed to amend the license agreement, which resolved the prior disputes and provided for a release of claims by BioLine. The amendment also changed certain milestones and related payments, but the total potential milestone payments to be paid to BioLine under the license agreement remained the same. No additional milestones have been met as of June 30, 2015.

As of this report, there is no proceeding, claim or litigation, pending or threatened, that could, individually or in the aggregate, have a material adverse effect on the Company s business, operating results, financial condition and/or liquidity.

(10) Net Loss Per Share/Unit

Basic net loss per share/unit is calculated by dividing net loss by the weighted average number of shares or units outstanding during the period, as applicable. Diluted net loss per share/unit is calculated by dividing net loss by the weighted average number of shares/units outstanding, adjusted to reflect potentially dilutive securities (options) using the treasury stock method, except when the effect would be anti-dilutive.

The weighted average shares outstanding for basic and diluted net loss per share for the three and six months ended June 30, 2015 were 12,910,975 and 11,554,593, respectively. The weighted average units outstanding for basic and diluted net loss per unit for the three and six months ended June 30, 2014 were 7,898,301 and 7,898,640, respectively.

The Company reported a net loss for the three and six months ended June 30, 2015 and 2014, therefore diluted net loss per share/unit is the same as the basic net loss per share/unit.

As of June 30, 2015, the Company had 1,363,645 options to purchase shares outstanding that have been excluded from the computation of diluted weighted average shares/units outstanding, because such securities had an antidilutive impact due to the loss reported.

(11) Fair Value Measurements

Assets and liabilities recorded at fair value on the balance sheets are categorized based upon the level of judgment associated with the inputs used to measure the fair value. Level inputs are as follows:

Table of Contents

- Level 1 Values are based on unadjusted quoted prices for identical assets or liabilities in an active market which the company has the ability to access at the measurement date.

- Level 2 Values are based on quoted market prices in markets where trading occurs infrequently or whose values are based on quoted prices of instruments with similar attributes in active markets.

- Level 3 Values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset.

The following table summarizes fair value measurements by level at June 30, 2015 for assets and liabilities measured at fair value on a recurring basis:

(Dollar amounts in thousands)	Level I	Level 2	Level 3	Total
Short-term investments	$	4,165	$	4,165

There were no short-term investments at December 31, 2014.

(12) Subsequent Events

On July 9, 2015, the Company entered into an amendment to the TSA advancing the termination date from February 9, 2016 to September 30, 2015. Pursuant to this amendment, within five business days after September 30, 2015, the Company will receive from escrow $3.3 million, which is equal to the amount it deposited to pay amounts owed to Ikaria under the TSA for the period from October 1, 2015 to February 9, 2016.

On July 9, 2015, the Company entered into an amendment to the 2015 Services Agreement advancing the termination date from February 8, 2016 to September 30, 2015.

On July 27, 2015, the Company entered into an amendment to the license agreement to expand the scope of the Company s license to allow the Company to develop its INOpulse program for the treatment of three additional indications: chronic thromboembolic pulmonary hypertension, or CTEPH, pulmonary hypertension associated with sarcoidosis and pulmonary hypertension associated with pulmonary edema from high altitude sickness. Subject to the terms set forth therein, the amendment to the license agreement also provides that the Company will pay Ikaria a royalty equal to 5% of net sales of any commercialized products for the three additional indications.

On July 27, 2015, in connection with entering into the amendment to the license agreement, as discussed above, the Company and each of its subsidiaries entered into amendments to the agreements not to compete to extend the term of the non-compete periods until five years after the effective date of the amendments to the agreements not to compete.

On August 6, 2015, the Company entered into a lease agreement for office space in Warren, New Jersey.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our condensed consolidated financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the Risk Factors section in Part II Item 1A. of this Quarterly Report on Form 10-Q and in Part I Item1A of our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

Business

We are a clinical-stage therapeutics company focused on developing innovative products at the intersection of drugs and devices that address significant unmet medical needs in the treatment of cardiopulmonary and cardiac diseases. We have two programs in advanced clinical development.

The first program, INOpulse, is based on our proprietary pulsatile nitric oxide delivery device. We are currently developing two product candidates under our INOpulse program: one for the treatment of pulmonary arterial hypertension, or PAH, and the other for the treatment of pulmonary hypertension associated with chronic obstructive pulmonary disease, or PH-COPD.

We completed a randomized, placebo-controlled, double-blind Phase 2 clinical trial of INOpulse for PAH in October 2014. The goal of the trial was to determine the safety, tolerability and efficacy of two different doses of INOpulse for PAH. We believe the results of this trial provide sufficient indication of clinical benefit and safety to continue development of INOpulse for PAH in pivotal Phase 3 clinical trials. We had an End of Phase 2 meeting with the U.S. Food and Drug Administration, or FDA, in January 2015 and a pre-submission meeting with the European Medicines Agency, or EMA, in April 2015 to discuss Phase 3 development plans. Following these meetings, we submitted a Special Protocol Assessment package, or SPA, to the FDA and a Scientific Advice Working Party, or SAWP, to the EMA. During June 2015, the EMA confirmed their formal acceptance to our Phase 3 program and we are in final discussions with the FDA on the SPA. Based on both the FDA s and the EMA s general agreements on the Phase 3 development plans, we are moving forward with Phase 3 development and plan to conduct two adequate and well-controlled confirmatory Phase 3 clinical trials, either sequentially or in parallel.

We completed a randomized, placebo-controlled, double-blind, dose-confirmation Phase 2 clinical trial of INOpulse for PH-COPD in July 2014. We have received results from this trial, and we are currently evaluating our trial design for a Phase 2b clinical trial and plan to finalize our protocol following discussions with regulatory authorities in the United States and the European Union. We plan to build on the work we have done with FluidDA, Inc. over the past few months. In these studies we further validated the mechanism of action of nitric oxide therapy using INOpulse demonstrating that there was increased blood volume in the vessels and the lung by administering nitric oxide.

We are exploring the application of the INOpulse therapy to treat pulmonary hypertension associated with pulmonary fibrosis based on feedback from the medical community and the large unmet medical need for this condition. In addition, on July 27, we entered into an amendment to the license agreement with Ikaria to expand the scope of our license to allow us to develop our INOpulse program for the treatment of three additional indications: chronic thromboembolic pulmonary hypertension, or CTEPH, pulmonary hypertension associated with sarcoidosis and pulmonary hypertension associated with pulmonary edema from high altitude sickness.

We plan to present detailed results from the Preservation 1 trial for our Bioabsorbable Cardiac Matrix (BCM) program, for which top line results were announced on July 27, 2015, at the European Society of Cardiology meeting in London on September 1, 2015. We do not intend to proceed with further clinical development of BCM until and unless we can determine an alternative path forward. This may involve a different patient group or a combination treatment with cell therapies.

We have devoted all of our resources to our therapeutic discovery and development efforts, including conducting clinical trials for our product candidates, protecting our intellectual property and the general and administrative support of these operations. We have devoted significant time and resources to developing and optimizing our drug delivery system, INOpulse, which operates through the administration of nitric oxide as brief, controlled pulses that are timed to occur at the beginning of a breath. In addition, we have incurred significant costs to scale up manufacturing of BCM to support our clinical trials.

To date, we have generated no revenue from product sales. We expect that it will be several years before we commercialize a product candidate, if ever.

Separation and Spin-Out from Ikaria

Prior to February 2014, we were a wholly-owned subsidiary of Ikaria, Inc. (a subsidiary of Mallinckrodt plc), or Ikaria. As part of an internal reorganization of Ikaria in October 2013, Ikaria transferred to us exclusive worldwide rights, with no royalty obligations, to develop and commercialize pulsed nitric oxide in PAH, PH-COPD and pulmonary hypertension associated with idiopathic pulmonary fibrosis, or PH-IPF. Following the internal reorganization, in February 2014, Ikaria distributed all of our then outstanding units to its stockholders through the payment of a special dividend on a pro rata basis based on each stockholder s ownership of Ikaria capital stock,

Table of Contents

which we refer to as the Spin-Out, and as a result we became a stand-alone company.

Our inception date is August 26, 2009, which is the date that BCM was licensed to us by BioLineRx Ltd. and BioLine Innovations Jerusalem L.P., which we refer to collectively as BioLine. Our operations since that date have included organization and staffing, business planning, in-licensing technology, developing product candidates in clinical programs, evaluating potential future product candidates, as well as undertaking pre-clinical studies and clinical trials of our product candidates.

In February 2014, we entered into a transition services agreement with Ikaria, which we refer to as the TSA. Pursuant to the terms and conditions of the TSA, Ikaria has agreed to use commercially reasonable efforts to provide certain services to us until February 2016, subject to the terms of the TSA. In exchange for the services provided by Ikaria pursuant to the TSA, we pay to Ikaria a service fee in the amount of $772,000 per month and reimburse Ikaria for any out of pocket expenses, any taxes imposed on Ikaria in connection with the provision of services under the TSA and Ikaria s costs and expenses incurred in connection with the performance of any extraordinary services. On July 9, 2015, we entered into an amendment to the TSA advancing the termination date from February 9, 2016 to September 30, 2015.

Under our services agreement with Ikaria, or the 2015 Services Agreement, which became effective on January 1, 2015 and expires in February 2016, Ikaria provides to us certain information technology and device servicing services. In exchange for the services provided by Ikaria pursuant to the 2015 Services Agreement, we will pay to Ikaria fees that total, in the aggregate, approximately $0.2 million, subject to the termination of the 2015 Services Agreement. On July 9, 2015, we entered into an amendment to the 2015 Services Agreement advancing the termination date from February 8, 2016 to September 30, 2015.

We are in the process of developing and implementing plans to replace services currently provided to us by Ikaria under the TSA and the 2015 Services Agreement. These services include, among others, accounting and financial management support, human resources support, drug and device safety services, biometrics support, information technology services and manufacturing and device servicing support. We expect the costs related to replacing the services currently provided by Ikaria under the TSA, in the aggregate, will be less than the $772,000 per month that we are currently paying under the TSA, and we expect the costs related to replacing the services currently provided by Ikaria under the 2015 Services Agreement will be approximately the same as the amounts we are paying under the 2015 Services Agreement. However, although we believe our estimates are reasonable based on the information we have to date, certain estimates are preliminary and subject to change.

Accounting for the Separation and Spin-Out

Our historical financial statements for periods prior to February 12, 2014, the date of the Spin-Out, discussed in this Management s Discussion and Analysis of Financial Condition and Results of Operations were derived from the audited historical financial statements and accounting records of Ikaria and include allocations for direct costs and indirect costs attributable to the research and development segment of Ikaria. In particular, for the period January 1, 2014 to February 11, 2014, our financial statements include expense allocations for (1) certain corporate functions historically provided by Ikaria, including finance, audit, legal, information technology and human resources services, (2) research and development expenses and (3) stock-based compensation. These allocations are based on either specific identification or allocation methods such as time and wage studies, headcount or other measures determined by us. Management believes that the statement of operations and comprehensive loss for the period of time prior to the Spin-Out includes a reasonable allocation of costs and expenses incurred by Ikaria from which we benefited. See Notes 1 and 2 to our unaudited condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q.

Due to this presentation, the financial information for the six months ended June 30, 2014 included in this Quarterly Report on Form 10-Q does not reflect what our financial position, results of operations and cash flows will be in the future or what our financial position, results of operations and cash flows would have been in the past had we been a public, stand-alone company throughout the periods presented.

Financial Position and Outlook

Since inception, we have never been profitable and have incurred significant operating losses. Our net losses were $11.6 million and $24.5 million for the three and six months periods ended June 30, 2015, respectively, compared to $16.9 million and $31.4 million for the three and six months periods ended June 30, 2014, respectively. As of June 30, 2015, our sources of funding were the net proceeds from our initial public offering as well as investments in us by our former parent company, Ikaria.

On February 19, 2015, we completed the sale of 5,000,000 shares of common stock at a price to the public of $12.00 per share, resulting in net proceeds to us of $51.9 million after deducting underwriting discounts and commissions of $4.2 million and offering costs of $3.9 million.

We expect to continue to incur significant expenses and operating losses for the foreseeable future as we continue the

Table of Contents

development and clinical trials of, and seek regulatory approval for, our product candidates. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses. We do not currently have the infrastructure for the sale, marketing, manufacture and distribution of any products. To develop a commercial infrastructure, we will have to invest financial and management resources, some of which would have to be deployed prior to having any certainty of marketing approval.

We have entered into license agreements with Ikaria and BioLine pursuant to which we obtained rights to our product candidates. In the future, we may enter into additional licensing agreements for new product candidates or strategic or co-promotion agreements with partners for the development and/or commercialization of product candidates in the United States or other countries.

We are currently incurring and expect to continue to incur additional costs associated with operating as a public company. Unless and until we generate sufficient revenue to be profitable, we will seek to fund our operations primarily through public or private equity or debt financings or other means, which may include strategic partnerships with third parties in the United States or other countries with respect to certain or all of our programs. Other additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed could have a material adverse effect on our business, results of operations, financial condition, cash flows and future prospects.

Financial Operations Overview

Revenue

To date, we have not generated any revenue from product sales and may not generate any revenue from product sales for the next several years, if ever. In the future, we may generate revenue from a combination of product sales, license fees and milestone payments in connection with strategic partnerships, and royalties from the sale of products developed under licenses of our intellectual property. Our ability to generate revenue and become profitable depends primarily on our ability to successfully develop and commercialize or partner our product candidates as well as any product candidates we may advance in the future. We expect that any revenue we may generate will fluctuate from quarter to quarter as a result of the timing and amount of any payments we may receive under future partnerships, if any, and from sales of any products we successfully develop and commercialize. If we fail to complete the development of any of our product candidates currently in clinical development or any future product candidates in a timely manner, or to obtain regulatory approval for such product candidates, our ability to generate future revenue, and our business, results of operations, financial condition and cash flows and future prospects would be materially adversely affected.

Research and Development Expenses

Research and development expenses consist of costs incurred in connection with the development of our product candidates, including upfront and development milestone payments, related to in-licensed product candidates and technologies.

In order to fairly present our historical information for periods prior to the Spin-Out, certain departmental expenses from Ikaria have been allocated to us. The allocations were applied to us for the purpose of presenting our company as a stand-alone entity. Direct and indirect costs for

periods prior to the Spin-Out related to the INOpulse and BCM clinical programs have been allocated to us. All allocations were based on actual costs incurred. For purposes of allocating non-project specific expenses, each Ikaria department head provided information as to the percentage of employee time incurred on our behalf.

Research and development expenses primarily consist of:

- employee-related expenses, including salary, benefits and stock-based compensation expense;

- expenses incurred under agreements with contract research organizations, investigative sites that conduct our clinical trials and consultants that conduct a portion of our pre-clinical studies;

- expenses relating to vendors in connection with research and development activities;

- the cost of acquiring and manufacturing clinical trial materials;

- facilities, depreciation of fixed assets and allocated expenses;

- lab supplies, reagents, active pharmaceutical ingredients and other direct and indirect costs in support of our pre-clinical and clinical activities;

- device development and drug manufacturing engineering;

Table of Contents

- license fees related to in-licensed products and technology; and

- costs associated with non-clinical activities and regulatory approvals.

We expense research and development costs as incurred.

Conducting a significant amount of research and development is central to our business model. Product candidates in late stages of clinical development generally have higher development costs than those in earlier stages of clinical development primarily due to the increased size and duration of late-stage clinical trials. We plan to increase our research and development expenses for ongoing clinical programs for the foreseeable future as we seek to continue multiple clinical trials for our product candidates, including to potentially advance INOpulse for PH-IPF, and seek to identify additional early-stage product candidates.

We track external research and development expenses and personnel expenses on a program-by-program basis. We use our employee and infrastructure resources, including regulatory affairs, quality, biometrics support and program management, across our two clinical development programs and have included these expenses in research and development infrastructure. Research and development laboratory and depreciation expenses are also not allocated to a specific program and are included in research and development infrastructure. Engineering activities related to INOpulse and the manufacture of cylinders related to INOpulse are included in INOpulse engineering.

INOpulse for PAH

We completed a randomized, placebo-controlled, double-blind Phase 2 clinical trial of INOpulse for PAH in October 2014. The goal of the trial was to determine the safety, tolerability and efficacy of two different doses of INOpulse for PAH. We believe the results of this trial provide sufficient indication of clinical benefit and safety to continue development of INOpulse for PAH in pivotal Phase 3 clinical trials.

We had an End of Phase 2 meeting with the FDA in January 2015 and a pre-submission meeting with the EMA in April 2015 to discuss Phase 3 development plans. Following these meetings, we submitted a SPA to the FDA and a SAWP to the EMA. In June 2015, the EMA confirmed their formal acceptance to our Phase 3 program and we are in final discussions with the FDA on the SPA. Based on both the FDA s and the EMA s general agreements on the Phase 3 development plans, we are moving forward with Phase 3 development and plan to conduct two adequate and well-controlled confirmatory Phase 3 clinical trials, either sequentially or in parallel.

INOpulse for PH-COPD

We completed a randomized, placebo-controlled, double-blind, dose-confirmation Phase 2 clinical trial of INOpulse for PH-COPD in July 2014. We have received results from this trial, and we are currently evaluating our trial design for a Phase 2b clinical trial and plan to finalize our protocol following discussions with regulatory authorities in the United States and the European Union.

BCM

We initiated a clinical trial of BCM, which we refer to as our PRESERVATION I trial, in December 2011 and enrolled the first patient in April 2012. We completed enrollment of this trial in December 2014, with 303 patients having completed the treatment procedure at almost 90 clinical sites in Europe, Australia, North America and Israel. Top-line results from the randomized, double-blind, placebo-controlled clinical trial were announced in July 2015. From a safety perspective we observed no significant difference in adverse events rates between patients in the BCM and placebo treatment groups. However, the data showed no statistically significant treatment differences between patients treated with BCM and patients treated with placebo for both the primary and secondary endpoints in the trial. We are continuing to investigate the full data set from this trial and plan to present detailed results from the trial on September 1, 2015 at the European Society of Cardiology meeting in London. In parallel, we are exploring possible alternative paths forward in terms of volume delivered, timing of delivery, patient groups and combination treatment opportunities with cell therapies.

Research and Development Infrastructure

We invest in regulatory, quality, pharmacovigilance and program management activities, which are expensed as incurred. These activities primarily support our INOpulse and BCM clinical development programs.

INOpulse Engineering

We have invested a significant amount of funds in INOpulse, which is configured to be highly portable and compatible with available modes of long-term oxygen therapy via nasal cannula delivery. Our Phase 2 clinical trials of INOpulse for PAH and INOpulse for PH-COPD utilized the first generation INOpulse DS device. We are near completion of a second generation INOpulse Mark2 device, which we refer to as the Mark2, as well as a custom triple-lumen cannula, each of which we believe will significantly improve several characteristics of our INOpulse delivery system but will require verification

Table of Contents

and validation. We have also invested in design and engineering technology, through Ikaria, for the manufacture of our drug cartridges. In February 2015, we entered into an agreement with Flextronics Medical Sales and Marketing Ltd., a subsidiary of Flextronics International Ltd., or Flextronics, to manufacture and service the Mark2 devices that we expect to use in future clinical trials of INOpulse for PAH and INOpulse for PH-COPD.

It is difficult to determine with certainty the duration and completion costs of our current or any future pre-clinical programs and any of our current or future clinical trials for our INOpulse and BCM programs and any future product candidates we may advance, or if, when or to what extent we will generate revenue from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including the uncertainties of any future clinical trials and pre-clinical studies, uncertainties in clinical trial enrollment rate and significant and changing government regulation. In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing capability and commercial viability. A change in the outcome of any of these variables with respect to the development of a product candidate could change significantly the costs and timing associated with the development of that product candidate. For example, if the FDA or other regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time with respect to the development of that product candidate. We will determine which programs to pursue and how much to fund each program in response to the scientific and clinical success of each product candidate, as well as an assessment of each product candidate s commercial potential, including the likelihood of regulatory approval on a timely basis.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and costs related to executive, finance, business development, marketing, legal and human resources functions, either through direct expenses or the TSA. Other general and administrative expenses include patent filing, patent prosecution, professional fees for legal, insurance, consulting, information technology and auditing and tax services not otherwise included in research and development expenses.

We believe that the following factors, among others, will affect the amount of our general and administrative expenses in the future:

- we expect to incur reduced general and administrative expenses payable to Ikaria upon the expiration of the TSA and the 2015 Services Agreement, in each case in September 2015; and

- we expect to incur additional general and administrative expenses to support ourselves as a stand-alone company, such as accounting, human resources and certain information technology services as well as director compensation and director and officer insurance premiums associated with being a public company.

Results of Operations

Comparison of Three Months Ended June 30, 2015 and 2014

The following table summarizes our results of operations for the three months ended June 30, 2015 and 2014.

Table of Contents

(Dollar amounts in thousands)	Three Months Ended June 30, 2015	2014
Research and development expenses:		
BCM	$ 3,834	$ 3,630
PAH	509	2,989
PH-COPD	(95)	1,379
Clinical programs	4,248	7,998
Research and development infrastructure	2,638	2,982
INOpulse engineering	1,540	1,789
Total research and development expenses	8,426	12,769
General and administrative expenses	3,435	4,194
Total operating expenses	11,861	16,963
Other operating income	(251)	
Loss from operations	(11,610)	(16,963)
Interest income	(27)	(48)
Net loss and comprehensive loss	$ (11,583)	$ (16,915)

Total Operating Expenses. Total operating expenses for the three months ended June 30, 2015 were $11.9 million compared to $17.0 million for the three months ended June 30, 2014, a decrease of $5.1 million, or 30%. This decrease was primarily due to reductions in research and development expenses pertaining to our development of INOpulse for PAH and INOpulse for PH-COPD and to general and administrative expenses.

Research and Development Expenses. Total research and development expenses for the three months ended June 30, 2015 were $8.4 million compared to $12.8 million for the three months ended June 30, 2014, a decrease of $4.4 million, or 34%. Total research and development expenses consisted of the following:

- BCM research and development expenses for the three months ended June 30, 2015 were $3.8 million compared to $3.6 million for the three months ended June 30, 2014, an increase of $0.2 million, or 6%.

- PAH research and development expenses for the three months ended June 30, 2015 were $0.5 million compared to $3.0 million for the three months ended June 30, 2014, a decrease of $2.5 million, or 83%. The decrease was primarily driven by the completion of the Phase 2 clinical trial in late-2014 and a reversal of an accrual in the three months ended June 30, 2015.

- PH-COPD research and development expenses for the three months ended June 30, 2015 were $(0.1) million compared to $1.4 million for the three months ended June 30, 2014, a decrease of $1.5 million, or 107%. The decrease primarily resulted from the completion of the Phase 2a clinical trial in mid-2014.

- Research and development infrastructure expenses for the three months ended June 30, 2015 were $2.6 million compared to $3.0 million for the three months ended June 30, 2014, a decrease of $0.4 million, or 12%. The decrease was primarily the result of reductions in infrastructure spending such as medical writing and regulatory affairs to support our INOpulse and BCM clinical programs.

- INOpulse engineering expenses for the three months ended June 30, 2015 were $1.5 million compared to $1.8 million for the three months ended June 30, 2014, a decrease of $0.3 million, or 14%. The decrease was primarily the result of a slowdown in spending as we near completion of the Mark2, which we expect to use during the Phase 3 clinical trial of INOpulse for PAH in the second half of 2015.

General and Administrative Expenses. General and administrative expenses for the three months ended June 30, 2015 were $3.4 million compared to $4.2 million for the three months ended June 30, 2014, a decrease of $0.8 million, or 18%. The decrease was primarily due to a decrease in stock based compensation and professional service fees.

Other Operating Income. Other operating income for the three months ended June 30, 2015 was $0.3 million, and we had no operating income for the three months ended June 30, 2014**.** The increase resulted from payments received from Ikaria in connection with the 2015 Services Agreement.

Table of Contents

Comparison of Six Months Ended June 30, 2015 and 2014

The following table summarizes our results of operations for the six months ended June 30, 2015 and 2014.

(Dollar amounts in thousands)	Six Months Ended June 30, 2015	2014
Research and development expenses:		
BCM	$ 6,668	$ 6,267
PAH	3,439	5,255
PH-COPD	(65)	3,484
Clinical programs	10,042	15,006
Research and development infrastructure	5,145	6,903
INOpulse engineering	2,759	2,900
Total research and development expenses	17,946	24,809
General and administrative expenses	8,008	6,664
Total operating expenses	25,954	31,473
Other operating income	(1,417)	
Loss from operations	(24,537)	(31,473)
Interest income	(46)	(48)
Net loss and comprehensive loss	$ (24,491)	$ (31,425)

Total Operating Expenses. Total operating expenses for the six months ended June 30, 2015 were $26.0 million compared to $31.5 million for the six months ended June 30, 2014, a decrease of $5.5 million, or 18%. This decrease was primarily due to reductions in research and development expenses pertaining to our development of INOpulse for PH-COPD and INOpulse for PAH and to research and development infrastructure expenses, partially offset by increases in general and administrative expenses.

Research and Development Expenses. Total research and development expenses for the six months ended June 30, 2015 were $17.9 million compared to $24.8 million for the six months ended June 30, 2014, a decrease of $6.9 million, or 28%. Total research and development expenses consisted of the following:

- BCM research and development expenses for the six months ended June 30, 2015 were $6.7 million compared to $6.3 million for the six months ended June 30, 2014, an increase of $0.4 million, or 6%.

- PAH research and development expenses for the six months ended June 30, 2015 were $3.4 million compared to $5.3 million for the six months ended June 30, 2014, a decrease of $1.9 million, or 35%. The decrease was primarily due to the completion of the Phase 2 clinical trial in late-2014 and a reversal of an accrual in the six months ended June 30, 2015 partially offset by increased costs in anticipation of the start of the Phase 3 clinical trials, which we expect to commence in the second half of 2015.

- PH-COPD research and development expenses for the six months ended June 30, 2015 were $(0.1) million compared to $3.5 million for the six months ended June 30, 2014, a decrease of $3.6 million, or 102%. The decrease primarily resulted from the completion of the Phase 2a clinical trial in mid-2014.

- Research and development infrastructure expenses for the six months ended June 30, 2015 were $5.1 million compared to $6.9 million for the six months ended June 30, 2014, a decrease of $1.8 million, or 25%. The decrease was primarily the result of reductions in infrastructure spending such as clinical operations and regulatory affairs to support our INOpulse and BCM clinical programs.

- INOpulse engineering expenses for the six months ended June 30, 2015 were $2.8 million compared to $2.9 million for the six months ended June 30, 2014, a decrease of $0.1 million, or 5%.

General and Administrative Expenses. General and administrative expenses for the six months ended June 30, 2015 were $8.0 million compared to $6.7 million for the six months ended June 30, 2014, an increase of $1.3 million, or 20%. The increase was primarily due to additional costs of operating as a stand-alone public company, including expenses related to transition services from Ikaria, and from certain one-time items, including costs associated with the resolution of a dispute with BioLineRx Ltd. related to our license to BCM.

Other Operating Income. Other operating income for the six months ended June 30, 2015 was $1.4 million, and we had no operating income for the six months ended June 30, 2014**.** The increase resulted from payments received from Ikaria in connection with entering into the 2015 Services Agreement.

Table of Contents

Liquidity and Capital Resources

Since our inception, we have incurred net losses and negative cash flows from our operations. We incurred net losses of $24.5 million and $31.4 million for the six months ended June 30, 2015 and 2014, respectively. Our operating activities used $18.0 million and $43.4 million of cash during the six months ended June 30, 2015 and 2014, respectively. In addition, we had cash and cash equivalents of $48.5 million, restricted cash of $6.2 million, and short-term investments of $4.2 million as of June 30, 2015.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2015 and 2014:

	Six months ended June 30,	
(Dollar amounts in thousands)	**2015**	**2014**
Operating activities	$ (18,020)	$ (43,388)
Investing activities	(4,165)	
Financing activities	53,879	88,084
Increase in cash and cash equivalents	$ 31,694	$ 44,696

Net Cash Used in Operating Activities

Cash used in operating activities for the six months ended June 30, 2015 was $18.0 million compared to $43.4 million for the six months ended June 30, 2014, a decrease of $25.4 million, or 58%. The decrease in cash used in operating activities was primarily due to reduced research and development expenses and the recognition in the six months ended June 30, 2014 of the $18.5 million escrow payment due to Ikaria.

Net Cash Used in Investing Activities

Cash used in investing activities for the six months ended June 30, 2015 was $4.2 million for the purchase of short-term investments. There were no cash flows from investing activities for the six months ended June 30, 2014.

Net Cash Provided by Financing Activities

Cash provided by financing activities for the six months ended June 30, 2015 was $53.9 million compared to $88.1 million for the six months ended June 30, 2014, a decrease of $34.2 million, or 39%. The decrease resulted from the difference between the $53.8 million net proceeds from our initial public offering in the six months ended June 30, 2015, after deducting underwriting discounts and commissions of $4.2 million and offering costs of $2.0 million paid in the six months ended June 30 2015, compared to the $89.3 million net investment by Ikaria, primarily due to a cash contribution of $80.0 million from Ikaria in the six months ended June 30, 2014 in connection with the Spin-Out.

Plan of Operations and Future Funding Requirements

Our primary uses of capital are, and we expect will continue to be, compensation and related expenses, third-party clinical research and development services, contract manufacturing services, laboratory and related supplies, clinical costs, legal and other regulatory expenses and general overhead costs.

Our existing cash and cash equivalents and restricted cash as of June 30, 2015, which includes the proceeds of our initial public offering completed in February 2015, will be used primarily to fund the first of two INOpulse for PAH Phase 3 trials, in which we expect to enroll the first patient by the end of 2015. We expect these funds will be sufficient to complete this Phase 3 trial and are working on a detailed restructuring plan to that end which we intend to finalize in the next few weeks. We believe, as of June 30, 2015, we have sufficient funds to satisfy our operating cash needs for at least the next 12 months. We have based these estimates on assumptions that may prove to be wrong, and we may exhaust our capital resources sooner than we expect. In addition, the process of testing product candidates in clinical trials is costly, and the timing of progress in clinical trials is uncertain. Because our product candidates are in clinical development and the outcome of these efforts is uncertain, we cannot estimate the actual amounts that will be necessary to successfully complete the development and commercialization of our product candidates or whether, or when, we may achieve profitability. Our future capital requirements will depend on many factors, including:

- the timing, progress and results of our ongoing and planned clinical trials of INOpulse for PAH and INOpulse for PH-COPD;

Table of Contents

- our ability to manufacture sufficient supply of our product candidates and the costs thereof;

- discussions with regulatory agencies regarding the design and conduct of our clinical trials and the costs, timing and outcome of regulatory review of our product candidates;

- the costs and timing of future commercialization activities, including product manufacturing, marketing, sales and distribution for any of our product candidates for which we receive marketing approval;

- the number and development requirements of any other product candidates we pursue;

- our ability to enter into collaborative agreements and achieve milestones under those agreements;

- the revenue, if any, received from commercial sales of our product candidates for which we receive marketing approval;

- the costs and timing of preparing, filing and prosecuting patent applications, maintaining and enforcing our intellectual property rights and defending any intellectual property-related claims;

- our expenses as a stand-alone company; and

- the extent to which we acquire or in-license other products and technologies.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity and debt offerings, existing working capital and funding from potential future collaboration arrangements. To the extent that we raise additional capital through the future sale of equity or debt, the ownership interest of our existing stockholders will be diluted, and the terms of such securities may include liquidation or other preferences that adversely affect the rights of our existing stockholders. If we raise additional funds through strategic partnerships in the future, we may have to relinquish valuable rights to our technologies, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations and Commitments

The following is a summary of our long-term contractual cash obligations as of June 30, 2015 (in thousands), including the addition of the Flextronics agreement and the advancement of the TSA and 2015 Services Agreement termination dates, which are the only material changes, outside the ordinary course of business, in our outstanding contractual obligations from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014:

	Payment due by period				
	Total	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years
Operating lease obligations (1)	$ 81	$ 81	$	$	$
Transition Service Agreement (2)	2,834	2,834			
2015 Services Agreement (3)	40	40			
Flextronics Agreement (4)	1,351	1,351			
Total	$ 4,306	$ 4,306	$	$	$

(1) The amounts in the table do not include our rent obligation for office space in Warren, New Jersey under a lease we signed subsequent to June 30, 2015.

(2) Under the TSA, as amended, Ikaria provides certain administrative and other services to us for the period from February 9, 2014 to September 30, 2015. Ikaria also provides us with the use of office space and research laboratory facilities at Ikaria s headquarters located in Hampton, New Jersey. In exchange for the services provided by Ikaria pursuant to the TSA, we pay to Ikaria a service fee in the amount of $772,000 per month and reimburse Ikaria for any out of pocket expenses, any taxes imposed on Ikaria in connection with the provision of services under the TSA and Ikaria s costs and expenses incurred in connection with the performance of any extraordinary services. The monthly service fee is payable by us regardless of the frequency or quantity of services actually utilized by us. At the time of the Spin Out, we deposited the sum of $18.5 million, representing the aggregate of the $772,000 monthly service fees payable by us under the TSA, in escrow to guarantee payment of the monthly service fees. On July 9, 2015, we entered into an amendment to the TSA, pursuant to which, within five business days after September 30, 2015, we will receive from escrow $3.3 million, which is equal to the amount we deposited to pay amounts owed to Ikaria under the TSA for the period from October 1, 2015 to February 9, 2016, the original termination date.

(3) Under the 2015 Services Agreement, as amended, which became effective on January 1, 2015 and expires on September 30, 2015, Ikaria provides to us certain information technology and device servicing services. In exchange for the services provided by

Table of Contents

Ikaria pursuant to the 2015 Services Agreement, as amended, we will pay to Ikaria fees that total, in the aggregate, approximately $0.2 million.

(4) On March 25, 2015, we entered into an agreement with Flextronics to manufacture and service the Mark2 devices that we expect to use in future clinical trials of INOpulse for PAH and INOpulse for PH-COPD. Under the agreement, we have committed to purchase 500 devices within the 12 months following the execution of the agreement.

Milestone and royalty payments associated with our license agreement with BioLine have not been included in the above table of contractual obligations as we cannot reasonably estimate if or when they will occur. We plan to present detailed results from the Preservation 1 trial for our Bioabsorbable Cardiac Matrix (BCM) program, for which top line results were announced on July 27, 2015, at the European Society of Cardiology meeting in London on September 1, 2015. We do not intend to proceed with further clinical development of BCM until and unless we can determine an alternative path forward. Consequently, any future milestones payments to BioLine would depend on finding a path forward for future clinical development. Under the terms of the license agreement, if we achieve certain clinical and regulatory events specified in the license agreement, we will be obligated to pay milestone payments to BioLine, which could total, in the aggregate, up to $115.5 million, and if we achieve certain commercialization targets specified in the license agreement, we will be obligated to pay additional milestone payments to BioLine, which could total, in the aggregate, up to $150.0 million. In addition, we will be obligated to pay BioLine a specified percentage of any upfront consideration we receive for sublicensing BCM, as well as royalties on net sales, if any, at a percentage ranging from 11% to 15%, depending on net sales level, of any approved product containing BCM, subject to offsets for specified payments to third parties made in connection with BCM. We have reimbursed BioLine for certain legal fees in the amount of $250,000 following completion of our initial public offering.

In the course of our normal business operations, we also enter into agreements with contract service providers and others to assist in the performance of our research and development and manufacturing activities. We can elect to discontinue the work under these contracts and purchase orders at any time with notice, and such contracts and purchase orders do not contain minimum purchase obligations.

Off-Balance Sheet Arrangements

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined under applicable Securities and Exchange Commission rules.

Critical Accounting Policies and Significant Judgments and Estimates

Our management s discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of

contingent assets and liabilities in our financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to research and development expense, impairment of long-lived assets, stock-based compensation and income taxes. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Other than as discussed below, during the six months ended June 30, 2015, there were no material changes to our critical accounting policies. Our critical accounting policies are described under Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which was filed with the Securities and Exchange Commission on March 31, 2015.

Income Taxes

We are subject to U.S. federal income taxes as well as state taxes. Prior to our conversion to a Delaware corporation in February 2015, we were a Delaware limited liability company that passed through income and losses to our members for U.S. federal and state income tax purposes. As a result, we were not subject to any U.S. federal or state income taxes as our taxable income was reported by our individual members.

Effective as of the completion of this conversion, we account for income taxes using the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our consolidated financial statements or tax returns. In addition, deferred tax assets are recorded for the future benefit of utilizing net operating losses and research and development credit carry forwards. Valuation allowances are provided when necessary to reduce deferred tax assets to the amount expected to be realized.

Accordingly, we assess our needs for a valuation allowance quarterly based on the more-likely-than-not realization threshold criterion set forth in Accounting Standard Codification 740. In the assessment, appropriate consideration is given to all positive and negative evidence related to the realization of the deferred tax assets. This assessment considers, among other matters, the nature, frequency and severity of current and cumulative losses, forecasts of future profitability, the duration of statutory carryforward periods,

Table of Contents

our experience with operating losses and tax credit carryforwards expiring, and tax planning alternatives. Significant judgment is required to determine whether a valuation allowance is necessary and the amount of such valuation allowance, if appropriate.

Significant judgment is required in the application of the authoritative accounting guidance prescribing a threshold and measurement attribute for the financial recognition and measurement of a tax position taken or expected to be taken in a tax return. We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax liability as the largest amount that is more likely than not to be realized upon ultimate settlement. Accounting guidance further requires that a change in judgment related to the expected ultimate resolution of uncertain tax positions to be recognized in earnings in the quarter in which such change occurs. We recognize interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to market risk related to changes in interest rates. As of June 30, 2015, we had cash and cash equivalents and restricted cash of approximately $54.7 million, consisting primarily of demand deposits with U.S. banking institutions (other than restricted cash, which is held in escrow) and short-term investments of approximately $4.2 million, consisting of federally insured certificates of deposit. Our primary exposure to market risk is interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates, particularly because our investments are in cash and cash equivalents and short-term certificates of deposit. Due to the short-term duration of our deposits and the low risk profile of our investments, an immediate 10% change in interest rates would not have a material effect on the fair market value of our deposits.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2015. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission s, or the SEC, rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of June 30, 2015, our principal executive officer and principal financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2015 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1A. **Risk Factors.**

Other than as discussed below, there have been no material changes to our risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2014. The risk factors described below update and supersede the corresponding risk factors contained in our Annual Report on Form 10-K for the year ended December 31, 2014. For a further discussion of our Risk Factors, refer to the Risk Factors discussion contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Risks Related to Our Business and Industry

We may be unable to make, on a timely or cost-effective basis, the changes necessary to operate as a stand-alone company, and we may experience increased or unexpected costs after the Spin-Out or as a result of the Spin-Out.

We have historically operated as part of Ikaria s broader corporate organization, and Ikaria has assisted us by providing certain corporate functions. However, following the Spin-Out, Ikaria is contractually obligated to provide to us only those services specified in the TSA, the 2015 Services Agreement and the other agreements we entered into with Ikaria to govern our relationship following the Spin-Out. See Certain Relationships and Related Person Transactions Relationship with Ikaria in Part III Item 13 in our Annual Report on Form 10-K for the year ended December 31, 2014 for a summary of these agreements. The TSA, as amended, and the 2015 Services Agreement, as amended, provide for certain services to be provided until September 2015. We may be unable to replace in a timely manner or on comparable terms the services or other benefits that Ikaria previously provided to us that are not specified in the TSA, the 2015 Services Agreement or the other agreements. Also, upon the termination of the services provided under the TSA or other agreements, such services will be provided internally or by unaffiliated third parties, and we expect that in some instances, we will incur higher costs to obtain such services than we incurred under the terms of such agreements. Ultimately, we may be unable to replace in a timely manner or on comparable terms the services specified in such agreements. In addition, during the transitional services period, we will rely, in part, on the same executive team at Ikaria that also will continue to manage the business of Ikaria during such time, and there may be conflicting demands on their time, which could result in an inadequate level of attention to the demands of our business. If Ikaria and its employees do not continue to perform effectively the transition services and the other services that are called for under the TSA, the 2015 Services Agreement and other agreements, we may not be able to operate our business effectively and our business and financial condition could be adversely affected.

On April 16, 2015, Mallinckrodt plc announced that it had completed its acquisition of Ikaria. While the TSA imposes binding obligations on Ikaria to perform in accordance with the TSA s terms, it is possible that as the new owner s influence on Ikaria s operations increases, Ikaria may not continue to provide the same level of performance under the TSA as Ikaria has provided to date. In these circumstances, our business, product development and financial statements could be materially adversely affected.

Prior to the Spin-Out, we utilized the executive management team and administrative resources of Ikaria. Many daily functions were performed by Ikaria, including those related to the preparation of our financial statements and the engagement of auditors to audit our financial statements, which have become our responsibility following the Spin-Out. We may need to acquire assets and resources in addition to those provided to us by Ikaria, and we may face difficulty in integrating newly acquired assets into our business. Additionally, as a stand-alone company, we no

longer have access to Ikaria s financial resources. Instead, our ability to fund our capital needs will depend on our ongoing ability to generate cash from operations, enter into partnering arrangements, obtain debt financing, and access capital markets, which are subject to general economic, financial, competitive, regulatory and other factors that are beyond our control. Our business, financial condition and results of operations could be harmed, possibly materially, if we have difficulty operating as a stand-alone company, fail to acquire necessary capital or assets that prove to be important to our operations, or are unable to enter into partnering or other business development arrangements.

Risks Related to the Discovery, Development and Commercialization of Our Product Candidates

We are dependent on the success of our INOpulse and BCM product candidates and our ability to develop, obtain marketing approval for and successfully commercialize these product candidates. If we are unable to develop, obtain marketing approval for or successfully commercialize our product candidates, either alone or through a collaboration, or experience significant delays in doing so, our business could be materially harmed.

We currently have no products approved for sale and have invested a significant portion of our efforts and financial resources in the development of our INOpulse for PAH, INOpulse for PH-COPD and BCM product candidates. Our prospects are substantially dependent on our ability to develop, obtain marketing approval for and successfully commercialize these product candidates.

In July 2015, we announced top-line results of our 303-patient, randomized, double-blind, placebo-controlled clinical trial of BCM, which showed no statistically significant treatment differences between patients treated with BCM and patients treated with placebo for both the primary and secondary endpoints. We are continuing to investigate the full data set from this trial and may decide to discontinue development of BCM. If we decide to discontinue development of BCM, we will become even more dependent on the success of our INOpulse product candidates and our ability to develop, obtain marketing approval for and successfully commercialize our INOpulse product candidates. In these circumstances, if we are unable to develop, obtain marketing approval for or successfully commercialize our INOpulse product candidates, either alone or through a collaboration, or experience significant delays in doing so, our business could be materially harmed.

The success of our product candidates will depend on, among other things, our ability to successfully complete clinical trials of each product candidate. The clinical trial process is uncertain, and failure of one or more clinical trials can occur at any stage of testing. For example, in addition to our BCM trial discussed above, although we believe our Phase 2 clinical trials of INOpulse for PAH and INOpulse for PH-COPD support advancement into a Phase 3 and a Phase 2b clinical trial, respectively, the primary endpoints for both INOpulse for PAH and INOpulse for PH-COPD were not statistically significant for any of the doses tested.

Table of Contents

In addition to the successful completion of clinical trials, the success of our product candidates will also depend on several other factors, including the following:

- receipt of marketing approvals from the FDA or other applicable regulatory authorities;
- establishment of supply arrangements with third-party raw materials suppliers and manufacturers;
- establishment of arrangements with third-party manufacturers to obtain finished drug products that are appropriately packaged for sale;
- the performance of our future collaborators for one or more of our product candidates, if any;
- the extent of any required post-marketing approval commitments to applicable regulatory authorities;
- obtaining and maintaining patent, trade secret protection and regulatory exclusivity, both in the United States and internationally;
- protection of our rights in our intellectual property portfolio;
- launch of commercial sales if and when our product candidates are approved;
- a continued acceptable safety profile of our product candidates following any marketing approval;
- commercial acceptance, if and when approved, by patients, the medical community and third-party payors;
- establishing and maintaining pricing sufficient to realize a meaningful return on our investment; and

- competition with other products.

If we are unable to develop, receive marketing approval for, or successfully commercialize our product candidates, or experience delays as a result of any of these factors or otherwise, our business could be materially harmed.

We may not be successful in our efforts to identify or discover additional potential product candidates.

A significant portion of the research that we are conducting involves the development of innovative approaches to the pulsed delivery of nitric oxide. Our drug-device discovery efforts may not be successful in creating drugs or devices that have commercial value or therapeutic utility. Our research programs may initially show promise in creating potential product candidates, yet fail to yield viable product candidates for clinical development for a number of reasons, including that potential product candidates may, on further study, be shown to have harmful side effects or other characteristics that indicate that they are unlikely to be product candidates that will receive marketing approval and achieve market acceptance. Currently, we are dependent on Ikaria for our business development functions pursuant to the TSA and lack the capability to bring such functions in-house. Accordingly, if Ikaria does not perform such business development functions effectively, our business and prospects may be materially and adversely affected.

Our research programs to identify new product candidates will require substantial technical, financial and human resources. We may be unsuccessful in our efforts to identify new potential product candidates. In addition, we may focus our efforts and resources on one or more potential product candidates that ultimately prove to be unsuccessful.

Pursuant to the terms of our license agreement with Ikaria, we only have the right to develop and commercialize pulsed nitric oxide in PAH, PH-COPD, PH-IPF, chronic thromboembolic pulmonary hypertension, or CTEPH, pulmonary hypertension associated with sarcoidosis and pulmonary hypertension associated with pulmonary edema from high altitude sickness; Ikaria retains the right to develop and commercialize inhaled nitric oxide products, including pulsed products, in all other indications. Additionally, we are limited in the scope of potential product candidates that we can identify or discover due to non-competition agreements that we entered into with Ikaria, which agreements were amended in July 2015. Pursuant to these agreements, we and each of our subsidiaries agreed not to engage, anywhere in the world, in any manner, directly or indirectly, until the earlier of five years after the effective date of such non-competition agreement amendments or the date on which Ikaria and all of its subsidiaries are no longer engaged in such business, in:

Table of Contents

- the development, manufacture, commercialization, promotion, sale, import, export, servicing, repair, training, storage, distribution, transportation, licensing, or other handling or disposition of any product or service (including, without limitation, any product or service that utilizes, contains or includes nitric oxide for inhalation, a device intended to deliver nitric oxide or a service that delivers or supports the delivery of nitric oxide), bundled or unbundled, for or used in connection with (a) the diagnosis, prevention or treatment, in both adult and/or pediatric populations, and whether in- or out-patient, of: (i) hypoxic respiratory failure associated with pulmonary hypertension, (ii) pulmonary hypertensive episodes and right heart failure associated with cardiovascular surgery, (iii) bronchopulmonary dysplasia, (iv) the management of ventilation-perfusion mismatch in acute lung injury, (v) the management of ventilation-perfusion mismatch in acute respiratory distress syndrome, (vi) the management of pulmonary hypertension episodes and right heart failure in congestive heart failure, (vii) pulmonary edema from high altitude sickness, (viii) the management of pulmonary hypertension episodes and right heart failure in pulmonary or cardiac surgery, (ix) the management of pulmonary hypertension episodes and right heart failure in organ transplant, (x) sickle cell vaso-occlusive crisis, (xi) hypoxia associated with pneumonia or (xii) ischemia-reperfusion injury or (b) the use of nitric oxide to treat or prevent conditions that are primarily managed in the hospital; or

- any and all development, manufacture, commercialization, promotion, sale, import, export, storage, distribution, transportation, licensing, or other handling or disposition of any terlipressin or any other product within the pressin family, (a) intended to treat (i) hepatorenal syndrome in any form, (ii) bleeding esophageal varices or (iii) septic shock or (b) for or in connection with the management of low blood pressure.

In the event that we or one of our subsidiaries materially breach the provisions of the non-competition agreements and do not cure such breach within 30 days after receiving written notice thereof from Ikaria, Ikaria will have the right to terminate the license agreement.

If we are unable to identify suitable additional compounds for pre-clinical and clinical development, or at all, our ability to develop product candidates and obtain product revenues in future periods could be compromised, which could result in significant harm to our financial position and adversely impact our stock price.

Risks Related to Our Dependence on Third Parties

The intellectual property underlying INOpulse is exclusively licensed from Ikaria. If Ikaria terminates the license agreement, or fails to prosecute, maintain or enforce the underlying patents, our business will be materially harmed.

We have licensed the intellectual property underlying INOpulse from Ikaria. Despite our best efforts, Ikaria may conclude that we have breached a material term of the license agreement and, as a result, seek to terminate the agreement. In the event the license agreement is terminated, we will lose our ability to market INOpulse, and, upon Ikaria s written request, we will be required to transfer any regulatory approvals that we have obtained for INOpulse to Ikaria.

The license agreement prohibits us from sublicensing to any competitor of Ikaria any intellectual property licensed to us by Ikaria. In addition, we are required to ensure that all of our products, if any, are used solely for the chronic treatment of PAH, PH-COPD, PH-IPF, chronic thromboembolic pulmonary hypertension, or CTEPH, pulmonary hypertension associated with sarcoidosis and pulmonary hypertension associated with pulmonary edema from high altitude sickness and to enter into written agreements with any customers that contain restrictions on the use of our products and termination rights in the event such restrictions are violated.

Table of Contents

Ikaria has the initial right, but not the obligation, to prosecute and maintain all patents that are licensed to us pursuant to the license agreement. While we have certain step-in rights to assume control if Ikaria declines to file, prosecute or maintain certain licensed patents that are core to our business, in the event Ikaria reasonably determines that our actions could materially impair its business operations or intellectual property rights, Ikaria may prohibit us from taking such actions. In addition, Ikaria has the initial right, but not the obligation, to initiate a legal action against a third party with respect to any actual or suspected infringement of patent rights licensed to us pursuant to the license agreement. We have the right to initiate legal action against a third-party infringer of licensed patents that are core to our business in the event Ikaria declines to take action with respect to such infringement, however, if Ikaria determines that our pursuit of any such action could materially impair its business operations or intellectual property rights, Ikaria may prohibit us from taking any such action.

The license agreement terminates, on an INOpulse product-by-INOpulse product basis, at such time as we are no longer actively and continuously engaged in the development or commercialization of such product. In addition, Ikaria may terminate the license agreement if, among other things, (1) we breach or fail to comply with any material term or condition required to be performed or complied with by us and do not cure such breach or failure within 30 days after receiving written notice of such breach from Ikaria, (2) we or any of our affiliates breaches any of our agreements not to compete with Ikaria, (3) we or any of our affiliates challenges the validity or enforceability of the licensed patents or (4) we or any person that is a successor to our license rights markets a generic nitric oxide product that is competitive with Ikaria s INOmax product. Upon termination of the license agreement with respect to any INOpulse product candidate, we will lose our ability to market such INOpulse product candidate, and upon, Ikaria s written request, be required to transfer any and all regulatory approvals relating to such INOpulse product candidate to Ikaria.

On April 16, 2015, Mallinckrodt plc announced that it had completed its acquisition of Ikaria. While the license agreement imposes binding obligations on Ikaria to perform in accordance with the license agreement s terms, it is possible that as the new owner s influence on Ikaria s operations increases, Ikaria may perform differently under the license agreement than it has to date. Moreover, to the extent that we desire to expand the scope of the license agreement, it is possible that Ikaria will not be willing to do so on reasonable terms, or at all. In any of these circumstances, our business, product development and financial statements could be materially adversely affected.

We rely on Ikaria for our supply of nitric oxide for the clinical trials of INOpulse. Ikaria is the sole supplier of nitric oxide. Ikaria s inability to continue manufacturing adequate supplies of nitric oxide, or its refusal to supply us with commercial quantities of nitric oxide on commercially reasonable terms, or at all, could result in a disruption in the supply of, or impair our ability to market, INOpulse.

We have entered into a drug clinical supply agreement with Ikaria, pursuant to which Ikaria will manufacture and supply our requirements for nitric oxide for inhalation and corresponding placebo for use in clinical trials of INOpulse. Ikaria manufactures pharmaceutical-grade nitric oxide at its facility in Port Allen, Louisiana, which is the only FDA-inspected site for manufacturing pharmaceutical-grade nitric oxide in the world. Ikaria s Port Allen facility is subject to the risks of a natural disaster or other business disruption. We maintain under controlled storage conditions a two- to three-month supply of clinical trial drug product, but there can be no assurance that we would be able to meet our requirements for INOpulse if there were a catastrophic event or failure of Ikaria s manufacturing system. Because Ikaria s Port Allen facility is the only FDA-inspected site that can manufacture INOpulse and because the manufacture of a pharmaceutical gas requires specialized equipment and expertise, there are few, if any, third-party manufacturers to which we could contract this work in a short period of time. Therefore, any disruption in Ikaria s Port Allen facility, or the failure by Ikaria for any other reason to provide us with nitric oxide, could materially and adversely affect supplies of INOpulse and our ongoing and planned clinical trials. In addition, we do not currently have any arrangements with Ikaria to provide us with commercial quantities of nitric oxide. If we are unable to arrange for Ikaria to provide such quantities on commercially reasonable terms, or at all, we may not be able to successfully produce and market INOpulse or may be delayed in doing so.

On April 16, 2015, Mallinckrodt plc announced that it had completed its acquisition of Ikaria. While the drug clinical supply agreement imposes binding obligations on Ikaria to perform in accordance with the agreement s terms, it is possible that as the new owner s influence on Ikaria s

operations increases, Ikaria may not continue to provide the same level of performance under the drug clinical supply agreement as Ikaria has provided to date. Moreover, to the extent that we desire to expand the scope of the drug clinical supply agreement (to cover commercial quantities of nitric oxide or otherwise), it is also possible that Ikaria will not be willing to do so on reasonable terms, or at all. In any of these circumstances, our business, product development and financial statements could be materially adversely affected.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Use of Proceeds

We effected the initial public offering of our common stock through a Registration Statement on Form S-1 (File No. 333-201474) that was declared effective by the SEC on February 13, 2015. On February 19, 2015, we completed the sale of 5,000,000 shares of common stock in our initial public offering at a price to the public of $12.00 per share, resulting in net proceeds to us of $51.9 million, after deducting underwriting discounts and commissions of $4.2 million and offering costs of $3.9 million.

As of June 30, 2015, we have not used any of the net proceeds from our initial public offering. As of June 30, 2015, we have invested the balance of the net proceeds from the offering in a variety of capital preservation investments, including demand deposits with U.S. banking institutions and federally insured certificates of deposit. There has been no material change in our planned use of the balance of the net proceeds from the offering as described in our final prospectus filed with the SEC pursuant to Rule 424(b) under the Securities Act of 1933, as amended.

Item 6. Exhibits.

The exhibits listed in the Exhibit Index to this Quarterly Report on Form 10-Q are incorporated herein by reference.

Table of Contents

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.

BELLEROPHON THERAPEUTICS, INC.

Date: August 14, 2015	By:	/s/ Jonathan M. Peacock Jonathan M. Peacock Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: August 14, 2015	By:	/s/ David Abrams David Abrams Treasurer (Principal Financial and Accounting Officer)

Table of Contents

Exhibit Index

Exhibit Number	Description
10.1	Offer Letter, dated May 14, 2015, between Amit Agrawal and the Registrant
10.2	Offer Letter, dated April 20, 2015, between Peter Fernandes and the Registrant
10.3	Offer Letter, dated December 8, 2014, between Martin Dekker and the Registrant
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document