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## **Nephros Reports 2010 Fourth Quarter and Full Year Financial Results**

RIVER EDGE, NJ, March 29, 2011 /PRNewswire-FirstCall/ -- Nephros, Inc. (OTC Bulletin Board:NEPHD), a medical device company developing and marketing filtration products for therapeutic applications, infection control, and water purification, announced today financial results for the three months and full year ended December 31, 2010.

### **2010 Highlights**

- Increased revenues by 10.4% to approximately \$2,938,000 from prior year period
- Increased gross margin by 22% to approximately \$1,122,000 from prior year period
- Reduced loss from operations by approximately \$517,000 or 21% from prior year period
- Signed development agreement with STERIS Corporation
- Announced that AmeriWater adopted the Nephros DSU as a standard component of its portable reverse osmosis water treatment systems for dialysis
- Six new patents granted

“Due to financial constraints and regulatory burdens, 2010 was a challenging year for Nephros. Despite these challenges, we have continued to lay the foundation for success,” said Dr. Paul Mieyal, Acting CEO of Nephros. “With our recently completed financing activities, Nephros is better positioned in 2011 to take advantage of the attractive opportunities which continue to evolve for the Company’s products. We are looking forward to an exciting year with continued efforts to reward the Company’s shareholders for their support.”

### **Financial Performance for the Year Ended December 31, 2010**

Revenues for the twelve months ended December 31, 2010 were approximately \$2,938,000 compared to approximately \$2,661,000 in the corresponding period of 2009, an increase of approximately 10%. The Company's net loss was approximately \$1,933,000 or \$0.93 per basic and diluted loss per common share for the twelve months ended December 31, 2010 compared with approximately \$2,026,000 or \$1.02 per basic and diluted loss per common share for the corresponding period of 2009. Loss from

operations for the twelve months ended December 31, 2010 was approximately \$1,889,000 compared to approximately \$2,406,000 in the corresponding period of 2009. The \$517,000 reduction in operating loss resulted from: an increase of approximately \$205,000 in gross profit due to increased revenue; a reduction in depreciation expense of approximately \$102,000; and a reduction in selling, general and administrative expenses of approximately \$292,000; all of which was partially offset by a \$82,000 increase in research and development expenses.

As of December 31, 2010, Nephros had cash and cash equivalents of approximately \$240,000. As previously announced in March 2011, Nephros completed a shareholder rights offering and private placement which collectively raised approximately \$3.2 million in gross proceeds. After repayment of the company's outstanding Note, fees, and expenses, net cash proceeds to the Company were approximately \$2.3 million.

### **Financial Performance for the Fourth Quarter Ended December 31, 2010**

For the quarter ended December 31, 2010, Nephros recognized net product revenues of approximately \$517,000 compared with approximately \$792,000 in the corresponding period of 2009, a decrease of \$275,000 or 35%. The \$275,000 decrease in net product revenues is primarily due to a decrease of approximately \$216,000 in billings related to our contract with the Office of U.S. Naval Research during the three months ended December 31, 2010 compared to the three months ended December 31, 2009. Revenue from sales of our MD filters in our Target European Market was approximately \$104,000 lower in the three months ended December 31, 2010 compared to the same period in 2009. Approximately \$84,000 of the European revenue decrease was due to less units sold plus an additional decrease of approximately \$20,000 due to foreign currency exchange rate fluctuation. Unit sales in Europe decreased approximately 22% for the three months ended December 31, 2010 compared to the same period in 2009. These decreases were partially offset by increased revenue of approximately \$45,000 in sales of our DSU in the United States for the three months ended December 31, 2010 compared to the same period in 2009. Approximately \$33,000 of the increased DSU sales was related to the recognition of revenue previously deferred, associated with the development agreement with STERIS Corporation.

Operating expenses for the three months ended December 31, 2010 were approximately \$751,000 compared with approximately \$828,000 in the corresponding period of 2009. The decrease of approximately \$77,000 is related, in part, to the reduction in depreciation expense of \$10,000 or 24% in the fourth quarter of 2010 compared to the same period in 2009. Selling, general and administrative expenses were approximately \$102,000 or 14% less in the fourth quarter of 2010 compared to the same period in 2009. The decrease is primarily due to a decrease in personnel related expenses of approximately \$202,000 during the three months ended December 31, 2010 compared to the three months ended December 31, 2009. This decrease was partially offset by increased legal costs of approximately \$110,000 during the three months ended December 31, 2010, related to our recently completed rights offering, compared to the three months ended December 31, 2009.

Research and development expenses increased by approximately \$35,000 in the fourth quarter of 2010 compared to the same period in 2009. Approximately \$29,000 of the increase was wages primarily due to personnel working on research projects other than the contract with the Office of U.S. Naval Research. The remaining \$6,000 increase is due to increased spending on machine development work during the three months ended December 31, 2010 compared to the same period in 2009.

Nephros's net loss was approximately \$665,000 or \$0.32 per basic and diluted common share for the fourth quarter of 2010 versus a net loss of approximately \$483,000 or \$0.25 per basic and diluted common share in the fourth quarter of 2009. Nephros's net loss increased \$182,000 in the current quarter primarily due to the approximately \$75,000 or 14% reduction in loss from operations in the fourth quarter of 2010 compared to the same period in 2009. This reduction in loss from operations was offset by an approximately \$107,000 increase in other expenses. Other expense of approximately \$15,000 in interest expense and \$50,000 of debt issuance costs were incurred during the three months ended December 31, 2010. Other income of approximately \$41,000 was realized during the three months ended December 31, 2009.

During the twelve months ended December 31, 2010, we were granted six new patents. In the U.S., we were issued patent #7,775,375 for our Dual Stage Ultrafilter (DSU). In Canada, we were issued patents #2,431,431 for a Multistage Hemodiafiltration/Hemofiltration Method and Apparatus which forms the basis of our mid-dilution technology and patent #2,437,090 for a Method and Apparatus for a Hemodiafiltration Delivery Module which covers our H<sub>2</sub>H Hemodiafiltration device. In Japan, we were issued patents #4623909 and #4436569 for a Sterile Fluid Filtration Cartridge and a Non-Isotonic Diafiltration System and Method, respectively. And in Europe, European patent #134787821 was granted for our OLpür MD HDF Filter under the title, Dual Stage Hemodiafiltration cartridge, and whereby individual patents were granted in the countries of Germany, France, Italy, Spain, United Kingdom, Netherlands, Sweden, and Hong Kong.

## **Outlook for 2011**

Nephros is projecting an increase in aggregate gross sales of mid-dilution (MD) dialyzers in Europe and Canada of approximately 20% as compared to 2010 on a units sold basis.

Nephros has a meeting scheduled with the FDA for April 20, 2011 to discuss a proposal for submission of a new 510(k) application for its on-line HDF system. Depending on the results of that meeting, Nephros currently anticipates proceeding with the submission of a new 510(k) application for approval of its hemodiafiltration system in the U.S. by the third quarter of 2011 which would be subject to the FDA's standard 90-day review period. In the event that the April 20<sup>th</sup> FDA meeting results in a materially different expectation, Nephros will inform its shareholders of the revised outlook. Nephros believes that, if approved, its technology would be the first FDA-approved on-line HDF therapy available in the U.S.

The Association for the Advancement of Medical Instruments' (AAMI) adoption of more stringent water purity standards for dialysis applications as well as observational studies showing a significant reduction in required erythropoietin dosing when the Nephros DSU is utilized during dialysis therapy has significantly increased interest in the product. Nephros has filed a special 510(k) application for its SSU and MSU filters to enable these products to be used in dialysis applications. Nephros expects to realize accelerating product sales to the U.S. dialysis market as a combined result of these driving factors. Nephros also expects to realize initial sales of DSU products to dialysis markets outside the U.S. in 2011.

Nephros has introduced product line extensions for the hospital infection control market which include a more durable filter design to withstand the higher pressures of hospital plumbing, filter covers to improve the aesthetics of the filters in hospital showers, and the SafeSpout as a convenient endpoint filter to address acute outbreak scenarios. Nephros is investigating a range of additional commercial, industrial, and military opportunities for its DSU technology.

During 2011, Nephros plans to increase its sales and marketing activities in an effort to significantly expand the Company's market presence in the dialysis and infection control arenas. To this end, Nephros has engaged Zwolinski Management Consulting to facilitate and reinforce these activities.

During 2010, Nephros completed the initial milestone under the joint collaboration agreement with STERIS Corporation and expects to complete the final milestones under the agreement by the end of the third quarter of 2011. The remaining milestones, if met, would result in aggregate payments to Nephros of \$60,000.

In response to a Request For Information (RFI) from the U.S. Army, Nephros submitted its UF-40 ultrafilter for consideration as part of the standard issue hydration pack for soldiers in the field. Nephros has been informed by the U.S. Army Public Health Command that its UF-40 filter has been validated to meet the military's NSF P248 standard for emergency military operations as a microbiological water purifier. Nephros believes that its UF-40 filter is the only stand-alone filter to date to have met the performance criteria of the NSF P248 standard without secondary disinfection steps. The Army has not to date issued a Request For Proposal (RFP), and Nephros has no information regarding when or if an RFP applicable to the UF-40 ultrafilter may be put forth by the U.S. Army.

### **About Nephros, Inc.**

Nephros, Inc., headquartered in River Edge, New Jersey, is a medical device company developing and marketing filtration products for therapeutic applications, infection control, and water purification.

The Nephros hemodiafiltration ("HDF") system is designed to improve the quality of life for the End-Stage Renal Disease (ESRD) patient while addressing the critical financial and clinical needs of the care provider. ESRD is a disease state characterized by the irreversible loss of kidney function. The Nephros HDF system removes a range of harmful substances more effectively, and with greater capacity, than existing ESRD treatment methods, particularly with respect to substances known collectively as "middle molecules." These molecules have been found to contribute to such conditions as dialysis-related amyloidosis, carpal tunnel syndrome, degenerative bone disease and, ultimately, mortality in the ESRD patient. Nephros markets its OLpur™ mid-dilution dialyzers in the European Union and Canada under regulatory approval in each of these markets, respectively. In November 2008, Nephros submitted a 510(k) application for U.S. marketing approval of its OLpur™ H<sub>2</sub>H™ module and OLpur™ MD 220 filter. On June 30, 2010, Nephros received a final decision letter from the FDA for the 510(k) submission which stated that the FDA could not reach a substantial equivalence determination for Nephros's hemodiafiltration (HDF) system. Nephros is continuing to seek to obtain U.S. approval of its hemodiafiltration system.

The Nephros Dual Stage Ultrafilter (DSU) is the basis for the Nephros line of water filtration products. The patented dual stage cold sterilization ultrafilter has the capability to filter out bacteria and, due to its exceptional filtration levels, filter out many viruses, parasites and biotoxins. In 2009, Nephros received FDA approval to market the DSU to be used to filter biological contaminants from water and bicarbonate concentrate used in hemodialysis procedures. In March 2010, Nephros announced a product development agreement with STERIS Corporation to jointly develop filtration-based products for medical device applications. Nephros's DSUs are being evaluated at several major U.S. medical centers for infection control.

Nephros has contracted with the Office of Naval Research to develop an advanced water purification system for military field use. Nephros's proprietary dual stage cold sterilization ultrafilter will form the basis of the portable system. Nephros is continuing the development of its dual stage ultra reliable personal water filtration system under support from its U.S. Department of Defense appropriation and has completed initial concept development. Once work on this initial project was completed in August 2009, Nephros was awarded a new \$1.8 million research contract from the Office of Naval Research for continued development of a portable dual-stage military water purifying filter. Nephros has also introduced the DSU to various government agencies as a solution to providing potable water in certain emergency response situations.

For more information about Nephros, please visit our website at <http://www.nephros.com>.

### **Forward-Looking Statements**

Statements in this news release that are not historical facts constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA"). Such statements may be preceded by words such as "may," "plans,"

"expects," "believes," "hopes," "potential" or similar words. For such statements, Nephros claims the protection of the PSLRA.

Forward-looking statements are not guarantees of future performance, are based on assumptions and are subject to various known and unknown risks and uncertainties, many of which are beyond Nephros's control. Actual results may differ materially from the expectations contained in the forward-looking statements. Factors that may cause such differences include the risks that Nephros may not be able: (i) to obtain appropriate or necessary governmental approvals to achieve its business plan or effectively market its products, including approval by the FDA of the Company's hemodiafiltration system; (ii) to obtain additional funding on favorable terms, if at all; (iii) to continue as a going concern; (iv) to have its technologies and products accepted in current or future target markets; (v) to demonstrate in pre-clinical or clinical trials the anticipated efficacy, safety or cost savings of products that appeared promising to Nephros in research or clinical trials; or (vi) to secure or enforce adequate legal protection, including patent protection, for its products. More detailed information about Nephros and the risk factors that may affect the realization of forward-looking statements is set forth in Nephros's filings with the SEC. Investors and security holders are encouraged to read these documents on the SEC's website at <http://www.sec.gov/>. Nephros does not undertake to publicly update or revise its forward-looking statements as a result of new information, future events or otherwise except as required by law.