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## PRESS RELEASE

### **Nephros Reports First Quarter 2011 Financial Results**

RIVER EDGE, N.J., May 16 /PRNewswire-FirstCall/ -- Nephros, Inc. (OTC Bulletin Board: NEPH) announced today financial results for the three months ended March 31, 2011.

#### **First Quarter Highlights**

- Increased revenues of \$164,000 or 32% in the first quarter of 2011 compared to the fourth quarter of 2010
- Completed Rights Offering and Private Placement resulting in gross proceeds of approximately \$3.2 million.

“The first quarter of 2011 represented a transition period for Nephros,” said Dr. Paul Mieyal, acting CEO of Nephros, Inc. “In March, we were able to raise capital which we believe has positioned the company for long-term value creation. We continue to project an overall increase of approximately 20% in European MD sales for 2011 versus 2010. In addition, we continue to make progress in our collaboration with STERIS as well as our military-funded research.”

“More recently, we met with the FDA in April and are continuing the dialogue in anticipation of filing a new 510k application for our hemodiafiltration system. Also in April, Data were presented at the National Kidney Foundation Annual Meeting suggesting a reduction in the dosage of erythropoietin-stimulating agents (ESAs) required for hemodialysis patients when the Nephros Dual Stage Ultrafilter is utilized. As reported last week, we received regulatory approval to market the Nephros Dual Stage Ultrafilter for hemodialysis applications in Canada.”

#### **Financial Performance for the First Quarter Ended March 31, 2011 (Unaudited)**

For the quarter ended March 31, 2011, Nephros recognized net product revenues of approximately \$681,000 compared with \$989,000 in the corresponding period of 2010, a decrease of \$308,000 or 31%. The decrease is primarily attributable to an approximately \$337,000 or 74% decrease in revenue related to the contract with the Office of Naval Research recognized in the first quarter of 2011 compared to the same period in 2010. Sales of the OLPur™ MD 190 and MD 220 products in Europe decreased by approximately \$10,000 or 2% in the first quarter of 2011 compared to the same period in 2010. Sales of Dual Stage Ultrafilters (DSUs) in the United States increased by approximately \$22,000 or 18% in the first quarter of 2011 compared to the same period in 2010. Revenue in the amount of \$17,000 related to the STERIS project was recognized in the first quarter of 2011. There was no STERIS project in the comparable period in 2010.

Operating expenses for the three months ended March 31, 2011 were approximately \$845,000 compared with \$916,000 in the corresponding period of 2010. The decrease of approximately \$71,000 is primarily related to the reduction in selling, general and administrative expenses of approximately \$78,000 or 10% less in the first quarter of 2011 compared to the same period in 2010. The decrease is due to a decrease in severance expense of \$55,000, a decrease in personnel costs of \$106,000, and a decrease in marketing expenses of \$69,000. These decreases were partially offset by an increase in stock-based compensation expense of \$103,000 and an increase in investor relations and regulatory costs of \$51,000 during the three months ended March 31, 2011 compared to the same period in 2010.

Research and development expenses increased by approximately \$19,000 in the first quarter of 2011 compared to the same period in 2010. Increases were primarily related to personnel costs.

Depreciation expense decreased by \$12,000 in the first quarter of 2011 compared to the same period in 2010.

Other expenses approximated \$61,000 in the first quarter of 2011 compared to \$2,000 in the same period in 2010. Increased expenses were primarily related to the rights offering completed in March 2011.

Nephros' net loss was approximately \$707,000 or \$0.18 per basic and diluted common share for the first quarter of 2011 versus a net loss of approximately \$665,000 or \$0.32 per basic and diluted common share in the fourth quarter of 2010. Nephros' net loss increased \$42,000 or 6% in the current quarter despite an increase in revenues of \$164,000 or 32% primarily due to the approximately \$94,000 or 13% increase in operating expenses in the first quarter of 2011 compared to the fourth quarter in 2010. The increased expenses were primarily related to the rights offering completed in March 2011.

## **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. In June 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 HDF system and anticipates filing a new 510k application in 2011.

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. Nephros has received clearance from the FDA and from the Therapeutic Products Directorate of Health Canada to market the DSU to be used to filter biological contaminants from water and bicarbonate concentrate used in hemodialysis procedures in the U.S. and Canada, respectively. 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' 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 continue as a going concern; (ii) to obtain additional funding when needed or on favorable terms; (iii) to obtain appropriate or necessary governmental approvals to achieve its business plan or effectively market its products; (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' 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.

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