

Nephros Announces Results for Quarter Ended September 30, 2023

*Third-Quarter Net Revenue of \$3.7 Million, a 55% Increase Over 2022;
Net Loss from Continuing Operations Narrows 85% to \$0.2 Million;
\$1.1 Million in Positive Year-to-Date Net Cash Flows from Operating Activities*

SOUTH ORANGE, NJ, November 8, 2023 – [Nephros, Inc.](#) (Nasdaq: NEPH), a leading water technology company providing filtration solutions to the medical and commercial markets, today announced financial results for the third quarter ended September 30, 2023.

Financial Highlights*

- Third-quarter net revenue of \$3.7 million, an increase of 55%;
- Third-quarter net loss from continuing operations of \$0.2 million, compared to \$1.3 million;
- Third-quarter adjusted EBITDA **positive** \$11,000, compared to **negative** \$304,000;
- Year-to-date **positive** net cash flow from operating activities of \$1.1 million, compared to **negative** \$3.0 million.

*Stated performance is compared to the same period in 2022

“We are very pleased with our third-quarter results,” said Robert Banks, President and Chief Executive Officer. “Nephros has delivered high levels of sustained growth over the past three quarters with gross margins up significantly from the same period last year. In addition, our cash flows from operating activities in 2023 have been consistently positive, totaling \$1.1 million so far this year. We remain laser-focused on financial growth and offering an effective and reliable solution for our infection control and dialysis customers. Furthermore, our commercial business continues to mature under the efficient operating model in place with Donastar. Overall, I am very encouraged.”

Judy Krandel, Chief Financial Officer commented, “Year-to-date revenue growth was extremely strong this quarter, at 48% over the same period in 2022. Further, we believe our positive net cash flows are a good indicator of progress towards GAAP profitability, which we expect to achieve within the next few quarters.”

Financial Performance for the Quarter Ended September 30, 2023

Net revenue from continuing operations for the quarter ended September 30, 2023, was \$3.7 million, compared with \$2.4 million in the corresponding period in 2022, an increase of 55%.

Net loss from continuing operations for the quarter ended September 30, 2023, was \$0.2 million, compared with \$1.3 million during the same period in 2022. The decrease in net loss from continuing operations was driven by increased revenue and gross margins and decreased research and development costs due to the cessation of our HDF business.

Adjusted EBITDA from continuing operations for the quarter ended September 30, 2023, was \$11,000, compared with (\$0.3 million) during the same period in 2022.

Cost of goods sold for the quarters ended September 30, 2023 and September 30, 2022, was \$1.5 million and \$1.6 million, respectively. Gross margin for the quarter ended September 30, 2023 was 59%, compared with 32% during the same period in 2022.

Research and development expenses for the quarter ended September 30, 2023, were \$0.2 million, compared with \$0.3 million during the quarter ended September 30, 2022.

Depreciation and amortization expenses for the quarter ended September 30, 2023 were approximately \$55,000, compared with approximately \$48,000 for the corresponding period in 2022.

Selling, general and administrative expenses for the quarter ended September 30, 2023, were approximately \$2.1 million compared with approximately \$1.7 million for the corresponding period in 2022.

As of September 30, 2023, Nephros had cash and cash equivalents of \$4.6 million.

Adjusted EBITDA Definition and Reconciliation to GAAP Financial Measures

Adjusted EBITDA from continuing operations is calculated by taking net loss from continuing operations calculated in accordance with generally accepted accounting principles (“GAAP”) and excluding all interest-related expenses and income, tax-related expenses and income, non-recurring expenses and income, and non-cash items, including depreciation, amortization, and non-cash compensation. The following table presents a reconciliation of Adjusted EBITDA from continuing operations to net loss from continuing operations, the most directly comparable GAAP financial measure, for the third quarter of the 2023 and 2022 fiscal years:

Three Months Ended September 30,

2023 2022
(in \$ thousands)

Reconciliation of net loss from continuing operations:

Net loss from continuing operations	(182)	(1,250)
Adjustments:		
Depreciation of property and equipment	9	12
Amortization of other assets	46	44
Interest expense	-	4
Interest income	(11)	(4)
Non-cash stock-based compensation	149	225
Increase in inventory reserve	-	665
Adjusted EBITDA loss from continuing operations	11	(304)

Nephros believes that Adjusted EBITDA from continuing operations provides useful information to management and investors regarding certain financial and business trends relating to Nephros’ financial condition and results of operations. Management does not consider Adjusted EBITDA from continuing operations in isolation or as an alternative to financial measures determined in accordance with GAAP. The principal limitation of Adjusted EBITDA from continuing operations is that it excludes significant expenses and income that are required by GAAP to be recognized in Nephros’ financial statements. In addition, Adjusted EBITDA from continuing operations is subject to inherent limitations as it reflects the exercise of judgments by management about which expenses and income are excluded or included in determining Adjusted EBITDA from continuing operations. To compensate for these limitations, management presents Adjusted EBITDA from continuing operations in connection with net loss from continuing operations, the most directly comparable GAAP financial measure. Nephros urges investors to review the reconciliation of Adjusted EBITDA from continuing operations to net loss from continuing operations and not to rely on any single financial measure to evaluate the business.

Note Regarding Active Customer Site (ACS) Counts

The Company recently corrected a database problem which erroneously inflated previously reported Active Customer Site (“ACS”) counts. The ACS metric is calculated by counting unique customer addresses. During a recent invoice audit, the Company found that certain addresses were not properly formatted, resulting in their being incorrectly identified as unique sites. These invoices have been corrected retroactively, as reflected in the table below. While this correction reduces historical site counts, the Company’s management believes that its impact on growth calculations is insignificant.

	2021				2022				2023		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Active Sites											
Previous Calculation	1,087	1,117	1,182	1,180	1,276	1,349	1,390	1,394	1,408	1,443	–
Corrected	897	915	982	974	1,043	1,135	1,156	1,172	1,187	1,205	1,237
YoY Active Site Growth											
Previous Calculation	NA	NA	NA	NA	17%	21%	18%	18%	10%	7%	–
Corrected	NA	NA	NA	NA	16%	24%	18%	20%	14%	6%	7%
QoQ Active Site Growth											
Previous Calculation	NA	3%	6%	0%	8%	6%	3%	0%	1%	2%	–
Corrected	NA	2%	7%	-1%	7%	9%	2%	1%	1%	2%	3%

Conference Call Today at 4:30pm ET

Nephros will host a conference call today at 4:30pm ET, during which management will discuss Nephros’ financial results and provide a general business overview.

Participants may dial into the call as follows:

Domestic access: 1 (844) 808-7106

International access: 1 (412) 317-5285

Upon joining, please ask to be joined into the Nephros conference call.

An audio archive of the call will be available shortly after the call on the [Nephros Investor Relations page](#).

Alternatively, a replay of the call may be accessed until November 15, 2023 at 1 (877) 344-7529 or 1 (412) 317-0088 for international callers and entering replay access code: 8716026.

About Nephros

Nephros is committed to improving the human relationship with water through leading, accessible technology. We provide innovative water filtration products and services, along with water-quality education, as part of an integrated approach to water safety. Nephros goods serve the needs of customers within the healthcare and commercial markets, offering both proactive and emergency solutions for water management.

For more information about Nephros, please visit nephros.com.

Forward-Looking Statements

This release contains forward-looking statements that are subject to various risks and uncertainties. Such statements include statements regarding Nephros' expected future revenue, gross margins, cash flows, profitability and other financial performance, including the timing thereof. Forward-looking statements in this release may be identified by the words "intends," "may," "will," "plans," "expects," "anticipates," "projects," "predicts," "estimates," "aims," "believes," "hopes," "potential," or similar words. Such statements are not historical facts but reflect our management's beliefs based upon information currently available to them. Actual results could differ materially from those described in these forward-looking statements due to certain factors, including inflationary factors and general economic conditions, changes in business and competitive conditions, the availability of capital when needed, dependence on third-party manufacturers, distributors and researchers, and regulatory reforms. These and other risks and uncertainties are detailed in Nephros' reports filed with the U.S. Securities and Exchange Commission, including its Annual Report on Form 10-K for the year ended December 31, 2022, which it may update in Part II, Item 1A – Risk Factors in its Quarterly Reports on Form 10-Q that it has filed or will file hereafter. Nephros does not undertake any responsibility to update the forward-looking statements in this release.

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NEPHROS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

ASSETS	September 30, 2023	December 31, 2022
Current assets:		
Cash and cash equivalents	\$ 4,622	\$ 3,634
Accounts receivable, net	1,443	1,286
Inventory	2,268	3,153
Prepaid expenses and other current assets	173	188
Total current assets	<u>8,506</u>	<u>8,261</u>
Property and equipment, net	88	116
Lease right-use-of assets	750	984
Intangible assets, net	392	423
Goodwill	759	759
License and supply agreement, net	301	402
Other assets	123	54
TOTAL ASSETS	<u>\$ 10,919</u>	<u>\$ 10,999</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of secured note payable	\$ -	\$ 71
Accounts payable	805	740
Accrued expenses	712	285
Current portion of lease liabilities	311	316
Total current liabilities	<u>1,828</u>	<u>1,412</u>
Equipment financing, net of current portion	-	1
Lease liabilities, net of current portion	469	705
TOTAL LIABILITIES	<u>2,297</u>	<u>2,118</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized at September 30, 2023 and December 31, 2022; no shares issued and outstanding at September 30, 2023 and December 31, 2022	-	-
Common stock, \$.001 par value; 40,000,000 shares authorized at September 30, 2023 and December 31, 2022; 10,484,932 and 10,297,429 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	10	10
Additional paid-in capital	152,364	148,413
Accumulated deficit	(143,752)	(142,831)
Subtotal	<u>8,622</u>	<u>5,592</u>
Noncontrolling interest	-	3,289
TOTAL STOCKHOLDERS' EQUITY	<u>8,622</u>	<u>8,881</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 10,919</u>	<u>\$ 10,999</u>

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
 (In thousands, except share and per share amounts)
 (Unaudited)

	Three Months Ended September 30,	
	2023	2022
Net revenue:		
Product revenues	\$ 3,713	\$ 2,399
Royalty and other revenues	29	10
Total net revenues	<u>3,742</u>	<u>2,409</u>
Cost of goods sold	<u>1,548</u>	<u>1,647</u>
Gross margin	<u>2,194</u>	<u>762</u>
Operating expenses:		
Selling, general and administrative	2,137	1,743
Research and development	205	252
Depreciation and amortization	55	48
Total operating expenses	<u>2,397</u>	<u>2,043</u>
Operating loss from continuing operations	(203)	(1,281)
Other (expense) income:		
Interest expense	-	(4)
Interest income	11	4
Other (expense) net	10	31
Total other expense:	<u>21</u>	<u>31</u>
Loss from continuing operations	(182)	(1,250)
Net loss from discontinued operations	-	(1,904)
Net loss	<u>(182)</u>	<u>(3,154)</u>
Less: Undeclared deemed dividend attributable to noncontrolling interest	-	(77)
Net loss attributable to Nephros Inc. shareholders	<u>\$ (182)</u>	<u>\$ (3,231)</u>
Net loss per common share, basic and diluted from continuing operations	\$ (0.02)	\$ (0.12)
Net loss per common share, basic and diluted from discontinued operations	-	(0.18)
Net loss per common share, basic and diluted	\$ (0.02)	\$ (0.30)
Net loss per common share, basic and diluted, attributable to continuing noncontrolling interest	-	(0.01)
Net loss per common share, basic and diluted, attributable to Nephros, Inc. shareholders	\$ (0.02)	\$ (0.31)
Weighted average common shares outstanding, basic and diluted	10,460,866	10,303,818
Comprehensive loss:		
Net loss	\$ (182)	\$ (3,154)
Other comprehensive loss, foreign currency translation adjustments, net of tax	-	-
Comprehensive loss	<u>(182)</u>	<u>(3,154)</u>
Comprehensive loss attributable to continuing noncontrolling interest	-	(77)
Comprehensive loss attributable to Nephros, Inc. shareholders	<u>\$ (182)</u>	<u>\$ (3,231)</u>