

REFINITIV

DELTA REPORT

10-Q

NEPH - NEPHROS INC

10-Q - SEPTEMBER 30, 2023 COMPARED TO 10-Q - JUNE 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1273

█	CHANGES	5
█	DELETIONS	1179
█	ADDITIONS	89

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

August 9, 2023

FORM 10-Q

Andrew Astor
 (Mark One)[Address]
 [Address]

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 Dear Andy,

For Reference is made to that certain Employment Agreement between you and Nephros, Inc. (the "Company") dated August 23, 2020 (the "Employment Agreement"). This letter agreement is intended to serve as an amendment to the quarterly Employment Agreement by setting forth modified terms of your employment with the Company following your retirement and resignation as the Company's President and CEO and from the Company's board of directors, which became effective as of May 11, 2023. Accordingly, you and the Company agree as follows:

1. Change in Status. Following your retirement as President and CEO, you have agreed to remain employed as the Company's interim Chief Financial Officer ("CFO"). As CFO, you will be responsible for, among other matters, leading the financial and risk management operations of the Company, including tracking financial strategies and supporting the ongoing development and monitoring of control systems designed to preserve company assets and to report accurate financial results. Additionally, you will remain as the Company's principal financial officer and principal accounting officer. Further, you will assist the Company's President and CEO in his transition to such positions and provide such other assistance and services as he and/or the board may reasonably request. Your continued employment as CFO will be on an "at-will" basis, meaning that your employment may be terminated by either you or the Company at any time.

2. Salary. Your annualized base salary will initially be the same as your prior salary as President and CEO. However, you and the Company understand that as your progress further in your transition as CFO, you and the Company expect that the amount of time required to fulfill your CFO obligations will decline from full-time. Accordingly, you and the Company agree on a monthly basis to re-evaluate the amount of time required to fulfill your duties as CFO and your annualized base salary will be adjusted pro rata to reflect such reduced time commitment.

3. 2023 Cash Bonus. Even if you do not remain employed by the Company as of December 31, 2023, you will be eligible to receive your 2023 cash bonus, based upon achievement of the corporate goals and milestones previously approved by the Company's Board of Directors (the "Board"), as determined in the Board's discretion, which amount will be adjusted pro rata based on the period ended: **June 30, 2023**

OR

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

For your employment with the Company and the percentage of time dedicated to such employment during 2023; provided, that your eligibility for such bonus award shall be subject to your continued assistance in assisting in the transition period from: _____ to _____ the Company's new President and CEO and its to-be-hired CFO.

Commission File Number: 001-32288

NEPHROS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or organization)

13-3971809

(I.R.S. Employer Identification No.)

380 Lackawanna Place
South Orange, NJ

07079

(Address of principal executive offices)

(Zip Code)

(201)343-5202

Registrant's telephone number, including area code

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading symbol	Name of exchange on which registered
Common stock, par value \$0.001 per share	NEPH	The Nasdaq Stock Market LLC

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 NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO

As of August 7, 2023, 10,484,932 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

NEPHROS, INC. AND SUBSIDIARIES**TABLE OF CONTENTS**

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

NEPHROS, INC. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

(4. Option Awards. In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,060	\$ 3,634
Accounts receivable, net	1,576	1,286
Inventory	2,126	3,153
Prepaid expenses and other current assets	152	188
Total current assets	7,914	8,261
Property and equipment, net	98	116
Lease right-of-use assets	824	984
Intangible assets, net	402	423
Goodwill	759	759
License and supply agreement, net	335	402
Other assets	54	54
TOTAL ASSETS	\$ 10,386	\$ 10,999
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of secured note payable	\$ -	\$ 71
Accounts payable	302	740
Accrued expenses	572	285
Current portion of lease liabilities	323	316
Total current liabilities	1,197	1,412
Equipment financing, net of current portion	-	1
Lease liabilities, net of current portion	534	705
TOTAL LIABILITIES	1,731	2,118
COMMITMENTS AND CONTINGENCIES (Note 14)		
STOCKHOLDERS' EQUITY		
Preferred stock, \$.001 par value; 5,000,000 shares authorized at June 30, 2023 and December 31, 2022; no shares issued and outstanding at June 30, 2023 and December 31, 2022.	-	-
Common stock, \$.001 par value; 40,000,000 shares authorized at June 30, 2023 and December 31, 2022; 10,484,932 and 10,297,429 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively.	10	10
Additional paid-in capital	152,215	148,413
Accumulated deficit	(143,570)	(142,831)
Subtotal	8,655	5,592
Noncontrolling interest	-	3,289
TOTAL STOCKHOLDERS' EQUITY	8,655	8,881

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,386	\$ 10,999
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The accompanying notes are an integral part consideration of these unaudited consolidated interim financial statements.

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NEPHROS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except share and per share amounts)

	(Unaudited)		Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022	2023	2022
Net revenue:						
Product revenues	\$ 3,537	\$ 2,837	\$ 7,199	\$ 4,988		
Royalty and other revenues	8	13	43	21		
Total net revenues	<u>3,545</u>	<u>2,850</u>	<u>7,242</u>	<u>5,009</u>		
Cost of goods sold	1,466	1,455	3,052	2,561		
Gross margin	<u>2,079</u>	<u>1,395</u>	<u>4,190</u>	<u>2,448</u>		
Operating expenses:						
Selling, general and administrative	2,239	1,885	4,363	4,062		
Research and development	221	273	460	645		
Depreciation and amortization	54	51	108	102		
Total operating expenses	<u>2,514</u>	<u>2,209</u>	<u>4,931</u>	<u>4,809</u>		
Operating loss from continuing operations	(435)	(814)	(741)	(2,361)		
Other (expense) income:						
Interest expense	-	(6)	(1)	(13)		
Interest income	13	1	25	3		
Other income (expense), net	<u>(11)</u>	<u>72</u>	<u>(22)</u>	<u>63</u>		
Total other expense:	2	67	2	53		
Loss from continuing operations	(433)	(747)	(739)	(2,308)		
Net loss from discontinued operations	-	(390)	-	(796)		
Net loss	<u>(433)</u>	<u>(1,137)</u>	<u>(739)</u>	<u>(3,104)</u>		
Less: Undeclared deemed dividend attributable to noncontrolling interest	-	(66)	-	(129)		
Net loss attributable to Nephros, Inc. shareholders	\$ (433)	\$ (1,203)	\$ (739)	\$ (3,233)		
Net loss per common share, basic and diluted from continuing operations	(0.04)	(0.07)	(0.07)	(0.22)		
Net loss per common share, basic and diluted from discontinued operations	-	(0.04)	-	(0.08)		
Net loss per common share, basic and diluted	(0.04)	(0.11)	(0.07)	(0.30)		
Net loss per common share, basic and diluted, attributable to continuing noncontrolling interest	-	(0.01)	-	(0.01)		
Net loss per common share, basic and diluted, attributable to Nephros, Inc. shareholders	\$ (0.04)	\$ (0.12)	\$ (0.07)	\$ (0.31)		
Weighted average common shares outstanding, basic and diluted	10,297,429	10,299,148	10,297,429	10,265,267		
Comprehensive loss:						
Net loss	\$ (433)	\$ (1,137)	\$ (739)	\$ (3,104)		
Other comprehensive loss, foreign currency translation adjustments, net of tax	-	-	-	(3)		
Comprehensive loss	<u>(433)</u>	<u>(1,137)</u>	<u>(739)</u>	<u>(3,107)</u>		
Comprehensive loss attributable to noncontrolling interest	-	(66)	-	(129)		

Comprehensive loss attributable to Nephros, Inc.

shareholders

\$ (433) \$ (1,203) \$ (739) \$ (3,236)

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

NEPHROS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(In thousands, except share amounts)
(Unaudited)

Three and six months ended June 30, 2023

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Accumulated Deficit	Subtotal	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount		Income	Deficit				
Balance, December 31, 2022	10,297,429	\$ 10	\$ 148,413			- \$ (142,831)	\$ 5,592	\$ 3,289	\$ 8,881
Net loss	-	-	-			- (306)	(306)	-	(306)
Change in non- controlling interest	-	-	3,262			-	3,262	(3,262)	-
Stock-based compensation	-	-	346			-	346	(27)	319
Balance, March 31, 2023	10,297,429	\$ 10	\$ 152,021			- \$ (143,137)	\$ 8,894	\$ -	\$ 8,894
Net loss	-	\$ -	\$ -			- \$ (433)	\$ (433)	- \$	\$ (433)
Stock-based compensation	-	-	194			-	194	-	194
Balance, June 30, 2023	10,297,429	\$ 10	\$ 152,215			- \$ (143,570)	\$ 8,655	\$ -	\$ 8,655
Three and six months ended June 30, 2022									

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income		Accumulated Deficit	Subtotal	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount		Income	Deficit				
Balance, December 31, 2021	10,198,712	\$ 10	\$ 147,346		64 \$ (135,725)	\$ 11,695	\$ 3,054	\$ 14,749	
Net loss	-	-	-		- (1,967)	(1,967)	-	-	(1,967)
Change in non- controlling interest	-	-	-		-	-	-	188	188
Net unrealized losses on foreign currency translation, net of tax	-	-	-	(3)	-	(3)	-	-	(3)

Exercise of warrants	60,374	-	163	-	-	163	-	163
Stock-based compensation	-	-	272	-	-	272	-	272
Balance, March 31, 2022	<u>10,259,086</u>	<u>\$ 10</u>	<u>\$ 147,781</u>	<u>\$ 61</u>	<u>\$ (137,692)</u>	<u>\$ 10,160</u>	<u>\$ 3,242</u>	<u>\$ 13,402</u>
Net loss	-	\$ -	\$ -	\$ -	\$ (1,137)	\$ (1,137)	\$ -	\$ (1,137)
Restricted stock vesting	44,732	-	-	-	-	-	-	-
Elimination of cumulative translation adjustment, upon closing of wholly owned foreign subsidiary	-	-	-	(61)	-	(61)	-	(61)
Stock-based compensation	-	-	259	-	-	259	18	277
Balance, June 30, 2022	<u>10,303,818</u>	<u>\$ 10</u>	<u>\$ 148,040</u>	<u>\$ -</u>	<u>\$ (138,829)</u>	<u>\$ 9,221</u>	<u>\$ 3,260</u>	<u>\$ 12,481</u>

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

NEPHROS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2023	2022
OPERATING ACTIVITIES:		
Net loss	\$ (739)	\$ (3,104)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	19	53
Amortization of intangible assets, license and supply agreement and finance lease right-of-use asset	88	143
Stock-based compensation, including stock options and restricted stock	513	549
Inventory obsolescence charge	106	108
Gain on foreign currency transactions	-	(60)
Decrease (increase) in operating assets:		
Accounts receivable	(290)	(487)
Inventory	920	23
Prepaid expenses and other current assets	35	74
Right-of-use assets	160	174
Other assets	2	22
(Decrease) increase in operating liabilities:		
Accounts payable	(437)	77
Accrued expenses	285	(262)
Lease liabilities	(160)	(179)
Net cash provided by (used in) operating activities	<u>502</u>	<u>(2,869)</u>
INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(137)
Net cash used in investing activities	-	(137)
FINANCING ACTIVITIES:		
Proceeds from sale of subsidiary preferred shares to noncontrolling interest	-	188
Principal payments on finance lease liability	(4)	(3)
Principal payments on equipment financing	(1)	(1)
Payments on secured note payable	(71)	(133)
Proceeds from exercise of warrants	-	163
Net cash provided by (used in) financing activities	<u>(76)</u>	<u>214</u>
Effect of exchange rates on cash and cash equivalents	-	(2)
Net increase (decrease) in cash and cash equivalents	426	(2,794)
Cash and cash equivalents, beginning of period	3,634	6,973
Cash and cash equivalents, end of period	<u>\$ 4,060</u>	<u>\$ 4,179</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2</u>	<u>\$ 13</u>
Supplemental disclosure of noncash investing and financing activities		
Right-of-use asset obtained in exchange for operating lease liability	<u>\$ -</u>	<u>\$ 69</u>

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

NEPHROS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

Note 1 – Organization and Nature of Operations

Nephros, Inc. ("Nephros" or **your assistance with the** "Company") was incorporated under the laws of the State of Delaware on April 3, 1997. The Company was founded by health professionals, scientists and engineers affiliated with Columbia University to develop advanced end stage renal disease ("ESRD") therapy technology and products.

Beginning in 2009, Nephros introduced high performance liquid purification filters to meet the demand for water purification in certain medical markets. The Company's filters, generally classified as ultrafilters, are primarily used in hospitals for the prevention of infection from waterborne pathogens, such as legionella and pseudomonas, and in dialysis centers for the removal of biological contaminants from water and bicarbonate concentrate. The Company also develops and sells water filtration products for commercial applications, focusing on the hospitality and food service markets. The water filtration business is a reportable segment, referred to as the Water Filtration segment.

On October 4, 2022, the Company entered into a definitive asset purchase agreement with a third party for the sale of substantially all of the Company's Pathogen Detection Systems ("PDS") business, which had been previously reported as a separate reportable operating segment. As a result of the sale of the PDS business, we completely exited the PDS business. As a result, we determined that our PDS business had met the criteria for discontinued operations as of September 30, 2022. We no longer separately report the PDS business as a separate reportable segment in our financial statements including in this Quarterly Report for any of the periods presented.

In July 2018, the Company formed a subsidiary, Specialty Renal Products, Inc. ("SRP"), to drive the development of its second-generation hemodiafiltration system and other products focused on improving therapies for patients with renal disease. After SRP's formation, the Company assigned to SRP all of the Company's rights to three patents relating **transition** to the Company's hemodiafiltration technology, which were carried at zero book value. On March 9, 2023, **new management team**, the SRP Stockholders approved a plan of dissolution to wind down SRP's operations, liquidate SRP's remaining assets and dissolve SRP. Pursuant to such plan, SRP filed a certificate of dissolution with the State of Delaware on April 13, 2023. As a result of the SRP Stockholders' approval of the plan of dissolution and provisions therein and the extent of SRP's liabilities, there are no assets available for distribution. **Company agrees to the holders of any of SRP's capital following with respect to the currently outstanding stock including its Series A Preferred Stock. As such, the value of the SRP Series A Preferred Stock was written option awards that have been granted to zero and the impact recorded you pursuant to the Company's additional paid in capital as the Company retained control of SRP.**

The Company's primary U.S. facilities are located at 380 Lackawanna Place, South Orange, New Jersey 07079 and 3221 Polaris Avenue, Las Vegas, Nevada 89102. These locations house the Company's corporate headquarters, research, manufacturing, and distribution facilities.

Note 2 – Basis of Presentation and Liquidity

Interim Financial Information

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 8 and Article 10 of Regulation S-X. The consolidated balance sheet as of December 31, 2022 was derived from the Company's audited financial statements. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. Results as of and for the six months ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The consolidated interim financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2022.

Segment Reporting

The Company operates in only one business segment from which the Company's chief operating decision maker evaluates the financial performance of the Company.

Consolidation

The accompanying consolidated financial statements include the accounts of Nephros, Inc. and its subsidiaries, including the Company's wholly owned subsidiary Nephros International, which was dissolved during the quarter ended June 30, 2022, and SRP, which was dissolved pursuant to a plan of dissolution adopted by its stockholders on March 9, 2023 and the subsequent filing of a certificate of dissolution with the State of Delaware on April 13, 2023. All intercompany accounts and transactions were eliminated in the preparation of the accompanying consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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 amount of revenues and expenses, during the reporting period. Actual results could differ materially from those estimates. Included in these estimates are assumptions about the collection of accounts receivable, value of inventories, useful life of fixed assets and intangible assets, the assessment of expected cash flows used in evaluating goodwill and other long-lived assets, and assumptions used in determining stock compensation such as expected volatility and risk-free interest rate.

Liquidity

In February 2022, pursuant to a First Amendment to Series A Preferred Stock Purchase Agreement (the "Amendment") among SRP and the holders of SRP's outstanding shares of Series A Preferred Stock, SRP issued and sold an additional 100,003 shares of its Series A Preferred Stock at a price of \$5.00 per share, resulting in total gross proceeds of \$500,015. See "Note 12 – Stockholders' Equity – Noncontrolling Interest," below. In addition to the funds provided by the sale of these additional shares of Series A Preferred Stock, the Company and SRP also maintained a loan agreement under which the Company loaned \$1.3 million to SRP, of which \$1.0 million had been loaned during the year ended December 31, 2020. These loaned funds were used to fund SRP's operating activities through the FDA 510(k) clearance process of SRP's second-generation hemodiafiltration system, which was initially submitted to the FDA on February 24, 2021, and which received 510(k) clearance on May 13, 2022. In connection with SRP's plan of dissolution and pursuant to an agreement between the Company and SRP entered into on May 24, 2023, SRP assigned substantially all of its remaining assets to the Company in satisfaction of the entire loan balance. Accordingly, as of June 30, 2023, there was no outstanding balance of this loan. The Company sustained operating losses every quarter through December 31, 2022. Although the Company has recently realized modest positive operating cash flows, net cash from operations has been mostly negative since the Company's inception, generating an accumulated deficit of \$143.6 million as of June 30, 2023. These operating losses and negative cash flows raise substantial doubt of the Company's ability to continue as a going concern. The Company has realized positive cash flows during the first two quarters of 2023, partly due to revenue growth and partly due to certain actions the Company took during the second half of 2022. These actions included headcount and other expense reductions, the sale of PDS assets and discontinuance of PDS operations, the wind down and dissolution of SRP, customer price increases, and the recruiting and acquisition of additional sales staff to grow revenues. The Company believes these actions and the recent positive cash flows alleviate the substantial doubt as to the Company's ability to continue as a going concern. Furthermore, based on these actions, as well as the cash that is available for the Company's operations and projections of future Company operations, the Company believes that its cash balances are sufficient to fund its current operating plan through at least the next 12 months from the date of issuance of the accompanying consolidated financial statements. However, in the event that the Company's operating results do not meet its expectations, the Company may need to further reduce discretionary expenditures such as headcount, R&D projects, and other variable costs.

Recently Adopted Accounting Pronouncements

In October 2021, the FASB issued ASU 2021-08, "Accounting for Contract Assets and Contract Liabilities from Contracts with Customers," which requires that an entity recognize contract assets and contract liabilities acquired in a business combination in accordance with Accounting Standards Codification ("ASC") 606. The guidance is effective for the Company beginning in the first quarter of fiscal year 2023 and should be applied prospectively. The Company adopted this guidance as of January 1, 2023 and the guidance did not have an impact on its consolidated financial statements.

Concentration of Credit Risk

The Company deposits its cash in financial institutions. At times, such deposits may be in excess of insured limits. To date, the Company has not experienced any impairment losses on its cash. The Company also limits its credit risk with respect to accounts receivable by performing credit evaluations when deemed necessary.

Major Customers

For the three months ended June 30, 2023, and 2022, the following customers accounted for the following percentages of the Company's revenues, respectively:

Customer	2023	2022
A	18%	17%
C	11%	12%
D	11%	1%
E	5%	12%
Total	45%	42%

For the six months ended June 30, 2023, and 2022, the following customers accounted for the following percentages of the Company's revenues, respectively:

Customer	2023	2022
A	19%	20%
B	13%	2%
C	10%	12%
Total	42%	34%

As of June 30, 2023, and December 31, 2022, the following customers accounted for the following percentages of the Company's accounts receivable, respectively:

Customer	2023	2022
A	16%	21%
B	11%	2%
C	8%	10%
F	6%	10%
Total	41%	43%

Accounts Receivable

The Company recognizes an allowance that reflects a current estimate of credit losses expected to be incurred over the life of a financial asset, including trade receivables. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses. The Company determines its allowance for doubtful accounts by considering a number of factors, including the length of time balances are past due, the Company's previous loss history, the customer's current ability to pay its obligations to the Company and the expected condition of the general economy and the industry as a whole. The Company writes off accounts receivable when they are determined to be uncollectible. There was no allowance for doubtful accounts as of June 30, 2023, and December 31, 2022, respectively.

Depreciation Expense

Depreciation related to equipment utilized in the manufacturing process is recognized in cost of goods sold on the consolidated statements of operations and comprehensive loss. For the three and six months ended June 30, 2023, depreciation expense was approximately \$1,000 and \$2,000, respectively. For the three and six months ended June 30, 2022, depreciation expense was approximately \$12,000 and \$16,000, respectively.

Note 3 – Revenue Recognition

The Company recognizes revenue related to product sales when product is shipped via external logistics providers and the other criteria of ASC 606 are met. Product revenue is recorded net of returns and allowances. There was no allowance for sales returns for the three and six months ended June 30, 2023, or 2022. In addition to product revenue, the Company recognizes revenue related to royalty and other agreements in accordance with the five-step model in ASC 606. Other revenues recognized for the three and six months ended June 30, 2023 were approximately \$8,000 and \$43,000, respectively. Other revenues recognized for the three and six months ended June 30, 2022 were approximately \$13,000 and \$21,000, respectively.

Other Revenue – Other revenues are derived from sales of services to customers, which primarily include installation, training and testing on products and equipment sold to certain customers.

Note 4 – Discontinued Operations

In accordance with ASC 205-20, "Presentation of Financial Statements: Discontinued Operations", a disposal of a component of an entity or a group of components of an entity (disposal group) is required to be reported as discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results when the disposal group meets the criteria to be classified as held-for-sale. The consolidated statements of operations reported for current and prior periods report the results of operations of the discontinued operations, including the impairment loss recognized as a component of net income (loss) separate from the net income (loss) from continuing operations.

All discontinued operations relate to the Company's previously reported PDS segment, for the three and six months ended June 30, 2022.

	Three Months Ended June 30, 2022 (in thousands)
Total net revenues	\$ 34
Gross loss	(34)
Research and development expenses	158
Depreciation and amortization expense	13
Selling, general and administrative expenses	185
Total operating expenses	356
Operating loss from discontinued operations	(390)
Impairment of assets held for sale	-
Loss from discontinued operations	\$ (390)
	Six Months Ended June 30, 2022 (in thousands)
Total net revenues	\$ 62
Gross loss	(62)
Research and development expenses	364
Depreciation and amortization expense	14
Selling, general and administrative expenses	356
Total operating expenses	734
Operating loss from discontinued operations	(796)
Impairment of assets held for sale	-
Loss from discontinued operations	\$ (796)

Note 5 – Fair Value Measurements

The Company measures certain financial instruments and other items at fair value.

To determine the fair value, the Company uses the fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use to value an asset or liability and are developed based on market data obtained from independent sources. Unobservable inputs are inputs based on assumptions about the factors market participants would use to value an asset or liability.

To measure fair value, the Company uses the following fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs other than Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data by correlation or other means.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Value is determined using pricing models, discounted cash flow methodologies, or similar techniques and also includes instruments for which the determination of fair value requires significant judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company evaluates its financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level of classification for each reporting period.

At June 30, 2023 and December 31, 2022, the Company's cash equivalents consisted of money market funds. The Company values its cash equivalents using observable inputs that reflect quoted prices for securities with identical characteristics and classify the valuation techniques that use these inputs as Level 1.

At June 30, 2023 and December 31, 2022, the fair value measurements of the Company's assets and liabilities measured on a recurring basis were as follows:

	Fair Value Measurements at Reporting Date Using		
	Quoted Prices in	Significant	Significant
	Active Markets for	Other	Unobservable
	Identical Assets	Observable Inputs	Inputs
(Level 1) (Level 2) (Level 3)			
(in thousands)			
June 30, 2023			
Cash	\$ 168	\$	\$
Money market funds	3,892		
Cash and cash equivalents	<u>\$ 4,060</u>	<u>\$ -</u>	<u>\$ -</u>
December 31, 2022			
Cash	\$ 1,598	\$	\$
Money market funds	2,036		
Cash and cash equivalents	<u>\$ 3,634</u>	<u>\$ -</u>	<u>\$ -</u>

Assets and Liabilities Not Measured at Fair Value on a Recurring Basis

The carrying amounts of accounts receivable, accounts payable and accrued expenses approximate fair value due to the short-term maturity of these instruments.

The carrying amounts of the secured long-term note payable, lease liabilities and equipment financing approximate fair value as of June 30, 2023 and December 31, 2022 because those financial instruments bear interest at rates that approximate current market rates for similar agreements with similar maturities and credit.

Note 6 - Inventory

Inventory is stated at the lower of cost or net realizable value using the first-in, first-out method and consists of raw materials and finished goods. The Company's inventory components as of June 30, 2023 and December 31, 2022, were as follows:

	June 30, 2023	December 31, 2022
	(in thousands)	
Finished goods	\$ 1,674	\$ 2,709
Raw materials	452	422
Work in process	-	22
Total inventory	<u>\$ 2,126</u>	<u>\$ 3,153</u>

Note 7 - Intangible Assets and Goodwill

Intangible Assets

Intangible assets as of June 30, 2023 and December 31, 2022 are set forth in the table below. Gross carrying values and accumulated amortization of the Company's intangible assets by type are as follows:

	June 30, 2023			December 31, 2022		
	Cost	Accumulated Amortization		Net	Cost	Accumulated Amortization
		Cost	Amortization			
(in thousands)						
Tradenames, service marks and domain names	\$ 50	\$ (45)	\$ 5	\$ 50	\$ (40)	\$ 10
Customer relationships	<u>540</u>	<u>(143)</u>	<u>397</u>	<u>540</u>	<u>(127)</u>	<u>413</u>

Total intangible assets	\$ 590	\$ (188)	\$ 402	\$ 590	\$ (167)	\$ 423
	11					

The Company recognized amortization expense of approximately \$11,000 for each of the three months ended June 30, 2023 and June 30, 2022. All were recognized in selling, general and administrative expenses on the accompanying consolidated statement of operations and comprehensive loss.

As of June 30, 2023, future amortization expense for each of the next five years is (in thousands):

Fiscal Years

2023 (excluding the six months ended June 30, 2023)	\$	21
2024		32
2025		32
2026		32
2027		32
2028		32

Goodwill

Goodwill has a carrying value on the Company's consolidated balance sheets of approximately \$0.8 million at June 30, 2023 and December 31, 2022.

Note 8 - License and Supply Agreement, net

On April 23, 2012, the Company entered into a License and Supply Agreement (as thereafter amended, the "License and Supply Agreement") with Medica S.p.A. ("Medica"), an Italy-based medical product manufacturing company, for the marketing and sale of certain filtration products based upon Medica's proprietary Medisulfone ultrafiltration technology in conjunction with the Company's filtration products, and for an exclusive supply arrangement for the filtration products. Under the License and Supply Agreement, Medica granted to the Company an exclusive license, with right of sublicense, to market, promote, distribute, offer for sale and sell the filtration products worldwide, with certain limitations on territory, during the term of the License and Supply Agreement. In addition, the Company granted to Medica an exclusive license under the Company's intellectual property to make the filtration products during the term of the License and Supply Agreement. The filtration products covered under the License and Supply Agreement includes both certain products based on Medica's proprietary Versatile microfiber technology and certain filtration products based on Medica's proprietary Medisulfone ultrafiltration technology. The License and Supply Agreement expires on December 31, 2025, unless earlier terminated by either party in accordance with its terms. The Company intends to seek an extension of the License and Supply Agreement prior to such termination date.

In exchange for the license, the gross value of the intangible asset capitalized was \$2.3 million. License and supply agreement, net, on the consolidated balance sheet is \$0.4 million as of June 30, 2023 and December 31, 2022, respectively. Accumulated amortization is \$1.9 million as of June 30, 2023 and December 31, 2022, respectively. The intangible asset is being amortized as an expense over the life of the License and Supply Agreement. Amortization expense of approximately \$33,000 was recognized in each of the three months ended June 30, 2023 and 2022 on the consolidated statement of operations and comprehensive loss.

As of September 2013, the Company has an understanding with Medica whereby the Company has agreed to pay interest to Medica at a 12% annual rate calculated on the principal amount of any outstanding invoices that are not paid pursuant to the original payment terms. There was no interest recognized for the six months ended June 30, 2023 or June 30, 2022.

In addition, for the period beginning April 23, 2014 through December 31, 2025, the Company will pay Medica a royalty rate of 3% of net sales of the filtration products sold, subject to reduction as a result of a supply interruption pursuant to the terms of the License and Supply Agreement. Approximately \$95,000 and \$73,000 for the three months ended June 30, 2023 and 2022, respectively, was recognized as royalty expense and is included in cost of goods sold on the consolidated statement of operations and comprehensive loss. Approximately \$191,000 and \$132,000 for the six months ended June 30, 2023 and 2022, respectively, was recognized as royalty expense and is included in cost of goods sold on the consolidated statement of operations and comprehensive loss. Approximately \$95,000 and \$71,000 of this royalty expense was included in accounts payable as of June 30, 2023 and December 31, 2022, respectively.

Note 9 – Secured Note Payable

On March 27, 2018, the Company entered into a Secured Promissory Note Agreement (the "Secured Note") with Tech Capital for a principal amount of \$1.2 million. As of June 30, 2023, the principal balance of the Secured Note was paid off.

The Secured Note had a maturity date of April 1, 2023. The unpaid principal balance accrued interest at a rate of 8% per annum. Principal and interest payments were due on the first day of each month commencing on May 1, 2018. The Secured Note was subject to terms and conditions of and was secured by security interests granted by the Company in favor of Tech Capital under the Loan and Security Agreement entered into on August 17, 2017 and subsequently amended on December 20, 2019 (the "Loan Agreement"). An event of default under such Loan Agreement was an event of default under the Secured Note and vice versa.

During the three months ended June 30, 2023, no payments were made under the Secured Note, as the Note was repaid in full at March 31, 2023. During the three months ended June 30, 2022, the Company made payments under the Secured Note of approximately \$72,000. Included in the total payments made, approximately \$5,000 was recognized as interest expense on the consolidated statement of operations and comprehensive loss for the three months ended June 30, 2022.

During the six months ended June 30, 2023 and June 30, 2022, the Company made payments under the Secured Note of approximately \$71,000 and \$144,000, respectively. Included in the total payments made, approximately \$1,000 and \$11,000 was recognized as interest expense on the consolidated statements of operations and comprehensive loss for the six months ended June 30, 2023 and June 30, 2022.

Note 10 – Leases

The Company has operating leases for corporate offices, an automobile and office equipment. The leases have remaining lease terms of 1 year to 5 years.

Lease cost, as presented below, includes costs associated with leases for which right-of-use ("ROU") assets have been recognized as well as short-term leases.

The components of total lease costs were as follows:

	Three months ended	Three months ended
	June 30, 2023	June 30, 2022
(in thousands)		
Operating lease cost	\$ 90	\$ 102
Finance lease cost:		
Amortization of right-of-use assets	2	1
Interest on lease liabilities	1	1
Total finance lease cost	3	2
Variable lease cost	3	10
Total lease cost	\$ 96	\$ 114
Six months ended		
	June 30, 2023	June 30, 2022
(in thousands)		
Operating lease cost	\$ 182	\$ 213
Finance lease cost:		
Amortization of right-of-use assets	4	5
Interest on lease liabilities	2	3
Total finance lease cost	6	8
Variable lease cost	7	19

Total lease cost	\$ 195	\$ 240
	13	

Supplemental cash flow information related to leases was as follows:

	Six months ended June 30, 2023	Six months ended June 30, 2022
	(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 160	\$ 211
Financing cash flows from finance leases	<u>4</u>	<u>3</u>

Supplemental balance sheet information related to leases was as follows:

	June 30, 2023	December 31, 2022
	(in thousands)	
Operating lease right-of-use assets	\$ 816	\$ 972
Finance lease right-of-use assets	<u>8</u>	<u>12</u>
Current portion of operating lease liabilities	\$ 315	\$ 308
Operating lease liabilities, net of current portion	<u>534</u>	<u>700</u>
Total operating lease liabilities	<u>\$ 849</u>	<u>\$ 1,008</u>
Current portion of finance lease liabilities	\$ 8	\$ 8
Finance lease liabilities, net of current portion	<u>-</u>	<u>5</u>
Total finance lease liabilities	<u>\$ 8</u>	<u>\$ 13</u>
Weighted average remaining lease term		
Operating leases	3.6 years	3.9 years
Finance leases	1.1 years	1.54 years
Weighted average discount rate		
Operating leases	8.0%	8.0%
Finance leases	8.0%	8.0%

As of June 30, 2023, maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
	(in thousands)	
2023 (excluding the six months ended June 30, 2023)	\$ 105	\$ 4
2024	<u>299</u>	<u>4</u>
2025	<u>163</u>	<u>-</u>
2026	<u>168</u>	<u>-</u>
2027	<u>158</u>	<u>-</u>
Total future minimum lease payments	<u>893</u>	<u>8</u>
Less imputed interest	<u>(44)</u>	<u>-</u>
Total	<u>\$ 849</u>	<u>\$ 8</u>

Note 11 – Stock Plans and Share-Based Payments

The fair value of stock options and restricted stock is recognized as stock-based compensation expense in the Company's consolidated statement of operations and comprehensive loss. The Company calculates stock-based compensation expense in accordance with ASC 718. The fair value of stock-based awards is amortized over the vesting period of the award.

Stock Options

The Company granted stock options to purchase 357,165 and 447,065 shares of common stock, respectively, to employees during the three and six months ended June 30, 2023. These stock options are being expensed over the respective vesting period, which is based on a service condition. The fair value of the stock options granted during the three and six months ended June 30, 2023, was approximately \$0.4 million.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model. The below assumptions for the risk-free interest rates, expected dividend yield, expected lives and expected stock price volatility were utilized for the stock options granted during the six months ended June 30, 2023.

Assumptions for Option Grants

Stock Price Volatility	74.01 %
Risk-Free Interest Rate	3.43 %
Expected Life (in years)	6.21
Expected Dividend Yield	-%

Stock-based compensation expense related to stock options was approximately \$169,000 and \$242,000 for the three months ended June 30, 2023 and 2022, respectively. For the three months ended June 30, 2023, approximately \$156,000 and \$13,000 are included in selling, general and administrative expenses and research and development expenses, respectively, on the accompanying consolidated statement of operations and comprehensive loss. For the three months ended June 30, 2022, approximately \$225,000 and \$17,000 are included in selling, general and administrative expenses and research and development expenses, respectively, on the accompanying consolidated statement of operations and comprehensive loss.

Stock-based compensation expense related to stock options was \$349,000 and \$473,000 for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023, approximately \$315,000 and \$34,000 are included in selling, general and administrative expenses and research and development expenses, respectively, on the accompanying consolidated statement of operations and comprehensive loss. For the six months ended June 30, 2022, approximately \$443,000 and \$30,000 are included in selling, general and administrative expenses and research and development expenses, respectively, on the accompanying consolidated statement of operations and comprehensive loss.

There was no tax benefit related to expense recognized in the three or six months ended June 30, 2023 and 2022, as the Company is in a net operating loss position. As of June 30, 2023, there was approximately \$1.0 million of total unrecognized compensation expense related to unvested stock-based awards granted under the equity compensation plans, which will be amortized over the weighted average remaining requisite service period of 2.5 years.

Restricted Stock

Total stock-based compensation expense for restricted stock on the Company's consolidated statement of operations was approximately \$25,000 and \$17,000 for the three months ended June 30, 2023 and 2022, respectively. For the three months ended June 30, 2023, approximately \$25,000 is included in selling, general and administrative expenses on the accompanying consolidated statement of operations and comprehensive loss. For the three months ended June 30, 2022, approximately \$17,000 is included in selling, general and administrative expenses on the accompanying consolidated statement of operations and comprehensive loss.

Total stock-based compensation expense for restricted stock was approximately \$38,000 and \$58,000 for the six months ended June 30, 2023 and 2022, respectively. For the six months ended June 30, 2023, approximately \$38,000 is included in selling, general and administrative expenses on the accompanying consolidated statement of operations and comprehensive loss. During the six months ended June 30, 2023, 23,781 shares of restricted stock were issued to employees, 133,722 shares of restricted stock were issued to board members all related to services rendered during the year ended December 31, 2022. In addition, 30,000 shares of restricted stock were issued to contractors during the six months ended June 30, 2023. All restricted shares issued during the six months ended June 30, 2023, have a vesting period of six months. For the six months ended June 30, 2022, approximately \$58,000 is included in selling, general and administrative expenses and research and development expenses on the accompanying consolidated statement of operations and comprehensive loss.

As of June 30, 2023, there was approximately \$12,000 of unrecognized compensation expense related to unvested stock-based awards granted under the equity compensation plans, which will be amortized over the weighted average remaining requisite service period of 0.1 years.

The aggregate shares of common stock legally issued and outstanding as of June 30, 2023 is greater than the aggregate shares of common stock outstanding for accounting purposes by the amount of unvested restricted shares.

SRP 2015 Equity Incentive Plan

SRP's 2019 Equity Incentive Plan was approved on May 7, 2019 under which 150,000 shares of SRP's common stock are reserved for the issuance of options and other awards. This plan is no longer operational, due to the wind down of SRP's operations and its April 2023 dissolution.

Due to the Company's deemed acquisition of the non-controlling interest in SRP during the six months ended June 30, 2023, all remaining equity-based awards have been forfeited and no further expense will be incurred related to these awards. There were no SRP stock options or other equity awards granted during the six months ended June 30, 2023. For the six months ended June 30, 2023, a credit of approximately (\$27,000) was recognized for expense related to the SRP equity-based awards. Stock-based compensation expense related to the SRP stock grants was approximately \$18,000, for the three and six months ended June 30, 2022. Stock-based compensation expense related to the SRP equity-based awards is included in selling, general and administrative expenses on the accompanying consolidated statement of operations and comprehensive loss. Stock-based compensation expense related to the SRP stock options is presented by the Company as noncontrolling interest on the consolidated balance sheet as of December 31, 2022.

Note 12 - Stockholders' Equity

Noncontrolling Interest

Pursuant to the terms and conditions of a Series A Preferred Stock Purchase Agreement, dated September 9, 2018, among SRP and the purchasers identified therein (the "SRP Purchase Agreement"), SRP sold to such purchasers an aggregate of 600,000 shares of its Series A Preferred Stock (the "Series A Preferred") at a price of \$5.00 per share resulting in total gross proceeds of \$3.0 million. On February 1, 2022, SRP "2015 Plan" and such purchasers amended awards, the SRP Purchase Agreement to allow for the sale of an additional 100,003 shares of Series A Preferred, all of which were sold on February 4, 2022, for aggregate gross proceeds of \$500,015 and otherwise on the same terms and conditions as set forth in the SRP Purchase Agreement. Approximately \$188,000 of the proceeds from the February 2022 sales were recorded as an increase to the equity of the non-controlling interests. The Company purchased 62,500 shares of SRP's Series A Preferred at such closing and, as a result, maintained its 62.5% stock ownership position in SRP. The other purchasers at the February 2022 closing included the Company's Chief Executive Officer, who purchased 313 shares, and Lambda Investors LLC ("Lambda" "Stock Options"), an affiliate of Wexford Capital, which together with its affiliates owns approximately 36% of the Company's common stock, which purchased 25,938 shares of the Series A Preferred in February 2022. Such purchases were made on the same terms as all other purchasers. In addition to the funds provided by the SRP Purchase Agreement, the Company loaned to SRP to the principal amount of \$1.3 million, \$1.0 million of which was advanced during the year ended December 31, 2020.

As of December 31, 2022, the non-controlling interest in SRP held by holders of the Series A Preferred has been classified as equity on the accompanying consolidated interim balance sheet, as the non-controlling interest is redeemable only upon the occurrence of events that are within the control of the Company. As a result of the adoption of the plan of liquidation and dissolution by SRP's stockholders and the subsequent filing of a certificate of dissolution of SRP with the State of Delaware, the redemption feature related to the Series A Preferred Stock effectively terminated. As such, the value of the Series A Preferred Stock previously presented in non-controlling interest was reclassified to additional paid in capital as the Company retained control of SRP.

In March 2023, the board of directors of SRP adopted, and the stockholders of SRP approved, a plan to wind down SRP's operations and dissolve, and in April 2023, SRP filed a certificate of dissolution with the State of Delaware. In accordance with its plan of dissolution, after SRP satisfied its other outstanding liabilities, SRP assigned to the Company all of its remaining assets, including its intellectual property rights, in satisfaction of outstanding indebtedness owed to the Company in the approximate amount of \$1.5 million. No other assets are available for distribution to any of SRP's stockholders, including the Company, in respect of their shares of SRP capital stock, including the Series A Preferred. As a result of the dissolution described above, it was determined approximately \$24,000 of inventory likely had no value, and was written off in the period ended March 31, 2023.

Warrants

During the three and six months ended June 30, 2023, the Company had no outstanding warrants.

During the three months ended June 30, 2022, no warrants were exercised. Warrants to purchase 63,102 shares of the Company's common stock expired unexercised.

During the six months ended June 30, 2022, warrants to purchase 60,374 shares of the Company's common stock were exercised, resulting in proceeds of \$0.2 million and the issuance of 60,374 shares of the Company's common stock. Of the warrants exercised during the six months ended June 30, 2022, warrants to purchase 14,815 shares of the Company's common stock were exercised by members of management, resulting in proceeds of approximately \$40,000.

Note 13 – Net Loss per Common Share

Basic loss per common share is calculated by dividing net loss available to common shareholders by the number of weighted average common shares issued and outstanding. Diluted loss per common share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares issued and outstanding for the period, plus amounts representing the dilutive effect from the exercise of stock options and warrants and unvested restricted stock, as applicable. The Company calculates dilutive potential common shares using the treasury stock method, which assumes the Company will use the proceeds from the exercise of stock options and warrants to repurchase shares of common stock to hold in its treasury stock reserves.

The following potentially dilutive securities have been excluded from the computations of diluted weighted average shares outstanding as they would be antidilutive:

	June 30,	
	2023	2022
Shares underlying options outstanding	1,765,853	1,603,835
Unvested restricted stock	187,503	15,000

Note 14 – Commitments and Contingencies

Purchase Commitments

In exchange for the rights granted under the License and Supply Agreement with Medica (see Note 8 – License and Supply Agreement, net), the Company agreed to make certain minimum annual aggregate purchases from Medica over the term of the License and Supply Agreement. For the year ended December 31, 2023, the Company has agreed to make minimum annual aggregate purchases from Medica of €3.8 million (approximately \$4.1 million). As of June 30, 2023, the Company's aggregate purchase commitments totaled €3.3 million (approximately \$3.6 million).

Contractual Obligations

See Note 10 – Leases for a discussion of the Company's contractual obligations.

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

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in Item 1 of Part I of this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements about our business, financial condition and results of operations including discussions about management's expectations for our business. These statements represent projections, beliefs and expectations based on current circumstances and conditions and in light of recent events and trends, and these statements should not be construed either as assurances of performances or as promises of a given course of action. Instead, various known and unknown factors are likely to cause our actual performance and management's actions to vary, and the results of these variances may be both material and adverse.

Business Overview

We are a commercial-stage company that develops and sells high performance water solutions to the medical and commercial markets.

Our medical water filters, mostly classified as ultrafilters, are used primarily by hospitals for the prevention of infection from waterborne pathogens, such as legionella and pseudomonas, and in dialysis centers for the removal of biological contaminants from water and bicarbonate concentrate. Because our ultrafilters capture contaminants as small as 0.005 microns in size, they minimize exposure to a wide variety of bacteria, viruses, fungi, parasites, and endotoxins.

Our commercial water filters improve the taste and odor of water and reduce biofilm, cysts, particulates, and scale build-up in downstream equipment. Our products are marketed primarily to the food service, hospitality, convenience store, and health care markets, and also sold into medical institutions to supplement.

We previously held a majority stake in Specialty Renal Products, Inc. ("SRP"), a development-stage medical device company that was focused primarily on developing hemodiafiltration ("HDF") technology. On May 13, 2022, the FDA gave 510(k) clearance to SRP's second-generation model of the OLPURH2H Hemodiafiltration System, which enables nephrologists to provide HDF treatment to patients with end stage renal disease. In January 2023, SRP management began exploring strategic partnerships to support a commercial launch of the HDF product but was unsuccessful in identifying a partner. By late February 2023, SRP had nearly exhausted its capital resources. Due to its limited capital and lack of prospects for securing a strategic partnership or additional financing, the board of directors of SRP adopted a plan on March 6, 2023 to wind down SRP operations, liquidate its remaining assets and dissolve the company. That plan was approved by SRP's stockholders on March 9, 2023, and on April 11, 2023, SRP filed a certificate of dissolution with the State of Delaware. SRP's cash resources were sufficient to satisfy all of its outstanding liabilities other than its obligations to us under a loan with an outstanding balance of approximately \$1.5 million. Accordingly, SRP assigned to Nephros all of its remaining assets, including its intellectual property rights in the HDF2 device, in satisfaction of its outstanding loan balance. Although we have no current plans to do so, we may re-evaluate opportunities for HDF in the future.

Our Products

Water Filtration Products

We develop and sell water filtration products used in both medical and commercial applications. Our water filtration products employ multiple filtration technologies, as described below.

In medical markets, our primary filtration mechanism is to pass liquids through the pores of polysulfone hollow fiber. Our filters' pores are significantly smaller than those of competing products, resulting in highly effective elimination of waterborne pathogens, including legionella bacteria (the cause of Legionnaires disease) and viruses, which are not eliminated by most other microbiological filters on the market. Additionally, the fiber structure and pore density in our hollow fiber enables significantly higher flow rates than in other polysulfone hollow fiber.

Our primary sales strategy in medical markets is to sell through value-added resellers ("VARs"). Leveraging VARs has enabled us to expand rapidly our access to target customers with limited sales staff expansion. In addition, while we are currently focused on medical markets, the VARs that support these customers also support a wide variety of commercial and industrial customers. We believe that our VAR relationships have and will continue to facilitate growth in filter sales outside of the medical industry.

In commercial markets, we develop and sell our filters, for which carbon-based absorption is the primary filtration mechanism. These products allow us to improve water's odor and taste, to reduce scale and heavy metals, and to reduce other water contaminants for customers who are primarily in the food service, convenience store, and hospitality industries. These commercial products are also sold into medical markets, as supplemental filtration to our medical filters.

In commercial markets, our model combines both direct and indirect sales. Our sales staff have sold products directly to a number of convenience stores, hotels, casinos, and restaurants. We are also pursuing large corporate contracts through partnerships.

Target Markets

Our ultrafiltration products currently target the following markets:

- Hospitals and Other Healthcare Facilities: Filtration of water for washing and drinking as an aid in infection control. The filters produce water that is suitable for wound cleansing, cleaning of equipment used in medical procedures, and washing of surgeons' hands.
- Dialysis Centers and Home/Portable Dialysis Machines: Filtration of water or bicarbonate concentrate used in hemodialysis.
- Commercial Facilities: Filtration and purification of water for consumption, including for use in ice machines and soft drink dispensers.
- Military and Outdoor Recreation: Individual water purification devices used by soldiers and backpackers to produce drinking water in the field, as well as filters customized to remote water processing systems.

Hospitals and Other Healthcare Facilities. Nephros filters are a leading tool used to provide proactive protection to patients in high-risk areas (e.g., ice machines, surgical rooms, NICUs) and reactive protection to patients in broader areas during periods of water pathogen outbreaks. Our products are used in hundreds of medical facilities to aid in infection control, both proactively and reactively.

As of 2022, according to the American Hospital Association, there are approximately 6,100 hospitals in the U.S., with approximately 921,000 beds. Over 33 million patients were admitted to these hospitals. The U.S. Centers for Disease Control and Prevention ("CDC") estimates that healthcare associated infections ("HAI") occur in approximately 1 out of every 31 hospital patients, which calculates to over one million patients in 2022. HAIs affect patients in hospitals or other healthcare facilities and are not present or incubating at the time of admission. They also include infections acquired by patients in the hospital or facility, but appearing after discharge, and occupational infections among staff. Many HAIs are caused by waterborne bacteria and viruses that can thrive in aging or complex plumbing systems often found in healthcare facilities.

In January 2022, the Center for Clinical Standards and Quality at the Centers for Medicare and Medicaid Services ("CMS") expanded its requirements – originally implemented in 2017 – for facilities to develop policies and procedures that inhibit the growth and spread of legionella and other opportunistic pathogens in building water systems. In this 2022 update, CMS requires teams to be assigned to the development of formal water management plans ("WMPs"), as well as detailed documentation regarding the development of the WMPs and their execution. CMS surveyors regularly review policies, procedures, and reports documenting water management implementation results to verify that facilities are compliant with these requirements. We believe that these CMS regulations may have a positive impact on the sale of our HAI-inhibiting ultrafilters.

We currently have FDA 510(k) clearance on the following portfolio of medical device products for use in the hospital setting to aid in infection control:

- The DSU-H and SSU-H are in-line, 0.005-micron ultrafilters that provide dual- and single-stage protection, respectively, from waterborne pathogens. They are primarily used to filter potable water feeding ice machines, sinks, and medical equipment, such as endoscope washers and surgical room humidifiers. The DSU-H has an up to 6-month product life in a typical hospital setting, while the SSU-H has an up to 3-month product life.
- The S100 is a point-of-use, 0.01-micron microfilter that provides protection from waterborne pathogens. The S100 is primarily used to filter potable water feeding sinks and showers. The S100 has an up to 3-month product life when used in a hospital setting.
- The HydraGuard™ and HydraGuard™ - Flush are 0.005-micron cartridge ultrafilters that provide single-stage protection from waterborne pathogens. The HydraGuard ultrafilters are primarily used to filter potable water feeding ice machines and medical equipment, such as endoscope washers and surgical room humidifiers. The HydraGuard has an up to 6-month product life and the HydraGuard - Flush has an up to 12-month product life when used in a hospital setting.

Our complete hospital infection control product line, including in-line, and point-of-use can be viewed on our website at <https://www.nephros.com/infection-control/>. We are not including the information on our website as a part of, nor incorporating it by reference into, this Quarterly Report on Form 10-Q.

Dialysis Centers - Water/Bicarbonate. In the dialysis water market, Nephros ultrafiltration products are among the highest performing products on the market. The DSU-D, SSU-D and the SSUmini have become the standard endotoxin filter in many portable reverse osmosis systems. The EndoPur®, our large-format ultrafilter targeted at dialysis clinic water systems, provides the smallest pore size available.

To perform hemodialysis, all dialysis clinics have dedicated water purification systems to produce water and bicarbonate concentrate, two essential ingredients for making dialysate, the liquid that removes waste material from the blood. According to the American Journal of Kidney Diseases, there are approximately 6,500 dialysis clinics in the United States servicing approximately 468,000 patients annually. We estimate that there are over 100,000 hemodialysis machines in operation in the United States.

Medicare is the main payer for dialysis treatment in the United States. To be eligible for Medicare reimbursement, dialysis centers must meet the minimum standards for water and bicarbonate concentrate quality set by the Association for the Advancement of Medical Instrumentation ("AAMI"), the American National Standards Institute ("ANSI") and the International Standards Organization ("ISO"). We anticipate that the stricter standards approved by these organizations in 2009 will be adopted by Medicare in the future.

We currently have FDA 510(k) clearance on the following portfolio of medical device products for use in the dialysis setting to aid in bacteria, virus, and endotoxin retention:

- The DSU-D, SSU-D and SSUmini are in-line, 0.005-micron ultrafilters that provide protection from bacteria, viruses, and endotoxins. All of these products have an up to 12-month product life in the dialysis setting and are used to filter water following treatment with a reverse osmosis ("RO") system, and to filter bicarbonate concentrate. These ultrafilters are primarily used in the water lines and bicarbonate concentrate lines leading into dialysis machines, and as a polish filter for portable RO machines.
- The EndoPur is a 0.005-micron cartridge ultrafilter that provides single-stage protection from bacteria, viruses, and endotoxins. The EndoPur has an up to 12-month product life in the dialysis setting and is used to filter water following treatment with an RO system. More specifically, the EndoPur is used primarily to filter water in large RO systems designed to provide ultrapure water to an entire dialysis clinic. The EndoPur is a cartridge-based, "plug and play" market entry that requires no plumbing at installation or replacement. The EndoPur is available in 10", 20", and 30" configuration.

Commercial and Industrial Facilities. Our commercial NanoGuard® product line accomplishes ultrafiltration via small pore size (0.005 micron) technology, filtering bacteria and viruses from water. In addition, our commercial filtration offerings include technologies that are primarily focused on improving odor and taste and on reducing scale from filtered water. Our commercial market focus includes the hospitality and food and beverage markets, in which we partner with Donastar Enterprises LLC as our master distributor. We also sell commercial filters into medical and non-medical facilities through our other distribution partners.

Over time, we believe that the same water safety management programs currently underway at medical facilities may migrate to commercial markets. As the epidemiology of waterborne pathogens expands, links to contamination sources will become more efficient and the data more readily available. In cases where those sources are linked to restaurants, hotels, office buildings and residential complexes, the corporate owners of those facilities will likely face increasing liability exposure. We expect that building owners will come to understand ASHRAE-188, which outlines risk factors for buildings and their occupants, and provides water safety management guidelines. We believe, in time, most commercial buildings will need to follow the basic requirements of ASHRAE-188: create a water management plan, perform routine testing, and establish a plan to treat the building in the event of a positive test.

As demand for water testing and microbiological filtration grows, we will be ready to deploy our expertise and solutions based on years of experience servicing the medical market. We believe that we have an opportunity to offer unique expertise and products to the commercial market, and that our future revenue from the commercial market could even surpass our infection control revenue. We currently market the following portfolio of proprietary products for use in the commercial, industrial, and food service settings:

- The NanoGuard set of products are in-line, 0.005-micron ultrafilter that provides dual-stage retention of any organic or inorganic particle larger than 15,000 Daltons. NanoGuard products are designed to fit a variety of existing plumbing configurations, including 10" and 20" standard housings, and Nephros and Everpure® manifolds. Included in the NanoGuard product line are both conventional and flushable filters.
- The Nephros line of commercial filters provide a variety of technology solutions that improve water quality in food service, convenience store, hospitality, and industrial applications. Nephros filters improve water taste and odor, and reduce sediment, dirt, rust particles and other solids, chlorine and heavy minerals, lime scale build-up, and both particulate lead and soluble lead.

Nephros commercial products combine effectively with NanoGuard ultrafiltration technologies to offer full-featured solutions to the commercial water market, including to existing users of Everpure filter manifolds.

Pathogen Detection Systems ("PDS")

In 2019, we expanded our portfolio of water solutions with the introduction of pathogen detection system ("PDS") products and services, including our PluraPath pathogen detection system, which we developed to provide real-time data regarding the existence of a broad array of waterborne pathogens to the infection control teams responsible executing a building or other facility's water management plans. In the third quarter of 2021, we acquired the business of GenArraytion, Inc. ("GenArraytion"), including GenArraytion's many proprietary assays, multiplexing technology, and selection methods for detecting waterborne pathogens and other microorganisms using Polymerase Chain Reaction technology. GenArraytion's assets was integrated into our PDS segment. In November 2022, we sold substantially all of our assets used in our PDS business to BWSI, LLC pursuant to the terms of an Agreement for Purchase and Sale of Assets with BWSI (the "PDS Purchase Agreement"). Under the terms of the PDS Purchase Agreement, BWSI made a nominal cash payment at the closing of the transaction and assumed certain continuing liabilities of the PDS business. Additionally, for a period of seven years commencing January 1, 2023, and ending December 31, 2029, BWSI will pay us an annual royalty equal to a specified percentage of gross margin received by BWSI from each of the sale and licensing of products developed by the PDS Business.

Critical Accounting Policies

For the six-month period ended June 30, 2023, there were no significant changes to our critical accounting policies as identified in our Annual Report on Form 10-K for the year ended December 31, 2022.

Recent Accounting Pronouncements

We are subject to recently issued accounting standards, accounting guidance and disclosure requirements. For a description of these new accounting standards, see Note 2, "Basis of Presentation and Liquidity," of the Notes to our Unaudited Consolidated Interim Financial Statements contained in Item 1 of Part I of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Results of Operations

Fluctuations in Operating Results

Our results of operations have fluctuated significantly from period to period in the past, including recently, and are likely to continue to do so in the future. We anticipate that our annual results of operations will be impacted for the foreseeable future by several factors, including revenue growth rates, expense management, and maintaining positive operating cash flow. Due to these fluctuations, we believe that the period-to-period comparisons of our operating results are not a good indication of our future performance.

Three Months Ended June 30, 2023 Compared to the Three Months Ended June 30, 2022

The following table sets forth our summarized, consolidated results of operations for the three months ended June 30, 2023 and 2022 (in thousands, except percentages):

	2023	2022	\$ Increase (Decrease)	% Increase (Decrease)
Total net revenues	\$ 3,545	\$ 2,850	\$ 695	24%
Cost of goods sold	1,466	1,455	11	1%
Gross margin	2,079	1,395	684	49%
Gross margin %	59%	49%	-	10%
Selling, general and administrative expense	2,239	1,885	354	19%
Research and development expense	221	273	(52)	(19)%
Depreciation and amortization expense	54	51	3	6%
Operating loss from continuing operations	(435)	(814)	379	47%
Interest expense	-	(6)	6	100%
Interest income	13	1	12	1200%
Other income (expense), net	(11)	72	(83)	(115)%
Net loss from continuing operations	(433)	(747)	314	42%
Net loss from discontinued operations	-	(390)	390	100%
Net loss	(433)	(1,137)	704	62%
Less: Undeclared deemed dividend attributable to noncontrolling interest	-	(66)	66	100%
Net loss attributable to Nephros, Inc.	<u>\$ (433)</u>	<u>\$ (1,203)</u>	<u>\$ 770</u>	<u>64%</u>

Revenue

The increase in net revenues of \$0.7 million, or 24%, was driven by investments in our executive and medical sales organizations and partnering with a master distributor for much of our commercial business. These investments generated approximately 14% growth in our core, programmatic business.

Gross Profit Margin

Consolidated gross margin was approximately 59% for the three months ended June 30, 2023 compared to approximately 49% for the three months ended June 30, 2022. The increase of approximately 10%, reflecting a return to target gross margins of 55-60%, was driven by price increases implemented in the second and third quarters of 2022, reductions in shipping expenses, and improved inventory management.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased \$354,000, or 19%, primarily due to an increase in bonus accrual and sales commission expense.

Research and Development Expenses

Consolidated research and development expenses decreased approximately \$52,000 due to the wind down of SRP and slightly decreased investment in water filter research and development.

Depreciation and Amortization Expense

Depreciation and amortization expenses were approximately \$54,000 and \$51,000, respectively, for the three months ended June 30, 2022, and 2023.

Interest Expense

There was no interest expense for the three months ended June 30, 2023. Interest expense was approximately \$6,000 for the three months ended June 30, 2022, comprised primarily of interest on our secured note payable.

Interest Income

Interest income was approximately \$13,000 for the three months ended June 30, 2023 compared to approximately \$1,000 for the three months ended June 30, 2022.

Other Income (Expense), net

Other expense of approximately (\$11,000) for the three months ended June 30, 2023 is primarily a result of losses on foreign currency transactions. Other income of approximately \$72,000 for the three months ended June 30, 2022 is primarily related to the release of the cumulative translation adjustment, from accumulated other comprehensive income (loss) on the liquidation of a foreign entity.

Six Months Ended June 30, 2023 Compared to the Six Months Ended June 30, 2022

The following table sets forth our summarized, consolidated results of operations for the six months ended June 30, 2023 and 2022 (in thousands, except percentages):

	2023	2022	\$ Increase (Decrease)	% Increase (Decrease)
Total net revenues	\$ 7,242	\$ 5,009	\$ 2,233	45%
Cost of goods sold	3,052	2,561	491	19%
Gross margin	4,190	2,448	1,742	71%
Gross margin %	58%	49%	-	9%
Selling, general and administrative expense	4,363	4,062	301	7%
Research and development expense	460	645	(185)	(29)%
Depreciation and amortization expense	108	102	6	6%
Operating loss from continuing operations	(741)	(2,361)	1,620	69%
Interest expense	(1)	(13)	12	92%
Interest income	25	3	22	733%
Other expense, net	(22)	63	(85)	(135)%
Net loss from continuing operations	(739)	(2,308)	1,569	68%
Net loss from discontinued operations	-	(796)	796	100%
Net loss	(739)	(3,104)	2,365	76%
Less: Undeclared deemed dividend attributable to noncontrolling interest	-	(129)	129	100%
Net loss attributable to Nephros, Inc.	<u>\$ (739)</u>	<u>\$ (3,233)</u>	<u>\$ 2,494</u>	<u>77%</u>

Revenue

The increase in net revenues of \$2.2 million, or 45%, was driven by two factors. First, we invested in our sales organization, increasing medical sales headcount significantly and partnering with a master distributor for much of our commercial business. These investments generated approximately 29% growth in our core, programmatic business. Second, we received an unusually large emergency response order, which generated approximately \$600,000 of additional, revenue in the first quarter of 2023.

Gross Profit Margin

Consolidated gross margin was approximately 58% for the six months ended June 30, 2023, compared to approximately 49% for the six months ended June 30, 2022. The increase of approximately 9%, reflecting a return to target gross margins of 55-60%, was driven by price increases implemented in the second and third quarters of 2022, reductions in shipping expenses, and improved inventory management.

Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses increased \$0.3 million or 7% primarily due to an increase in bonus accrual and sales commission expense.

Research and Development Expenses

Consolidated research and development expenses decreased \$185,000 primarily due to the wind down of SRP and slightly decreased investment in water filter research and development.

Depreciation and Amortization Expense

Depreciation and amortization expenses were approximately \$108,000 and \$102,000, respectively, for the six months ended June 30, 2023 and 2022.

Interest Expense

Interest expense was approximately \$1,000 for the six months ended June 30, 2023 compared to \$13,000 for the six months ended June 30, 2022. This reduction is primarily related to a lower principal balance of the company's secured note payable.

Interest Income

Interest income was approximately \$25,000 for the six months ended June 30, 2023 compared to approximately \$3,000 for the six months ended March 31, 2022.

Other Income (Expense), net

Other expense was approximately \$22,000 for the six months ended June 30, 2023 and is primarily a result of losses on foreign currency transactions. Other income was approximately \$63,000 for the six months ended June 30, 2022 and is primarily related to the release of the cumulative translation adjustment from accumulated other comprehensive income (loss) on the liquidation of a foreign entity.

Liquidity and Capital Resources

The following table summarizes our liquidity and capital resources as of June 30, 2023 and December 31, 2022 and is intended to supplement the more detailed discussion that follows. The amounts stated are expressed in thousands.

Liquidity and Capital Resources	June 30,		December 31,	
	2023		2022	
Cash and cash equivalents		\$ 4,060	\$ 3,634	
Other current assets		3,854	4,627	
Working capital		6,717	6,849	
Stockholders' equity		8,655	8,881	

At June 30, 2023, we had an accumulated deficit of \$143.6 million and we may incur additional operating losses from operations until such time, if ever, that we are able to increase product sales and/or licensing revenue to achieve profitability.

Based on cash that is available for our operations and projections of our future operations, as well as our significantly reduced cash burn rates over the past nine months, we believe that our cash balances will be sufficient to fund our current operating plan through at least the next 12 months from the date of issuance of the consolidated financial statements in this Quarterly Report on Form 10-Q. Additionally, our operating plans are designed to help control operating costs, to increase revenue, and to raise additional capital until such time as we generate sufficient cash flows to fund operations. If there were a decrease in the demand for our products due to either economic or competitive conditions, or if we are otherwise unable to achieve our plan or achieve our anticipated operating results, there could be a significant reduction in liquidity due to our possible inability to cut costs sufficiently. In such event, the Company may need to take further actions to reduce its discretionary expenditures, including further reducing headcount, reducing spending on R&D projects, and reducing other variable costs.

Our future liquidity sources and requirements will depend on many other factors, including:

- revenue growth rates, and our ability to produce, market and sell our products effectively and efficiently.
- the costs involved in filing and enforcing patent claims and the status of competitive products; and
- the cost of litigation, including potential patent litigation and any other actual or threatened litigation.

We expect to put our current capital resources toward the development, marketing, and sales of our water filtration products and working capital purposes.

Net cash provided by operating activities was \$0.5 million for the six months ended June 30, 2023, compared to net cash used in operating activities of approximately \$2.9 for the six months ended June 30, 2022, an increase of \$3.4 million due primarily to a decrease of \$2.4 million in net loss as a result of increased revenue for the six months ended June 30, 2023 compared to 2022, increased gross margins, and decreased research and development costs. In addition, a reduction in inventory provided approximately \$0.9 million in cash, which was partially offset by an increase in accounts receivable used approximately \$0.3 million in cash, both as a result of the large increase in sales for the period. While cash flows may fluctuate in the near term, we believe that future cash flows will trend positive over the coming quarters.

We had no investing activities for the six months ended June 30, 2023. Net cash used in investing activities was approximately \$137,000 in the six months ended June 30, 2022, due to purchases of property and equipment.

Net cash used in financing activities was approximately \$0.1 million for the six months ended June 30, 2023, primarily due to principal payments on debt. Net cash provided by financing activities was approximately \$0.2 million for the six months ended June 30, 2022. This was primarily from proceeds from the exercise of warrants of \$0.2 million and from the sale to subsidiary preferred shares to a noncontrolling interest of \$0.2 million, partially offset by payments of \$0.1 million on our secured note, principal payments of approximately \$3,000 on our finance lease obligation and principal payments of approximately \$1,000 on our equipment financing debt.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of June 30, 2023.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain statements in this Quarterly Report on Form 10-Q constitute "forward-looking statements". Such statements include statements regarding the efficacy and intended use of our technologies under development, the timelines and strategy for bringing such products to market, the timeline for regulatory review and approval of our products, the availability of funding sources for continued development of such products, and other statements that are not historical facts, including statements which may be preceded by the words "intends," "may," "will," "plans," "expects," "anticipates," "projects," "predicts," "estimates," "aims," "believes," "hopes," "potential" or similar words. Forward-looking statements are not guaranties of future performance, are based on certain assumptions and are subject to various known and unknown risks and uncertainties, many of which are beyond our control. Actual results may differ materially from the expectations contained in the forward-looking statements. Factors that may cause such differences include, but are not limited to, the risks that:

- we may be unable to achieve or sustain revenue growth;
- product-related deaths or serious injuries or product malfunctions could trigger recalls, class action lawsuits and other events that could cause us to incur expenses and may also limit our ability to generate revenues from such products;
- we face potential liability associated with the production, marketing and sale of our products, and the expense of defending against claims of product liability could materially deplete our assets and generate negative publicity, which could impair our reputation;
- to the extent our products or marketing materials are found to violate any provisions of the U.S. Food, Drug and Cosmetic Act (the "FDC Act") or any other statutes or regulations, we could be subject to enforcement actions by the U.S. Food and Drug Administration (the "FDA") or other governmental agencies;
- we may not be able to obtain funding when needed or on terms favorable to us in order to continue operation;
- we may not have sufficient capital to successfully implement our business plan;
- we may not be able to effectively market our products;
- we may not be able to sell our water filtration products at competitive prices or profitably;
- we may encounter problems with our suppliers, manufacturers, and distributors;
- we may encounter unanticipated internal control deficiencies or weaknesses or ineffective disclosure controls and procedures;
- we may not be able to obtain appropriate or necessary regulatory approvals to achieve our business plan;
- we may not be able to secure or enforce adequate legal protection, including patent protection, for our products; and
- we may not be able to achieve sales growth in key geographic markets.

More detailed information about us and the risk factors that may affect the realization of forward-looking statements, including the forward-looking statements in this Quarterly Report on Form 10-Q, is set forth in our filings with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and our other reports filed with the SEC. We urge investors and security holders to read those documents free of charge at the SEC's web site at www.sec.gov.

We do not undertake to publicly update or revise our forward-looking statements as a result of new information, future events or otherwise, except as required by law.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required for smaller reporting companies.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain a system of disclosure controls and procedures, as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is designed to provide reasonable assurance that information required to be disclosed in our reports filed pursuant to the Exchange Act is accumulated and communicated to management in a timely manner. Management recognizes that any disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Because there are inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud have been or will be detected.

At the end of the period covered by this Quarterly Report on Form 10-Q, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

As a smaller reporting company, we are not required to provide disclosure pursuant to this item. However, in addition to other information set forth in this Quarterly Report on Form 10-Q, including the important information in the section entitled "Forward Looking Statements," you should carefully consider the "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2022 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 this Quarterly Report on Form 10-Q. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial might materially adversely affect our actual business, financial condition and/or operating results.

Item 5. Other Information.

Lease Agreements

The Company and FRG-X-NJ2, LP, as landlord, entered into an Industrial Lease Agreement dated July 5, 2023, relating the Company's lease of approximately 16,000 square feet of warehouse and office space (13,000 and 3,000, respectively) situated in Whippany, New Jersey. The lease term is five years commencing September 1, 2023 (with options for two additional five-year terms) and provides for average annual lease payments of approximately \$281,000.

In addition, on July 3, 2023, the Company also entered into a sublease agreement relating to its 16,000 square foot warehouse and office facility in Las Vegas, Nevada where the Company's Aether operations have been based. The term of the sublease commenced on August 1, 2023, and is co-terminus with the Company's prime lease for such facility, which expires August 31, 2024. The sublease provides for monthly rental payments to the Company of \$18,000, which is approximately 93% of the Company's monthly rental obligations under the prime lease. The subtenant has agreed to perform all of the Company's other obligations under the prime lease. The Company is in the process of moving all of the operations previously conducted at its Las Vegas facility to its new Whippany, New Jersey facility.

Amendment to Employment Agreement with Interim Chief Financial Officer

On August 9, 2023, the Company and Andrew Astor, the Company's current Interim Chief Financial Officer and its former President and Chief Executive Officer, entered into an amendment (the "Amendment") to Mr. Astor's employment agreement with the Company dated August 23, 2020. The Amendment confirms Mr. Astor's change in positions following his May 11, 2023, retirement as President and CEO and his continued employment as the Company's interim Chief Financial Officer. In consideration for Mr. Astor's continued employment as interim CFO and his assistance in transitioning to new management, the Amendment also sets forth the following adjustments to Mr. Astor's compensation arrangements with the Company:

- a. Mr. Astor's annualized base salary will continue to be eligible to receive his 2023 annual cash bonus, subject to vest in accordance with the achievement of vesting schedule described in the corporate goals and milestones approved by the Board of Directors of the Company (the "Board"), and as determined by the Board, but prorated for Mr. Astor's period of employment and time dedicated to employment for 2023.
- b. Upon Notwithstanding the final termination terms of Mr. Astor's each agreement evidencing a Stock Option (each, a "Stock Option Agreement"), after your employment or other service relationship with the Company and provided that Mr. Astor does not terminate his employment without the Company's consent, his ceases, your right to purchase one-half of the shares of common stock subject to each stock option award currently held by him and which such Stock Options that are vested as of the date of such termination date will remain of services shall continue to be exercisable until December 31, 2026, and the remaining one-half of such vested shares will, shall continue to be exercisable in accordance with the original terms of the applicable Stock Option Agreement; provided, however, that in the event you voluntarily terminate your employment or service relationship with the Company without the consent of the Company, then the post-termination exercise periods described in each such stock option grant, remain exercisable for a period of three months following such termination. Stock Option Agreement shall not be extended beyond the terms set forth therein.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
10.1	Employment Agreement dated May 5, 2023, between Nephros, Inc. and Robert Banks. * †
31.1	Certification by the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
31.2	Certification by the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *
32.1	Certification by the Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
32.2	Certification by the Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. **
101	Interactive Data File. *
101.INS	Inline XBRL Instance Document*
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)
*	Filed herewith
**	Furnished herewith
†	Management contract or compensatory plan arrangement

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.

NEPHROS, INC.

Date: August 9, 2023

By: /s/ Robert Banks

Name: Robert Banks

Title: President, Chief Executive Officer (Principal Executive Officer)

Date: August 9, 2023

By: /s/ Andrew Astor

Name: Andrew Astor

Title: Interim Chief Financial Officer (Principal Financial and Accounting Officer)

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Exhibit 10.1 applicable Stock Option Agreements.

5. EMPLOYMENT AGREEMENT Prior Employment Agreement

This EMPLOYMENT AGREEMENT (this "Agreement"), is entered into as of May 4, 2023, by and shall confirm that Sections 1, 2.1, 2.4, 3.1 through 3.4 and between Nephros, Inc., a Delaware corporation having its executive offices and principal place of business at 380 Lackawanna Place, South Orange, New Jersey 07079 (the "Company"), and Robert Banks ("Executive").

RECITALS

WHEREAS, the Company desires to employ Executive as its President and Chief Executive Officer ("CEO"), and Executive desires to accept such employment on the terms and conditions hereinafter set forth:

NOW, THEREFORE, in consideration of the mutual covenants of the Employment Agreement are hereby deleted and agreements hereinafter set forth, the Company and Executive agree as follows:

1. Term. The term of Executive's employment with the Company shall commence on May 4, 2023 (the "Employment Start Date"), provided, that his appointment as President and CEO and as a member of the Board of Directors of the Company (the "Board"), as described below in Section 2, Employment Agreement shall not be effective until the business day immediately following the date on which the Company files with the Securities and Exchange Commission its Quarterly Report on Form 10-Q for the period ended March 31, 2023 (the "Effective Date"). Executive's employment hereunder shall continue until terminated in accordance with Section 2.3 and Section 4 of their terms, as modified by this Agreement. For purposes of this Agreement, (a) "Term" shall mean the period commencing on the Employment Start Date and ending on the date that Executive's employment is terminated in accordance with Section 2.3 and Section 4, below, and (b) "Executive Term" shall mean the period commencing on the Effective Date and ending on the date that Executive's employment is terminated in accordance with Section 2.3 and Section 4, below.

2. Employment.

2.1 Employment by the Company; Duties. Executive agrees to be employed by the Company during the Term upon the terms and subject to the conditions set forth in this Agreement. Upon the Effective Date, Executive shall serve as President and Chief Executive Officer ("CEO"), reporting to the Board of Directors of the Company (the "Board"). As President and CEO, Executive will serve as the principal executive officer of the Company, and will be responsible for the general active management of the business of the Company, and shall have such duties as may be prescribed by the Board from time to time and which are commonly performed by presidents and chief executive officers of similar sized companies conducting similar business. Throughout the Executive Term, Executive shall faithfully and diligently perform Executive's duties in conformity with the directions of the Board and serve the Company to the best of Executive's ability. Without limiting the foregoing, Executive acknowledges and agrees that he shall be physically present at the Company's New Jersey offices as needed to perform his duties, and that his duties as President and CEO will also require him to spend a significant amount of time visiting Company suppliers and customers or other various sites associated with Company-related needs. Executive will abide by and at all times be subject to all Company policies in effect from time to time during the Term, including without limitation, the Company's Code of Ethics and Business Conduct and the Company's Policy Statement on Inside Information and Securities Trading, letter agreement.

2.2 At-Will Employment. The parties agree that Executive's employment shall be on an "at-will" basis, subject to the terms of this Agreement, and may be terminated at any time, for any or no cause, at the option of either the Company or Executive. Executive understands and agrees that neither his job performance nor promotions, commendations, bonuses or the like from the Company give rise to or in any way serve as the basis for modification, amendment, or extension, by implication or otherwise, of his employment. Kindly acknowledge your agreement with the Company.

2.3 Directorship. Upon the Effective Time, Executive shall also serve as a director of the Company. The Company agrees to include Executive foregoing by countersigning this letter in the management slate for election as a director at each meeting of the Company's stockholders during the Term at which his term as a director would otherwise expire. The Executive agrees to accept election, and to serve during the Executive Term, as director of the Company, without any compensation therefor other than as specified in this Agreement. Upon termination of Executive's employment hereunder for any reason, Executive shall be deemed to have resigned as director of the Company and as an officer or director of any entity affiliated with the Company, effective as of the date of such termination.

3. Compensation and Benefits.

3.1 Base Salary. The Company agrees to pay to Executive an initial base salary at the annual rate of \$350,000 ("Base Salary"), payable in equal installments consistent with the Company's payroll practices; provided that the Base Salary will be increased to \$400,000 at such time as the Company has achieved annual net revenue of at least \$15 million in any fiscal year; and provided, further, that the Base Salary will increase to \$450,000 at such time as the Company has achieved annual net revenue of at least \$20 million in any fiscal year. Such net revenue milestones shall be determined in accordance with GAAP and based upon the Company's financial statements included in its periodic filings with the Securities and Exchange Commission. The effective date of any such Base Salary increases shall be the first day of the fiscal quarter following the achievement of the applicable milestone. The Board may also review and adjust Executive's Base Salary on an annual basis, as it deems appropriate, space provided that the Board may not, without Executive's consent, reduce the Base Salary to an amount less than the initial Base Salary set forth in the first sentence of this paragraph, as adjusted in accordance with the provisos in such sentence.

3.2 Performance Bonus. Executive shall be eligible to receive on an annual basis a discretionary performance bonus targeted at 50% of the total amount of Base Salary actually paid or payable to Executive for the applicable year on which such bonus is based (the "Annual Bonus"); provided that Executive shall not be eligible for an Annual Bonus if he does not remain employed by the Company through the completion of such year. The Annual Bonus, if any, will be determined in the sole discretion of the Board and based upon: (a) such objectives as may be determined by the Board (or a committee thereof); (b) the Company's achievement of overall corporate targets approved by the Board in its discretion; and (c) the terms and conditions of any applicable incentive compensation plan then in effect for senior executives of the Company. The targets and objectives upon which the Annual Bonus for the period from the Effective Date and ending December 31, 2023 (the "Initial Bonus Period") will be based shall be established by the Board (or a committee thereof) and communicated to Executive, within 30 days following the Effective Date and the Annual Bonus for 2023 shall be prorated to reflect the Initial Bonus Period; provided, however, that the Annual Bonus for 2023 (and only for such year) shall not be less than \$87,500. The targets and objectives with respect to the Annual Bonus for each annual period following the Initial Bonus Period shall be established by the Board (or a committee thereof) at the beginning of each calendar year. Each Annual Bonus award, if any, shall be paid to the Executive not later than 30 days after the issuance of the Company's respective operating financial results and in no event later than March 31 following the calendar year to which the bonus relates. The Annual Bonus shall be subject to applicable clawback or recoupment policies adopted by the Board and in effect from time to time during the Term.

3.3 Grant of Options and Terms Thereof. Following the Employment Start Date, the Company shall grant to Executive a 10-year stock option to purchase 357,165 shares of the Company's Common Stock (the "Option"), which number of shares Executive and the Company acknowledge represents approximately 3.0% of the fully-diluted outstanding shares of Common Stock. The exercise price applicable to the Option will be equal to the closing sale price of the Common Stock on May 5, 2023. The right to purchase 25% of the shares subject to the Option shall vest and become exercisable on the first anniversary of the Employment Start Date, and thereafter the remaining shares will vest and become exercisable in 12 approximately equal quarterly installments, subject to Executive's continued employment with the Company. The Option will be granted pursuant to the Company's 2015 Stock Incentive Plan (the "2015 Plan") and shall be evidenced by a separate agreement between the Company and Executive in the Company's standard form for use under the 2015 Plan.

3.4 Change of Control. In the event of a Change of Control (as such term is defined in the 2015 Plan), notwithstanding anything to the contrary contained herein, all shares subject to the Option that have not then vested shall vest and become exercisable immediately and, unless all such options are cashed-out in the Change of Control transaction, shall remain exercisable for a period of not less than the first anniversary of the effective date of such Change of Control (or the expiration of the Option term, if sooner), regardless of whether Executive's employment is terminated in connection with such Change of Control transaction. Notwithstanding the foregoing, unless otherwise determined by the Board, no change in ownership of the Company's outstanding securities shall be deemed a Change of Control for purposes of this Agreement if such change in ownership is caused by or relates solely to any disposition or acquisition of any Company securities by Wexford Capital, LP (and/or its affiliates).

3.5 Benefits and Perquisites. Executive shall be entitled to participate in, to the extent Executive is otherwise eligible under the terms thereof, the benefit plans and programs, and receive the benefits and perquisites, generally provided to the Company's eligible employees, to the extent his age, health and other qualifications make him eligible to participate.

3.6 Travel and Business Expenses. Upon submission of itemized expense statements in the manner specified by the Company, Executive shall be entitled to reimbursement for reasonable travel and other reasonable business expenses duly incurred by Executive in the performance of Executive's duties under this Agreement in accordance with the policies and procedures established by the Company from time to time for executives of the same level and responsibility as Executive.

3.7 No Other Compensation or Benefits; Payment. The compensation and benefits specified in this Section 3 and in Section 4 of this Agreement shall be in lieu of any and all other compensation and benefits. Payment of all compensation and benefits to Executive hereunder shall be made in accordance with the relevant Company policies in effect from time to time to the extent the same are consistently applied, including normal payroll practices, and shall be subject to all applicable employment and withholding taxes and other withholdings.

3.8 Cessation of Employment. In the event Executive shall cease to be employed by the Company for any reason, then Executive's compensation and benefits shall cease on the date of such event, except as otherwise provided herein or in any applicable employee benefit plan or program.

4. Termination of Employment.

4.1 Termination. The Company may terminate Executive's employment for Cause (as defined below), in which case the provisions of Section 4.2 of this Agreement shall apply. The Company may also terminate Executive's employment in the event of Executive's Disability (as defined below), in which case the provisions of Section 4.4 of this Agreement shall apply. The Company may also terminate Executive's employment for any other reason or no reason by written notice to Executive, in which case the provisions of Section 4.5 of this Agreement shall apply. If Executive's employment is terminated by reason of Executive's death, retirement or resignation, the provisions of Section 4.3 of this Agreement shall apply. If Executive's employment terminates for Good Reason (defined below), the provisions of Section 4.5 shall apply.

4.2 Termination for Cause. In the event that Executive's employment hereunder is terminated during the Term by the Company for Cause (as defined below), then (a) the Company shall pay to Executive only the earned but unpaid Base Salary for his employment services rendered through the date of termination, and (b) any and all unvested Options shall automatically be cancelled and forfeited by Executive as of the date of termination. Executive shall have the right to exercise any and all vested Options within the period commencing on the date of termination and ending ninety days after the date of such termination (or the expiration of the Option term, if sooner), except as otherwise provided in Section 3.4 hereof in the event of a Change of Control (the "Options Exercise Period"). Any Options not exercised by Executive within the Options Exercise Period shall be cancelled. In all other respects, all such Options shall be governed by the plans, programs, agreements, and other documents pursuant to which such Options were granted.

For purposes of this Agreement, "Cause" means (i) Executive's failure or refusal to follow a reasonable and lawful direction of the Company's Board, provided that, if such failure or refusal is capable of being remedied, the Company will provide written notice to Executive specifying the nature of such failure or refusal and demanding that such failure or refusal be remedied within 10 business days (and if so remedied within such period, no "Cause" shall be deemed to exist); (ii) the conviction of (including any plea of no lo contendere to) any felony or any crime involving fraud, dishonesty or moral turpitude (whether or not involving the Company); (iii) Executive's material breach of any fiduciary obligation to the Company, provided that if such breach is capable of being remedied, the Company will provide Executive with written notice specifying the nature of such breach and demanding that such breach be remedied within 10 business days (and if so remedied with in such period, no "Cause" shall be deemed to exist); (iv) any intentional wrongdoing or fraudulent conduct committed by Executive in the scope of his employment with the Company; and (v) the material breach by Executive of (A) his obligations under this Agreement or (B) the Company's policies and procedures in effect from time to time.

4.3 Termination by Reason of Death or Retirement or Resignation. In the event that Executive's employment hereunder is terminated during the Term (a) by reason of Executive's death, or (b) by reason of Executive's resignation or retirement (as to which Executive shall give Company at least four weeks' notice), then the Company shall pay to Executive only the earned but unpaid Base Salary for services rendered through the date of termination. Any and all unvested Options shall automatically be cancelled and forfeited by Executive as of the date Executive's resignation or retirement. In the event of Executive's death, any and all unvested Options shall automatically be cancelled and forfeited. Executive or Executive's estate, as applicable, shall have the right to exercise any and all vested Options within the appropriate options exercise period, which shall be one year after the date of termination in the event of Executive's death or 90 days after the date of termination in the event of Executive's resignation or retirement (or, in each case, the expiration of the Option term, if sooner), except as otherwise provided in Section 3.4 hereof in the event of a Change of Control. Any Options not exercised by Executive within the Options Exercise Period shall be cancelled. In all other respects, all such Options shall be governed by the plans, programs, agreements, and other documents pursuant to which such Options were granted.

4.4 Disability. If, as a result of Executive's incapacity due to physical or mental illness, the Company determines that Executive has failed to perform Executive's duties hereunder on a full-time basis for either: (a) 90 days within any 365-day period; or (b) 60 consecutive days, the Company may terminate Executive's employment hereunder for "Disability." In that event, the Company shall pay to Executive the earned but unpaid, Base Salary for services rendered through such date of termination. Any and all unvested Options shall be cancelled as of the date of termination. During any period that Executive fails to perform Executive's duties hereunder as a result of incapacity due to physical or mental illness (a "Disability Period"), Executive shall continue to receive the compensation and benefits set forth in Section 3 of this Agreement until Executive's employment hereunder is terminated; provided, however, that the amount of compensation and benefits received by Executive during the Disability Period shall be reduced by the aggregate amounts, if any, payable to Executive under disability benefit plans and programs of the Company or under the Social Security disability insurance program. Additionally, the vesting of Executive's Options shall be tolled during the Disability Period and in the event of a termination of this Agreement as a result of Executive's Disability, any and all unvested Options shall automatically be cancelled and forfeited by Executive as of the date of such termination. Executive (or as applicable, his personal representative or estate) shall have the right to exercise any and all vested Options within one year after the date of termination (or the expiration of the Option term, if sooner). Any Options not exercised by Executive within such period shall be cancelled. In all other respects, all such Options shall be governed by the plans, programs, agreements, and other documents pursuant to which such Options were granted.

4.5 Termination by Company for Any Other Reason, including a Change of Control or by Executive for Good Reason. In the event that Executive's employment hereunder is terminated by the Company for any reason other than as provided in Sections 4.2, 4.3 or 4.4 of this Agreement or by Executive for Good Reason, then any and all unvested Options shall automatically be cancelled and forfeited by Executive as of the date of such termination (except as provided by Section 3.4 with respect to a Change of Control), vested Options shall remain exercisable for the Options Exercise Period and the Company shall:

below.

(a)

pay to Executive any earned but unpaid Base Salary for employment services rendered through such date of termination; and

(b) pay to Executive severance payments (less applicable withholding taxes) at a rate equal to his Base Salary rate then in effect for a period of six months (the "Severance Term"), which amounts shall be paid periodically in accordance with the Company's normal payroll policies; provided, that the Severance Term shall be increased to 12 months upon such time as Executive has completed six months of employment; and provided further, that if Executive continues to be employed in any capacity by a successor entity following a Change of Control, the severance pay that would otherwise be payable under this Section 4.5 shall be reduced by the amount of base compensation and guaranteed bonus (if any) Executive receives in such capacity during or attributable to the applicable Severance Term; and

(c) to the extent permitted by applicable healthcare laws and provided that Executive makes a timely election to continue coverage, the Company shall pay directly to the insurance provider the premium for COBRA continuation coverage for Executive and his dependents, less the amount payable by an active employee for such coverage, for a period equal to the applicable Severance Term or until Executive obtains new employment, whichever comes first (the benefits provided in this Section 4.5(c) shall be referred to as the "Continued Benefits"). Notwithstanding the foregoing, in the event that applicable healthcare laws do not permit continuation of coverage, then the Company shall reimburse Executive for the costs of obtaining coverage in an amount not to exceed the coverage amounts paid or payable by the Company on behalf of Executive immediately prior to the date of termination.

Due to the release requirements set forth in Section 4.6 below, any payment under this Section 4.5(b) scheduled to occur during the first 60 days following the date of termination of employment shall not be paid until the Company's next regular payroll date on or immediately following expiration of the seven day release revocation period required by Section 4.6, and shall include payment of any amount that was otherwise scheduled to be paid prior to the 60th day after such termination.

"Good Reason" means the occurrence of any of the following events without Executive's consent, subject to notice and an opportunity to cure: (i) a material reduction in Executive's Base Salary, unless Executive consents to such reduction; (ii) material diminution in Executive's title, duties, authorities or responsibilities as President and Chief Executive Officer (other than temporarily during a Disability Period or as required by applicable law); or (iii) the Company's material breach of this Agreement with respect to the making of any compensation payments to Executive. Executive must provide written notice to the Company of the occurrence of any of the foregoing events or conditions without Executive's consent within 60 days of the occurrence of such event. The Company or any successor or Affiliate will have a period of 20 business days to cure such event or condition after receipt of written notice of such event from Executive. If the Company fails to cure such event or condition within such 20 business day period, then any voluntary termination of employment by Executive for "Good Reason" must occur, if at all, within ten business days following the expiration of such 20 business day cure.

Notwithstanding anything to the contrary contained herein, in the event that Executive shall breach Sections 5, 6 or 7 of this Agreement at any time, then in addition to any other remedies the Company may have, the Company's obligations under paragraphs (b) and (c) of this Section 4.5 shall cease and Executive's rights thereto shall terminate and shall be forfeited.

4.6 Release. Except for any accrued obligations, the severance payments and Continued Benefits described in Section 4.5 will be provided to Executive only if the following conditions are satisfied: (a) Executive agrees to continue to be bound by and complies with all surviving provisions of Sections 5, 6 and 7 of this Agreement; and (b) Executive has entered into, within 60 days following the termination date, a full, irrevocable general release, in a form reasonably acceptable to both the Company and Executive (which form shall be provided by Company to Executive no later than seven days following the termination date), releasing all claims, known or unknown, that Executive may have against the Company, and any subsidiary or related entity, their officers, directors, employees and agents, arising out of or any way related to Executive's employment or termination of employment with the Company.

4.7 Section 409A. Notwithstanding the foregoing, if necessary to comply with the restriction in Section 409A(a)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code") concerning payments to "specified employees," any payment on account of Executive's separation from service that would otherwise be due hereunder within six months after such separation shall nonetheless be delayed until the first business day of the seventh month following Executive's date of termination and the first such payment shall include the cumulative amount of any payments that would have been paid prior to such date if not for such restriction, together with interest on such cumulative amount during the period of such restriction at a rate, per annum, equal to the applicable federal short-term rate (compounded monthly) in effect under Section 1274(d) of the Code on the date of termination. For purposes of this Agreement, Executive shall be a "specified employee" for the 12-month period beginning on the first day of the fourth month following each "Identification Date" if he is a "key employee" (as defined in Section 416(i) of the Code without regard to Section 416(i)(5) thereof) of the Company at any time during the 12-month period ending on the "Identification Date." For purposes of the foregoing, the Identification Date shall be December 31.

This Agreement is intended to comply with the requirements of Section 409A of the Code and regulations promulgated thereunder ("Section 409A"), but the Company does not guarantee such compliance. To the extent that any provision in this Agreement is ambiguous as to its compliance with Section 409A, to the extent possible the provision shall be read in such a manner so that no payments due under this Agreement shall be subject to an "additional tax" as defined in Section 409A(a)(1)(B) of the Code. For purposes of Section 409A, each payment made under this Agreement shall be treated as a separate payment. In no event may Executive, directly or indirectly, designate the calendar year of payment. Notwithstanding anything contained herein to the contrary, in the event any payment on account of Executive's separation from service constitutes nonqualified deferred compensation subject to (and not exempt from Section 409A), Executive shall not be considered to have terminated employment with the Company for purposes of the right to receive such payment hereof unless he would be considered to have incurred a "termination of employment" from Employer within the meaning of Treasury Regulation §1.409A-1(h)(1)(ii). All reimbursements provided under this Agreement shall be made or provided in accordance with the requirements of Section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement is not subject to liquidation or exchange for another benefit.

5. Exclusive Employment; Noncompetition.

5.1 No Conflicting Activities. During the period of Executive's employment with the Company, Executive shall not: (a) engage in any activity which conflicts or interferes with or derogates from the performance of Executive's duties hereunder, nor shall Executive engage in any other business activity except as approved in advance in writing by the Board, which approval may be revoked by the Board upon 60 days' written notice to Executive; or (b) accept any other employment or service engagement, and whether or not compensated therefor, unless Executive receives the prior written approval of the Board which approval may be revoked by the Board upon 60 days' written notice to Executive. Notwithstanding the foregoing, prior approval of the Board shall not be required for Executive to serve on the boards of directors (or comparable governing bodies) of charitable organizations, so long as (i) Executive provides notice to the Board of any such position, (ii) such organization would not, in the judgment of the Board, reasonably be expected to lead to unwanted or unfavorable publicity to the Company or any of its officers, directors or affiliated entities, and (iii) such service by Executive, either alone or in combination with all other non-Company engagements, will not interfere with the performance of Executive's duties and responsibilities to the Company.

5.2 No Competition.

(a) Executive acknowledges and recognizes the highly competitive nature of the Company's business and that access to the Company's customer relationships, confidential records, and proprietary information renders him special and unique within the Company's industry. In consideration of the payment by the Company to Executive of amounts that may hereafter be paid to Executive pursuant to this Agreement (including, without limitation, pursuant to Sections 3 and 4 hereof) and other obligations undertaken by the Company hereunder, Executive agrees that during (a) his employment with the Company and (b) for the period commencing upon the termination of his employment and continuing until the longer of (x) the first anniversary of such employment termination if such employment was terminated by the Company pursuant to Sections 4.2 or 4.4 or by Executive pursuant to Section 4.3, or (y) the last day of the applicable Severance Term if his employment is terminated by the Company or by Executive pursuant to Section 4.5 (the "Post-Employment Period"), Executive shall not, directly or indirectly, for himself or any third party, engage without the prior consent of the Company as owner, investor, financier, partner, stockholder, employer, employee, consultant, advisor, director, officer or otherwise in any firm, partnership, corporation, entity, or business that engages or participates in a business that offers any product or service that competes in any material respect with a product or service (i) sold or provided by the Company to customers, including licensees, distributors and other persons that purchase Company products or services, or (ii) that the Company is developing, during the period of Executive's employment with the Company (a "Competing Business") anywhere in the world where the Company conducts its business. Without limiting the foregoing, Competing Business includes, but is not limited to, the development, marketing, distribution or sale of water filtration purification products or systems.

(b) The provisions of Section 5.2(a) will not be deemed breached merely because Executive owns less than 1% of the outstanding common stock of a publicly-traded company.

(c) In the event of a termination pursuant to Section 4.5 hereof, the Company shall have the option in its sole and absolute discretion, to extend the restrictions set forth in Section 5.2(a) for an additional six months in return for a six-month extension of the applicable Severance Term and any such extension shall extend the Post-Employment Period accordingly.

(d) The covenants contained in Section 5.2(a) shall be construed as a series of separate covenants, one for each county, city, state, or any similar subdivision in any geographic area. Except for geographic coverage, each such separate covenant shall be deemed identical in terms to the covenant contained in Section 5.2(a). If, in any judicial proceeding, a court refuses to enforce any of such separate covenants (or any part thereof), then such unenforceable covenant (or such part) shall be eliminated from this Agreement to the extent permitted by law and necessary to permit the remaining separate covenants (or portions thereof) to be enforced. In the event that the provisions of this section are deemed to exceed the time, geographic or scope limitations permitted by applicable law, then such provisions shall be, to the extent permitted by law, reformed to the maximum time, geographic or scope limitations, as the case may be, permitted by applicable laws.

(e) Executive acknowledges that the limitations of time, geography and scope of activity agreed to in this no competition provision are reasonable because, among other things, (i) the Company is engaged in a highly competitive industry, (ii) he will have access to trade secrets and know-how of the Company, (iii) he will be able to obtain suitable and satisfactory employment without violation of this agreement, and (iv) these limitations are necessary to protect the trade secrets, confidential information and goodwill of the Company.

5.3 Non-Solicitation. In further consideration of the payment by the Company to Executive of amounts that may hereafter be paid to Executive pursuant to this Agreement (including, without limitation, pursuant to Sections 3 and 4 of this Agreement) and other obligations undertaken by the Company hereunder, Executive agrees that during his employment and the Post-Employment Period, he shall not, directly or indirectly: (a) solicit, encourage or attempt to solicit or encourage any of the employees, agents, consultants or representatives of the Company or any of its affiliates to terminate his, her, or its relationship with the Company or such affiliate; (b) solicit, encourage or attempt to solicit or encourage any of the employees of the Company or any of its affiliates to become employees or consultants of any other person or entity; (c) solicit, encourage or attempt to solicit or encourage any of the consultants of the Company or any of its affiliates to become employees or consultants of any other person or entity, provided that the restriction in this clause (c) shall not apply if (i) such solicitation, encouragement or attempt to solicit or encourage is in connection with a business which is not a Competing Business and (ii) the consultant's rendering of services for the other person or entity will not interfere with the consultant's rendering of services to the Company; (d) solicit or attempt to solicit any customer, vendor or distributor of the Company or any of its affiliates with respect to any product or service being furnished, made, sold or leased by the Company or such affiliate, provided that the restriction in this clause (d) shall not apply if such solicitation or attempt to solicit is (i) in connection with a business which is not a Competing Business and (ii) does not interfere with, or conflict with, the interests of the Company or any of its affiliates; or (e) persuade or seek to persuade any customer of the Company or any affiliate to cease to do business or to reduce the amount of business which any customer has customarily done or contemplates doing with the Company or such affiliate, whether or not the relationship between the Company or its affiliate and such customer was originally established in whole or in part through Executive's efforts. For purposes of this Section 5.3 only, the terms "customer," "vendor" and "distributor" shall mean a customer, vendor or distributor who has done business with the Company or any of its affiliates within twelve months preceding the termination of Executive's employment.

5.4 Notifications. During Executive's employment with the Company and during the Post-Employment Period, Executive agrees that upon the earlier of Executive's: (a) negotiating with any Competitor (as defined below) concerning the possible employment of Executive by the Competitor; (b) receiving an offer of employment from a Competitor; or (c) becoming employed by a Competitor, Executive will (i) immediately provide written notice to the Company of such circumstances and (ii) provide copies of Section 5 of this Agreement to the Competitor. Executive further agrees that the Company may provide notice to a Competitor of Executive's obligations under this Agreement, including without limitation Executive's obligations pursuant to Section 5 of this Agreement. For purposes of this Agreement, "Competitor" shall mean any entity (other than the Company or any of its affiliates) that engages, directly or indirectly, in any Competing Business.

5.5 Sufficient Consideration. Executive understands that the provisions of this Section 5 may limit his ability to earn a livelihood in a business similar to the business of the Company or its affiliates but nevertheless agrees and hereby acknowledges that the consideration provided under this Agreement, including any amounts or benefits provided under Sections 3 and 4 of this Agreement and other obligations undertaken by the Company hereunder, is sufficient to justify the restrictions contained in such provisions. In consideration thereof and in light of Executive's education, skills and abilities, Executive agrees that he will not assert in any forum that such provisions prevent him from earning a living or otherwise are void or unenforceable or should be held void or unenforceable.

6. Inventions and Proprietary Property.

6.1 Definition of Proprietary Property. For purposes of this Agreement, "Proprietary Property" shall mean non-public information that relates to the actual or anticipated business or research and development of the Company, designs, specifications, ideas, formulas, discoveries, inventions, improvements, innovations, concepts and other developments, trade secrets, techniques, methods, know-how, technical and non-technical data, works of authorship, computer programs, computer algorithms, computer architecture, mathematical models, drawings, trademarks, copyrights, customer lists and customers (including, but not limited to, customers of the Company on whom Executive called or with whom Executive became acquainted during the term of his employment), marketing plans, and all other matters which are legally protectable or recognized as forms of property, whether or not patentable or reduced to practice or to a writing.

6.2 Assignment of Proprietary Property to the Company or its Subsidiaries.

(a) Executive hereby agrees to assign, transfer and set over, and Executive does hereby assign, transfer and set over, to the Company (or, as applicable, a subsidiary or designee of the Company), without further compensation, all of Executive's rights, title and interest in and to any and all Proprietary Property which Executive, either solely or jointly with others, has conceived, made or suggested or may hereafter conceive, make or suggest, in the course of Executive's employment with the Company, whether or not patentable or registrable under copyright or similar laws, which Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice, during the period of time Executive is in the employ of the Company.

(b) The assignment of Proprietary Property hereunder includes without limitation all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as moral rights ("Moral Rights"). To the extent that such Moral Rights cannot be assigned under applicable law and to the extent the following is allowed by the laws in the various countries where Moral Rights exist, Executive hereby waives such Moral Rights and consents to any action of the Company or any subsidiary of the Company that would violate such Moral Rights in the absence of such consent. Executive also will endeavor to facilitate such use of any such Moral Rights as the Company, or, as applicable, a subsidiary of the Company, shall reasonably instruct, including confirming any such waivers and consents from time to time as requested by the Company (or, as applicable, a subsidiary of the Company).

6.3 Works for Hire. Executive acknowledges that all original works of authorship or other creative works which are made by Executive (solely or jointly with others) within the scope of the employment of Executive by the Company and which are protectable by copyright are "works made for hire," pursuant to United States Copyright Act (17 U.S.C., Section 101). To the extent such original work of authorship or other creative works are not works made for hire, Executive hereby assigns to the Company (or, as directed by the Company, to a subsidiary of the Company) all of the rights comprised in the copyright of such works.

6.4 Disclosure of Proprietary Property and Execution of Documents. Executive further agrees to promptly disclose to the Company any and all Proprietary Property which Executive has assigned, transferred and set over or will assign, transfer and set over as provided in Section 6.2 above, and Executive agrees to execute, acknowledge and deliver to the Company (or, as applicable, to a subsidiary of the Company), without additional compensation and without expense to Executive, any and all instruments reasonably requested, and to do any and all lawful acts which, in the reasonable judgment of the Company or its attorneys (or, as applicable, a subsidiary of the Company or its attorneys) may be required or desirable in order to vest in the Company or such subsidiary all property rights with respect to such Proprietary Property.

6.5 Enforcement of Proprietary Rights.

(a) Executive will assist the Company (or, as applicable, a subsidiary of the Company) in every proper way to obtain, assign to the Company (or, as directed by the Company, to a subsidiary), confirm and from time to time enforce, United States and foreign patent, trade secret, trademark, copyright, mask work, and other intellectual property rights relating to Proprietary Property in any and all countries. To that end Executive will execute, verify and deliver such documents and perform such other acts (including appearances as a witness) as the Company, or, as applicable, a subsidiary of the Company, may reasonably request for use in applying for, obtaining, perfecting, evidencing, sustaining and enforcing such proprietary rights and the assignment of such Proprietary Property. In addition, Executive will execute, verify and deliver assignments of such Proprietary Property and all rights therein to the Company, its subsidiary or its or their designee. The obligation of Executive to assist the Company, or, as applicable, a subsidiary of the Company, with respect to proprietary rights relating to such Proprietary Property in any and all countries shall continue beyond the termination of employment, but the Company, or as applicable, a subsidiary of the Company, shall compensate Executive at a mutually agreed upon fee, in addition to any expenses, after such termination.

(b) In the event the Company, or, as applicable, a subsidiary of the Company, is unable for any reason, after reasonable effort, to secure the signature of Executive on any document needed in connection with the actions specified in the preceding paragraph, Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as agent and attorney in fact, which appointment is coupled with an interest, to act for and on behalf of Executive, to execute, verify and file any such documents and to do all other lawfully permitted acts to further the purposes of the preceding paragraph with the same legal force and effect as if executed by Executive. Executive hereby waives and quitclaims to the Company or, as applicable, a subsidiary of the Company, any and all claims, of any nature whatsoever, which Executive now or may hereafter have for infringement of any proprietary rights assigned hereunder to the Company or such subsidiary.

6.6 Third Party Information. To the extent Executive has or possesses any Confidential Information (as hereinafter defined) belonging to Executive or to others, Executive shall not use or disclose to the Company or its subsidiaries or induce the Company or its subsidiaries to use any such Confidential Information unless the Company or its subsidiaries have a legal rights to use such Confidential Information. Executive will promptly advise the Company in writing if any of Executive's involvement with the Company or any subsidiary of the Company might result in the possible violation of Executive's undertakings to others or the use of any Confidential Information of Executive or of others.

7. Confidential Information.

7.1 Existence of Confidential Information. The Company owns and has developed and compiled, and the Company and its subsidiaries will develop and compile, certain proprietary techniques and confidential information, which have and will have great value to their businesses (referred to in this Agreement, collectively, as "Confidential Information"). Confidential Information includes not only information disclosed by the Company (or, as applicable, a subsidiary of the Company) to Executive, but also information developed or learned by Executive during the course or as a result of employment with the Company, which information shall be the property of the Company or, as applicable, such subsidiary. Confidential Information includes all information that has or could have commercial value or other utility in the business in which the Company or any of its subsidiaries is engaged or contemplates engaging, and all information of which the unauthorized disclosure could be detrimental to the interests of the Company or its subsidiary, whether or not such information is specifically labeled as Confidential Information by the Company or such subsidiary. By way of example and without limitation, Confidential Information includes any and all information developed, obtained, licensed by or to or owned by the Company or any of its subsidiaries concerning trade secrets, techniques, know-how (including designs, plans, procedures, merchandising, marketing, distribution and warehousing know-how, processes, and research records), software, computer programs and designs, development tools, all Proprietary Property, and any other intellectual property created, used or sold (through a license or otherwise) by the Company or any of its subsidiaries, electronic data information know-how and processes, innovations, discoveries, improvements, research, development, test results, reports, specifications, data, formats, marketing data and plans, business plans, strategies, forecasts, unpublished financial information, orders, agreements and other forms of documents, price and cost information, merchandising opportunities, expansion plans, budgets, projections, customer, supplier, licensee, licensor and subcontractor identities, characteristics, agreements and operating procedures, and salary, staffing and employment information.

7.2 Protection of Confidential Information. Executive acknowledges and agrees that in the performance of Executive's duties hereunder, the Company or a subsidiary of the Company may disclose to and entrust Executive with Confidential Information which is the exclusive property of the Company or such subsidiary and which Executive may possess or use only in the performance of Executive's duties to the Company. Executive also acknowledges that Executive is aware that the unauthorized disclosure of Confidential Information, among other things, may be prejudicial to the Company's or its subsidiaries' interests, an invasion of privacy and an improper disclosure of trade secrets. Executive shall not, directly or indirectly, use, make available, sell, disclose or otherwise communicate to any corporation, partnership or other entity, individual or other third party, other than in the course of Executive's assigned duties and for the benefit of the Company, any Confidential Information, either during the Term or thereafter. In the event Executive desires to publish the results of Executive's work for or experiences with the Company or its subsidiaries through literature, interviews or speeches, Executive will submit requests for such interviews or such literature or speeches to the Board at least 14 days before any anticipated dissemination of such information for a determination of whether such disclosure is in the best interests of the Company and its subsidiaries, including whether such disclosure may impair trade secret status or constitute an invasion of privacy. Executive agrees not to publish, disclose or otherwise disseminate such information without the prior written approval of the Board.

7.3 Delivery of Company Records and Property. In the event Executive's employment with the Company ceases for any reason, Executive will not remove from the Company's premises without its prior written consent any records (written or electronic), files, drawings, documents, equipment, materials and writings received from, created for or belonging to the Company or its subsidiaries, including those which relate to or contain Confidential Information, or any copies thereof. Executive agrees, as requested by the Company, to search for, copy and/or delete any electronic records belonging to the Company or its subsidiaries or containing Confidential Information and stored on any personal computer or other device used or maintained by Executive. Upon the termination of his employment, Executive agrees to provide a computer-useable copy of all such electronic records and then, to the extent reasonably practicable, permanently delete and expunge such records from his personal computers and other devices. Executive shall also return to the Company all Company property in his possession or control, including without limitation, all computer hardware and other devices purchased by the Company (or for which Executive was reimbursed) upon his termination of employment with the Company, unless the Company otherwise consents in writing.

8. Assignment and Transfer.

8.1 Company. This Agreement shall inure to the benefit of and be enforceable by, and may be assigned by the Company to, any purchaser of all or substantially all of the Company's business or assets, any successor to the Company or any assignee thereof (whether direct or indirect, by purchase, merger, consolidation or otherwise).

8.2 Executive. Executive's rights and obligations under this Agreement shall not be transferable by Executive by assignment or otherwise, and any purported assignment, transfer or delegation thereof shall be void; provided, however, that if Executive shall die, all amounts then payable to Executive hereunder shall be paid in accordance with the terms of this Agreement to Executive's devisee, legatee or other designee or, if there be no such designee, to Executive's estate.

9. Miscellaneous.

9.1 Other Obligations. Executive represents and warrants that neither Executive's employment with the Company or Executive's performance of Executive's obligations hereunder will conflict with or violate or otherwise be inconsistent with any other obligations, legal or otherwise, which Executive may have. Executive covenants that he shall perform his duties hereunder in a professional manner and not in conflict or violation, or otherwise inconsistent with other obligations legal or otherwise, which Executive may have.

9.2 Nondisclosure; Other Employers. Executive represents and warrants that he has not taken or otherwise misappropriated and does not have in his possession or control any confidential and proprietary information belonging to any of his prior employers or connected with or derived from his service to prior employers. Executive represents and warrants that he has returned to all prior employers any and all such confidential and proprietary information. Executive further acknowledges, represents and warrants that the Company has informed Executive that Executive is not to use or cause the use of such confidential or proprietary information in any manner whatsoever in connection with your employment by the Company. Executive agrees, represents and warrants that he will not use such information in connection with his employment by the Company. Executive shall indemnify and hold harmless the Company from any and all claims arising from any breach of the representations and warranties in this Section.

9.3 Cooperation. Following termination of employment with the Company for any reason, Executive shall cooperate with the Company, as requested by the Company, to effect a transition of Executive's responsibilities and to ensure that the Company is aware of all matters being handled by Executive.

9.4 Indemnification. The Company shall defend and indemnify the Executive in his capacity as President and CEO of the Company to the fullest extent permitted by applicable law. The Company shall also establish a policy for indemnifying its officers and directors, including but not limited to the Executive, for all actions or omissions permitted under applicable law taken in good faith pursuant of their duties for the Company, including but not limited to the obtaining of an appropriate level of Directors and Officers Liability coverage and including such provisions in the Company's by-laws or certificate of incorporation, as applicable and customary. The rights to indemnification shall survive any termination of this Agreement.

9.5 Protection of Reputation. During the Term and thereafter, Executive agrees that he will take no action which is intended, or would reasonably be expected, to disparage or harm the Company or any of its officers, directors or affiliated entities or its or their reputations or which would reasonably be expected to lead to unwanted or unfavorable publicity to the Company or any of its officers, directors or affiliated entities, other than those required in order to permit Executive to comply with applicable law or those made in connection with legal or arbitral process. During the Term and thereafter, the Company agrees that it will take no actions which are intended, or would reasonably be expected, to disparage or harm Executive or his reputation or which would reasonably be expected to lead to unwanted or unfavorable publicity to Executive, other than those required in order to permit the Company to comply with applicable law or those made in connection with legal or arbitral process. Notwithstanding the foregoing, this paragraph shall not prevent the Company or Executive from exercising any of their respective rights under this Agreement.

9.6 Governing Law. This Agreement shall be governed by and construed (both as to validity and performance) and enforced in accordance with the internal laws of the State of New Jersey applicable to agreements made and to be performed wholly with such jurisdiction, without regard to principles of the conflict of laws thereof or where the parties are located at the time a dispute arises.

9.7 Arbitration.

(a) If any dispute arises between Executive and the Company that the parties cannot resolve themselves, including any dispute over the application, validity, construction, or interpretation of this Agreement, arbitration in accordance with the then-applicable employment law rules of the American Arbitration Association shall provide the exclusive remedy for resolving any such dispute, regardless of its nature; provided, however, that the Company may enforce may enforce Executive's obligation to provide services under this Agreement and Executive's obligations under Sections 5 through 7 of this Agreement by an action for injunctive relief and damages in a court of competent jurisdiction at any time prior or subsequent to the commencement of an arbitration proceeding as herein provided. This Section 9.6 shall apply to any and all claims arising out of Executive's employment and its termination, under state and federal statutes, local ordinances, and the common law including, without limitation Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1991, the Equal Pay Act, the Employee Retirement Income Security Act, as amended, the Age Discrimination in Employment Act of 1967, the Americans with Disabilities Act of 1990, the Family and Medical Leave Act of 1993, the Fair Labor Standards Act, the New Jersey Family Leave Act, the New Jersey Conscientious Employee Protection Act, the New Jersey Civil Rights Act and the New Jersey Law Against Discrimination.

(b) **Executive has read and understand this Section 9.7 which discusses arbitration. Executive understands that by signing this Agreement, Executive agrees to submit any claims arising out of, relating to, or in connection with this Agreement, or the interpretation, validity, construction, performance, breach or termination thereof, or Executive's employment or the termination thereof, to binding arbitration, and that this arbitration provision constitutes a waiver of Executive's right to a jury trial and relates to the resolution of all disputes relating to all aspects of the employer/employee relationship. Executive further understands that other options such as federal and state administrative remedies and judicial remedies exist and know that by signing this Agreement those remedies are forever precluded and that regardless of the nature of Executive's complaint, Executive knows that it can only be resolved by arbitration.**

(c) Unless the parties agree otherwise, any arbitration shall be administered by and take place in the offices of the American Arbitration Association in Essex County, New Jersey. If that office is not available, then the arbitrator shall determine the location of the arbitration within New Jersey.

9.8 Entire Agreement. This Agreement (including all exhibits hereto) contains the entire agreement and understanding between the parties hereto in respect of Executive's employment and supersedes, cancels and annuls any prior or contemporaneous written or oral agreements, understandings, commitments and practices between them respecting Executive's employment, including all prior employment agreements, if any, between the Company and Executive, which agreement(s) hereby are terminated and shall be of no further force or effect.

9.9 No Amendment/Waiver. This Agreement may not be amended or modified in any manner nor may any of its provisions be waived except by written amendment executed by the parties. A waiver, modification or amendment by a party shall only be effective if (a) it is in writing and signed by the parties, (b) it specifically refers to this Agreement and (c) it specifically states that the party, as the case may be, is waiving, modifying or amending its rights hereunder. Any such amendment, modification or waiver shall be effective only in the specific instance and for the specific purpose for which it was given.

9.10 Severability. If any term, provision, covenant or condition of this Agreement or part thereof, or the application thereof to any person, place or circumstance, shall be held to be invalid, unenforceable or void by a court of competent jurisdiction, the remainder of this Agreement and such term, provision, covenant or condition shall remain in full force and effect, and any such invalid, unenforceable or void term, provision, covenant or condition shall be deemed, without further action on the part of the parties hereto, modified, amended and limited, and the court shall have the power to modify, to the extent necessary to render the same and the remainder of this Agreement valid, enforceable and lawful. In this regard, Executive acknowledges that the provisions of Sections 5, 6 and 7 of this Agreement are reasonable and necessary for the protection of the Company.

9.11 Construction. The headings and captions of this Agreement are provided for convenience only and are intended to have no effect in construing or interpreting this Agreement. The language in all parts of this Agreement shall be in all cases construed according to its fair meaning and not strictly for or against the Company or Executive. The use herein of the word "including," when following any general provision, sentence, clause, statement, term or matter, shall be deemed to mean "including, without limitation." As used herein, "Company" shall mean the Company and its subsidiaries and any purchaser of, successor to or assignee (whether direct or indirect, by purchase, merger, consolidation or otherwise) of all or substantially all of the Company's business or assets which is obligated to perform this Agreement by operation of law, agreement or otherwise. As used herein, the words "day" or "days" shall mean a calendar day or days. As used herein, "Compensation Committee" means the Compensation Committee of the Board or, if no such committee is then serving, at least two members of the Board as selected by the Board.

9.12 Remedies for Breach. The parties hereto agree that Executive is obligated under this Agreement to render personal services during the Term of a special, unique, unusual, extraordinary and intellectual character, thereby giving this Agreement special value, and, in the event of a breach or threatened breach of any covenant of Executive herein, the injury or imminent injury to the value and the goodwill of the Company's and its subsidiaries' businesses could not be reasonably or adequately compensated in damages in an action at law. Accordingly, Executive acknowledges that the Company (and as applicable, one or more of its subsidiaries) shall be entitled to seek injunctive relief or any other equitable remedy against Executive in the event of a breach or threatened breach of Sections 5, 6 or 7 of this Agreement. The rights and remedies of Executive and Company are cumulative and shall not be exclusive, and Executive and Company shall be entitled to pursue all legal and equitable rights and remedies and to secure performance of the obligations and duties of the other under this Agreement, and the enforcement of one or more of such rights and remedies by Executive or Company shall in no way preclude Executive or Company from pursuing, at the same time or subsequently, any and all other rights and remedies available to Executive or Company.

9.13 Notices. Any notice, request, consent or approval required or permitted to be given under this Agreement or pursuant to law shall be sufficient if in writing, and if and when sent by certified or registered mail, return receipt requested, with postage prepaid, or by overnight courier, to Executive's residence, or to the Company's principal executive office, attention: Chairman of the Compensation Committee of the Board of Directors with a copy (which shall not constitute notice) to: Fredrikson & Byron, P.A., 60 South Sixth Street, Suite 1500, Minneapolis, MN 55402, Attention: Christopher J. Melsha, Email: cmelsha@fredlaw.com, as the case may be. All such notices, requests, consents and approvals shall be effective upon being deposited in the United States mail. However, the time period in which a response thereto must be given shall commence to run from the date of receipt on the return receipt of the notice, request, consent or approval by the addressee thereof. Rejection or other refusal to accept, or the inability to deliver because of changed address of which no notice was given as provided herein, shall be deemed to be receipt of the notice, request, consent or approval sent.

9.14 Assistance in Proceedings, Etc. Executive shall, without additional compensation during the Term and with complete reimbursement of expenses after the expiration of the Term, upon reasonable notice, furnish such information and proper assistance to the Company as may reasonably be required by the Company in connection with any legal or quasi-legal proceeding, including any external or internal investigation, involving the Company or any of its subsidiaries or in which any of them is, or may become, a party.

9.15 Survival. Cessation or termination of Executive's employment with the Company shall not result in termination of this Agreement. To the extent that any of the obligations of this Agreement constitute continuing obligations, they shall survive any termination or expiration of this Agreement or of Executive's employment hereunder.

[Signature page follows]

IN WITNESS WHEREOF, each of the parties hereto has duly executed this Agreement as of the date first written above.

EMPLOYERSincerely,

NEPHROS, INC. Nephros, Inc.

By:

/s/ Andrew Astor

Name:

Andrew Astor

Title:

Chief Executive Officer

EXECUTIVE

/s/ Robert Banks

Robert Banks

President and Chief Executive Officer

Signature Page to Employment Agreement

Acknowledged and agreed:

/s/ Andrew Astor

Andrew Astor

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
UNDER SECTION 302 OF THE SARBANES-OXLEY ACT

I, Robert Banks, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nephros, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this

report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023 November 8, 2023

By: /s/ Robert Banks

Name: Robert Banks

Title: President, Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
UNDER SECTION 302 OF THE SARBANES-OXLEY ACT

I, Andrew Astor, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Nephros, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2023 November 8, 2023

By: /s/ Andrew Astor Judy Krandel

Name: Andrew Astor Judy Krandel

Title: Interim Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32.1

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Nephros, Inc. (the "Company") for the period ended June 30, 2023 September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Robert Banks, President, Chief Executive Officer of the Company, certifies that:

- the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Robert Banks

Name: Robert Banks

Title: President, Chief Executive Officer (Principal Executive Officer)

Dated: August 9, 2023 November 8, 2023

Exhibit 32.2

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report on Form 10-Q of Nephros, Inc. (the "Company") for the period ended **June 30, 2023** **September 30, 2023** as filed with the Securities and Exchange Commission on the date hereof (the "Report"), pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Andrew Astor, Chief Financial Officer of the Company, certifies that:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Andrew Astor Judy Krandel

Name: Andrew Astor Judy Krandel

Title: **Interim** Chief Financial Officer (Principal Financial and Accounting Officer)

Date: **August 9, November 8, 2023**

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