

NEPHROS INC
Form 10QSB
November 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2006
OR

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

For the transition period from _____ to _____

Commission file number 001-32288

NEPHROS, INC.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

13-397 1809

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

3960 Broadway

New York, NY 10032

(Address of Principal Executive Offices)

(212) 781-5113

(Registrant's telephone number,
including area code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 is a shell company (as defined in Rule 12b-2 of the Exchange Act: YES NO

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date:

Class	Outstanding at November 14, 2006
Common Stock, \$.001 par value	12,317,992

Transitional Small Business

Disclosure Format: YES [] NO [X]

NEPHROS, INC. AND SUBSIDIARY

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements.**

NEPHROS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 923,957	\$ 746,581
Short-term investments	3,800,000	4,500,000
Accounts receivable, less allowances: 2006: \$37,157; 2005: \$18,697	472,944	244,100
Inventory	463,442	814,548
Prepaid expenses and other current assets	380,905	358,306
Total current assets	6,041,248	6,663,535
Property and equipment, net	943,061	1,143,309
Other assets	17,732	17,731
Total assets	\$ 7,002,041	\$ 7,824,575
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 762,260	\$ 766,158
Accrued expenses	273,020	451,109
Accrued severance expense	-	318,250
Note payable - short-term portion	379,751	295,838
Total current liabilities	1,415,032	1,831,355
Convertible notes payable	5,210,860	-
Accrued interest - convertible notes	103,430	-
Note payable - long-term portion	184,025	613,727
Total liabilities	6,913,347	2,445,082
Stockholders' equity:		
Common stock	12,318	12,313
Additional paid-in capital	53,114,329	54,848,711
Deferred compensation	-	(2,189,511)
Accumulated other comprehensive loss	(36,694)	(49,137)
Accumulated deficit	(53,001,259)	(47,242,883)
Total stockholders' equity	88,694	5,379,493
Total liabilities and stockholders' equity	\$ 7,002,041	\$ 7,824,575

See accompanying notes to the condensed consolidated financial statements

NEPHROS, INC. AND SUBSIDIARY**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
Contract revenues	\$ -	\$ -	\$ -	\$ 1,750,000
Net product revenues	164,699	225,248	641,115	603,339
Net revenues	164,699	225,248	641,115	2,353,339
Cost of goods sold	202,839	151,646	810,677	400,695
Gross (loss) profit	(38,140)	73,602	(169,562)	1,952,644
Operating expenses:				
Research and development	544,505	401,873	1,444,281	1,415,584
Depreciation expense	64,223	75,345	224,250	230,050
Selling, general and administrative	1,256,354	1,404,660	3,965,817	4,658,975
Total operating expenses	1,865,082	1,881,878	5,634,348	6,304,609
Loss from operations	(1,903,222)	(1,808,276)	(5,803,910)	(4,351,965)