

NEPHROS INC  
Form DEF 14A  
April 29, 2008

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o Confidential, for Use of the Commission Only  
(as permitted by Rule 14a-6(e)(2))
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to Rule 14a-11(c)  
or Rule 14a-12

**NEPHROS, INC.**

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
  - o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
- (1) Title of each class of securities to which transaction applies:
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- (1) Amount Previously Paid:
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-

[Nephros Logo]

Dear Stockholder:

We invite you to attend our annual meeting of stockholders at 9:00 a.m. on June 25, 2008 at the offices of Haynes and Boone, LLP located at 153 East 53rd Street in New York, New York. At the meeting, you will hear a report on our operations and have a chance to meet certain of our directors and executive officers.

This booklet includes the formal notice of the meeting and the proxy statement. The proxy statement tells you more about the agenda and procedures for the meeting. It also describes how the Board operates and gives personal information about our directors and executive officers.

Even if you only own a few shares, we want your shares to be represented at the meeting. I urge you to complete, sign, date, and return your proxy card promptly in the enclosed envelope.

We look forward to seeing you on the 25<sup>th</sup> of June.

Sincerely yours,

/s/ Norman J. Barta

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Norman J. Barta  
*Chief Executive Officer &  
President*

April 28, 2008

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**NEPHROS, INC.  
3960 BROADWAY  
NEW YORK, NEW YORK 10032**

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**NOTICE OF  
ANNUAL MEETING OF STOCKHOLDERS  
June 25, 2008**

Notice is hereby given that the Annual Meeting of Stockholders of Nephros, Inc. will be held at 9:00 a.m. on Wednesday, June 25, 2008, at the offices of Haynes and Boone, LLP located at 153 East 53rd Street in New York, New York, for the following purposes:

1. To elect two directors for a term of three years;
2. To ratify the appointment by the Audit Committee of Rothstein Kass & Company, P.C. as the company's independent registered public accounting firm for our fiscal year ending December 31, 2008;
3. To approve an amendment to the Nephros, Inc. 2004 Stock Incentive Plan that increases the total number of shares of common stock that may be granted pursuant to awards under the Plan from 1,300,000 to 2,696,976; and
4. To transact such other business as may properly come before the meeting and any adjournments thereof. We are currently unaware of any additional business to be presented at the meeting.

You must own shares at the close of business on April 28, 2008 to vote at the meeting.

**In order that your shares may be represented at the meeting in case you are not personally present, please complete, sign and date the enclosed proxy/voting card and return it as soon as possible in the enclosed addressed envelope. If you attend the meeting, you may vote your shares in person, even if you have signed and returned the proxy card.**

BY ORDER OF THE BOARD OF  
DIRECTORS

Sincerely,

/s/ Norman J. Barta

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Norman J. Barta  
President  
Chief Executive Officer,  
Corporate Secretary

April 28, 2008

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**TABLE OF CONTENTS**

	<b><u>Page</u></b>
GENERAL INFORMATION	1
PROPOSAL 1: ELECTION OF DIRECTORS	2
DIRECTORS, DIRECTOR NOMINEES AND EXECUTIVE OFFICERS	3
GOVERNANCE OF THE COMPANY	5
PROPOSAL 2: RATIFICATION OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (“RPAF”)	10
PROPOSAL 3: AMENDMENT TO THE NEPHROS, INC. 2004 STOCK INCENTIVE PLAN	12
AUDIT COMMITTEE REPORT	16
EXECUTIVE COMPENSATION	17
EQUITY COMPENSATION PLAN INFORMATION	18
SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE	19
PRINCIPAL STOCKHOLDERS AND SHAREHOLDINGS OF MANAGEMENT	19
EXECUTIVE EMPLOYMENT AGREEMENTS AND OTHER RELATIONSHIPS	22
CERTAIN TRANSACTIONS	24
OTHER MATTERS	24

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## GENERAL INFORMATION

### Stockholders entitled to vote

Stockholders of Nephros, Inc. (“Nephros” or the “Company”), as recorded on our stock register as of the close of business on April 28, 2008, may vote at the meeting. As of April 28, 2008, we had 38,165,380 shares of common stock outstanding. Each share of common stock outstanding on the record date is entitled to one vote on each matter of business considered at the meeting.

### Mailing of proxy statement and form of proxy

This proxy statement and the accompanying form of proxy are being mailed on or around April 30, 2008, in connection with the solicitation of proxies by the Board of Directors for use at the annual meeting. This proxy statement contains important information for you to consider when deciding how to vote on matters brought before the meeting. Please read it carefully. Our annual report on Form 10-KSB for fiscal 2007 is being mailed to stockholders together with this proxy statement.

### How proxies work

Our Board of Directors is asking for your proxy. Giving us your proxy means you authorize us to vote your shares at the meeting in the manner you direct.

You may vote for or against each of our director candidates. The election of each nominee for director requires a plurality of votes cast. Accordingly, abstentions and broker “non-votes” (that is, proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owner or other persons entitled to vote shares on a particular matter with respect to which brokers or nominees do not have discretionary power) will not affect the outcome of the election.

You may vote for, vote against or abstain from voting for each of the proposals to ratify the appointment by the Audit Committee of our Independent Registered Public Accounting Firm and the amendment to the Nephros, Inc. 2004 Stock Incentive Plan. The affirmative vote of a majority of the shares of Common Stock represented and voted at the Annual Meeting is required for approval of these matters. On these matters, abstentions will have the same effect as a negative vote. However, because broker non-votes will not be treated as shares that are present and entitled to vote with respect to a specific proposal, broker non-votes will have no effect on the outcome of these matters.

If you sign and return the enclosed proxy card but do not specify how to vote, we will vote your shares **IN FAVOR** of our director candidates, **IN FAVOR** of the ratification of the appointment by Audit Committee of our Independent Registered Public Accounting Firm, and **IN FAVOR** of the amendment to the Nephros, Inc. 2004 Stock Incentive Plan and **in our proxies’ discretion** on such other matters as may properly be raised at the meeting.

You may receive more than one proxy or voting card depending on how you hold your shares. Shares registered in your name are covered by one card. If you hold shares through someone else, such as a stockbroker, you may get material from them asking how you want to vote those shares.

### Revoking a proxy

You may revoke your proxy by sending in a new proxy card with a later date or by sending written notice of revocation to our corporate secretary at our principal executive offices. If you attend the meeting, you may revoke in writing previously submitted proxies and vote in person.



## **Quorum**

A majority of the voting power of the outstanding shares entitled to vote at the meeting shall constitute a quorum, whether present in person or by proxy. If you want to vote in person at the annual meeting, and you hold your Nephros stock through a securities broker (that is, in street name), you must obtain a proxy from your broker and bring that proxy to the meeting. Abstentions and broker non-votes count for quorum purposes but not for voting purposes. Broker non-votes occur when a broker returns a proxy but does not have the authority to vote on a particular proposal.

## **Attending in person**

Only stockholders, their proxy holders and our guests may attend the meeting.

### **PROPOSAL 1: ELECTION OF DIRECTORS**

At the meeting, two directors will each be elected to serve a three-year term that will expire at the close of our annual meeting to be held during 2011. The shares represented by the enclosed proxy will be voted to elect as directors the nominees named below, unless a vote is withheld for an individual nominee. If a nominee cannot or will not serve as a director (which events are not anticipated), the shares represented by the enclosed proxy may be voted for another person as determined by the holder of the proxies.

## **Board Structure**

The number of directors constituting our Board of Directors is currently seven. As of the date hereof, our board currently has one vacancy, which was created by the September 19, 2007 resignations of four former directors and the election of only three directors to succeed them. We expect that prior to the annual meeting, our remaining directors, with the guidance of our Nominating and Corporate Governance Committee, will eliminate such vacancy either by electing a new director or by reducing the number of directors that constitute our whole board. Our directors are divided into three classes. Directors in each class serve a term of three years. At each annual meeting, the term of one class expires. Our Class I Directors, whose terms expire at the conclusion of this annual meeting, are Arthur H. Amron and James S. Scibetta.

## **Board Nominees**

The Board of Directors has nominated Arthur H. Amron and James S. Scibetta for re-election as directors. Each director nominee would serve a three-year term expiring at the close of our annual meeting to be held during 2011. Biographical information on each of the nominees is furnished below under "Directors, Director Nominees and Executive Officers."

## **Vote Required**

The two nominees receiving the highest number of votes cast for them at the meeting will be elected to serve for a term of three years, or until their successors are duly elected and qualified. Abstentions and broker non-votes will not affect the outcome of the election.

## **Board Recommendation**

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE ELECTION (ITEM 1 OF THE ENCLOSED PROXY CARD) OF MR. AMRON AND MR. SCIBETTA AS DIRECTORS.





**DIRECTORS, DIRECTOR NOMINEES AND EXECUTIVE OFFICERS**

The following information is furnished with regard to the directors, the director nominees and the executive officers as of April \_\_, 2008.

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Director Since</b>	<b>Term Expires</b>
Eric A. Rose, M.D. <sup>(3)</sup>	57	Lead Director of the Board and Class III Director	1997	2010
Arthur H. Amron	[51]	Class I Director	2007	2008
Norman J. Barta	51	Chairman of the Board, President, Chief Executive Officer and Class III Director	2002	2010
Lawrence J. Centella <sup>(1)(2)</sup>	67	Class III Director	2001	2010
Paul A. Mieyal	[38]	Class II Director	2007	2009
James S. Scibetta <sup>(1)(2)(3)</sup>	[43]	Class I Director	2007	2008
Mark W. Lerner	54	Former Chief Financial Officer	N/A	N/A
Gerald J. Kochanski	54	Chief Financial Officer	N/A	N/A

(1) Member of the Audit Committee of the Board

(2) Member of the Compensation Committee of the Board

(3) Member of the Nominating and Corporate Governance Committee of the Board

**Eric A. Rose, M.D.** has served as our lead director since August 2006, and as chairman of our Board of Directors from 1997 until 2006 and a director since our inception in 1997. Dr. Rose served as our president and chief executive officer from May 1999 until July 2002. Dr. Rose has been Executive Vice President Life Sciences of MacAndrews & Forbes Holdings Inc. since March 2007 and Chairman & Chief Executive Officer of SIGA Technologies, Inc. (“SIGA”), a publicly-traded biotechnology company focused on the design and development of novel products for the prevention and treatment of serious infectious diseases, since March 2007. Since 1994, Dr. Rose has been the Morris and Rose Millstein/Johnson & Johnson Professor and Chairman of the Department of Surgery at the Columbia University College of Physicians and Surgeons, and Surgeon in Chief at the Columbia Presbyterian Medical Center. Beginning March 2007, Dr. Rose is on leave from this position. Dr. Rose is a director of the following corporations which are required to file reports pursuant to the Exchange Act of 1934, as amended (the “Exchange Act”): SIGA and Keryx Biopharmaceuticals, Inc. Dr. Rose is also a director of PharmaCore, Inc., TransTech Pharma, Inc. and a former director of Nexell Therapeutics Inc. (f/k/a VimRx). Dr. Rose received a B.A., *summa cum laude*, in Psychology from Columbia University and an M.D. from Columbia University College of Physicians and Surgeons.

**Arthur H. Amron** has served as a director of our company since September 2007. Mr. Amron is a partner of Wexford Capital and serves as its General Counsel. Mr. Amron also actively participates in various private equity transactions, particularly in the bankruptcy and restructuring areas, and has served on the boards and creditors’ committees of a number of public and private companies in which Wexford has held investments. From 1991-94, Mr. Amron was an Associate at Schulte Roth & Zabel LLP specializing in corporate and bankruptcy law and from 1984-91, Mr. Amron was an Associate at Debevoise & Plimpton LLP specializing in corporate litigation and bankruptcy law. Mr. Amron holds a JD from Harvard University, a BA in political theory from Colgate University and is a member of the New York Bar.

**Norman J. Barta** has served as our president and chief executive officer and as a director since July 2002, and served as our chief financial officer from October 1998 until July 2004. Mr. Barta has been Chairman of our Board of Directors since October 2007. Mr. Barta has served as our treasurer and secretary since May 1999. Mr. Barta served as our chief operating officer from October 1999 to July 2002. From 1994 to 1997, Mr. Barta provided financial planning

and management for the research and development division of National Medical Care (currently a division of the Fresenius Medical Care AG), which prior to its acquisition by Fresenius was one of the largest dialysis providers in the world. Prior to that, Mr. Barta was a consultant for Corestates Bank, where he restructured and optimized cash management and treasury areas for the bank's corporate and public-sector clients. Mr. Barta received a B.S. in Mathematics and Economics from Carnegie-Mellon University and an M.B.A. from the University of Chicago.

- 3 -

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**Lawrence J. Centella** has served as a director of our company since January 2001. Mr. Centella serves as president of Renal Patient Services, LLC, a company that owns and operates dialysis centers, and has served in such capacity since June 1998. From 1997 to 1998, Mr. Centella served as executive vice president and chief operating officer of Gambro Healthcare, Inc., an integrated dialysis company that manufactured dialysis equipment, supplied dialysis equipment and operated dialysis clinics. From 1993 to 1997, Mr. Centella served as president and chief executive officer of Gambro Healthcare Patient Services, Inc. (formerly REN Corporation). Prior to that, Mr. Centella served as president of COBE Renal Care, Inc., Gambro Hospital, Inc., LADA International, Inc. and Gambro, Inc. Mr. Centella is also the founder of LADA International, Inc. Mr. Centella received a B.S. from DePaul University.

**Paul A. Mieyal** has served as a director of our company since September 2007. Dr. Mieyal has been a Vice President of Wexford Capital since October 2006. From January 2007 through September 2007, he was Vice President in charge of healthcare investments for Wechsler & Co., Inc., a private investment firm and registered broker-dealer. Dr. Mieyal is also a director of Nile Therapeutics, Inc. Dr. Mieyal received his Ph.D. in pharmacology from New York Medical College, a B.A. in chemistry and psychology from Case Western Reserve University, and is a Chartered Financial Analyst.

**James S. Scibetta** has served as a director of our company since November 2007. Prior to joining us, Mr. Scibetta was Chief Financial Officer of Bioenvision, Inc. from December 2006 until its acquisition by Genzyme, Inc. in October 2007. From September 2001 to November 2006, Mr. Scibetta was Executive Vice President and CFO of Merrimack Pharmaceuticals, Inc., a biopharmaceutical company focused on discovery and development of novel therapies for autoimmune disease and cancer, and he was a member of the Board of Directors of Merrimack from April 1998 to March 2004. Mr. Scibetta formerly served as a senior investment banker at Shattuck Hammond Partners, LLC from 1997 to 2001 and PaineWebber Inc. from 1988 to 1997, providing capital acquisition, mergers and acquisitions, and strategic advisory services to healthcare companies. Mr. Scibetta is currently a member of the Board of Directors and Audit Committee Chairman of Labopharm, Inc., an international specialty pharmaceutical company focused on improving existing drugs by incorporating its proprietary, advanced controlled-release technologies. Mr. Scibetta holds a B.S. in Physics from Wake Forest University, and an M.B.A. in Finance from the University of Michigan. He completed executive education studies in the Harvard Business School Leadership & Strategy in Pharmaceuticals and Biotechnology program.

**Mark W. Lerner** served as our chief financial officer from March 2006 until April 2008. Mr. Lerner served as a consultant to Pipeline Data Inc., a business services company that offers card processing services, from September 2003 until his employment by the Company. From May 2002 through June 2003, Mr. Lerner was Executive Vice President and Chief Financial Officer of Ramp, Inc., a healthcare information technology company whose stock was listed on the American Stock Exchange ("AMEX"). From September 2000 through April 2002, Mr. Lerner was the Chief Financial Officer and VP Finance and Development of Boardroom Inc., a direct marketer and publisher. Prior to joining Boardroom, Mr. Lerner had over twenty years of experience working in finance. Mr. Lerner received his MBA in Finance from Emory University and graduated from Columbia University's Executive Program.

**Gerald J. Kochanski** became our chief financial officer in April 2008. Mr. Kochanski was the Financial Services Director of Lordi Consulting LLC, a national consulting firm, from February 2007 through February 2008. From October 2004 until December 2006, Mr. Kochanski was the Chief Financial Officer of American Water Enterprises, Inc., a business unit of a privately owned company in the water and wastewater treatment industry. Previously, from November 1998 through September 2004, Mr. Kochanski was the Chief Financial Officer of Scanvec Amiable Ltd. a publicly traded provider of software to the signmaking, digital printing and engraving industries. Mr. Kochanski received his BS in Accounting and his MBA in Finance from La Salle University, where he has also been an adjunct accounting department faculty member since 1986.

There are no family relationships between any of our directors and executive officers.

### **Key Employee**

**Gregory Collins, Ph.D.** has served as our senior scientist since 1998. From 1993 to 1997, Dr. Collins was a research and development program manager at National Medical Care, where he was responsible for research and development projects relating to dialyzer cartridges and bloodlines. From 1990 to 1993, Dr. Collins served as a senior level research and development engineer at National Medical Care, where he applied basic scientific theory to practical device development using his training in solute transport, and gained technical expertise in the spinning of hollow fiber semi-permeable membranes, dialyzer cartridge design and assembly techniques, and novel test method development. Dr. Collins received a B.S., *summa cum laude*, in Chemical Engineering from Arizona State University and a Ph.D., *magna cum laude*, in Bioengineering from U.C. San Diego. Dr. Collins is 48 years old.

## **GOVERNANCE OF THE COMPANY**

### **Code of Ethics**

During the fiscal year ended December 31, 2004, we adopted a Code of Ethics and Business Conduct (“Code of Ethics”), amended and restated on April 2, 2007, for our employees, officers and directors that complies with Securities and Exchange Commission (“SEC”) regulations and AMEX listing standards. The Code of Ethics is available free of charge on our website at [www.nephros.com](http://www.nephros.com), by clicking on the Investor Relations link, then the Corporate Governance link. We intend to timely disclose any amendments to, or waivers from, our code of ethics and business conduct that are required to be publicly disclosed pursuant to rules of the SEC and the AMEX by filing such amendment or waiver with the SEC.

### **Committees and Meetings**

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are each governed by a specific charter, each of which is available on our website at [www.nephros.com](http://www.nephros.com), and all members of these committees are independent directors. We comply with the rules promulgated by the AMEX for determining the independence of directors, as well as the SEC requirements for independence of directors on the Audit Committee. Compliance with these requirements is reviewed annually by the Nominating and Corporate Governance Committee.

The Board has at least one regularly scheduled meeting per year. In addition, the Board holds special meetings whenever requested by either the Chairman of the Board, the President, the Secretary or by two or more directors. The Audit Committee has no less than one meeting per quarter. The Compensation Committee meets at least twice a year and the Nominating and Corporate Governance Committee meets at least once a year. In addition, special meetings of the Board or any Committee may be called from time to time as determined by the needs of the business.

During fiscal 2007, the Board of Directors held 17 meetings, and took action by unanimous written consent in lieu of a meeting six times. During 2007, all directors attended at least 75% of the combined total of (i) all Board meetings and (ii) all meetings of committees of the Board of which the director was a member. The Board of Directors allocates time at each Board meeting to meet without management present.

*Audit Committee*

The purpose of the Audit Committee of the Board of Directors is to represent and assist the Board in monitoring (i) accounting, auditing, and financial reporting processes; (ii) the integrity of our financial statements; (iii) our internal controls and procedures designed to promote compliance with accounting standards and applicable laws and regulations; and (iv) the appointment of and evaluating the qualifications and independence of our independent registered public accounting firm. The Audit Committee's specific responsibilities are set forth in its charter, a copy of which is attached as Exhibit A to this proxy statement. The Audit Committee currently consists of Mr. Scibetta (Chairperson) and Mr. Centella each of whom have been determined by the Board of Directors to be independent under the AMEX listing standards. Dr. Rose served on the Audit Committee from February 2, 2006 until February 28, 2007 and again from September 19, 2007 until November 16, 2007. Ms. Judith Slotkin served as Chairman of the Audit Committee from June 2006 until her resignation on September 19, 2007, and Mr. Scibetta joined the Audit Committee on November 16, 2007. The Audit Committee met nine times in fiscal 2007 and acted twice by unanimous written consent in lieu of a meeting.

The Board of Directors has determined that all Audit Committee members are financially literate under the current listing standards of the AMEX. The Board also determined that Mr. Scibetta qualifies as an "audit committee financial expert" as defined by the SEC rules adopted pursuant to the Sarbanes-Oxley Act of 2002. The Audit Committee also serves as our Qualified Legal Compliance Committee ("QLCC"). The QLCC is responsible for investigating reports, made by attorneys appearing and practicing before the SEC in the representation of us, of perceived material violations of law, breaches of fiduciary duty or similar violations by us or any of our agents.

*Compensation Committee*

The purpose of the Compensation Committee of the Board of Directors is to (i) assist the Board in discharging its responsibilities with respect to compensation of our executive officers and directors, (ii) evaluate the performance of our executive officers, (iii) assist the Board in developing succession plans for executive officers and (iv) administer our stock and incentive compensation plans and recommend changes in such plans to the Board as needed. The Compensation Committee establishes the compensation of senior executives on an annual basis. The Compensation Committee currently consists of Mr. Centella (Chairman) and Mr. Scibetta, both of whom have been determined by the Board of Directors to be independent under the AMEX listing standards. The Compensation Committee met twice during in fiscal 2007 and acted twice by unanimous written consent in lieu of a meeting.

*Nominating and Corporate Governance Committee*

The purpose of the Nominating and Corporate Governance Committee of the Board of Directors is to assist the Board in identifying qualified individuals to become Board members, in determining the composition of the Board and its committees, in monitoring a process to assess Board effectiveness and in developing and implementing corporate procedures and policies. The Nominating and Corporate Governance Committee currently consists of Dr. Rose (Chairman) and Mr. Scibetta, both of whom have been determined by the Board of Directors to be independent under the AMEX listing standards. The Nominating and Corporate Governance Committee met twice during fiscal 2007 and acted once by unanimous written consent in lieu of a meeting.

The entire Board is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of the stockholders. The Nominating and Corporate Governance Committee is responsible for identifying, screening, and recommending candidates to the entire Board for prospective Board membership. When formulating its Board membership recommendations, the Nominating and Corporate Governance Committee also considers any qualified candidate for an open board position timely submitted by our stockholders in accordance with our established procedures.

The Nominating and Corporate Governance Committee will consider stockholder recommendations of candidates when the recommendations are properly submitted. Stockholder recommendations should be submitted to us under the procedures discussed in “Procedures For Security Holder Submission of Nominating Recommendations” which is available on our website at [www.nephros.com](http://www.nephros.com), by clicking on the Investor Relations link, then the Corporate Governance link. Written notice of any nomination must be timely delivered to Nephros, Inc., 3960 Broadway, New York, New York 10032, Attention: Nominating and Corporate Governance Committee, c/o Chief Financial Officer.

- 6 -

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The Nominating and Corporate Governance Committee will evaluate and recommend candidates for membership on the Board of Directors consistent with criteria established by the Committee. When considering a potential non-incumbent candidate, the Nominating and Corporate Governance Committee will factor into its determination the following qualities of a candidate: professional experience, including whether the person is a current or former Chief Executive Officer or Chief Financial Officer of a public company, integrity, professional reputation, independence and ability to represent the best interests of our stockholders.

The Nominating and Corporate Governance Committee uses a variety of methods for identifying and evaluating non-incumbent candidates for director. The Nominating and Corporate Governance Committee regularly assesses the appropriate size and composition of the Board, the needs of the Board and the respective committees of the Board and the qualifications of candidates in light of these needs. The Committee will solicit recommendations for nominees from persons that the Committee believes are likely to be familiar with qualified candidates, including members of the Board, our management or a professional search firm. The evaluation of these candidates may be based solely upon information provided to the committee or may also include discussions with persons familiar with the candidate, an interview of the candidate or other actions the committee deems appropriate, including the use of third parties to review candidates.

### Stockholder Communication with the Board

Stockholders may communicate with the Board of Directors, members of particular committees or to individual directors, by sending a letter to such persons in care of our Chief Financial Officer at our principal executive offices. The Chief Financial Officer has the authority to disregard any inappropriate communications or to take other appropriate actions with respect to any inappropriate communications. If deemed an appropriate communication, the Chief Financial Officer will submit the correspondence to the Chairman of the Board or to any committee or specific director to whom the correspondence is directed. Procedures for sending communications to the Board of Directors can be found on our website at [www.nephros.com](http://www.nephros.com), by clicking on the Investor Relations link, then the Corporate Governance link. Please note that all such communications must be accompanied by a statement of the type and amount of our securities that the person holds; any special interest, meaning an interest that is not derived from the proponent's capacity as a shareholder, of the person in the subject matter of the communication; and the address, telephone number and e-mail address, if any, of the person submitting the communication.

### Director Compensation

The following table provides information on the Company's compensation of non-management Directors for 2007. In addition, the Company reimburses Directors for out-of-pocket expenses attendant to Board membership.

#### Director Compensation

Name	Year	Fees Earned or Paid in Cash	Option Awards <sup>(1)(2)</sup>	Total
Arthur Amron	2007	\$ 2,450	\$ 3,296 <sup>(3)</sup>	\$ 5,746
Lawrence Centella	2007	\$ 5,350	\$ 19,230 <sup>(4)</sup>	\$ 24,580
Howard Davis	2007	??	?? <sup>(5)</sup>	??
Donald G. Drapkin	2007	??	?? <sup>(6)</sup>	??
Paul Mieval	2007	\$ 2,450	\$ 3,296 <sup>(7)</sup>	\$ 5,746



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Eric A. Rose	2007	\$	6,150	\$	194,429 <sup>(8)</sup>	\$	200,579
Bernard Salick	2007		??		?? <sup>(9)</sup>		??
James Scibetta	2007	\$	3,075	\$	4,394 <sup>(10)</sup>	\$	7,469
Judy Slotkin	2007		??		?? <sup>(11)</sup>		??
W. Townsend Ziebold, Jr.	2007		??		?? <sup>(12)</sup>		??

- 7 -

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- (1) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes with respect to the year ended December 31, 2007, in accordance with SFAS 123(R). The assumptions used in the calculation of these amounts for 2007 are included in Note 2 to our audited consolidated financial statements for the year ended December 31, 2007, which are included in our Annual Report on Form 10-KSB filed with the SEC on March 31, 2008
- (2) Unless otherwise indicated below, option awards included in this table vest in three equal installments on each of the date of grant and the first and second anniversaries thereof.
- (3) At December 31, 2007, Mr. Amron had outstanding option awards with respect to an aggregate of 15,000 shares of our common stock, which award was granted on November 30, 2007.
- (4) At December 31, 2007, Mr. Centella had outstanding option awards with respect to an aggregate of 35,000 shares of our common stock. Mr. Centella was granted option awards on April 26, 2005 and February 2, 2006 with respect to 10,000 shares each. On December 14, 2004, Mr. Centella was granted an option award with respect to 5,000 shares that vests in two equal installments on each of the date of grant and the first anniversary thereof. On May 22, 2007, Dr. Centella was granted an option award that vested immediately with respect to 3,333 shares, and, with respect to 6,667 shares, upon the automatic conversion of certain notes on November 14, 2007.
- (5) Mr. Davis resigned from our Board of Directors on September 19, 2007, and all of Mr. Davis's then-outstanding stock options expired prior to December 31, 2007.
- (6) Mr. Drapkin resigned from our Board of Directors on April 30, 2007, and all of Mr. Drapkin's then-outstanding stock options expired prior to December 31, 2007.
- (7) At December 31, 2007, Mr. Mioyal had outstanding option awards with respect to an aggregate of 15,000 shares of our common stock, which award was granted on November 30, 2007.
- (8) At December 31, 2007, Dr. Rose had outstanding option awards with respect to an aggregate of 209,835 shares of our common stock. Dr. Rose was granted option awards on April 27, 2005 and February 2, 2006 with respect to 10,000 shares each. On January 13, 2003, Dr. Rose was granted an option award with respect to 14,205 shares that vested in four equal installments on each of the date of grant and the first, second and third anniversaries thereof. On May 30, 2003, Dr. Rose was granted an option award that vested, with respect to 59,661 shares, in three equal installments upon each of the date of grant and the first and second anniversaries thereof, with respect to 33,126 shares, upon our first regulatory approval, with respect to 39,717 shares, upon our consummation of a financing that raised at least \$5 million and, with respect to 33,126 shares, upon the automatic conversion of certain notes on November 14, 2007. On May 22, 2007, Dr. Rose was granted an option award that vested immediately with respect to 3,333 shares, and, with respect to 6,667 shares, upon the automatic conversion of certain notes on November 14, 2007.
- (9) Dr. Salick resigned from our Board of Directors on May 22, 2007, and all of Dr. Salick's then-outstanding stock options expired prior to December 31, 2007.
- (10) At December 31, 2007, Mr. Scibetta had outstanding option awards with respect to an aggregate of 20,000 shares of our common stock, which award was granted on November 30, 2007.
- (11) Ms. Slotkin resigned from our Board of Directors on September 19, 2007, and all of Ms. Slotkin's then-outstanding stock options expired prior to December 31, 2007.



(12) Mr. Ziebold resigned from our Board of Directors on September 19, 2007, and all of Mr. Ziebold's then-outstanding stock options expired prior to December 31, 2007.

We pay our non-management directors a \$10,000 annual retainer, \$1,200 per meeting for each quarterly Board meeting attended and will reimburse our directors for expenses incurred by them in connection with serving on our Board of Directors. We pay the chairperson of our Audit Committee a \$5,000 annual retainer and \$500 per meeting for meetings of the Audit Committee, with a maximum of eight meetings per year.

We will grant each non-employee director who first joins our Board, immediately upon such director's joining our Board, options to purchase 20,000 shares of our common stock in respect of such first year of service at an exercise price per share equal to the fair market value price per share of our common stock on the date of grant. We will also grant, at the Board meeting that will take place immediately following the Annual Meeting, each non-employee director options to purchase 10,000 shares of our common stock at an exercise price per share equal to the fair market value price per share of our common stock on the grant date for each year of service as a member of our Board after the first year of such service. Such non-employee director options vest in three equal installments on each of the date of grant and the first and second anniversaries thereof. Our executive officers shall not receive additional compensation for their service as directors.

### **Director Independence**

The Board of Directors complies with the AMEX listing standards and reviews all commercial and other relationships of each director in making its determination as to the independence of its directors. After such review, the Board has determined that each of Mr. Amron, Mr. Centella, Mr. Mieyal, Dr. Rose and Mr. Scibetta qualifies, and that Mr. Davis, Dr. Salick, Ms. Slotkin, Mr. Ziebold and Mr. Drapkin qualified, as independent under the requirements of the AMEX listing standards.

### **Director Attendance at Annual Meetings**

Each of our directors is expected to be present at annual meetings of our stockholders absent exigent circumstances that prevent their attendance. Where a director is unable to attend an annual meeting in person but is able to do so by electronic conferencing, we will arrange for the director's participation by means where the director can hear, and be heard by, those present at the meeting. Last year, six of eight directors attended the annual meeting.

**PROPOSAL 2: RATIFICATION OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ("RPAF")**

The Audit Committee of the Board of Directors has selected and appointed Rothstein Kass & Company, P.C., independent registered public accounting firm, to audit the accounts of us and our subsidiary for the fiscal year ending December 31, 2008. A representative of Rothstein Kass & Company, P.C. is expected to be present at the annual meeting and will have an opportunity to make a statement should he or she desire to do so, and is expected to be available to respond to appropriate questions.

On July 16, 2007, the Audit Committee dismissed Deloitte & Touche LLP as our RPAF, effective immediately. The decision to dismiss was approved by our Audit Committee. The reports of Deloitte & Touche LLP on our consolidated financial statements as of and for the fiscal years ended December 31, 2005 and 2006 did not contain any adverse opinion or disclaimer of opinion and were not modified as to uncertainty, audit scope or accounting principles, except for an explanatory paragraph disclosing substantial doubt about our ability to continue as a going concern.

During the fiscal years ended December 31, 2005 and 2006, there were no disagreements with Deloitte & Touche LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which, if not resolved to the satisfaction of Deloitte & Touche LLP, would have caused it to make reference to the subject matter of the disagreements in connection with its reports on the financial statements for such years.

During the years ended December 31, 2006 and 2005, we did not consult with Rothstein Kass & Company, P.C. with respect to either (i) the application of accounting principles to a specific completed or contemplated transaction, or the type of audit opinion that might be rendered on our financial statements; or (ii) any matter that was the subject of a disagreement or event identified in response to Item 304(a)(1)(iv) of Regulation S-K.

Our Audit Committee engaged Rothstein Kass & Company, P.C. as our RPAF on July 16, 2007.

**Vote Required**

The proposal to ratify the appointment by the Audit Committee of Rothstein Kass & Company, P.C. as our RPAF requires an affirmative vote of a majority of the voting power of the common stock present at the meeting in person or represented by proxy. Abstentions will have the same effect as votes against Proposal Two. However, because broker non-votes will not be treated as shares that are present and entitled to vote with respect to a specific proposal, broker non-votes will have no effect on the outcome of this matter. Notwithstanding ratification of the appointment of Rothstein Kass & Company, P.C. as our RPAF for the fiscal year ending December 31, 2008, the Audit Committee may select another RPAF for such year without any vote of the stockholders. If the stockholders do not ratify the appointment, the matter of the appointment of RPAF will be considered by the Audit Committee.

**Board Recommendation**

THE BOARD UNANIMOUSLY RECOMMENDS A VOTE "FOR" RATIFICATION (ITEM 2 OF THE ENCLOSED PROXY CARD) OF THE APPOINTMENT BY THE AUDIT COMMITTEE OF ROTHSTEIN KASS & COMPANY, P.C. AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM.

**Auditor Fees and Services**

*Audit Fees*

Fees billed for audit services by Deloitte & Touche LLP totaled approximately \$166,000 for the fiscal year ended December 31, 2006. Such fees include fees associated with the annual audit.



Fees billed for audit services by Rothstein Kass & Company, P.C. totaled approximately \$65,000 for the fiscal year ended December 31, 2007. Such fees include fees associated with the annual audit.

*Audit-Related Fees*

During the fiscal year ended December 31, 2006, we were billed approximately \$67,000 by Deloitte & Touche LLP for audit-related services in connection with the review of the Company's Schedule 14C and our Quarterly Report on Form 10-KSB for the period ended March 31, 2006.

During the fiscal year ended December 31, 2003, we were billed approximately \$82,000 by Deloitte & Touche LLP for audit-related services in connection with our responding to comment letters we received from the SEC relating to our Annual Report on Form 10-KSB for the year ended December 31, 2005 and our Quarterly Report on Form 10-QSB for the periods ended June 30, 2006.

During the fiscal year ended December 31, 2007, we were billed approximately \$20,000 by Rothstein Kass & Company, P.C. for audit-related services in connection with evaluation of financial instruments and warrants.

*Tax Fees*

There were no tax services provided by either Deloitte & Touche LLP or Rothstein Kass & Company, P.C. for the fiscal years ended December 31, 2006 and 2007.

Fees for tax services provided by firms other than our RPAF totaled approximately \$19,000 and \$18,000 for the fiscal years ended December 31, 2007 and 2006. Tax services generally include fees for tax preparation and tax consultations.

*All Other Fees*

We did not engage either Deloitte & Touche LLP or Rothstein Kass & Company, P.C. to provide any information technology services or any other services during the fiscal years ended December 31, 2006 and 2007.

*Pre-Approval Policies and Procedures*

In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by our RPAF. During fiscal 2007 and 2006, all services were pre-approved by the Audit Committee in accordance with this policy.