

Dear Shareholders:

I would like to begin by thanking you for your continued support of Delcath Systems and of our ongoing efforts to bring new hope to cancer patients. Since the beginning of 2007, we have made considerable progress with the Delcath Percutaneous Hepatic Perfusion (PHP) System. This includes the presentation of promising data at a number of major scientific meetings that highlight why the System remains so compelling. We also faced a major challenge in 2007, which I would like to address first.

Last October, at the request of the FDA, we suspended enrollment in trials of the PHP System to submit an analysis of certain gastrointestinal events that occurred in four patients. We met with the Food and Drug Administration (FDA), presented our analysis of the events and the steps taken to avoid their recurrence and resumed trial enrollment, all within a month. The speed with which we were able to address this situation speaks to the significant promise of the PHP System and to the dedicated group of individuals overseeing its development, as well as our growing relationship with the FDA. Regardless of how quickly the issue was resolved, however, we underestimated its impact on the timely expansion of our Phase III study.

PHP trials require input from multiple medical specialties, reviews by ethical and scientific committees, and a multidisciplinary budget process. Even minor setbacks can slow this approval process and lead to a ripple effect of delays. This is precisely what occurred following the FDA's action. Yet despite this setback, we are rebuilding the momentum we enjoyed prior to the interruption, and remain confident in our ability to add up to 5 new additional sites to the study by year end and to reach full Phase III enrollment during 2009. Including candidate sites for the Phase II trial, we continue to support the review process at a dozen cancer centers and maintain the addition of new sites as our overriding priority. Critical to accomplishing this goal, the Western Institutional Review Board (WIRB) approved the protocol for our Phase III study earlier this year. The WIRB is an organization that reviews and monitors industry sponsored research studies to expedite the internal review process at multiple hospital centers and academic institutions. A number of the hospital centers that we have targeted to join our clinical trials work with the WIRB.

While the pace of enrollment in this study can never be fast enough, we announced in February the enrollment of over twenty five percent of the required total number of patients to complete the trial. Of the 24 patients enrolled, 11 have been randomized to the PHP arm and 13 have been randomized to the best alternative care arm of the study. Of those 13 patients, 9 have since crossed over to receive the Delcath PHP treatment. Patients continue to enter the trial and we will announce enrollment and crossover number updates for the phase III trial over the course of the year.

Ultimately, the success of the Delcath PHP System hinges on clinical results, and since the beginning of 2007, investigators have presented promising data on its unique and significant effects in clinical trials at a number of major scientific meetings. Among the most noteworthy and up-to-date results are those of one arm of our Phase II multi-histology trial of primary and metastatic cancers of the liver, presented at the American Hepato Pancreato Biliary Association 2008 Annual Meeting in March.

Patients treated in the neuroendocrine arm of our Phase II trial, a majority of who had cancers of pancreatic origin, showed significant tumor responses. Of the 19 evaluable patients, 79% showed a meaningful reduction in tumor burden, including two complete responses. In addition, the study demonstrated an overall survival of 40 months and progression free survival of 39 months. These results suggest that patients with this type of diffuse liver disease, with the associated very poor prognoses, may have a new means of significantly impacting their tumor burden and restoring liver health and function. Results of this magnitude are remarkable and give us continued cause for optimism as we move forward in our clinical studies.

PHP remains a platform technology that we believe will eventually be applied to many cancers and which will be used with many drugs. Our practice has been to focus on specific diseases where the benefit is so stark that statistical proof can potentially be gained from a small trial population, such as we see in our metastatic melanoma trial. Given the strength of the neuroendocrine results, we hope to move forward with the next stage of development in establishing PHP as a treatment for metastatic neuroendocrine tumors by expanding the current clinical trial to a broader study which could form the basis for regulatory approval of PHP for this indication. We have presented a proposed protocol for this study to the FDA, and anticipate being in a position to initiate this next phase of study during the second half of 2008.

Key to our clinical efforts is the continued involvement of the National Cancer Institute (NCI). Last year, we signed a five-year extension to our clinical research and development agreement with the NCI, providing for further development of the PHP System and covering the period of time to completion of the Phase III trial. Last year, we also received NCI clearance to expand our Phase III study to additional clinical trial centers. The NCI remains a significant and important supporter of our technology and research.

Further development and improvement of our technology also continues. The platform technology that we have at Delcath is dependent upon the ability to extract whatever agents we are administering from the patient's blood. To date, the PHP System has been used in humans with three drugs: our core drug melphalan, as well as Doxorubicin and 5-FU. Broader filtration technology allows us to use a greater variety of drugs as well as increase the dose level of those drugs we currently use.

To that end, we signed a collaboration agreement with Aethlon Medical in January of this year to jointly research and develop a hybrid filter technology capable of removing established as well as cutting edge anticancer agents from the blood. Aethlon Medical's core technology is a hollow fiber technology which may more effectively separate various components of blood and improve extraction of certain drugs compared to traditional carbon-based filtration. We plan to evaluate a prototype of this new filter within the year, and continue to explore the collaborative development of a variety of other filter technologies from corporations as well as academic institutions.

To protect new and existing technologies, we continue to expand our IP portfolio, which now stands at twenty-eight patents. This includes the granting of an additional Japanese patent for the Delcath System, and follows our recent successful efforts to extend patent protection for the Delcath PHP system in Europe and Asia.

The Company also continues to add to its medical expertise and experience. Early this year,

Delcath established a Scientific Advisory Board which now counts four leading internationally recognized physicians as its members. These founding members include Dr. Leonard Saltz, of Memorial Sloan-Kettering, Dr. Alexander M.M. Eggermont, of the Erasmus University Medical in Rotterdam, Dr. Douglas L. Fraker, of the University of Pennsylvania and Dr. Larry K. Kvols, of the H. Lee Moffitt Cancer Center. Each of these individuals is a key opinion leader in their field, and, as a group, will serve to expand our clinical and scientific reach by advising us on strategic development of the PHP System, spearheading new areas of clinical study and sharing results of these efforts with the wider medical community.

Lastly, we were successful in raising \$14.2 million in capital in the third quarter of 2007 through a registered direct offering. We anticipate that the proceeds from this financing will allow us to continue investing in the expansion of our technology and should cover the anticipated costs of our Phase III study of metastatic melanoma.

Accomplishments since the beginning of 2007 have put Delcath Systems in an excellent position to achieve critical goals aimed at enhancing shareholder value and advancing the Delcath PHP System towards commercialization. We overcame a most significant challenge last year and entered 2008 positioned for progress and success going forward. We appreciate your continued support of the Company as we expand our reach in the medical community, bring hope and optimism to a greater number of cancer patients and build value for our shareholders.

Sincerely,

Richard Taney
President and
Chief Executive Officer