

NEPHROS INC  
Form 424B3  
August 10, 2018

**Prospectus Supplement Filed Pursuant to Rule 424(b)(3)**

**Registration No. 333-225109**

**PROSPECTUS SUPPLEMENT NO. 1 DATED AUGUST 10, 2018**

**(To Prospectus Dated June 22, 2018)**

**NEPHROS, INC.**

This is a supplement (“Prospectus Supplement No. 1”) to our prospectus, dated June 22, 2018 (the “Prospectus”), relating to up to 6,540,669 shares of our common stock.

This Prospectus Supplement No. 1 is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, including any amendments or supplements thereto.

**Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2018**

On August 8, 2018, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended June 30, 2018 (the “Form 10-Q”). The Form 10-Q, as filed (but without the exhibits filed with the Form 10-Q), is set forth below.

The information contained in this Prospectus Supplement No. 1 supplements and supersedes, in relevant part, the information contained in the Prospectus, as amended and supplemented. This Prospectus Supplement No. 1 is incorporated by reference into, and should be read in conjunction with, the Prospectus, as amended and supplemented, and is not complete without, and may not be delivered or utilized except in connection with, the Prospectus, as amended and supplemented.

All references in the Prospectus to “this prospectus” are amended to read “this prospectus (as supplemented and amended).”

**Investing in our common stock involves substantial risks. See “Risk Factors” beginning on page 8 of the Prospectus to read about important factors you should consider before purchasing our common stock.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus SUPPLEMENT NO. 1. Any representation to the contrary is a criminal offense.**

The date of this Prospectus Supplement No. 1 is August 10, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: **June 30, 2018**

OR

TRANSITION REPORT PURSUANT TO 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 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**

**07079**

**South Orange, NJ**

(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)

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. [X] YES [ ] NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). [X] 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. (Check one):

Large accelerated filer [ ]

Accelerated filer [ ]

Non-accelerated filer [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Emerging growth company [ ]

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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 [X] NO

As of August 8, 2018, 64,166,988 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

**NEPHROS, INC. AND SUBSIDIARY**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

## NEPHROS, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) June 30, 2018	(Audited) December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 3,484	\$2,194
Accounts receivable, net	855	836
Investment in lease, net-current portion	31	20
Inventory, net	1,352	674
Prepaid expenses and other current assets	49	85
Total current assets	5,771	3,809
Property and equipment, net	28	52
Investment in lease, net-less current portion	30	39
License and supply agreement, net	1,005	1,072
Other asset	11	11
Total assets	\$ 6,845	\$4,983
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Secured revolving credit facility	\$ 153	\$711
Current portion of secured note payable	187	-
Accounts payable	679	872
Accrued expenses	377	218
Deferred revenue, current portion	-	70
Total current liabilities	1,396	1,871
Secured note payable, net of current portion	951	-
Unsecured long-term note payable, net of debt issuance costs and debt discount of \$0 and \$233, respectively	-	954
Long-term portion of deferred revenue	-	208

Total liabilities	2,347	3,033
Commitments and Contingencies (Note 15)		
Stockholders' equity:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized at June 30, 2018 and December 31, 2017; no shares issued and outstanding at June 30, 2018 and December 31, 2017	-	-
Common stock, \$.001 par value; 90,000,000 shares authorized at June 30, 2018 and December 31, 2017; 64,166,988 and 55,293,267 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	64	55
Additional paid-in capital	127,299	122,924
Accumulated other comprehensive income	74	77
Accumulated deficit	(122,939 )	(121,106)
Total stockholders' equity	4,498	1,950
Total liabilities and stockholders' equity	\$ 6,845	\$4,983

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

## NEPHROS, INC. AND SUBSIDIARY

## CONDENSED 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,	
	2018	2017	2018	2017
Net revenues:				
Product revenues	\$ 1,216	\$ 785	\$ 2,174	\$ 1,475
License, royalty and other revenues	150	74	177	118
Total net revenues	1,366	859	2,351	1,593
Cost of goods sold	536	342	1,054	621
Gross margin	830	517	1,297	972
Operating expenses:				
Research and development	352	277	641	507
Depreciation and amortization	40	60	81	119
Selling, general and administrative	1,091	880	2,351	1,651
Total operating expenses	1,483	1,217	3,073	2,277
Loss from operations	(653 )	(700 )	(1,776 )	(1,305 )
Loss on extinguishment of debt	-	-	(199 )	-
Interest expense	(28 )	(64 )	(114 )	(130 )
Interest income	1	1	2	2
Other expense	(2 )	(23 )	(24 )	(33 )
Net loss	(682 )	(786 )	(2,111 )	(1,466 )
Other comprehensive (loss) income, foreign currency translation adjustments, net of tax	(6 )	7	(3 )	8
Total comprehensive loss	\$(688 )	\$(779 )	\$(2,114 )	\$(1,458 )
Net loss per common share, basic and diluted	\$(0.01 )	\$(0.01 )	\$(0.04 )	\$(0.03 )
Weighted average common shares outstanding, basic and diluted	62,456,668	53,626,707	59,031,649	51,625,048

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

**NEPHROS, INC. AND SUBSIDIARY****CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY****(In Thousands, Except Share Amounts)****(Unaudited)**

	Common Stock		Additional Paid-in	Accumulated Other Comprehensive Income	Accumulated Deficit	<b>Total Stockholders' Equity</b>
	Shares	Amount	Capital			
Balance, December 31, 2017 (audited)	55,293,267	\$ 55	\$ 122,924	\$ 77	\$ (121,106 )	\$ 1,950
Net loss					(2,111 )	(2,111 )
Cumulative effect of adoption of ASC 606					278	278
Net unrealized losses on foreign currency translation, net of tax				(3 )		(3 )
Issuance of common stock, net of equity issuance costs of \$19	8,440,669	9	3,769			3,778
Cashless exercise of stock options	22,245	-				-
Cancelled restricted stock shares	(45,859 )	-				-
Exercise of warrants	456,666	-	138			138
Noncash stock-based compensation			468			468
Balance, June 30, 2018	64,166,988	\$ 64	\$ 127,299	\$ 74	\$ (122,939 )	\$ 4,498

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

## NEPHROS, INC. AND SUBSIDIARY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net loss	\$(2,111)	\$(1,466)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	14	14
Amortization of license and supply agreement	67	105
Non-cash stock-based compensation, including stock options and restricted stock	468	395
Loss on extinguishment of debt	199	-
Amortization of debt discount	34	54
Inventory reserve	50	-
Allowance for doubtful accounts reserve	1	2
Loss on disposal of equipment	10	-
(Gain) loss on foreign currency transactions	(2 )	13
(Increase) decrease in operating assets:		
Accounts receivable	(20 )	(176 )
Inventory	(728 )	(124 )
Prepaid expenses and other current assets	37	45
Increase (decrease) in operating liabilities:		
Accounts payable	(191 )	(85 )
Accrued expenses	160	100
Deferred revenue	-	(35 )
Net cash used in operating activities	(2,012)	(1,158)
Financing activities:		
Proceeds from issuance of common stock, net of equity issuance costs of \$19 and \$152, respectively	3,778	1,179
Net payments on secured revolving credit facility	(558 )	-
Payments on secured note payable	(49 )	-
Proceeds from exercise of warrants	138	-
Proceeds from issuance of secured note	1,187	-
Repayment of unsecured long term note payable	(1,187)	-
Net cash provided by financing activities	3,309	1,179
Effect of exchange rates on cash	(7 )	5
Net increase in cash	1,290	26
Cash, beginning of period	2,194	275

Cash, end of period	\$3,484	\$301
Supplemental disclosure of cash flow information		
Cash paid for interest	\$91	\$77
Cash paid for income taxes	\$3	\$4

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

## **NEPHROS, INC. AND SUBSIDIARY**

### **NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

#### **Note 1 – Organization and Nature of Operations**

Nephros, Inc. (“Nephros” or 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. Today, the Company has two U.S. Food and Drug Administration-cleared products in the hemodiafiltration (“HDF”) market that deliver therapy to ESRD patients. These are the OLpūr mid-dilution HDF filter or “dialyzer,” designed expressly for HDF therapy, and the OLpūr H2H HDF module, an add-on module designed to allow the most common types of hemodialysis machines to be used for HDF therapy.

Beginning in 2009, Nephros introduced an additional, complementary business developing and marketing 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 water-borne pathogens, such as legionella and pseudomonas, and in dialysis centers for the removal of biological contaminants from water and bicarbonate concentrate. The Company is also exploring water purification applications in several commercial markets, including food and beverage, data center cooling, and military field applications.

The U.S. facilities, located at 380 Lackawanna Place, South Orange, New Jersey, 07079, are used to house the Company’s corporate headquarters and research facilities.

On June 4, 2003, Nephros International Limited was incorporated under the laws of Ireland as a wholly-owned subsidiary of the Company. In August 2003, the Company established a European office in Dublin, Ireland.

#### **Note 2 – Basis of Presentation and Liquidity**

#### **Interim Financial Information**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 8 and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for annual financial statements. Results as of and for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The condensed consolidated interim financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2017 included in the Company's Annual Report on Form 10-K.

### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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, and assumptions used in determining stock compensation such as expected volatility and risk-free interest rate.

### **Liquidity**

The Company has sustained operating losses and expects such losses to continue over the next several quarters. Net losses from operations since inception have generated an accumulated deficit of approximately \$122,939,000 as of June 30, 2018. On April 10, 2018, the Company completed a private placement transaction whereby the Company sold 6,540,669 shares of its common stock for aggregate net proceeds of approximately \$2,943,000. The Company believes that its cash will be sufficient to fund the Company's current operating plan through at least the next twelve months from the date of issuance of the accompanying condensed consolidated financial statements.

**Note 3 – Major Customers and Concentration of Credit Risk**

For the three and six months ended June 30, 2018, four customers accounted for 42% of the Company’s revenues. For the three months ended June 30, 2017, four customers accounted for 54% of the Company’s revenues. For the six months ended June 30, 2017, four customers accounted for 56% of the Company’s revenues. As of June 30, 2018, three customers accounted for 39% of the Company’s accounts receivable. As of December 31, 2017, two customers accounted for 29% of the Company’s accounts receivable.

For the three months ended June 30, 2018 and 2017, the following customers accounted for the following percentages of the Company’s revenues, respectively:

Customer	2018	2017
A	13 %	16 %
B	13 %	14 %
C	11 %	12 %
D	5 %	12 %

For the six months ended June 30, 2018 and 2017, the following customers accounted for the following p