

NEPHROS INC
Form 424B3
May 09, 2018

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

Registration No. 333-206344

PROSPECTUS SUPPLEMENT NO. 1 DATED may 9, 2018

(To Prospectus Dated April 3, 2018)

NEPHROS, INC.

This is a supplement (“Prospectus Supplement No. 1”) to our prospectus, dated April 3, 2018 (the “Prospectus”), relating to up to 5,150,000 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 March 31, 2018

On May 9, 2018, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended March 31, 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 9 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 May 9, 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: **March 31, 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 []

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 May 9, 2018, 63,710,322 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

NEPHROS, INC. AND SUBSIDIARY

TABLE OF CONTENTS

<u>PART I - FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements.</u>	3
<u>CONDENSED CONSOLIDATED BALANCE SHEETS – March 31, 2018 (unaudited) and December 31, 2017 (audited)</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS – Three months ended March 31, 2018 and 2017 (unaudited)</u>	4
<u>CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS’ EQUITY – Three months ended March 31, 2018 (unaudited)</u>	5
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS – Three months ended March 31, 2018 and 2017 (unaudited)</u>	6
<u>NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	24
<u>Item 4. Controls and Procedures.</u>	25
<u>PART II - OTHER INFORMATION</u>	26
<u>Item 6. Exhibits</u>	26
<u>SIGNATURES</u>	27

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

NEPHROS, INC. AND SUBSIDIARY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	(Unaudited) March 31, 2018	(Audited) December 31, 2017
ASSETS		
Current assets:		
Cash	\$ 1,819	\$2,194
Accounts receivable, net	678	836
Investment in lease, net-current portion	26	20
Inventory, net	928	674
Prepaid expenses and other current assets	63	85
Total current assets	3,514	3,809
Property and equipment, net	35	52
Investment in lease, net-less current portion	34	39
License and supply agreement, net	1,038	1,072
Other asset	11	11
Total assets	\$4,632	\$4,983
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Secured revolving credit facility	\$ 150	\$711
Current portion of secured note payable	184	-
Accounts payable	1,069	872
Accrued expenses	328	218
Deferred revenue, current portion	-	70
Total current liabilities	1,731	1,871
Secured note payable, net of current portion	1,003	-
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	2,734	3,033

Commitments and Contingencies (Note 15)

Stockholders' equity:

Preferred stock, \$.001 par value; 5,000,000 shares authorized at March 31, 2018 and December 31, 2017; no shares issued and outstanding at March 31, 2018 and December 31, 2017	-	-
Common stock, \$.001 par value; 90,000,000 shares authorized at March 31, 2018 and December 31, 2017; 57,169,653 and 55,293,267 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	57	55
Additional paid-in capital	124,018	122,924
Accumulated other comprehensive income	80	77
Accumulated deficit	(122,257)	(121,106)
Total stockholders' equity	1,898	1,950
Total liabilities and stockholders' equity	\$ 4,632	\$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 March 31,	
	2018	2017
Net revenues:		
Product revenues	\$958	\$690
License and royalty revenues	27	44
Total net revenues	985	734
Cost of goods sold	518	279
Gross margin	467	455
Operating expenses:		
Research and development	289	231
Depreciation and amortization	41	59
Selling, general and administrative	1,260	770
Total operating expenses	1,590	1,060
Loss from operations	(1,123)	(605)
Loss on extinguishment of debt	(199)	-
Interest expense	(86)	(66)
Interest income	1	1
Other expense	(22)	(10)
Net loss	(1,429)	(680)
Other comprehensive income, foreign currency translation adjustments, net of tax	3	1
Total comprehensive loss	\$(1,426)	\$(679)
Net loss per common share, basic and diluted	\$(0.03)	\$(0.01)
Weighted average common shares outstanding, basic and diluted	55,568,575	49,601,521

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	Total Stockholders' Equity
	Shares	Amount	Capital			
Balance, December 31, 2017 (audited)	55,293,267	\$ 55	\$ 122,924	\$ 77	\$ (121,106)	\$ 1,950
Net loss					(1,429)	(1,429)
Cumulative effect of adoption of ASC 606					278	278
Net unrealized gains on foreign currency translation, net of tax				3		3
Issuance of common stock	1,900,000	2	852			854
Cashless exercise of stock options	22,245	-				-
Cancelled restricted stock shares	(45,859)	-				-
Noncash stock-based compensation			242			242
Balance, March 31, 2018	57,169,653	\$ 57	\$ 124,018	\$ 80	\$ (122,257)	\$ 1,898

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)**

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net loss	\$(1,429)	\$(680)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	7	7
Amortization of license and supply agreement	34	52
Non-cash stock-based compensation, including stock options and restricted stock	242	199
Loss on extinguishment of debt	199	-
Amortization of debt discount	34	26
Inventory reserve	50	-
Allowance for doubtful accounts reserve	-	2
Writeoff of equipment	10	-
Loss on foreign currency transactions	7	2
(Increase) decrease in operating assets:		
Accounts receivable	158	(185)
Inventory	(304)	78
Prepaid expenses and other current assets	22	(26)
Other assets	-	-
Increase (decrease) in operating liabilities:		
Accounts payable	190	(226)
Accrued expenses	111	109
Deferred revenue	-	(17)
Net cash used in operating activities	(669)	(659)
Financing activities:		
Proceeds from issuance of common stock, net of equity issuance costs of \$0 and \$144, respectively	854	1,187
Net payments on secured revolving credit facility	(561)	-
Proceeds from issuance of secured note	1,187	-
Repayment of secured long term note payable	(1,187)	-
Net cash provided by financing activities	293	1,187
Effect of exchange rates on cash	1	-
Net decrease in cash	(375)	528
Cash, beginning of period	2,194	275
Cash, end of period	\$1,819	\$803
Supplemental disclosure of cash flow information		
Cash paid for interest	\$64	\$5
Cash paid for income taxes	\$3	\$2

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 FDA-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 for the period ended March 31, 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 \$122,257,000 as of March 31, 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 \$2.9 million. The Company believes that its cash and cash equivalents, together with the proceeds from the private placement, will be sufficient to fund the Company's current operating plan through at least the next twelve months.

Note 3 - Major Customers and Concentration of Credit Risk

For the three months ended March 31, 2018, three customers accounted for 37% of the Company's revenues. For the three months ended March 31, 2017, three customers accounted for 48% of the Company's revenues. As of March 31, 2018, three customers accounted for 36% of the Company's accounts receivable. As of December 31, 2017, three customers accounted for 34% of the Company's accounts receivable.

For the three months ended March 31, 2018 and 2017, the following customers accounted for the following percentages of the Company's revenues, respectively:

Customer	2018	2017
A	16 %	25 %
B	13 %	13 %
C	8 %	10 %

As of March 31, 2018 and December 31, 2017, the following customers accounted for the following percentages of the Company's accounts receivable, respectively:

Customer	March 31, 2018	December 31, 2017
D	14 %	5 %
B	14 %	18 %
E	8 %	11 %

The Company provides credit terms to customers in connection with purchases of the Company's products. Management periodically reviews customer account activity in order to assess the adequacy of the allowances provided for potential collection issues and returns. Factors considered include economic conditions, each customer's payment and return history and credit worthiness. Adjustments, if any, are made to reserve balances following the completion of these reviews to reflect management's best estimate of potential losses. The allowance for doubtful accounts was approximately \$1,000 as of March 31, 2018 and December 31, 2017. There was no allowance for sales returns at March 31, 2018 or December 31, 2017.

Note 4 - Revenue Recognition

The Company adopted Accounting Standards Codification (“ASC”) 606, Revenue from Contracts with Customers, as of January 1, 2018 using the modified retrospective method. ASC 606 prescribes a five step model for recognizing revenue which include