

NEPHROS INC
Form 424B3
November 13, 2017

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

Registration No. 333-205169

PROSPECTUS SUPPLEMENT NO. 3 DATED November 13, 2017

(To Prospectus Dated April 20, 2017)

NEPHROS, INC.

This is a supplement (“Prospectus Supplement No. 3”) to our prospectus, dated April 20, 2017 (the “Prospectus”), relating to up to 2,751,448 shares of our common stock, of which 917,149 are issuable upon the exercise of outstanding warrants.

This Prospectus Supplement No. 3 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 September 30, 2017

On November 9, 2017, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended September 30, 2017 (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. 3 supplements and supersedes, in relevant part, the information contained in the Prospectus, as amended and supplemented. This Prospectus Supplement No. 3 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. 3. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 3 is November 13, 2017

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: **September 30, 2017**

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.)

41 Grand Avenue

07661

River Edge, 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 November 5, 2017, 54,327,213 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

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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) September 30, 2017	(Audited) December 31, 2016
ASSETS		
Current assets:		
Cash	\$ 150	\$275
Accounts receivable, net	751	388
Investment in lease, net-current portion	20	27
Inventory, net	581	479
Prepaid expenses and other current assets	107	95
Total current assets	1,609	1,264
Property and equipment, net	49	70
Investment in lease, net-less current portion	50	61
License and supply agreement, net	1,105	1,262
Other asset	11	21
Total assets	\$ 2,824	\$2,678
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Secured revolving credit facility	\$ 563	\$-
Accounts payable	436	585
Accrued expenses	343	240
Deferred revenue, current portion	70	70
Total current liabilities	1,412	895
Unsecured long-term note payable, net of debt issuance costs and debt discount of \$265 and \$349, respectively	922	838
Long-term portion of deferred revenue	225	278
Total liabilities	2,559	2,011

Commitments and Contingencies (Note 14)

Stockholders' equity:

Preferred stock, \$.001 par value; 5,000,000 shares authorized at September 30, 2017 and December 31, 2016; no shares issued and outstanding at September 30, 2017 and December 31, 2016	-	-
Common stock, \$.001 par value; 90,000,000 shares authorized at September 30, 2017 and December 31, 2016; 54,160,547 and 49,782,797 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	54	50
Additional paid-in capital	122,530	120,835
Accumulated other comprehensive income	76	67
Accumulated deficit	(122,395)	(120,285)
Total stockholders' equity	265	667
Total liabilities and stockholders' equity	\$ 2,824	\$2,678

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net revenues:				
Product revenues	\$841	\$407	\$2,316	\$1,405
License, royalty and other revenues	75	68	193	170
Total net revenues	916	475	2,509	1,575
Cost of goods sold	384	159	1,005	667
Gross margin	532	316	1,504	908
Operating expenses:				
Research and development	237	241	744	763
Depreciation and amortization	60	60	178	171
Selling, general and administrative	753	652	2,405	2,234
Total operating expenses	1,050	953	3,327	3,168
Loss from operations	(518)	(637)	(1,823)	(2,260)
Interest expense	(88)	(65)	(218)	(109)
Interest income	1	1	3	4
Other expense	(27)	(5)	(60)	(12)
Net loss	(632)	(706)	(2,098)	(2,377)
Other comprehensive income, foreign currency translation adjustments	1	1	9	1
Total comprehensive loss	\$(631)	\$(705)	\$(2,089)	\$(2,376)
Net loss per common share, basic and diluted	\$(0.01)	\$(0.01)	\$(0.04)	\$(0.05)
Weighted average common shares outstanding, basic and diluted	54,142,791	48,783,097	52,473,518	48,501,810

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 Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance, December 31, 2016 (audited)	49,782,797	\$ 50	\$ 120,835	\$ 67	\$(120,285)	\$ 667
Net loss					(2,098)	(2,098)
Cumulative effect of change in accounting principle			12		(12)	-
Net unrealized gains on foreign currency translation, net of tax				9		9
Issuance of common stock, net of equity issuance costs of \$152	4,059,994	4	1,062			1,066
Issuance of common stock	300,000	-	113			113
Issuance of restricted stock	17,756	-				-
Noncash stock-based compensation			508			508
Balance, September 30, 2017	54,160,547	\$ 54	\$ 122,530	\$ 76	\$(122,395)	\$ 265

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)

	Nine Months Ended September 30,	
	2017	2016
Operating activities:		
Net loss	\$(2,098)	\$(2,377)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	21	13
Amortization of license and supply agreement, net	157	158
Non-cash stock-based compensation, including stock options and restricted stock	508	442
Non-employee stock-based compensation	-	46
Non-cash interest expense	84	29
Inventory reserve	-	27
Allowance for doubtful accounts reserve	-	33
Loss on foreign currency transactions	16	5
(Increase) decrease in operating assets:		
Accounts receivable	(341)	62
Inventory	(102)	241
Prepaid expenses and other current assets	(12)	33
Other assets	10	-
Increase (decrease) in operating liabilities:		
Accounts payable	(166)	(226)
Accrued expenses	105	(18)
Deferred revenue	(53)	(52)
Net cash used in operating activities	(1,871)	(1,584)
Investing activities:		
Purchase of property and equipment	-	(45)
Net cash used in investing activities	-	(45)
Financing activities:		
Proceeds from issuance of common stock, net of equity issuance costs	1,179	-
Net proceeds from secured revolving credit facility	563	-
Proceeds from issuance of unsecured note	-	1,187
Proceeds from exercise of warrants	-	1
Net cash provided by financing activities	1,742	1,188
Effect of exchange rates on cash	4	-
Net decrease in cash	(125)	(441)
Cash, beginning of period	275	1,248

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Cash, end of period	\$ 150	\$ 807
Supplemental disclosure of cash flow information		
Cash paid for interest	\$ 79	\$ 39
Cash paid for income taxes	\$ 6	\$ 2
Supplemental disclosure of noncash investing and financing activities		
Fair value of warrants issued with unsecured note payable	\$-	\$ 393
Investment in lease receivable, net	\$-	\$ 92
Cost of equipment in sales-type lease	\$-	\$ 92
Restricted stock issued to settle liability	\$-	\$ 51
Deposit on inventory reclassified from prepaid expenses and other current assets to inventory	\$-	\$ 18
Deposit on property and equipment reclassified from prepaid expenses and other current assets to property and equipment	\$-	\$ 124

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. Nephros was founded by health professionals, scientists and engineers affiliated with Columbia University to develop advanced End Stage Renal Disease (“ESRD”) therapy technology and products. The Company has two products in the hemodiafiltration (“HDF”) modality to deliver therapy for 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.

In 2009, the Company expanded into ultrapure water filtration products as a complement to the ESRD therapy business, introducing its proprietary dual stage ultrafilter architecture. The company has since introduced a variety of ultrafiltration and microfiltration products that address water quality and infection control in both medical and commercial applications.

The Company is currently headquartered at 41 Grand Avenue, River Edge, New Jersey 07661, which houses the Company’s executive offices and research facilities, and has a subsidiary, Nephros International Limited, in Dublin, Ireland.

Note 2 - Basis of Presentation and Going Concern

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 September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December

31, 2017.

The condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes for the year ended December 31, 2016 included in the Company's Annual Report on Form 10-K.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles ("GAAP") 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, assumptions used in determining stock compensation such as expected volatility and risk-free interest rate and the ability of the Company to continue as a going concern.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company's recurring losses and inability to generate sufficient cash flow to meet its obligations and sustain its operations raise substantial doubt about its ability to continue as a going concern. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

To support the Company's cash needs, management entered into a \$1,000,000 secured revolving credit facility with a commercial lender. In addition, the Company has received approval to sell a portion of its New Jersey net operating loss and research and development tax credits through a program administered by the New Jersey Economic Development Authority ("NJEDA"), which the Company anticipates will result in cash proceeds of over \$1.75 million during the fourth quarter of 2017. Based on the Company's existing cash balances, its current cash flow projections, including projected increases in product sales from the launch of new products, and the anticipated proceeds from the NJEDA tax credit program, the Company believes it will have sufficient cash resources to fund its operations through the first half of 2018, if not longer. The Company's financial projections are subject to a number of uncertainties, including the timing and market acceptance of the Company's new products and the Company's ability to obtain the planned proceeds from the NJEDA tax credit program. There can be no assurance that any of such events will occur, or that the Company's future cash flow will be sufficient to meet its obligations and commitments. If the Company is unable to generate sufficient cash flow from operations in the future to meet its operating requirements and other commitments or obtain the anticipated proceeds from the NJEDA tax credit program, the Company will be required to adopt alternatives, such as seeking to raise debt or equity capital, curtailing its planned activities or ceasing its operations. There can be no assurance that any such actions could be effected on a timely basis or on satisfactory

terms or at all, or that these actions would enable the Company to continue to satisfy its capital requirements.

NEPHROS, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Note 3 - Major Customers and Concentration of Credit Risk

For the three months ended September 30, 2017 and 2016, the following customers accounted for the following percentages of the Company's revenues, respectively:

Customer	2017	2016
A	14 %	11 %
B	14 %	11 %
C	12 %	17 %
D	8 %	16 %

For the nine months ended September 30, 2017 and 2016, the following customers accounted for the following percentages of the Company's revenues, respectively:

Customer	2017	2016
A	18 %	14 %
B	13 %	20 %
C	12 %	9 %

As of September 30, 2017 and December 31, 2016, the following customers accounted for the following percentages of the Company's accounts receivable, respectively:

Customer	2017	2016
A	16 %	6 %
B	13 %	36 %
C	1 %	12 %

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. 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 \$2,000 and \$50,000 as of September 30, 2017 and December 31, 2016, respectively.

Note 4 - Revenue Recognition

Revenue is recognized in accordance with Accounting Standards Codification ("ASC") Topic 605. Four basic criteria must be met before revenue can be recognized: (i) persuasive evidence that an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the fee is fixed or determinable; and (iv) collectability is reasonably assured.

The Company recognizes revenue related to product sales when product is shipped via external logistics provider and the other criteria of ASC Topic 605 are met. Product revenue is recorded net of returns and allowances. Shipments for all products are currently received directly by the Company's customers.

License Agreement Revenue

Deferred revenue was approximately \$295,000 and \$348,000 on the accompanying condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016, respectively, and is related to the Company's License Agreement with Bellco (see Note 14, below), which is being deferred over the remainder of the expected obligation period. The Company has recognized approximately \$2,781,000 of revenue related to the Bellco License Agreement to date and approximately \$18,000 and \$53,000 for the three and nine months ended September 30, 2017, respectively. The Company recognized approximately \$17,000 and \$52,000 of revenue related to this License Agreement for the three and nine months ended September 30, 2016, respectively. Approximately \$17,000 of revenue will be recognized in the remaining three months of fiscal 2017 and approximately \$69,500 of revenue will be recognized in each of the years ended December 31, 2018 through 2021.

NEPHROS, INC. AND SUBSIDIARY

NOTES TO UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the three months ended September 30, 2017 and 2016, the Company recognized royalty revenue from Bellco of approximately \$57,000 and \$27,000, respectively. For the nine months ended September 30, 2017 and 2016, the Company recognized royalty revenue from Bellco of approximately \$115,000 and \$84,000, respectively.

See Note 14, Commitments and Contingencies, for further discussion of the Bellco License Agreement.