

NEPHROS INC  
Form 424B3  
November 09, 2018

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

**Registration No. 333-205169**

**PROSPECTUS SUPPLEMENT NO. 3 DATED NOVEMBER 9, 2018**

**(To Prospectus Dated April 3, 2018)**

**NEPHROS, INC.**

This is a supplement (“Prospectus Supplement No. 3”) to our prospectus, dated April 3, 2018 (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, 2018**

On November 8, 2018, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended September 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. 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 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: **September 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 every Interactive Data File required to be submitted 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 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.:

Large accelerated filer [ ] Accelerated filer [ ]  
Non-accelerated filer [ X ] 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 6, 2018, 64,166,988 shares of the registrant's common stock, \$0.001 par value per share, were outstanding.

**NEPHROS, INC. AND SUBSIDIARIES**

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

**NEPHROS, INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

**(In thousands, except share amounts)**

	(Unaudited) September 30, 2018	(Audited) December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 5,322	\$2,194
Accounts receivable, net	1,508	836
Investment in lease, net-current portion	24	20
Inventory, net	1,459	674
Prepaid expenses and other current assets	63	85
Total current assets	8,376	3,809
Property and equipment, net	20	52
Investment in lease, net-less current portion	26	39
License and supply agreement, net	971	1,072
Other asset	11	11
Total assets	\$ 9,404	\$4,983
<b>LIABILITIES, NONCONTROLLING INTEREST AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Secured revolving credit facility	\$ 163	\$711
Current portion of secured note payable	191	-
Accounts payable	562	872
Accrued expenses	524	218
Deferred revenue, current portion	-	70
Total current liabilities	1,440	1,871
Secured note payable, net of current portion	897	-
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	2,337	3,033

Commitments and Contingencies (Note 18)

Noncontrolling interest	3,000	-
Stockholders' equity:		
Preferred stock, \$.001 par value; 5,000,000 shares authorized at September 30, 2018 and December 31, 2017; no shares issued and outstanding at September 30, 2018 and December 31, 2017	-	-
Common stock, \$.001 par value; 90,000,000 shares authorized at September 30, 2018 and December 31, 2017; 64,166,988 and 55,293,267 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	64	55
Additional paid-in capital	127,419	122,924
Accumulated other comprehensive income	73	77
Accumulated deficit	(123,489 )	(121,106)
Total stockholders' equity	4,067	1,950
Total liabilities, noncontrolling interest and stockholders' equity	\$ 9,404	\$4,983

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



## NEPHROS, INC. AND SUBSIDIARIES

## 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,	
	2018	2017	2018	2017
Net revenues:				
Product revenues	\$ 1,648	\$ 841	\$ 3,822	\$ 2,316
License, royalty and other revenues	76	75	253	193
Total net revenues	1,724	916	4,075	2,509
Cost of goods sold	772	384	1,826	1,005
Gross margin	952	532	2,249	1,504
Operating expenses:				
Research and development	352	237	993	744
Depreciation and amortization	42	60	123	178
Selling, general and administrative	1,069	753	3,420	2,405
Total operating expenses	1,463	1,050	4,536	3,327
Loss from operations	(511 )	(518 )	(2,287 )	(1,823 )
Loss on extinguishment of debt	-	-	(199 )	-
Interest expense	(32 )	(88 )	(146 )	(218 )
Interest income	1	1	3	3
Other expense	(8 )	(27 )	(32 )	(60 )
Net loss	(550 )	(632 )	(2,661 )	(2,098 )
Less: Undeclared deemed dividend attributable to noncontrolling interest	(16 )	-	(16 )	-
Net loss attributable to Nephros, Inc.	(566 )	(632 )	(2,677 )	(2,098 )
Other comprehensive (loss) income, foreign currency translation adjustments, net of tax	(1 )	1	(4 )	9
Total comprehensive loss attributable to Nephros, Inc.	\$(567 )	\$(631 )	\$(2,681 )	\$(2,089 )
Net loss per common share, basic and diluted	\$(0.01 )	\$(0.01 )	\$(0.04 )	\$(0.04 )
Weighted average common shares outstanding, basic and diluted	64,166,988	54,142,791	60,762,239	52,473,518

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



**NEPHROS, INC. AND SUBSIDIARIES****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, 2017 (audited)	55,293,267	\$ 55	\$ 122,924	\$ 77	\$ (121,106 )	\$ 1,950
Net loss					(2,661 )	(2,661 )
Cumulative effect of adoption of ASC 606					278	278
Net unrealized losses on foreign currency translation, net of tax				(4 )		(4 )
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			588			588
Balance, September 30, 2018	64,166,988	\$ 64	\$ 127,419	\$ 73	\$ (123,489 )	\$ 4,067

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

## NEPHROS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2018	2017
Operating activities:		
Net loss	\$(2,661)	\$(2,098)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	22	21
Amortization of license and supply agreement	101	157
Non-cash stock-based compensation, including stock options and restricted stock	588	508
Loss on extinguishment of debt	199	-
Amortization of debt discount	34	84
Inventory reserve	65	-
Provision for bad debt expense	21	-
Loss on disposal of equipment	10	-
(Gain) loss on foreign currency transactions	(1 )	16
(Increase) decrease in operating assets:		
Accounts receivable	(684 )	(341 )
Inventory	(850 )	(102 )
Prepaid expenses and other current assets	22	10
Increase (decrease) in operating liabilities:		
Accounts payable	(309 )	(166 )
Accrued expenses	309	105
Deferred revenue	-	(53 )
Net cash used in operating activities	(3,134)	(1,871)
Financing activities:		
Proceeds from issuance of common stock, net of equity issuance costs of \$19 and \$152, respectively	3,778	1,179
Net (payments) proceeds on secured revolving credit facility	(548 )	563
Proceeds from sale of subsidiary preferred shares to noncontrolling interest	3,000	-
Payments on secured note payable	(99 )	-
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	6,269	1,742
Effect of exchange rates on cash	(7 )	4

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Net increase (decrease) in cash	3,128	(125 )
Cash, beginning of period	2,194	275
Cash, end of period	\$5,322	\$150
Supplemental disclosure of cash flow information		
Cash paid for interest	\$124	\$79
Cash paid for income taxes	\$7	\$6

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

**NEPHROS, INC. AND SUBSIDIARIES**

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

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

Nephros, Inc. (“Nephros” or the “Company”) was incorpo