

NEPHROS INC
Form 424B3
August 08, 2016

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

Registration No. 333-206344

PROSPECTUS SUPPLEMENT NO. 2 DATED august 8, 2016

(To Prospectus Dated May 10, 2016)

NEPHROS, INC.

This is a supplement (“Prospectus Supplement No. 2”) to our prospectus, dated May 10, 2016 (the “Prospectus”), relating to up to 5,150,000 shares of our common stock.

This Prospectus Supplement No. 2 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, 2016

On August 8, 2016, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended June 30, 2016 (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. 2 supplements and supersedes, in relevant part, the information contained in the Prospectus, as amended and supplemented. This Prospectus Supplement No. 2 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. 2. Any representation to the contrary is a criminal offense.

The date of this Prospectus Supplement No. 2 is August 8, 2016

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, 2016**

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

River Edge, NJ

(Address of Principal Executive Offices)

07661

(Zip code)

(201) 343-5202

Registrant's Telephone Number, Including Area Code

(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.

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).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

As of August 3, 2016, 48,825,461 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) June 30, 2016	(Audited) December 31, 2015
ASSETS		
Current assets:		
Cash	\$ 1,602	\$ 1,248
Accounts receivable, net	346	397
Investment in lease, net-current portion	26	-
Inventory, net	413	591
Prepaid expenses and other current assets	67	228
Total current assets	2,454	2,464
Property and equipment, net	84	12
Investment in lease, net-less current portion	68	-
Other assets, net	1,389	1,494
Total assets	\$ 3,995	\$ 3,970
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$ 838	\$ 652
Accrued expenses	310	237
Deferred revenue, current portion	70	70
Total current liabilities	1,218	959
Unsecured long-term note payable, net of debt issuance costs and debt discount of \$396	791	-
Long-term portion of deferred revenue	313	347
Total liabilities	2,322	1,306
Commitments and Contingencies		
Stockholders' equity:		
	-	-

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Preferred stock, \$.001 par value; 5,000,000 shares authorized at June 30, 2016 and December 31, 2015; no shares issued and outstanding at June 30, 2016 and December 31, 2015

Common stock, \$.001 par value; 90,000,000 shares authorized at June 30, 2016 and December 31, 2015; 48,825,461 and 48,580,355 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively

	49	49
Additional paid-in capital	120,477	119,797
Accumulated other comprehensive income	71	71
Accumulated deficit	(118,924)	(117,253)
Total stockholders' equity	1,673	2,664
Total liabilities and stockholders' equity	\$ 3,995	\$3,970

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		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Net revenues:				
Product revenues	\$452	\$ 521	\$ 997	\$ 1,049
License, royalty and other revenues	57	46	102	63
Total net revenues	509	567	1,099	1,112
Cost of goods sold	212	209	507	471
Gross margin	297	358	592	641
Operating expenses:				
Research and development	254	164	523	355
Depreciation and amortization	56	53	111	106
Selling, general and administrative	804	735	1,582	1,578
Total operating expenses	1,114	952	2,216	2,039
Loss from operations	(817)	(594)	(1,624)	(1,398)
Change in fair value of warrant liability	-	(1,196)	-	(188)
Interest expense	(30)	(9)	(44)	(21)
Interest income	1	-	3	-
Other income (expense)	11	(16)	(6)	35
Net loss	(835)	(1,815)	(1,671)	(1,572)
Other comprehensive loss, foreign currency translation adjustments	(1)	(1)	-	(1)
Total comprehensive loss	\$(836)	\$(1,816)	\$(1,671)	\$(1,573)
Net loss per common share, basic and diluted	\$(0.02)	\$(0.06)	\$(0.03)	\$(0.05)
Weighted average common shares outstanding, basic and diluted	48,545,720	31,190,714	48,359,620	30,727,840

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

NEPHROS, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Other	Accumulated Deficit	Total
	Shares	Amount		Comprehensive Income		
Balance, December 31, 2015 (audited)	48,580,355	\$ 49	\$ 119,797	\$ 71	\$(117,253)	\$2,664
Net loss		-			(1,671)	(1,671)
Issuance of restricted stock	244,200	-	16	-		16
Issuance of warrants, net of issuance costs of \$4	-	-	389	-	-	389
Exercise of warrants	906	-	1	-		1
Noncash stock-based compensation	-	-	274	-		274
Balance, June 30, 2016	48,825,461	\$ 49	\$ 120,477	\$ 71	\$(118,924)	\$1,673

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, 2016	2015
Operating activities:		
Net loss	\$ (1,671)	\$ (1,572)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property and equipment	6	1
Amortization of other assets	105	105
Noncash stock-based compensation, including stock options and restricted stock	233	119
Non-employee stock-based compensation	41	-
Amortization of debt discount	6	-
Change in fair value of warrant liability	-	188
Inventory reserve	27	-
Allowance for doubtful accounts reserve	15	-
Loss on foreign currency transactions	3	1
(Increase) decrease in operating assets:		
Accounts receivable	36	(185)
Inventory	169	(233)
Prepaid expenses and other current assets	17	43

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Increase (decrease) in operating liabilities:			
Accounts payable	178		153
Accrued expenses	75		(36)
Deferred revenue	(34)		(35)
Net cash used in operating activities	(794)		(1,451)
Investing activities:			
Purchase of property and equipment	(40)		-
Net cash used in investing activities	(40)		-
Financing activities:			
Proceeds from issuance of unsecured note	1,187		-
Proceeds from issuance of common stock	-		1,205
Proceeds from exercise of warrants	1		1
Net cash provided by financing activities	1,188		1,206
Effect of exchange rates on cash	-		(2)
Net increase (decrease) in cash	354		(247)
Cash, beginning of period	1,248		1,284
Cash, end of period	\$ 1,602		\$ 1,037
Supplemental disclosure of cash flow information			