

NEPHROS INC  
Form 424B3  
August 27, 2014

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

**Registration No. 333-169728**

**PROSPECTUS SUPPLEMENT NO. 2 DATED AUGUST 26, 2014**

**(To Prospectus Dated April 14, 2014)**

**NEPHROS, INC.**

This is a supplement (“Prospectus Supplement No. 2”) to our prospectus, dated April 14, 2014 (the “Prospectus”), relating to the issuance of shares of our common stock pursuant to the exercise of warrants to purchase an aggregate of 2,261,975 shares of 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, 2014**

On August 14, 2014, we filed with the Securities and Exchange Commission a quarterly report on Form 10-Q for the quarter ended June 30, 2014 (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 9 of the Prospectus to read about important factors you should consider before purchasing our common stock.**

**We do not intend to sell any more Units.**

**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 26, 2014

**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, 2014**

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)(I.R.S. Employer Identification No.)

**41 Grand Avenue**

**13-3971809**

**07661**

**River Edge, NJ**

(Address of Principal Executive Offices)

(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   

Accelerated filer   

Non-accelerated filer     (Do not check if a smaller reporting company) 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 12, 2014, 25,247,120 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, 2014	(Audited) December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash	\$ 225	\$ 579
Accounts receivable	113	122
Inventory, less allowances of \$92 at June 30, 2014 and \$365 at December 31, 2013	163	162
Prepaid expenses and other current assets	59	125
Total current assets	560	988
Property and equipment, net	3	7
Other assets, net of accumulated amortization	1,789	1,894
Total assets	\$ 2,352	\$ 2,889
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Senior secured note, net of debt discount of \$142 at December 31, 2013	\$ -	\$ 1,358
Accounts payable	1,030	1,073
Accrued expenses	233	365
Deferred revenue	421	703
Total current liabilities	1,684	3,499
Lon-term portion of deferred revenue	452	-
Total liabilities	2,136	3,499

## Commitments and Contingencies (Note 13)

## Stockholders' equity (deficit):

Preferred stock, \$.001 par value; 5,000,000 shares authorized at June 30, 2014 and December 31, 2013; no shares issued and outstanding at June 30, 2014 and December 31, 2013

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Common stock, \$.001 par value; 90,000,000 shares authorized at June 30, 2014 and December 31, 2013; 25,226,104 and 18,082,043 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	25	18	
Additional paid-in capital	102,761	100,526	
Accumulated other comprehensive income	72	74	
Accumulated deficit	(102,642 )	(101,228 )	)
Total stockholders' equity (deficit)	216	(610 )	)
Total liabilities and stockholders' equity (deficit)	\$ 2,352	\$ 2,889	

*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,	
	2014	2013	2014	2013
Net revenues:				
Product revenues	\$248	\$391	\$467	\$737
License revenues	193	184	448	359
Total net revenues	441	575	915	1,096
Cost of goods sold	142	226	248	421
Gross margin	299	349	667	675
Operating expenses:				
Research and development	180	259	343	483
Depreciation and amortization	55	58	110	114
Selling, general and administrative	700	660	1,412	1,714
Total operating expenses	935	977	1,865	2,311
Loss from operations	(636 )	(628 )	(1,198 )	(1,636 )
Interest expense	(17 )	(24 )	(70 )	(47 )
Gain on sale of equipment	-	-	-	2
Amortization of debt discount	-	-	(142 )	(204 )
Other income (expense)	(1 )	(19 )	(4 )	(27 )
Net loss	(654 )	(671 )	(1,414 )	(1,912 )
Other comprehensive loss, foreign currency translation adjustments	(1 )	(2 )	(2 )	(2 )
Total comprehensive loss	(655 )	(673 )	(1,416 )	(1,914 )
Net loss per common share, basic and diluted	\$(0.03 )	\$(0.05 )	\$(0.06 )	\$(0.14 )
Weighted average common shares outstanding, basic and diluted	25,166,752	14,556,050	22,004,712	13,289,703

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 (DEFICIT)

(In Thousands, Except Share Amounts)

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive	Accumulated	Total
	Shares	Amount		Income	Deficit	
Balance, December 31, 2013	18,082,043	\$ 18	\$ 100,526	\$ 74	\$ (101,228 )	\$(610 )
Net loss					(1,414 )	(1,414)
Net unrealized losses on foreign currency translation				(2 )		(2 )
Shareholder rights offering, net	7,140,823	7	2,006			2,013
Exercise of warrants	3,238		2			2
Noncash stock-based compensation			227			227
Balance, June 30, 2014	25,226,104	\$ 25	\$ 102,761	\$ 72	\$ (102,642 )	\$ 216

*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,	
	2014	2013
Operating activities:		
Net loss	\$(1,414)	\$(1,912)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	5	5
Amortization of other assets	105	109
Noncash stock-based compensation	227	248
Amortization of debt discount	142	204
Inventory reserve	31	-
Loss on foreign currency transactions	4	3
Gain on sale of equipment	-	(2 )
(Increase) decrease in operating assets:		
Accounts receivable	9	577
Inventory	(32 )	166
Prepaid expenses and other current assets	66	37
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(180 )	(316 )
License and supply agreement fee payable	-	(1,318)
Deferred revenue	170	(359 )
Net cash used in operating activities	(867 )	(2,558)
Investing activities:		
Proceeds from sale of equipment	-	2
Net cash provided by investing activities	-	2
Financing activities:		
Proceeds from issuance of common stock, net of equity issuance costs of \$128 and \$229, respectively	2,013	2,771
Proceeds from issuance of senior secured note	-	1,300
Proceeds from exercise of warrants	2	239
Payment of senior secured note	(1,500)	(1,300)
Payment of financing costs	-	(204 )
Net cash provided by financing activities	515	2,806
Effect of exchange rates on cash and cash equivalents	(2 )	1
Net increase (decrease) in cash	(354 )	251
Cash, beginning of period	579	47

Cash, end of period	\$225	\$298
Supplemental disclosure of cash flow information		
Cash paid for income taxes	\$4	\$2
Cash paid for interest	\$54	\$24
Restricted stock issued to settle liability	\$-	\$77

*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**

**1. Organization and Nature of Operations**