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Research Report – Update

Investors should consider this report as only a single factor in making their investment decision.

Nephros, Inc.

Rating: Speculative Buy

Howard Halpern

NEPH $6.65 — (NASDAQ)

August 14, 2019

	2016 A	2017 A	2018 A	***2019 E***	***2020 E***
Total Revenue (in millions)	$2.3	$3.8	$5.7	***$9.0***	***$13.6***
Earnings (loss) per share*	($0.56)	($0.14)	($0.49)	***($0.60)***	***($0.17)***

52-Week range*	$6.75 – $3.69	Fiscal year ends:	December
Shares outstanding a/o 08/03/19	7.7 million	Revenue/shares (ttm)*	$1.03
Approximate float	2.9 million	Price/Sales (ttm)	6.5X
Market Capitalization	$48.1 million	Price/Sales (2020) E	3.6X
Tangible Book value/shr*	$0.32	Price/Earnings (ttm)	NMF
Price/Book	NMF	Price/Earnings (2020) E	NMF

All per share figures adjusted for a 1-9 reverse stock split effective at the end of the day on 7/9/19

Nephros Inc., headquartered in South Orange, NJ, is a water purification company that develops and sells high performance filters and ultrafilters (filters with pore size below 0.01 microns) primarily to hospitals for the prevention of infection from waterborne pathogens and in dialysis centers for the removal of biological contaminants from water and bicarbonate concentrates. The company's 62.5% owned subsidiary, Specialty Renal Products, is a development stage company focused on improving therapies for patients with renal disease.

Key Investment Considerations:

Maintaining Speculative Buy rating and increasing our 12-month price target to $10.00 per share from $9.00* per share based on a reduced risk profile.

On August 14, 2019, the company's common stock began trading on the NASDAQ Capital Markets.

Nephros has substantial growth potential within the water purification market with their portfolio of filter and ultrafilter products. The primary growth opportunity to 2020 should be from increased customer penetration of US hospitals and dialysis centers, as well as increased usage from existing customers. We estimate NEPH's customers consist of approximately 600 US hospital/dialysis centers out of an estimated 12,000.

We believe NEPH's Specialty Renal Products subsidiary's 2nd generation Hemodiafiltration (a form of renal replacement therapy) system, once FDA 510(k) clearance is received, has the potential to generate annual revenue of approximately $15 million if the product only achieves approximately 1% market penetration.

NEPH reported (on 08-7-19) a 2Q19 loss of ($0.14) per share on a 69% sales increase to $2.3 million. We projected a loss of ($0.19) per share on sales of $1.9 million. In 2Q18, the loss was ($0.10) per share on sales of $1.4 million.

For 2019, we project a net loss of $4.4 million or ($0.60) per share on sales growth of 58.3% to $9 million. We previously projected a loss of ($0.63) per share on sales of $8.8 million. Our forecast reflects 2Q19 results and the company reporting $1 million in sales for the month of July 2019.

For 2020, we project a net loss of $1.3 million or ($0.17) per share on revenue growth of 51.4% to $13.6 million (unchanged) reflecting initial sales from its waterborne pathogen diagnostics test device and 2nd generation renal device, as well as increasing recurring revenue as NEPH expands its hospital, dialysis, and hospitality/foodservice customer base.

Please view our Disclosures pages 16 - 18

Appreciation Potential

Maintaining Speculative Buy rating and increasing our 12-month price target to $10.00 per share from $9.00 per share (post 1 for 9 reverse stock split) based on a reduced risk profile. The reduced risk profile in 2H19 and 2020 reflects growth in the company's customer base (primarily hospitals and dialysis centers) driving recurring revenue from the water filtration filter replacement cycle, as well as the 2H19 launch of its new waterborne pathogen diagnostics test device that will require a new test kit each time a test is performed. In August 2019, the company was approved after meeting all the listing requirements to list its common shares on the NASDAQ Capital Market.

Our rating reflects anticipated growth from Nephros' commercial water purification product portfolio that includes high performance filters and ultrafilters (filters with pore size below 0.01 microns), as well as from its AETHER® brand of water filters to expand its market to include companies in the hospitality/foodservice industries. Our rating should be reinforced once its Specialty Renal Products subsidiary receives FDA 510(k) clearance for its 2nd generation Hemodiafiltration (a form of renal replacement therapy that removes more middle-molecular-weight solutes) system. NEPH anticipates submitting the 2nd generation Hemodiafiltration product for 510(k) clearance in the first part of 2020.

Our 12-month price target of $10.00 per share implies shares could appreciate approximately 60% over the next twelve months. According to Thomson Reuters, the average trailing twelve-month and 2020 price-to-sales multiples for companies in the Healthcare Equipment and Supplies sectors are 3.6X and 3.5X (prior was 3.5X and 3.4X), respectively (on estimated 2020 sales growth of 7.7%). NEPH's trailing twelve-month and 2020 price-to-sales multiples are 6.5X and 3.6X (prior was 5.8X and 2.7X), respectively (on estimated 2020 sales growth of 51.4%). We applied the current trailing sales multiple of 6.5X to our 2020 sales per share forecast of $1.84, discounted for execution risk, to obtain a year ahead price target of approximately $10.00 per share.

A higher valuation of Nephros is likely to be supported by rapid quarterly sales growth, a narrowing of operating losses, and receiving FDA 510(k) clearance for its 2nd generation Hemodiafiltration system in 2020. In 2020, we forecast NEPH's operating losses narrowing to $890,000 from a loss of $3.9 million in 2019. The company's cash loss should narrow to $45,000 in 2020, from a loss of $3.1 million in 2019.

We believe Nephros, Inc. is most suitable for risk tolerant investors that seek exposure to a micro cap company providing FDA cleared water filtration products.

Overview

Nephros Inc., headquartered in South Orange, New Jersey, is a commercial-stage water purification company that develops and sells high performance filters and ultrafilters (filters with pore sizes below 0.01 microns). The company operates a 62.5% owned subsidiary called Specialty Renal Products (SRP) that is a development stage medical device company focused on improving therapies for patients with renal disease. SRP's primary goal is to complete the development of a second-generation Hemodiafiltration (dialysis) System (HDF). Its first-generation product is the only US Food and Drug Administration 510(k) cleared medical device that enables nephrologists to provide HDF treatment to patients with end stage renal disease. HDF is a form of renal replacement therapy that when compared with standard hemodialysis, removes more middle-molecular-weight solutes.

The company's medical device products are mostly classified as ultrafilters, and are primarily used in hospitals for the prevention of infection from water-borne pathogens (legionella, pseudomonas, and others), and in dialysis centers for the removal of biological contaminants from water and bicarbonate concentrate. Since the company's ultrafilters capture contaminants as small as 0.005 microns in size, they minimize exposure to a wide variety of bacteria, viruses, fungi, parasites, and endotoxins. NEPH expanded its commercial segement's NanoGuard® product line in December 2018 when it acquired the AETHER brand of water filters. The expanded product line should enable it to expand its customer base to the food service, convenience store, and hospitality industries, and to its existing hospital customers.

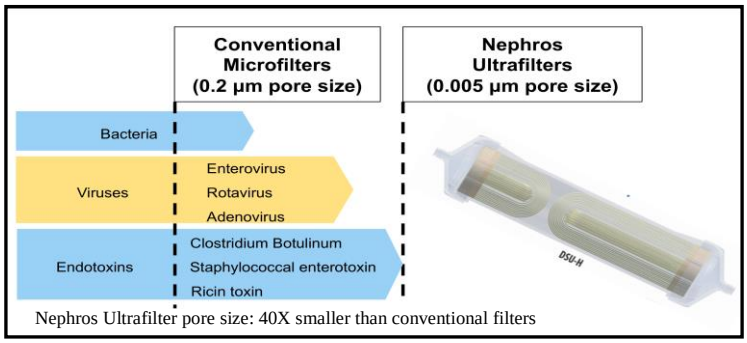
History

In 1997, healthcare professionals affiliated with Columbia University Medical Center/New York-Presbyterian Hospital founded Nephros, Inc. Nephros develops and commercializes hemodiafiltration as an alternative method to standard hemodialysis. In recent years, the company expanded its operations to include commercial-stage liquid purification high performance filters and ultrafilters.

On August 14, 2019, the company's common stock began trading on the NASDAQ Capital Markets. The listing on NASDAQ aligns with the company's anticipated growth and commitment to maximize shareholder value.

Product Portfolio and Applications

The company develops and sells water filtration products used in both medical and commercial applications, employing multiple filtration technologies. The company's ultrafilters should have a competitive advantage compared to conventional microfilters based on pore size (see the picture on the right).



Nephros Ultrafilter pore size: 40X smaller than conventional filters

The company's product portfolio is broken down by target market. The target markets include hospitals and healthcare facilities, dialysis centers, and commercial facilities (such as location within the hospitality/foodservice industries).

Hospital and Healthcare Facilities

The primary purpose of NEPH's products for the hospital and healthcare facilities is the filtration of water for washing and drinking in order to enhance infection control. The company's filters produce water that is suitable for wound cleansing, cleaning of equipment used in medical procedures, and washing of surgeons' hands, etc. (NEPH's ultrafilter is pictured above on the right).

The company's product portfolio of filter/ultrafilters sold into hospitals and healthcare facilities (DSU-H, SSU-H, HydraGuard™, HydraGuard – F, and S100) have obtained FDA 510 (k) clearance and are marketed as either a dual-stage or single stage product, and/or in-line for protection from water borne pathogens. A competitive advantage Nephro's filters should have is its product life cycle, which is typically longer than conventional filters, thus reducing the annual cost of ownership. The reduced cost of ownership includes a reduction in replacement frequency that also lowers labor costs and allows for fewer physical trips into high-risk areas of a hospital such as intensive care units, neonatal intensive care units, and burn and transplant units.

NEPH's offerings are used to filter potable water that feed ice machines, sinks and showers, and sources that clean medical equipment, such as endoscope washers and surgical room humidifiers. A critical control point in a hospital's water management plan is its ice machines, which are constantly used by patients and hospital staff. The company's DSU-H dual-stage design provides redundancy in a self-contained unit. Its HydraGuard ultrafilter cartridge works with standard 10" cartridge housings and its HydraGuard-Flush provides 12-months of protection with the company's forward-flushing design.

Sinks and showers in a hospital setting are one of the primary sources of patient exposure given the transfer of bacteria through atomization (separating something into fine particles or the process of breaking up bulk liquids into droplets).

The company anticipates the addition of Legionella (a pathogenic group of gram-negative bacteria) risk prevention measures to Centers for Medicare & Medicaid Services (CMS) site inspections of hospitals and long term care facilities should increase the focus of infection control personnel and facilities engineers across the hospital industry. This focus should provide an opportunity for the company to market and expand its customer base within US hospitals and dialysis centers.

US Dialysis Centers

Nephros' FDA 510(k) cleared dialysis ultrafilters are designed to be used to filter water or bi-carbonate used in providing hemodialysis (a dialysis machine and a special filter called an artificial kidney, or a dialyzer, used to clean a patients blood) quality water or bicarbonate concentrate. The devices are not a complete water treatment system, but serve to remove biological contaminants. All dialysis clinics have dedicated water purification systems to produce water and bicarbonate concentrate, the two essential ingredients for making the liquid needed to remove waste material from the blood.

NEPH has FDA 510(k) clearance on its portfolio of medical device products for use in the dialysis setting. The DSU-D, SSU-D and SSUmini are in-line, 0.005-micron ultrafilters that provide protection from bacteria, viruses, and endotoxins. The products are used to filter water following treatment with a reverse osmosis (a process by which a solvent passes through a porous membrane in the opposite direction) system, and to filter bicarbonate concentrate. The ultrafilters are sold to be used in water lines and bicarbonate concentrate lines leading into dialysis machines, and as a filter for portable reverse osmosis machines. The products can last up to 12-months. The DSU-D offering is designed as a two-stage filter enabling an extra filtering stage to occur when needed, while the SSU-D offering is a single stage design. The SSUmini (the company's newest offering) can be used to filter bicarbonate concentrate and water for dialysis in a compact design that is an economical solution for low flow rates.

The company has FDA 510(k) clearance to market its EndoPur 0.005-micron cartridge ultrafilter. The product offers single-stage protection from bacteria, viruses, and endotoxins and can last up to 12-months. It is primarily used to filter water following treatment with a reverse osmosis (RO) system typical in large RO systems that can provide ultrapure water to an entire dialysis clinic. The EndoPur offering is available in three configurations and is a cartridge-based, plug and play product that requires no plumbing at installation or replacement.

Commercial Facilities

The company markets a portfolio of proprietary products (under the NanoGuard® and AETHER® brands) for use in commercial, industrial, and food service settings.

The commercial NanoGuard product line provides ultrafiltration (0.005-micron) technology that filters bacteria and viruses from water. In December 2018, the company acquired the AETHER® brand of filters, which expanded its product line and water filtration and purification technologies to include improving odor, taste, and reducing scale and heavy metals from filtered water. The Aether filtration systems are primary sold to hotels, convenience stores, and quick service restaurants, which are new verticals for the company's offerings. The primary competition for Aether products is 3M's Cuno® brand and Pentair's Everpure® brand.

The NanoGuard-D and S is an in-line, 0.005-micron ultrafilter that provides dual-stage (D) and single-stage (S) retention of any organic or inorganic particle larger than 15,000 Daltons (Daltons are a unified atomic mass unit – 15,000 Daltons can be classified as having a middle size molecular weight).

The company has three additional NanoGuard products labeled E, C, and F. They are all designed to be a single stage 0.005-micron ultrafilter cartridge that retains any organic or inorganic particle larger than 15,000 Daltons. NanoGuard E plugs into an Everpure® filter (produce by competitor Penair) manifold, with the product labeled C designed to fit most 10", 20", 30" and 40" cartridge housings, and F designed to be a flushable cartridge that is available in 10" or 20" sizes.

Specialty Renal Products

Nephros was founded based on its 1st generation Hemodiafiltration HDF device. The company's 1st generation device was developed as an alternative dialysis modality that combines the benefits of standard hemodialysis and HF into a single therapy by clearing toxins using both diffusion and convection. The company realizes that HDF is not widely used in the US, but is widely used in Europe.

In 2018, the company formed a new subsidiary, Specialty Renal Products, Inc. (which is 62.5% owned by NEPH) in order to drive the development of a second-generation Hemodiafiltration (HDF) system. The 2nd generation HDF system (pictured on the right) has been constructed and is being funded through funds directly raised into the subsidiary that includes the $3 million series A preferred stock financing in September 2018. Once FDA 510(k) clearance is received, marketing of the new HDF system will commence in the US.


Source: Company Website

Nephros developed, designed, and patented its OLpur® H2H Hemodiafiltration Module which is part of its 2nd generation HDF device. The device is designed to utilize a standard HD machine to perform in-line hemodiafiltration (HDF) therapy. The HD machine controls and monitors the basic treatment functions, as it would normally, but the H2H Module is a free standing movable device that can be placed next to either side of a standard HD machine in order to provide HDF therapy. The H2H Module connects to the clinic's water supply, drain, and electricity. The goal of the 2nd generation HDF system is to reduce setup and changeover time by 90%, space requirements by at least 80%, and system costs by 95%. The new system should also eliminate nightly maintenance and be easier to operate. In order to make the 2nd generation HDF more efficient and marketable to dialysis healthcare facilities, it is being designed as an attachment to an existing hemodialysis (HD) machine. The 2nd generation device needs disposable filters and tube sets in order to operate.

Growth Strategy

Sales Distribution Model

Since 2015, the company has shifted its sales model to emphasize building a network of value-added resellers for its target markets, hospitals, dialysis centers, and commercial establishments. Sales to commercial establishments will be supplemented by direct sales efforts stemming from the sales team of the company's December 2018 acquisition of Biocon's Aether brand of water filters. Over time the replacement cycle for NEPH's filters should provide a recurring revenue stream.

The company's established operations in the medical market has experienced in excess of 55% annualized total revenue growth (2016 to 2018) since the implementation of its reseller sales model. The reseller relationships began with small mom and pop companies that service the water and maintenance needs of medical facilities such as hospitals and their satellite facilities such as dialysis centers. Those service companies sell Nephros' filters into those facilities and once installed, they service them when replacement is required. The rapid sales growth is due to the company expanding to regional service providers to medical facilities and growth should continue as relationships are forged with national service providers. The company anticipates it can also grow outside of the medical facilities market with its existing group of reseller relationships.

Product Development

The company's product development strategy is to launch products over the next couple of years that can drive revenue growth. Before the end of 2019, NEPH plans to launch its waterborne pathogen diagnostics product that has the potential to serve existing and new customers in the hospital and medical facilities markets. This new product offering can serve to drive revenues in two ways, the one-time purchase of the device and through the recurring purchase of Nephros' collection filters and DNA/RNA test kits that are used each time a test is performed. The device and process can provide results from a single liter water sample in approximately one hour compared to the current process for identifying water borne pathogens where the sample must be sent out to a lab and can take up to 10 days before receiving results.

NEPH's 2nd generation Hemodiafiltration (HDF) system will not be available until it receives 510(k) clearance from the FDA. The company anticipates the product should be launched in 2020. Once launched, management anticipates the company's HDF system has the potential to be used in approximately 50 sites (from existing relationships) without a significant investment to sales and marketing. The company believes a 1% market penetration could provide approximately $15 million in annual disposables revenues.

Market Briefs

Hospitals

A 2019 statistical report published by the American Hospital Association estimates there are over 6,200 hospitals with approximately 931,000 beds that are staffed. IBISWorld estimates that the number of US hospitals could reach 6,100 in 2024, up from nearly 5,551 in 2018. Growth is likely to be attributable to the aging US population, as demand for hospital services should increase.

According to the US Office of Disease Prevention and Health Promotion, healthcare associated infections (HAI) at any given time affect approximately 1 out of every 25-hospital patients. These infections can lead to the loss of life and is estimated to cost the US health care system billions of dollars each year. One cause of HAI's is from waterborne bacteria and viruses. Bacteria and viruses can be present in the aging infrastructure of a healthcare facilities plumbing system. One strategic benefit that has the potential to benefit Nephros' efforts to sell its products to US hospitals (currently we estimate the company has 600 hospital customers) was the issuance in 2017 by the Center for Clinical Standards and Quality at the Centers for Medicare and Medicaid Services (CMS) in which CMS surveyors will review policies, procedures, and reports documenting water management implementation results to verify that facilities are compliant with existing requirements.

The US Office of Disease Prevention and Health Promotion's Healthy People 2020 initiative is driving additional awareness regarding HAI. HAIs occur in all types of care settings, including acute care hospitals, ambulatory surgical centers, dialysis facilities, outpatient care, and long-term care facilities such as nursing homes and rehabilitation facilities. The Healthy People 2020 initiative reflects the commitment of the US Department of Health and Human Services (HHS) to prevent HAIs.

Dialysis Centers

Dialysis clinics need to have dedicated water purification systems to produce water and bicarbonate concentrate, two essential ingredients for making dialysate (the liquid that removes waste material from the blood). According to the American Journal of Kidney Diseases, there are approximately 6,300 dialysis clinics in the United States. According to 2015 statistics from the National Institute of Diabetes and Digestive and Kidney Diseases, there are more than 661,000 Americans afflicted with kidney failure, of which 468,000 individuals are on dialysis, and roughly 193,000 live with a functioning kidney transplant. Nephros estimates there are over 100,000 hemodialysis machines in operation in the US. The company's 2nd generation HDF offering is likely to be marketed as an upgrade to existing hemodialyis machines, thus avoiding a large capital investment for a whole new HDF machine from larger competitors.

Hospitality/Food Services

IBISWorld has an all-encompassing report for what they call the US Accommodation and Food Services industry, which is primarily comprised of companies in the hospitality (hotels, casinos, etc.) and food services (restaurants, convenience stores, etc.). IBISWorld anticipates the number of establishments in 2023 for this industry of more than 1.2 million, up from under 1.1 million in 2017. While growth is good, the overall number of establishments is key to Nephros' growth as they have very little penetration in the market. A small increase in hospitality/food service customers should make a significant impact to top line results.

Projections

Basis of Forecast

The primary growth driver is an expansion of the company's reseller network, which in turn should increase the company's customers for its portfolio of water filtration filters. The leverage that the company should experience from a growing number of customers using its filters is that once a defined replacement cycle exists (depending on the type of filter purchased), a recurring revenue stream should be sustained during our forecast period.

We anticipate the company's core operations in 2020 should more than breakeven on a cash basis. However, the investments being made in the Specialty Renal Products subsidiary and spending to launch its waterborne pathogen

diagnostics test device in 2H19 should result in operating losses of $3.9 million and cash burn of $3.1 million in 2019. In 2020, we forecast operating losses narrowing to $890,000, with a cash burn of $45,000.

We anticipate gross margin expansion to 58.8% in 2020, up from an estimated 58% in 2019. The gross margin improvement should be due primarily to the increase in recurring revenue from the replacement lifecycle of the company's water filters.

In 2020, we project operating expenses of $8.9 million, down from an estimated $9.2 million in 2019 primarily due to a $439,000 reduction in R&D as the Specialty Renal Products subsidiary's product should be submitted to the FDA for 510(k) clearance in the first part of 2020.

Operations – 2019

We project revenue growth of 58.3% to $9 million (prior was $8.8 million) due to an increase in the installed based of products stemming from new customers and expansion from existing customers. Also supporting our forecast is the company achieving $1 million in sales (for the first time) in July 2019. The sales in July 2019 reflect organic growth from existing customers and sales to customers experiencing pathogen outbreaks, which are seasonal in nature typically occurring during the warmer months of the year.

Gross profit should increase 63.1% to $5.2 million due primarily to sales growth and gross margin of 58% compared to 56.3% in 2018.

We project operating losses increasing to $3.9 million from $3 million as operating expenses increase by 47.4% to $9.2 million. We anticipate SG&A expense increasing 29.6% to $5.9 million to support sales growth from the company's existing and new Aether brand filters. We anticipate R&D expenses more than doubling to $3.1 million from $1.5 million in 2018. The more than doubling of R&D expense compared to 2018 reflects more rapid spending to complete, test, and launch its waterborne pathogen diagnostics test device and 2nd generation Hemodiafiltration device.

Non-operating expense consists of interest expense of $184,000 and other expense of $30,000. In 2018, the company had interest expense of $168,000, other expense of $35,000, and a $199,000 loss on extinguishment of debt.

We project a net loss of $4.4 million or ($0.60) per share compared to a loss of $3.4 million or ($0.49) per share. We previously projected a net loss of $4.5 million or ($0.63) per share. Our forecast reflects 1H19 results.

We estimate the company's federal, state, and foreign net operating loss carryforwards were in excess of $82 million at June 30, 2019.

Finances – 2019

We project cash burn of $3.1 million and an increase in working capital of $251,000. The increase in working capital is due primarily to an increase in inventory, offset in party by increases in payables and accruals. Cash used in operations of $3.4 million, capital expenditures, and the repayment of debt will be partially offset by an approximate $2 million common stock offering. We project cash to decrease by $1.7 million to $2.9 million at December 31, 2019.

Operations – 2020

We project revenue increasing 51.4% to $13.6 million (unchanged) due primarily to the company's customer base expanding to include companies within the food service, convenience store, and hospitality industries, as well as the launch of its waterborne pathogen diagnostic product into its existing hospital customers and of its 2nd generation Hemodiafiltration device. Gross profit should increase 53.3% to $8 million reflecting revenue growth and gross margin expansion to 58.8% compared to an estimated 58% in 2019. The improvement in gross margin reflects an increase in the number of replacement filters installed and sales from filter and assays for its waterborne pathogen diagnostic product.

We project the operating loss narrowing to $890,000 from an estimated loss of $3.9 million in 2019 as operating expense margin improves to 65.3% from an estimated 101.8% in 2019. We anticipate operating expenses decreasing by $264,000 to $8.9 million. We anticipate R&D expense decreasing by $439,000 to $2.7 million as spending should slow after the launch of its waterborne pathogen diagnostics test device and 2nd generation Hemodiafiltration device. Partly offsetting the decrease in operating expenses is a projected $184,000 increase in SG&A expense to $6 million due primarily to higher compensation costs and implementation of marketing initiatives to support the growth of newly launch products. We project non-operating interest expense of $160,000 compared to $184,000 due lower debt balances. We project a net loss of $1.3 million or ($0.17) per share. We previously projected a net loss of $1.2 million or ($0.18) per share.

Finances – 2020

We project cash burn of $45,000 and an increase in working capital of $396,000. The increase in working capital is due primarily increases in inventory and receivables. Cash used in operations of $441,000, capital expenses, and repayment of debt, should reduce cash by $714,000 to $2.2 million at December 31, 2020.

2Q19 and 1H19 Results

2Q19

Total revenue increased 69% to $2.3 million compared to $1.4 million in the year-ago period. Revenue growth was due to increased medical device sales to new and existing customers and expansion into commercial markets.

Gross profit increased 64.7% to $1.4 million compared to $830,000 reflecting higher sales, offset in part by gross margins contracting to 59.2% from 60.8% in the year-ago period. Gross margin compression was due primarily to a decrease in royalty revenue related to a sublicense agreement.

Operating expenses increased 50.7% to $2.2 million from $1.5 million in 2Q18. R&D expenses for the water filtration and renal product segments increased $441,000 to $793,000. The increase in total R&D expense was due to increased spending on the development of the company's 2nd generation HDF product in its renal product segment (a $270,000 increase to $360,000) and new filter development increased $171,000 to $433,000 in the water filtration segment. SG&A expenses increased 28.6% to $1.4 million due primarily to increases in headcount related expenses of $97,000, professional services of $84,000, investor relations expenses of $20,000, and increased other expenses of $42,000 related to rent and expanded warehouse capabilities. D&A expense was $48,000 versus $40,000 in 2Q18.

Non-operating expense was $74,000 compared to $29,000 in the year-ago period. Interest expense increased to $46,000 from $27,000 due primarily to a higher debt balance and accretion of contingent consideration. Other expense increased to $28,000 compared to $2,000 in 2Q18 due primarily to foreign currency transaction losses. The net loss was $1 million or ($0.14) after a non-controlling interest loss of $61,000 compared to a loss of $682,000 or ($0.10) per share. In 2Q18, there was no non-controlling interest gain or loss. We projected a net loss of $1.3 million or ($0.19) per share on revenue of $1.9 million.

1H19

Total revenue increased 73.5% to $4.1 million compared to $2.4 million in the year-ago period. Revenue growth was due to increased medical device sales to new and existing customers and expansion into commercial markets.

Gross profit increased 82.3% to $2.4 million compared to $1.3 million reflecting higher sales and gross margin expansion to 58% from 55.2% in the year-ago period.

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Total Revenue	**$ 4.1**	**$ 2.4**	**73.5%**
Total Cost of Sales	1.7	1.1	**62.5%**
Gross Profit	$ 2.4	$ 1.3	**82.3%**
Total Operating Expenses	4.5	3.1	**47.5%**
Operating Income	(2.2)	(1.8)	**22.1%**
Total Other Income (Expense)	(0.1)	(0.3)	**NMF**
Pre-Tax Income	(2.3)	(2.1)	**8.5%**
Undeclared deemed dividend - Non-controlling interest	(0.1)	-	
Net Income (loss)	$ (2.4)	$ (2.1)	**39.9%**
Earnings (loss) per share	($0.33)	($0.32)	
Avg Shares Outstanding	7.3	6.6	
Margins			
Gross margin - combinded	58.0%	55.2%	
Operating Margin	(53.2%)	(75.5%)	
Pre-Tax Margins	(56.2%)	(89.8%)	
Tax Rate	(5.2%)	0.0%	

Source: company reports

Operating expenses increased 47.5% to $4.5 million from $3.1 million due primarily to R&D expenses more than doubling to $1.5 million from $641,000 in the year-ago period. SG&A expenses increased 23.6% to $2.9 million from $2.4 million. D&A expense was $98,000 compared to $81,000 in 1H18.

Non-operating expense was $122,000 compared to $335,000 in the year-ago period. Interest expense decreased to $92,000 from $114,000. The year-ago period included a $199,000 loss on extinguishment of debt.

The net loss was $2.4 million or ($0.33) after a non-controlling interest loss of $120,000 compared to a loss of $2.1 million or ($0.32) per share. In 1H18, there was no non-controlling interest gain or loss.

Finances

In 1H19, cash burn was $1.8 million with a $199,000 increase in working capital resulting in cash used in operations of $2 million. The increase in working capital was due primarily to increases in inventory, partly offset by increases in payables and accruals. Cash used in operations, acquisition costs, and repayment of debt more than offset nearly $2 million in gross proceeds from the issuance of common stock. Cash decreased by $263,000 to $4.3 million at June 30, 2019.

Capital Structure

On August 17, 2017, the company entered into a loan agreement with Tech Capital, providing for a secured asset-based revolving credit facility of up to $1 million, which is payable monthly based on the average daily outstanding balance at a rate equal to 3.5% plus the prime rate per annum (prime rate will not be less than 4.25%). At June 30, 2019, the outstanding balance was $1 million and the annual interest rate was 9%. The company uses this revolving facility for working capital and general corporate purposes. The loan agreement has a term of 12-months, which automatically renewed on August 17, 2018 and will automatically renew for successive 12-month periods unless cancelled. NEPH granted to Tech Capital a first priority security interest in its assets, including its accounts receivable and inventory, to secure all of its obligations.

On March 27, 2018, NEPH entered into a secured promissory note with Tech Capital, LLC for a principal amount of approximately $1.2 million. At June 30, 2019, the principal balance was $933,000 million. The note matures on April 1, 2023 and the unpaid principal accrues annual interest at 8%.

Competitive Landscape

The water filtration market has well established companies that manufacture point-of-use microfiltration products such as Pall Corporation (a subsidiary of Danaher Corporation), and that manufacture the Cuno® and Everpure® brands of water filtration and purification products, such as 3M and Pentair, respectively. Nephros believes it can compete within the water filtration market by developing and marketing products that are designed to meet critical and specific customer needs more effectively than devices on the market, offering filters and ultrafilters that have unique attributes such as product reliability, user-friendliness (easy to install), and performance capabilities (extended life i.e., changing a filter once or twice a year compared to competitors offerings that need to be changed more often), and pursuing alliance and/or acquisition opportunities for joint product development and distribution.

The markets in which the company sells its commercial dialysis center products are highly competitive. The competition includes publicly traded companies such as Baxter International Inc., Fresenius Medical Care AG, Asahi Kasei Medical Co. Ltd., Terumo Medical Corporation and Toray Medical Co., Ltd., and international companies not publicly traded in the US such as B. Braun Melsungen AG, Nipro Medical Corporation Ltd., and Nikkiso Co., Ltd.

The company's 62.5% owned subsidiary, Specialty Renal Products, a development stage company focused on improving therapies for patients with renal disease, faces intense competition within the dialyzer and renal replacement therapy market. The company's success in this market will be dependant on its ability to meet the clinical goals of nephrologists, improve patient outcomes, and remain cost-effective for payers. The company competes with other suppliers of End-Stage Renal Disease (ESRD) therapies, supplies, and services. Suppliers include publicly traded companies Fresenius Medical Care AG and Baxter International, Inc., who are two of the primary machine manufacturers in hemodialysis.

Risks

In our view, these are the principal risks underlying the stock.

Operating Losses
Nephros Inc. has yet to turn profitable. At June 30, 2019, the company's accumulated deficit was over $126.4 million, up from $124.2 million in 2018. Losses are likely to continue but diminish through our forecast period. The lack of profitability could result in the company's inability to execute its growth strategy and diminish its operations.

Compliance
The company's operations have a significant compliance burden under the FDC Act (set of laws giving authority to the US Food and Drug Administration (FDA) to oversee the safety of food, drugs, medical devices, and cosmetics) and other applicable statutes and regulations which govern the testing, labeling, storage, record keeping, distribution, sale, marketing, advertising and promotion of Nephro's medically approved products. A violation of the FDC Act or other regulatory requirements at any time during or after the product development and/or approval process, could subject NEPH to enforcement actions by the FDA or other agencies.

Product Liability
The production, marketing and sale of kidney dialysis and water-filtration products have liability risks in the event of product failure or claim of harm caused by the products operation. Voluntary recalls could subject the company to claims or proceedings by consumers, the FDA or other regulatory authorities, which would adversely impact future sales and revenues. Also, meritless claims of product liability may be costly to defend against. While the company does have product liability insurance, it may not be able to maintain this insurance on acceptable terms or at all.

Regulatory Approval
NEPH cannot ensure that any existing product(s) that have not yet been approved, or any new products developed in the future, will be approved for marketing. The clearance and/or approval processes are lengthy and uncertain and can require substantial financial resources, as well as management's time and effort. As a result, the company's global sales efforts may be slow to materialize and could drain financial resources to continue the development of new products for sale in the US.

Intellectual Property
The company's success depends in part on the ability to protect the intellectual property for its technology through patents. NEPH will only be able to protect its products and methods from unauthorized use by third parties to the extent that the products and methods developed are covered by valid and enforceable patents or are effectively maintained as trade secrets. The company has been granted 12 US patents that will expire at various times from 2019 to 2027, assuming they are properly maintained.

Licensing Agreement
In 2012, Nephros entered into a licensing and supply agreement with Medica S.p.A., an Italy-based medical product manufacturing company for the marketing and sale of certain filtration products based upon their proprietary Medisulfone ultrafiltration technology. The license and supply agreement with Medica expires on December 31, 2025. During the period (April 23, 2014 through December 31, 2025), the company will pay Medica a royalty rate of 3% of net sales of the filtration products sold, subject to reduction as a result of a supply interruption pursuant to the terms of the agreement.

510(k) Regulations
Before a new medical device can be introduced to the market, FDA clearance of a pre-market notification under Section 510(k) of the FDC Act or FDA clearance of a pre-market approval application under Section 515 of the FDC Act must be obtained. A 510(k) clearance will be granted if the submitted information establishes that the proposed device is substantially equivalent to a legally marketed medical device or to a medical device for which the FDA has not called for pre-market approval under Section 515. The Section 510(k) pre-market clearance process is generally

faster and simpler than the Section 515 pre-market approval process. The company's filters and ultrafilters are medical devices that have gone through the 510(k) approval process.
Any devices cleared through the 510(k) process, modifications or enhancements that could significantly affect the safety or effectiveness of the device or that constitute a major change to the intended use of the device will require a new 510(k) pre-market notification submission. If the company seeks to obtain Section 510(k) pre-market clearance for any of its new or modified devices or filtration products, it would need to submit another 510(k) pre-market notification that could be costly and time consuming that may divert financial and management resources from products already approved and generating revenue in the US.

Shareholder Control

All executive officers and directors as a group, own 6.8% of the outstanding voting stock (March 2019). Two large investors own 56% of the company's outstanding voting stock. These owners could greatly influence the outcome of matters requiring stockholder approval, which decisions may or may not be in the best interests of the other shareholders.

Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events. These risks may cause actual results to differ from expected results.

Trading Volume

Based on our calculations, the average daily-volume in 2018 was 41,100 shares. During the three months to August 13, 2019, volume decreased to 27,800. The company has a float of approximately 2.9 million shares and shares outstanding of 7.7 million at August 3, 2019. The company effected a reverse stock split (1-9) on July 9, 2019.

Nephros, Inc.
Consolidated Balance Sheets
FY2016 – FY2020E
(in thousands)

	FY16A	FY17A	FY18A	2Q19A	**FY19E**	**FY20E**
ASSETS						
Current assets:						
Cash	$ 275	$ 2,194	$ 4,581	$ 4,318	**$ 2,874**	**$ 2,160**
Accounts receivable, net	388	836	1,452	1,539	**1,501**	**1,893**
Investment in lease, net	27	20	-	-	**-**	**-**
Inventory, net	479	674	1,864	2,314	**2,519**	**2,810**
Prepaid expenses and other current assets	95	85	276	266	**284**	**286**
Total current assets	1,264	3,809	8,173	8,437	**7,177**	**7,150**
Property and equipment, net	70	52	91	89	**89**	**90**
Investment in lease, net and operating lease right-of-use assets	61	39	-	1,250	**750**	**750**
Intangible assets	-	-	590	569	**545**	**500**
Goodwill	-	-	748	759	**759**	**759**
License and supply agreement, net	1,262	1,072	938	871	**805**	**713**
Other assets	21	11	18	39	**39**	**39**
Total assets	$ 2,678	$ 4,983	$ 10,558	$ 12,014	**$ 10,164**	**$ 10,001**
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current liabilities:						
Secured revolving credit facility	-	711	991	1,021	**1,021**	**1,021**
Secured note payable	-	-	195	203	**203**	**203**
Accounts payable	585	872	836	915	**945**	**1,093**
Accrued expenses	240	218	396	601	**675**	**818**
Contingent consideration	-	-	236	329	**329**	**329**
Operating lease liabilities	-	-	-	223	**818**	**880**
Deferred revenue	70	70	-	-	**-**	**-**
Total current liabilities	895	1,871	2,654	3,292	**3,991**	**4,344**
Secured note payable, net	-	-	843	730	**620**	**389**
Contingent consideration, net	-	-	263	163	**163**	**131**
Long-term operating lease liabilities	-	-	-	1,023	**1,023**	**1,023**
Unsecured long-term note payable, net	838	954	-	-	**-**	**-**
Long-term portion of deferred revenue	278	208	-	-	**-**	**-**
Stockholders' equity:						
Common stock,$.001 par value; authorized 90,000,000 shares;	6	6	7	8	**8**	**8**
Additional paid-in capital	120,879	122,973	127,873	130,169	**130,615**	**131,415**
Accumulated other comprehensive income	67	77	71	70	**70**	**70**
Retained earnings (accumulated deficit)	(120,285)	(121,106)	(124,153)	(126,444)	**(128,306)**	**(129,356)**
Total stockholders' equity	667	1,950	3,798	3,803	**2,387**	**2,137**
Noncontrolling interest	-	-	3,000	3,003	**3,003**	**3,000**
Total liabilities and stockholders' equity	$ 2,678	$ 4,983	$ 10,558	$ 12,014	**$ 10,164**	**$ 10,001**
SHARES OUT	49,783	55,293	7,180	7,673	**7,680**	**7,690**

Source: Company reports and Taglich Brothers estimates

Nephros, Inc.
Annual Income Statement
FY2016 – FY2020E
(in thousands)

	FY16 A	FY17 A	FY18 A	**FY19 E**	**FY20 E**
Total Revenue - Product and License, royalty, other	$ 2,320	$ 3,809	$ 5,687	**$ 9,003**	**$ 13,630**
Total Cost of sales	1,026	1,517	2,484	**3,778**	**5,620**
Gross Profit	1,294	2,292	3,203	**5,225**	**8,010**
Operating Expenses:					
Research and development	1,079	1,002	1,539	**3,139**	**2,700**
Depreciation and amortization	230	218	163	**188**	**160**
Selling, general, and administrative	2,854	3,298	4,517	**5,856**	**6,040**
Change in fair value of contingent consideration	-	-	-	**(19)**	**-**
Total Operating Expenses	4,163	4,518	6,219	**9,164**	**8,900**
Operating Income (loss)	(2,869)	(2,226)	(3,016)	**(3,939)**	**(890)**
Loss on extinguishment of debt	-	-	(199)	**-**	**-**
Interest (expense) income	(167)	(298)	(168)	**(184)**	**(160)**
Other income (expense)	4	(74)	(35)	**(30)**	**-**
Total Other Income (expense)	(163)	(372)	(402)	**(214)**	**(160)**
Pre-Tax Income (loss)	(3,032)	(2,598)	(3,418)	**(4,153)**	**(1,050)**
Income Tax Expense (Benefit)	-	(1,789)	(93)	**-**	**-**
Net income (loss)	(3,032)	(809)	(3,325)	**(4,153)**	**(1,050)**
Undeclared deemed dividend - Non-controlling interest	-	-	(77)	**(240)**	**(240)**
Net income (loss) - attributable to Nephros, Inc.	$ (3,032)	$ (809)	$ (3,402)	**$ (4,393)**	**$ (1,290)**
Earning (loss) per share	$ (0.56)	$ (0.14)	$ (0.49)	**$ (0.60)**	**$ (0.17)**
Avg Shares Outstanding	5,398	5,882	6,847	**7,326**	**7,413**
EBITDA - Adjusted - includes renal subsidiary	$ (1,989)	$ (1,216)	$ (1,734)	**$ (2,414)**	**$ 610**
Margin Analysis					
Gross margin	55.8%	60.2%	56.3%	58.0%	58.8%
Selling, general, and administrative	46.5%	26.3%	27.1%	34.9%	19.8%
Operating margin	(123.7%)	(58.4%)	(53.0%)	(43.8%)	(6.5%)
Pre-tax margin	(130.7%)	(68.2%)	(60.1%)	(46.1%)	(7.7%)
Tax rate	0.0%	68.9%	2.7%	0.0%	0.0%
YEAR / YEAR GROWTH					
Total Revenues	N/A	64.2%	49.3%	58.3%	51.4%

Source: Company reports and Taglich Brothers estimates

Nephros, Inc.
Income Statement Model
Quarters FY2018A – 2020E
(in thousands)

	Q1 18 A	Q2 18 A	Q3 18 A	Q4 18 A	FY18 A	Q1 19 A	Q2 19 A	Q3 19 E	Q4 19 E	**FY19 E**	Q1 20 E	Q2 20 E	Q3 20 E	Q4 20 E	**FY20 E**
Total Revenue - Product and License, royalty, other	$ 985	$ 1,366	$ 1,724	$ 1,612	$ 5,687	$ 1,769	$ 2,309	$ 2,450	$ 2,475	**$ 9,003**	$ 2,630	$ 3,400	$ 3,850	$ 3,750	**$ 13,630**
Total Cost of sales	518	536	772	658	2,484	771	942	1,000	1,065	**3,778**	1,130	1,375	1,550	1,565	**5,620**
Gross Profit	467	830	952	954	3,203	998	1,367	1,450	1,410	**5,225**	1,500	2,025	2,300	2,185	**8,010**
Operating Expenses:															
Research and development	289	352	352	546	1,539	756	793	795	795	**3,139**	750	750	600	600	**2,700**
Depreciation and amortization	41	40	42	40	163	50	48	45	45	**188**	40	40	40	40	**160**
Selling, general, and administrative	1,260	1,091	1,069	1,097	4,517	1,503	1,403	1,450	1,500	**5,856**	1,450	1,515	1,550	1,525	**6,040**
Change in fair value of contingent consideration	-	-	-	-	-	(10)	(9)	-	-	**(19)**	-	-	-	-	-
Total Operating Expenses	1,590	1,483	1,463	1,683	6,219	2,299	2,235	2,290	2,340	**9,164**	2,240	2,305	2,190	2,165	**8,900**
Operating Income (loss)	(1,123)	(653)	(511)	(729)	(3,016)	(1,301)	(868)	(840)	(930)	**(3,939)**	(740)	(280)	110	20	**(890)**
Loss on extinguishment of debt	(199)	-	-	-	(199)	-	-	-	-	-	-	-	-	-	-
Interest (expense) income	(85)	(27)	(31)	(25)	(168)	(46)	(46)	(46)	(46)	**(184)**	(40)	(40)	(40)	(40)	**(160)**
Other income (expense)	(22)	(2)	(8)	(3)	(35)	(2)	(28)	-	-	**(30)**	-	-	-	-	-
Total Other Income (expense)	(306)	(29)	(39)	(28)	(402)	(48)	(74)	(46)	(46)	**(214)**	(40)	(40)	(40)	(40)	**(160)**
Pre-Tax Income (loss)	(1,429)	(682)	(550)	(757)	(3,418)	(1,349)	(942)	(886)	(976)	**(4,153)**	(780)	(320)	70	(20)	**(1,050)**
Income Tax Expense (Benefit)	-	-	-	(93)	(93)	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(1,429)	(682)	(550)	(664)	(3,325)	(1,349)	(942)	(886)	(976)	**(4,153)**	(780)	(320)	70	(20)	**(1,050)**
Undeclared deemed dividend - Non-controlling interest	-	-	(16)	(61)	(77)	(59)	(61)	(60)	(60)	**(240)**	(60)	(60)	(60)	(60)	**(240)**
Net income (loss) - attributable to Nephros, Inc.	$ (1,429)	$ (682)	$ (566)	$ (725)	$ (3,402)	$ (1,408)	$ (1,003)	$ (946)	$ (1,036)	**$ (4,393)**	$ (840)	$ (380)	$ 10	$ (80)	**$ (1,290)**
Earning (loss) per share	$ (0.23)	$ (0.10)	$ (0.08)	$ (0.09)	$ (0.49)	$ (0.20)	$ (0.14)	$ (0.13)	$ (0.14)	**$ (0.60)**	$ (0.11)	$ (0.05)	$ 0.00	$ (0.01)	**$ (0.17)**
Avg Shares Outstanding	6,174	6,940	7,130	7,143	6,847	7,130	7,388	7,390	7,395	**7,326**	7,400	7,410	7,415	7,425	**7,413**
EBITDA - Adjusted - includes renal subsidiary	$ (773)	$ (394)	$ (314)	$ (253)	$ (1,734)	$ (909)	$ (485)	$ (465)	$ (555)	**$ (2,414)**	$ (365)	$ 95	$ 485	$ 395	**$ 610**
Margin Analysis															
Gross margin	47.4%	60.8%	55.2%	59.2%	56.3%	56.4%	59.2%	59.2%	57.0%	58.0%	57.0%	59.6%	59.7%	58.3%	58.8%
Selling, general, and administrative	29.3%	25.8%	20.4%	33.9%	27.1%	42.7%	34.3%	32.4%	32.1%	34.9%	28.5%	22.1%	15.6%	16.0%	19.8%
Operating margin	(114.0%)	(47.8%)	(29.6%)	(45.2%)	(53.0%)	(73.5%)	(37.6%)	(34.3%)	(37.6%)	(43.8%)	(28.1%)	(8.2%)	2.9%	0.5%	(6.5%)
Pre-tax margin	(145.1%)	(49.9%)	(31.9%)	(47.0%)	(60.1%)	(76.3%)	(40.8%)	(36.2%)	(39.4%)	(46.1%)	(29.7%)	(9.4%)	1.8%	(0.5%)	(7.7%)
Tax rate	0.0%	0.0%	0.0%	12.3%	2.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
YEAR / YEAR GROWTH															
Total Revenues	34.2%	59.0%	88.2%	24.0%	49.3%	79.6%	69.0%	42.1%	53.5%	58.3%	48.7%	47.2%	57.1%	51.5%	51.4%

Source: Company reports and Taglich Brothers estimates

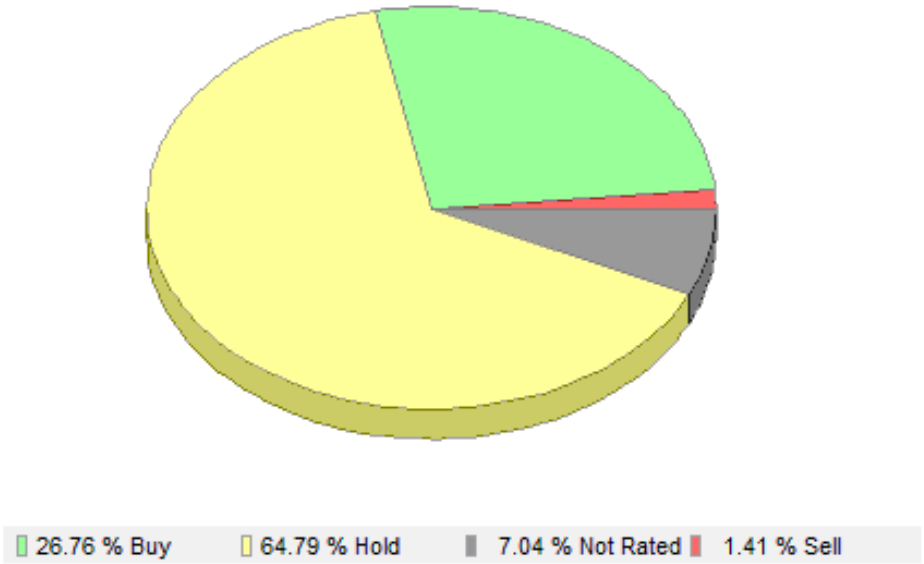
Nephros, Inc.
Cash Flow Statement
FY2016 – FY2020E
(in thousands)

	FY2016A	FY2017A	FY2018A	6 Mos19A	**FY2019E**	**FY2020E**
Cash Flows from Operating Activities						
Net Income (loss)	$ (3,032)	$ (809)	$ (3,325)	$ (2,291)	**$ (4,153)**	**$ (1,050)**
Depreciation of property and equipment	19	28	29	16	**32**	**30**
Amortization of license and supply agreement	211	190	134	88	**176**	**175**
Non-cash stock-based comopensation, including stock options/restricted stock	551	772	985	308	**750**	**800**
Non-employee stock-based compensation	46	-	-	-	**-**	**-**
Loss on extinguishment of debt	-	-	199	-	**-**	**-**
Inventory reserve	27	-	70	37	**60**	**-**
Change in fair value of contingent consideration	-	-	-	(19)	**(37)**	**-**
Accretion of contingent consideration	-	-	-	28	**56**	**-**
Provision for bad debt expense	35	-	40	-	**-**	**-**
Amortization of debt discount	53	116	34	-	**-**	**-**
Loss on disposal of equipment	-	-	10	-	**-**	**-**
Loss on capital lease termination	-	-	11	-	**-**	**-**
Loss on foreign currency transactions	(4)	19	3	6	**6**	**-**
Cash earnings (burn)	(2,094)	316	(1,810)	(1,827)	**(3,110)**	**(45)**
Changes In:						
Accounts receivable	(17)	(416)	(484)	(87)	**(49)**	**(393)**
Inventory	(103)	(195)	(1,082)	(487)	**(655)**	**(291)**
Prepaid expenses and other current assets	(10)	30	(191)	(5)	**(8)**	**(3)**
Other assets	206	(10)	-	(21)	**(21)**	**-**
Accounts payable	(76)	268	(130)	73	**109**	**148**
Accrued expenses	51	-	35	328	**279**	**143**
Deferred revenue	(69)	(70)	-	-	**93**	**-**
(Increase)/decrease in Working Capital	(18)	(393)	(1,852)	(199)	**(251)**	**(396)**
Net cash provided by Operations	(2,112)	(77)	(3,662)	(2,026)	**(3,361)**	**(441)**
Cash Flows from Investing Activities						
Purchase of property and equipment	(45)	-	-	-	**-**	**(10)**
Biocon Acquisition, net	-	-	(991)	(137)	**(137)**	**-**
Cash Flows from Investing Activities	(45)	-	(991)	(137)	**(137)**	**(10)**
Cash Flows from Financing Activities						
Proceeds from issuance of common stock, net	-	1,179	3,778	1,992	**1,992**	**-**
Net proceeds (repayment) from secured revolving credit facility	-	711	280	30	**30**	**-**
Proceeds from sale of subsidiary preferred shares to noncontrolling interest	-	-	3,000	-	**-**	**-**
Payments on secured note payable	-	-	(149)	(105)	**(214)**	**(231)**
Payment of contingent consideration	-	-	-	(16)	**(16)**	**(32)**
Proceeds from issuance of secured note	1,187	-	1,187	-	**-**	**-**
Repayment of unsecured long-term not payable	-	-	(1,187)	-	**-**	**-**
Proceeds from exercise of warrants	1	100	138	-	**-**	**-**
Net cash provided (used) by Financing	1,188	1,990	7,047	1,901	**1,792**	**(263)**
Effect of exchange rates	(4)	6	(7)	(1)	**(1)**	**-**
Net change in Cash	(973)	1,919	2,387	(263)	**(1,707)**	**(714)**
Cash Beginning of Period	1,248	275	2,194	4,581	**4,581**	**2,874**
Cash End of Period	$ 275	$ 2,194	$ 4,581	$ 4,318	**$ 2,874**	**$ 2,160**

Source: Company reports and Taglich Brothers estimates

Price Chart

Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months

Rating	#	%
Buy	2	9
Hold		
Sell		
Not Rated	1	25

Important Disclosures

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In March 2019, the company paid Taglich Brothers a monetary fee of $4,500 (USD) representing payment for the creation and dissemination of research reports for three months. Three-months after publication of the initial report, the company will begin paying Taglich Brothers a monthly monetary fee of $1,500 (USD) for the creation and dissemination of research reports for a minimum of twelve-months.

General Disclosures

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Analyst Certification

I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.

Public Companies mentioned in this report:

Asahi Kasei Corporation	(OTC: AHKSY)	3M Company	(NYSE: MMM)
Baxter International Inc.	(NYSE: BAX)	Pentair plc	(NYSE: PNR)
Danaher Corporation	(NYSE: DHR)	Terumo Corporation	(OTC: TRUMY)
Fresenius Medical Care AG & Co.	(NYSE: FMS)	Toray Industries, Inc.	(OTC: TRYIY)

Meaning of Ratings

Buy – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

Speculative Buy – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

Neutral – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

Sell – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

Dropping Coverage – Research coverage discontinued due to the acquisition of the company, termination of research services, non-payment for such services, diminished investor interest, or departure of the analyst.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.