

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC
Form 10QSB
August 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark one)

Quarterly Report under Section 13 or 15(d) of the
Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2003

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission File Number: 0-11914

CAPRIUS, INC.

(Exact name of small business issuer as specified in its charter)

Delaware

22-2457487

(State or other jurisdiction of
incorporation or organization)

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

One Parker Plaza, Fort Lee, NJ 07024

(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (201) 592-8838

N/A

(Former name, former address, and former fiscal year,
if changed since last report.)

Indicate by check mark whether the registrant (1) filed all reports
required to be filed under Section 13 or 15(d) of the Exchange Act during the
past 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 X No
--- ---

State the number of shares outstanding of issuer's classes of common
equity, as of the latest practicable date.

Class	Outstanding at July 31, 2003
Common Stock. Par value \$0.01	20,396,562 shares

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS, INC. AND SUBSIDIARIES

INDEX

	Page No. -----
PART I - FINANCIAL INFORMATION	
ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Balance Sheets - June 30, 2003 and September 30, 2002	3
Consolidated Statements of Operations - for the three month and nine months ended June 30, 2003 and 2002	4
Consolidated Statement of Stockholders' Equity -for the nine months ended June 30, 2003	5
Consolidated Statements of Cash Flows - for the nine months ended June 30, 2003 and 2002	6
Notes to Consolidated Financial Statements	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	11
ITEM 3. CONTROLS & PROCEDURES	14
PART II - OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	15
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	16
SIGNATURES	17

CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

June 30, 2003 September 30, 2002

ASSETS

Edgar Filing: CAPRIUS INC - Form 10QSB

CURRENT ASSETS:

Cash and cash equivalents, (including \$303,660 of restricted funds held in escrow at June 30, 2003)	\$ 1,660,502	\$ 505,282
Accounts receivable, net of reserve for bad debts of \$19,000 and \$13,000 at June 30, 2003 and September 30, 2002	397,624	141,731
Inventories	532,300	-
Other current assets	122,745	6,948
Net assets of TDM business segment	-	2,511,147
	-----	-----
Total current assets	2,713,171	3,165,108
	-----	-----

PROPERTY AND EQUIPMENT:

Medical equipment	314,318	314,318
Office furniture and equipment	517,641	193,469
Leasehold improvements	18,373	950
	-----	-----
	850,332	508,737
Less: accumulated depreciation	634,598	478,136
	-----	-----
Net property and equipment	215,734	30,601
	-----	-----

OTHER ASSETS:

Note receivable	-	350,000
Deferred financing cost, net of accumulated amortization of \$23,010 and \$2,301 at June 30, 2003 and September 30, 2002	18,340	39,049
Deferred acquisition costs	-	189,463
Goodwill	737,010	-
Intangible assets net of accumulated amortization of \$80,000 at June 30, 2003	960,000	-
Other	322,794	22,794
	-----	-----
Total other assets	2,038,144	601,306
	-----	-----

TOTAL ASSETS	\$ 4,967,049	\$ 3,797,015
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Notes payable, net of unamortized discount of \$5,000 at September 30, 2002	\$ -	\$ 546,650
Accounts payable	1,258,335	408,841
Accrued expenses	696,988	198,087
Accrued compensation	201,947	86,018
Current maturities of long-term debt and capital lease obligations	15,156	12,806
	-----	-----
Total current liabilities	2,172,426	1,252,402
	-----	-----

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current maturities	19,269	22,226
	-----	-----

TOTAL LIABILITIES	2,191,695	1,274,628
	-----	-----

Edgar Filing: CAPRIUS INC - Form 10QSB

MINORITY INTEREST IN MCM	116,435	-
	-----	-----
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value		
Authorized - 1,000,000 shares		
Issued and outstanding - Series A, none;		
Series B, convertible, 27,000 shares at		
June 30, 2003 and September 30, 2002.		
Liquidation preference \$2,700,000	2,700,000	2,700,000
Common stock, \$.01 par value		
Authorized - 50,000,000 shares		
Issued - 20,419,062 shares at June 30, 2003		
and at September 30, 2002	204,191	204,191
Additional paid-in capital	67,579,258	67,579,258
Accumulated deficit	(67,822,280)	(67,958,812)
Treasury stock (22,500 common shares, at cost)	(2,250)	(2,250)
	-----	-----
Total stockholders' equity	2,658,919	2,522,387
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,967,049	\$ 3,797,015
	=====	=====

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

3

CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended		
	June 30, 2003	June 30, 2002	Ju
	-----	-----	-----
REVENUES:			
Net patient service revenues	\$ 357,845	\$ 401,228	\$
Product sales and rental revenues	107,275	-	
Consulting income	12,500	-	
	-----	-----	
Total revenues	477,620	401,228	
	-----	-----	
OPERATING EXPENSES:			
Cost of patient service revenues	176,491	188,688	
Cost of product sales and rental revenue	74,204	-	
Research and development	30,646	-	
Selling, general and administrative	1,146,194	214,530	
Provision for bad debt and collection costs	18,455	27,745	
	-----	-----	
Total operating expenses	1,445,990	430,963	
	-----	-----	

Edgar Filing: CAPRIUS INC - Form 10QSB

Operating loss	(968,370)	(29,735)
Interest expense	(21,766)	(2,362)
Loss from continuing operations	(990,136)	(32,097)
Income (loss) from operations of discontinued TDM business segment (including gain on disposal of \$3,123,748 in October 2002)	-	(101,914)
Loss before minority interest	(990,136)	(134,011)
Loss applicable to minority interest	117,795	-
Net income (loss)	\$ (872,341)	\$ (134,011)
Net income (loss) per basic and diluted common share		
Continuing operations	\$ (0.04)	\$ (0.00)
Discontinued operations	-	(0.01)
Net income (loss) per basic and diluted common share	\$ (0.04)	\$ (0.01)
Weighted average number of common shares outstanding, basic and diluted	20,396,562	17,098,862

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

4

CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock \$0.01 Par Value		Additional Paid-in Capital	Accumulated Deficit
	Number of Shares	Amount	Number of Shares	Amount		
BALANCE, SEPTEMBER 30, 2002	27,000	\$2,700,000	20,419,062	\$204,191	\$67,579,258	\$ (67,958,812)
Net income	-	-	-	-	-	136,532
BALANCE, JUNE 30, 2003	27,000	\$2,700,000	20,419,062	\$204,191	\$67,579,258	\$ (67,822,280)

Edgar Filing: CAPRIUS INC - Form 10QSB

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

5

CAPRIUS, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Nine Months Ended June 30, 2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 136,532	\$ (197,063)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Minority interest in loss of MCM	(363,471)	-
Gain on sale of TDM business	(3,123,748)	-
Amortization of discount on bridge financing	24,059	5,000
Depreciation and amortization	157,311	189,727
Changes in operating assets and liabilities:		
Accounts receivable, net	(204,808)	104,345
Inventories	(206,507)	83,057
Other assets	187,615	2,782
Accounts payable and accrued expenses	(12,689)	16,944
	-----	-----
Net cash (used in) provided by operating activities	(3,405,706)	204,792
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of TDM business (excluding restricted cash held in escrow of \$600,000)	5,400,000	-
Acquisition of MCM, net of cash acquired (including loans to MCM)	(278,338)	(351,395)
	-----	-----
Net cash provided by (used in) investing activities	5,121,662	(351,395)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of debt and warrants	-	250,000
Repayment of debt and capital lease obligations	(560,736)	(43,859)
	-----	-----
Net cash (used in) provided by financing activities	(560,736)	206,141
	-----	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,155,220	59,538
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	505,282	89,776
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 1,660,502	\$ 149,314

Edgar Filing: CAPRIUS INC - Form 10QSB

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest during the period	\$ 11,135	\$ 39,545
--	-----------	-----------

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

6

CAPRIUS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE 1 - BASIS OF PRESENTATION

The results of operations of Caprius, Inc. ("Caprius" or the "Company") for the interim periods shown in this report are not necessarily indicative of results to be expected for the fiscal year. In the opinion of management, the information contained herein reflects all adjustments necessary to make the results of operations for the interim periods a fair statement of such operations. All such adjustments are of a normal recurring nature.

The accompanying consolidated financial statements do not contain all of the disclosures required by accounting principles generally accepted in the United States of America and should be read in conjunction with the financial statements and related notes included in the Company's annual report on form 10-KSB for the fiscal year ended September 30, 2002.

NOTE 2 - THE COMPANY

Caprius, Inc. ("Caprius" or the "Company") was founded in 1983 and through June 1999 essentially operated in the business of medical imaging systems as well as healthcare imaging and rehabilitation services. On June 28, 1999, the Company acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring ("TDM") Business. In the first quarter of Fiscal 2003, the Company made major changes in its business through the sale of the TDM Business and the purchase of a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM"). The Company also owns and operates a comprehensive imaging center located in Lauderhill, Florida, which is currently for sale.

On October 9, 2002, Opus sold the assets of its TDM Business to Seradyn, Inc., a Delaware corporation ("Seradyn"), pursuant to a Purchase and Sale Agreement among Opus, Caprius, and Seradyn for a purchase price of \$6,000,000, subject to adjustment, and entered into a Royalty Agreement and a Consulting Agreement. The sale of the TDM Business has been reflected as discontinued operations in the Company's consolidated financial statements.

On December 17, 2002, the Company closed the acquisition of 57.53% of the capital stock of MCM, which is engaged in the medical infectious waste disposal business, for a purchase price of \$2.4 million. Upon closing, Caprius' designees

Edgar Filing: CAPRIUS INC - Form 10QSB

were elected to three of the five seats on MCM's Board of Directors, with George Aaron, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. Pursuant to its Letter of Intent with MCM, Caprius provided MCM with loans totaling \$565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. For a six month period commencing 19 months and ending 25 months from December 17, 2002, pursuant to a Stockholders Agreement, the stockholders of MCM (other than the Company) shall have the right to put all of their MCM shares to MCM, and MCM shall have the right to call all of such shares, at a price based upon a pre-determined methodology calculated at such time. At the Company's option, the purchase price for the remaining MCM shares may be paid in cash or the Company's common stock.

In July 1998, the Company acquired The Strax Institute ("Strax"), a comprehensive breast imaging center, located in Lauderhill, Florida. Strax is a multi-modality breast care center that performs approximately 20,000 procedures per year comprising of x-ray mammography, ultrasound, stereotactic biopsy and bone densitometry. In July 2003, the Company entered into a letter of intent with an undisclosed third party to sell Strax. The prospective purchaser is an entity controlled by the same person who is also a principal in BDC Corp. (See Item I, Note 5 and Part II, Item 1). The proposed transaction is subject to the parties entering into a definitive agreement and board approval.

7

NOTE 3 - STOCK OPTIONS

At June 30, 2003, the Company had three stock based compensation plans (one incentive and nonqualified, one employee and one non-employee director plan). The Company accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. No stock-based employee compensation cost is reflected in net income (loss), and the options granted under those plans had an exercise price equal to, or greater than, the market value of the underlying common stock on the date of the grant. In accordance with FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure," beginning in the quarter ended March 31, 2003, the Company adopted the disclosure requirements of FASB No. 148.

The Company provides pro forma disclosures of compensation expense under the fair value method of SFAS No. 123 "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure".

The fair value of the Company's stock options used to compute pro forma net loss and net loss per share disclosures is the estimated present value at grant date using the Black-Scholes option-pricing model with the following weighted average assumptions for 2003 and 2002: dividend yield of 0%; expected volatility of 0.80; risk free interest rates of 5.59%-7.78%; and an expected holding period of 10 years.

Had compensation cost for the Company's option plans been determined using the fair value method at the grant dates, the effect on the Company's net income (loss) and income (loss) per share for the periods shown below would have been as follows:

Edgar Filing: CAPRIUS INC - Form 10QSB

	Three months ended June 30,		Nine months
	2003	2002	2003
	-----		-----
Net income (loss) as reported	\$(872,341)	\$(134,011)	\$ 136,532
Add:			
Stock-based employee compensation expense included in reported net income net of related tax effects	--	--	--
Deduct:			
Stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(28,399)	(21,925)	(85,197)
	-----	-----	-----
Pro forma net income (loss)	\$ (900,740)	\$ (155,936)	\$ 51,335
	=====	=====	=====
Basic and diluted income (loss) per share			
As reported	\$ (0.04)	\$ (0.01)	\$ 0.01
Pro forma	\$ (0.04)	\$ (0.01)	\$ 0.00

8

NOTE 4- INDUSTRY SEGMENTS

The Company operations are classified into two business segments: imaging and rehabilitation services and the medical waste disposal business (the "MCM Business").

The following table shows sales, net loss and other unaudited financial information by industry segment:

	Corporate	Imaging and Rehabilitation Services	MCM Busine
	-----	-----	-----
Three months ended June 30, 2003			

Edgar Filing: CAPRIUS INC - Form 10QSB

Revenues	\$12,500	\$357,845	\$107,
Loss from continuing operations before minority interest	(\$436,799)	(\$30,300)	(\$523,

Three months ended June 30, 2002

Revenues	-	\$401,228	
Loss from continuing operations before minority interest	-	(\$32,097)	

Nine months ended June 30, 2003

Revenues	\$37,500	\$1,162,896	\$440,
Loss from continuing operations before minority interest	(\$2,481,750)	(\$81,946)	(\$855,
Identifiable assets at June 30, 2003	\$2,614,447	\$ 321,406	\$2,031,

Nine months ended June 30, 2002

Revenues	-	\$1,231,066	
Loss from continuing operations before minority interest	-	(\$57,379)	
Identifiable assets at June 30, 2002	\$3,168,826	\$334,106	

NOTE 5 - LITIGATION

In June 2002, Jack Nelson, a former executive officer and director of the Company, commenced two legal proceedings against the Company and George Aaron and Jonathan Joels, executive officers, directors and principal stockholders of the Company. The two complaints (refer to Part II, Item 1 for further explanation) allege that the individual defendants made alleged misrepresentations to the plaintiff upon their acquisition of a controlling interest in the Company in 1999 and thereafter made other alleged misrepresentations and took other actions as to the plaintiff to the supposed detriment of the plaintiff and the Company. One action was brought in Superior Court of New Jersey, Bergen County, and the other was brought as a derivative action in Federal District Court in New Jersey. The counts in the complaints are for breach of contract, breach of fiduciary duty and misrepresentation. No amount of damages was specified in either action. The Company has answered the complaints and has asserted affirmative defenses.

In September 2002, the Company was served with a complaint naming the Company and its principal officers and directors in the Federal District Court of New Jersey as a purported class action. The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The plaintiff is a relative of the wife of the plaintiff in the previously disclosed direct and derivative actions against the defendants. The allegations in the purported class action are substantially similar to those in the other two actions. The complaint (refer to Part II, Item 1 for further explanation) seeks an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders of the Company. The Company is vigorously contesting the allegations in the complaint.

Edgar Filing: CAPRIUS INC - Form 10QSB

In September 2002, BDC Corp., d/b/a BDC Consulting Corp., brought an action against the Company and Mr. Aaron in the Circuit Court for the Seventeenth Judicial Circuit, Broward County, Florida seeking an unspecified amount of damages arising from the defendants' alleged tortious interference with a series of agreements between the plaintiff and third party MCM pursuant to which the plaintiff had intended to purchase MCM. See Note 6 of this report for information regarding the Company's investment in MCM. The Company believes there is no merit to the plaintiff's claim (see Part II, Item 1 for further explanation).

NOTE 6 - ACQUISITION OF MCM

On December 17, 2002, the Company closed the acquisition of 57.53% of the capital stock of MCM, which is engaged in the medical infectious waste disposal business, for a purchase price of \$2.4 million. The Company's consolidated financial statements include MCM's results of operations from December 17, 2002. In June 2002, the Company and MCM had signed a Letter of Intent to enter into an agreement whereby the Company would have the right to acquire 51% of the outstanding stock on a fully diluted basis of MCM. Concurrent with the signing of the Letter of Intent, Caprius provided MCM with a loan totaling \$245,000. At the time of the acquisition of MCM, the Company's outstanding loans to MCM aggregated \$565,000 which were paid by reducing the cash portion of the purchase price.

The Company accounted for the acquisition as a purchase using the accounting standards established in Statements of Financial Accounting Standards No. 141, Business Combinations and No. 142, Goodwill and Other Intangible Assets. The accounting rules require that the goodwill arising from the purchase method of accounting not be amortized however it must be tested for impairment at least annually.

The purchase price has been allocated to net assets acquired based on the preliminary estimate of their fair values. The excess of the purchase price over net assets acquired has been allocated to goodwill and other intangibles for approximately \$1,777,010. Other intangible assets consisting of technology, customer relationships and permits are estimated to be approximately \$1,040,000 and are being amortized over periods of three to five years. Amortization expense for the three month period ended June 30, 2003 amounted to \$80,000. Additional adjustments to the purchase price allocations may still be required.

The unaudited pro forma combined results of operations of the Company and the MCM business acquired in December for the nine month periods ended June 30, 2003 and 2002, assuming that the transaction had occurred on October 1, 2001 and after giving effect to certain pro forma adjustments are as follows:

Nine months ended June 30,	2003	2002

Sales	\$1,881,496 =====	\$1,615,870 =====
Loss from continuing operations	\$ (3,660,860) =====	\$ (782,961) =====

Edgar Filing: CAPRIUS INC - Form 10QSB

Net loss	\$ (81,590)	\$ (988,178)
	=====	=====
Net loss per share basic and diluted common share	\$ (0.00)	\$ (0.06)

NOTE 7 - DISPOSAL OF TDM BUSINESS SEGMENT

Effective October 9, 2002, the Company completed the sale of the assets and certain liabilities of its TDM business segment for \$6,000,000. Pursuant to a Consulting Agreement as part of the sale, Opus will consult with Seradyn on ongoing projects for a \$50,000 annual fee for a two-year period. The purchased assets included three diagnostic assays still in development, for which Opus will receive royalty payments upon the commercialization of any of these assays based upon varying percentages of net sales. Caprius, Opus and its three executive officers entered into non-compete agreements with Seradyn restricting them for five years from competing in the TDM business. The sale of the TDM business has been reflected as discontinued operations in the accompanying consolidated financial statements. Revenues from discontinued operations, which

10

have been excluded from income from continuing operations in the accompanying consolidated statements of operations for the nine months ended June 30, 2003 and 2002, are shown below. The effects of the discontinued operations on net loss and per share data are reflected within the accompanying consolidated statements of operations. The gain on disposal of \$3,123,748 is net of applicable taxes totaling \$325,000.

A summary of net assets of the TDM business segment at September 30, 2002 were as follows:

	2002

Current assets	\$638,609
Property and equipment	34,923
Intangible assets	2,001,937
Liabilities	164,322

Net assets	\$2,511,147
	=====

A summary of operations of the TDM business segment for the nine months ended June 30, 2003 and 2002 is as follows:

	2003	2002
	----	----
Revenues	\$96,698	\$1,590,880

Edgar Filing: CAPRIUS INC - Form 10QSB

Operating Expenses	23,300	1,701,395
	-----	-----
Income (loss) from Operations	\$73,398	(\$110,515)
	=====	=====

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

As more fully described in the 10-KSB of September 30, 2002, the Company completed the sale of its TDM business segment effective October 9, 2002. As a result, the Company's consolidated statements of operations for the nine months ended June 30, 2002 have been restated to reflect the TDM business as discontinued operations.

THREE MONTHS JUNE 30, 2003 COMPARED TO THREE MONTHS ENDED JUNE 30, 2002

Net patient service revenue at Strax totaled \$357,845 for the three months ended June 30, 2003, versus \$401,228 for the three months ended June 30, 2002. Cost of service operations totaled \$176,491 for the three months ended June 30, 2003 versus \$188,688 for the three months ended June 30, 2002.

Selling, general and administrative expenses totaled \$1,146,194 for the three months ended June 30, 2003 versus \$214,530 for the three months ended June 30, 2002. The increase reflects costs related to the acquisition and ongoing operations of MCM, as well as increased legal and insurance fees. Additionally, the selling, general and administrative expenses related to the TDM business totaling \$346,927 for the three months ended June 30, 2002 were reallocated to discontinued operations.

MCM product sales and rental revenues totaled \$107,275 for the three months ended June 30, 2003. There are no comparisons for prior periods as the Company commenced this business effective December 17, 2002. The Company intends to penetrate the U.S. market through a rental program developed for MCM's products.

11

NINE MONTHS ENDED JUNE 30, 2003 COMPARED TO NINE MONTHS ENDED JUNE 30, 2002

Net patient service revenue at Strax totaled \$1,162,896 for the nine months ended June 30, 2003, versus \$1,231,066 for the nine months ended June 30, 2002. Cost of service operations totaled \$643,200 for the nine months ended June 30, 2003 versus \$621,225 for the nine months ended June 30, 2002.

Selling, general and administrative expenses totaled \$3,856,429 for the nine months ended June 30, 2003 versus \$608,394 for the nine months ended June 30, 2002. The increase reflects costs related to the acquisition and ongoing operations of MCM, performance and salary adjustments to employees as well as increased legal and insurance fees. Additionally, the selling, general and administrative expenses related to the TDM business totaling \$924,724 for the nine months ended June 30, 2002 were reallocated to discontinued operations.

MCM product sales and rental revenues totaled \$440,018 for the nine months ended June 30, 2003. There are no comparisons for prior periods as the Company

Edgar Filing: CAPRIUS INC - Form 10QSB

commenced this business effective December 17, 2002. The Company intends to penetrate the U.S. market through a rental program developed for MCM's products.

LIQUIDITY AND CAPITAL RESOURCES

In October 2002, the Company's subsidiary, Opus, sold the assets of its TDM Business to Seradyn. The purchase price was \$6,000,000, subject to adjustment. The Company has received a further payment of \$54,970 from Seradyn as a post closing payment adjustment. \$600,000 of the purchase price was deposited into an escrow account to be held for indemnity claims, of which \$300,000 would be released after one year and the balance after two years. The Company used the net cash proceeds to pay down debts and liabilities, repayment of the short-term loan and, in December 2002, used \$1,835,000 as part of the MCM purchase price. The balance of the funds is being used for general working capital purposes.

During September 2002, warrant holders representing 3,297,700 shares of Common Stock took the opportunity to exercise their warrants in the Company's warrant price reduction program. The Company had offered holders of warrants to purchase 4,319,750 shares of Common Stock, the opportunity to exercise such warrants at a reduced exercise price for a period of 14 days during September 2002. The reduced exercise price for each of the outstanding warrants was equal to 20% of its present exercise price, but not less than \$0.11 per share. As a result, the Company raised an aggregate of \$409,668 and also substantially reduced the number of its outstanding warrants. The Company used the proceeds for general working capital purposes.

Also during September 2002, the Company entered into a short-term line of credit arrangement with one of its board members, Shrikant Mehta, whereby Mr. Mehta agreed to extend a \$500,000 line of credit to the Company for up to 18 months, expiring March 2004. This line of credit can be utilized for working capital needs as determined by the Company and agreed with by Mr. Mehta. Interest would be paid at a rate of 11% per annum on monies drawn down. In return for the provision of the short-term line of credit, Mr. Mehta was granted warrants to purchase 500,000 shares of Common Stock, exercisable at \$0.11 per share for a period of five years. The Company has not drawn down on this line of credit.

During June 2002, the Company obtained a short-term loan from officers and employees of the Company as well as related family members in the principal amount of \$250,000, with interest at prime plus 3% per annum and due on September 30, 2003. The proceeds of the short-term loan were used to fund an initial loan to MCM (the "MCM Loan") totaling \$250,000. Subsequent to the initial loan to MCM, further funds were advanced to MCM in September, October and December 2002 in the amounts of \$100,000, \$200,000 and \$15,000 respectively. The MCM Loan, together with subsequent fundings, was secured by MCM's intellectual properties, bore interest at the rate of prime plus 2% per annum, and was to be due on June 10, 2003, subject to conversion to equity of MCM upon the consummation of the Company's investment in MCM. Upon the acquisition of the interest in MCM, loans totaling \$565,000 were converted into equity in MCM. On October 10, 2002, the holders of the short-term loan were repaid an aggregate of \$250,000 plus accrued interest. For each \$1.00 principal amount loaned, the lender received a warrant to purchase one share of the Company's Common Stock, exercisable after six months at \$0.09 per share for a period of five years.

The Company has entered into a letter of intent with an undisclosed third party to sell Strax. The proposed transaction is subject to the parties entering into a definitive agreement and board approval.

Edgar Filing: CAPRIUS INC - Form 10QSB

Net cash used in operations for the nine months ended June 30, 2003 amounted to \$3,405,706. Net cash flows provided by investing activities for the nine months ended June 30, 2003 amounted to \$5,121,662.

The Company will continue its efforts to examine and seek additional funds through funding options, including banking facilities, equity placements, and government-funded grants in order to provide capital for future expansion. Additionally, the Company is pursuing financing arrangements for the MCM SteriMed(R) units placed in the United States. There can be no assurance that such funding initiatives will be successful.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates the Company's estimates and assumptions, including but not limited to those related to revenue recognition and the impairment of long-lived assets, goodwill and other intangible assets. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

1. Revenue recognition

The breast-imaging center recognizes revenue as services are provided to patients. Reimbursements for services provided to patients covered by Blue Cross/Blue Shield, Medicare, Medicaid, HMO's and other contracted insurance programs are generally less than rates charged by the Company. Differences between gross charges and estimated third-party payments are recorded as contractual allowances in determining net patient service revenue during the period that the services are provided.

2. Goodwill and other intangibles

Goodwill and other intangibles associated with the MCM acquisition will be subject to an annual assessment for impairment by applying a fair-value based test. The valuation will be based upon estimates of future income of the reporting unit and estimates of the market value of the unit.

Recent Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146 "Accounting for Costs Associated with Exit or Disposal Activities." This statement superseded EITF No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity". Under this statement, a liability or a cost associated with a disposal or exit activity is recognized at fair value when the liability is incurred rather than at the date of an entity's commitment to an exit plan as required under EITF 94-3. The provision of this statement is effective for exit or disposal activities that are initiated after December 31, 2002, with early adoption permitted. The Company is currently evaluating the effect that the adoption of SFAS No. 146 will have on its consolidated financial position and results of operations.

In November 2002, the Emerging Issues Task Force (EITF) reached consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenue arrangements with multiple deliverables include arrangements which provide for

Edgar Filing: CAPRIUS INC - Form 10QSB

the delivery or performance of multiple products, services and/or rights to use assets where performance may occur at different points in time or over different periods of time. EITF Issue No. 00-21 is effective for the Company beginning October 1, 2003. The Company has not completed the evaluation of the impact of this EITF.

In May 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments,

13

including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities. The changes in this Statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. This Statement is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 is not expected to have a material affect on our financial position, results of operations, or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". SFAS No. 150 is the first phase of the FASB's project on liabilities and equity. SFAS No. 150 provides guidance on how an entity classifies and measures certain financial instruments with characteristics of both liabilities and equity. Many of these instruments were previously classified as equity. For example, if an employer's issuance of its shares to a key employee requires the employer to redeem the shares upon the employee's death, then those shares must be classified as a liability, not as equity. For publicly-held companies, SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. SFAS No. 150 requires companies to record the cumulative effect of financial instruments existing at the adoption date. The Company does not believe the adoption of SFAS 150 will have a significant effect on the Company's operations, financial position or cash flows.

FORWARD LOOKING STATEMENTS

The Company is including the following cautionary statement in this quarterly report of Form 10-QSB to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties, but there can be no assurance that management's expectation, beliefs or projections will result or be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in the view of the Company, could cause actual results to differ materially from those discussed in the forward-looking statements: technological advances by the Company's competitors, changes in health care reform, including reimbursement programs, changes to regulatory requirements relating to

Edgar Filing: CAPRIUS INC - Form 10QSB

environmental approvals for the treatment of infectious medical waste, capital needs to fund any delays or extensions of development programs, delays in the manufacture of new and existing products by the Company or third party contractors, the loss of any key employees, the outcome of existing litigations, delays in obtaining federal, state or local regulatory clearance for new installations and operations, changes in governmental regulations, the location of the MCM business in Israel, and availability of capital on terms satisfactory to the Company. The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

ITEM 3. CONTROLS & PROCEDURES

The Company's principal executive officer and principal financial officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a - 15 of the Securities Exchange Act of 1934) as of June 30, 2003 have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its consolidated subsidiary is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period in which this quarterly report has been prepared.

The Company's principal executive officer and principal financial officer have concluded that there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls

14

subsequent to June 30, 2003 the date of their most recent evaluation of such controls, and that there were no significant deficiencies or material weaknesses in the Company's internal controls.

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In June 2002, Jack Nelson, a former executive officer and director of the Company, commenced two legal proceedings against the Company and George Aaron and Jonathan Joels, executive officers, directors and principal stockholders of the Company. The two complaints allege that the individual defendants made alleged misrepresentations to the plaintiff upon their acquisition of a controlling interest in the Company in 1999 and thereafter made other alleged misrepresentations and took other actions as to the plaintiff to the supposed detriment of the plaintiff and the Company. One action was brought in Superior Court of New Jersey, Bergen County ("State Court Action"), and the other was brought as a derivative action in Federal District Court in New Jersey ("Federal Derivative Action"). The counts in the complaints are for breach of contract, breach of fiduciary duty and misrepresentation. The complaint in the Federal Derivative Action also alleges that certain actions by the defendants in connection with the 1999 acquisition transaction and also as Company officers violated the Federal Racketeer Influenced and Corrupt Organizations Act (RICO). No amount of damages was specified in either action. The Company has answered the complaints and has asserted affirmative defenses. The parties have exchanged written discovery in the State Court Action. No depositions have been taken. In January 2003, motions were made on behalf of the Company and Messrs. Aaron and Joels to dismiss both the Federal Derivative Action and the State Court Action. On April 25, 2003, the Court in the State Court Action denied the portion of the motion which sought dismissal of the breach of contract claim but granted the

Edgar Filing: CAPRIUS INC - Form 10QSB

motion to dismiss with respect to the counts for fraud and misrepresentation and respondeat superior against the Company based upon such fraud, but gave the plaintiff leave to amend his complaint to replead with sufficient specificity the counts predicated upon alleged fraud. An amended complaint was filed in the State Court Action on May 15, 2003. The Company has answered the amended complaint and asserted affirmative defenses. The Court also ordered the parties to proceed with mediation in an attempt to resolve the dispute. Mediation took place on June 24, 2003, and concluded without resolution of the action. The motion to dismiss the Federal Derivative Action is currently pending before the Federal Court. In addition, the plaintiff has filed a cross-motion to amend his complaint to add allegations of securities violations against George Aaron, Jonathan Joels, Shrikant Mehta and Sanjay Mody.

In September 2002, the Company was served with a complaint naming the Company and its principal officers and directors in the Federal District Court of New Jersey as a purported class action. The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The plaintiff is a relative of the wife of the plaintiff in the previously disclosed direct and derivative actions against the defendants. The allegations in the purported class action are substantially similar to those in the other two actions. The complaint seeks an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders of the Company. No answer has yet been filed to this complaint as the parties agreed to extend the Company's time to answer the complaint. Since January 1, 2003 an order was entered in the Federal District Court in New Jersey consolidating the derivative action and the class action. The order further provides that the time for the defendants to answer or otherwise move with respect to the complaint in the class action is extended. The order also provides that all discovery in the consolidated actions is stayed pending resolution of the motions to dismiss. On April 9, 2003, an amended complaint was filed in the purported class action naming an additional plaintiff. A motion was made on June 9, 2003 for an order: (1) appointing plaintiffs Eugene Schwartz and Dallas Williams as lead plaintiffs; and (2) appointing the law firm of Lowenstein Sandler as lead counsel for the class. That motion is currently pending.

The independent directors have authorized the Company to advance the legal expenses of Messrs. Aaron and Joels in these litigations, subject to review of the legal bills and compliance with applicable law.

In September 2002, BDC Corp., d/b/a BDC Consulting Corp., brought an action against the Company and Mr. Aaron in the Circuit Court for the Seventeenth

15

Judicial Circuit, Broward County, Florida seeking an unspecified amount of damages arising from the defendants' alleged tortious interference with a series of agreements between the plaintiff and third party MCM pursuant to which the plaintiff had intended to purchase MCM. See Item I of this report for information regarding the Company's investment in MCM. The Company believes there is no merit to the plaintiff's claim. On January 6, 2003, the Company answered the complaint. The parties have entered into discussions in an effort to resolve this litigation. Under the Company's Purchase Agreement with MCM, MCM, its subsidiaries and certain pre-existing shareholders of MCM have certain obligations to indemnify the Company with respect to damages, losses, liabilities, costs and expenses arising out of any claim or controversy in respect of this proceeding.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

Edgar Filing: CAPRIUS INC - Form 10QSB

- (a) Exhibits
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of George Aaron, President and Chief Executive Officer
 - 31.2 Rule 13a-14(a)/15d-14(a) Certification of Jonathan Joels, Chief Financial Officer
 - 32. Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (b) Reports on Form 8-K
- None

16

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Caprius, Inc.

(Registrant)

Date: August 14, 2003

/s/ George Aaron

George Aaron
President & Chief Executive Officer

Date: August 14, 2003

/s/ Jonathan Joels

Jonathan Joels
Chief Financial Officer

17