

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC
Form 10QSB
May 14, 2004

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 MARCH 31, 2004

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 No

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

Class
Common Stock. Par value \$0.01

Outstanding at May 12, 2004
20,446,562 shares

CAPRIUS, INC. AND SUBSIDIARIES

INDEX

Edgar Filing: CAPRIUS INC - Form 10QSB

Page No.

PART I - FINANCIAL INFORMATION

ITEM 1.	UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
	Condensed Consolidated Balance Sheet as of March 31, 2004	3
	Condensed Consolidated Statements of Operations for the three months and six months ended March 31, 2004 and 2003	4
	Condensed Consolidated Statement of Stockholders Equity for the six months ended March 31, 2004	5
	Condensed Consolidated Statements of Cash Flows for the six months ended March 31, 2004 and 2003	6
	Notes to Condensed Consolidated Financial Statements	7
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	11
ITEM 3.	CONTROLS & PROCEDURES	13
PART II - OTHER INFORMATION		
ITEM 1.	LEGAL PROCEEDINGS	14
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	15
SIGNATURES		16

2

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

March 31, 2004

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	36,421
Accounts receivable, net of reserve for bad debts of \$5,163		22,054
Inventories		791,305
Other current assets		108,988
Due from sale of Strax		171,225

Edgar Filing: CAPRIUS INC - Form 10QSB

Total current assets	1,129,993	-----
PROPERTY AND EQUIPMENT:		
Office furniture and equipment	156,313	
Equipment for lease	108,321	
Leasehold improvements	18,262	

	282,896	
Less: accumulated depreciation	166,023	

Property and equipment, net	116,873	-----
OTHER ASSETS:		
Goodwill	737,010	
Intangible assets, net of accumulated amortization of \$354,083	685,917	
Other	13,330	

Total other assets	1,436,257	-----
TOTAL ASSETS	\$ 2,683,123	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,055,751	
Accrued expenses	404,762	
Accrued compensation	104,169	

Total current liabilities	1,564,682	
LONG-TERM LIABILITIES:		
Notes payable - Related party, net of unamortized discount of \$24,355	475,645	

TOTAL LIABILITIES	2,040,327	-----
MINORITY INTEREST IN MCM SUBSIDIARY	20,000	-----
STOCKHOLDERS' EQUITY:		
Preferred stock, \$.01 par value		
Authorized - 1,000,000 shares		
Issued and outstanding - Series A, none;		
Series B, convertible, 27,000 shares		
Liquidation preference \$2,700,000	2,700,000	
Common stock, \$.01 par value		
Authorized - 50,000,000 shares		
Issued - 20,469,062 shares	204,691	
Additional paid-in capital	67,608,658	
Accumulated deficit	(69,888,303)	
Treasury stock (22,500 common shares, at cost)	(2,250)	

Total stockholders' equity	622,796	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 2,683,123	=====

Edgar Filing: CAPRIUS INC - Form 10QSB

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

3

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

	For the three months ended		
	March 31, 2004	March 31, 2003	
REVENUES:			
Product sales	\$ 158,739	\$ 191,060	\$
Equipment rental income	16,334	6,781	
Consulting fees	12,500	12,500	
	187,573	210,341	
OPERATING EXPENSES:			
Cost of product sales and leased equipment	169,459	184,705	
Research and development	53,707	34,536	
Selling, general and administrative	909,467	805,145	
	1,132,633	1,024,386	
Operating loss	(945,060)	(814,045)	
Interest income (expense), net	(2,551)	12,478	
Loss from continuing operations	(947,611)	(801,567)	
Income from operations of discontinued TDM business segment (including gain on disposal of \$3,050,350 in October 2002)	-	68,839	
Loss from operations of discontinued Strax Business	-	(48,895)	
	(947,611)	(781,623)	
(Loss) income before minority interest			
Minority interest in net loss of consolidated subsidiary	-	(81,485)	
Net (loss) income	\$ (947,611)	\$ (700,138)	\$

Net (loss) income per basic and diluted common share

Edgar Filing: CAPRIUS INC - Form 10QSB

Continuing operations	\$	(0.05)	\$	(0.03)	\$
Discontinued operations		-		-	
		-----		-----	
Net (loss) income per basic and diluted common share	\$	(0.05)	\$	(0.03)	\$
		=====		=====	
Weighted average number of common shares outstanding, basic and diluted		20,446,562		20,396,562	
		=====		=====	

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

4

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(Unaudited)

	Series B Preferred Stock		Common Stock		Additional Paid-in Capital
	Number of Shares	Amount	Number of Shares	Amount	
BALANCE, SEPTEMBER 30, 2003	27,000	\$ 2,700,000	20,469,062	\$ 204,691	\$ 67,581,258
Fair value of warrants issued in connection with bridge financing					27,400
Net loss					
BALANCE, MARCH 31, 2004	27,000	\$ 2,700,000	20,469,062	\$ 204,691	\$ 67,608,658

(TABLE CONTINUED)

	Treasury Stock		Total Stockholders' Equity
	Number of Shares	Amount	
BALANCE, SEPTEMBER 30, 2003	22,500	\$ (2,250)	\$ 2,200,683
Fair value of warrants issued in connection with bridge financing			27,400

Edgar Filing: CAPRIUS INC - Form 10QSB

Net loss			(1,605,287)
BALANCE, MARCH 31, 2004	22,500	\$ (2,250)	\$ 622,796

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

5

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended March 2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (1,605,287)	\$ 1,008,
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Minority interest in loss of MCM	-	(245,
Gain on sale of TDM business	-	(3,123,
Amortization of discount on bridge financing	3,045	17,
Depreciation and amortization	194,224	49,
Changes in operating assets and liabilities:		
Accounts receivable, net	57,606	(193,
Inventories	29,179	(33,
Other assets	(30,354)	222,
Accounts payable and accrued expenses	(124,362)	(40,
Net cash used in operating activities	(1,475,949)	(2,339,
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of TDM business	-	5,400,
Proceeds from sale of Strax business	240,785	
Acquisition of property and equipment	(3,234)	
Acquisition of MCM, net of cash acquired (including loans to MCM)	-	(278,
Net cash provided by investing activities	237,551	5,121,
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable	500,000	
Repayment of debt and capital lease obligations	-	(557,
Net cash provided by (used in) financing activities	500,000	(557,

Edgar Filing: CAPRIUS INC - Form 10QSB

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(738,398)	2,225,
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	774,819	505,
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 36,421	\$ 2,730,
	=====	=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest during the period	\$ 7,015	\$ 8,
	=====	=====

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

6

CAPRIUS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet as of March 31, 2004, and the condensed consolidated statement of operations for the three month periods ended March 31, 2004 and 2003, and for the six month periods ended March 31, 2004 and 2003, the condensed consolidated statements of cash flows for the six month period ended March 31, 2004 and 2003, and the condensed consolidated statement of stockholder's equity for the six month period ended March 31, 2004, have been prepared by the Company without audit. In the opinion of management, the information contained herein reflects all adjustments necessary to make the presentation of the Company's condensed financial position, results of operations and cash flows not misleading. All such adjustments are of a normal recurring nature.

The accompanying condensed consolidated financial statements have been prepared by the Company without audit and does not contain all of the information and disclosures required by accounting principles generally accepted in the United States of America and should be read in conjunction with the consolidated financial statements and related notes included in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2003.

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 October 2002 sale of the TDM Business and the December 2002 purchase of a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM"). MCM has developed and markets worldwide the SteriMed(R) and SteriMed Junior(R) compact systems that

Edgar Filing: CAPRIUS INC - Form 10QSB

simultaneously shred and disinfect on-site Regulated Medical Waste ("RMW"), reducing the RMW volume up to 90% and rendering it harmless for disposal as routine black bag waste. The SteriMed(R) systems utilize a proprietary disinfectant, Ster-Cid(R) (for further information see Item 2).

Until fiscal year end 2003, the Company continued to own and operate a comprehensive imaging center located in Lauderhill, Florida. Effective September 30, 2003, the Company completed the sale of the Strax Institute (see Note 8 Sale of the Strax Institute).

On December 17, 2002, the Company closed the acquisition of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. Upon closing, Caprius' designees 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 had 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 (July 2004) and ending 25 months (January 2005) 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.

7

On October 9, 2002, Opus sold the assets of the TDM Business to Seradyn, Inc. ("Seradyn") pursuant to a Purchase and Sale Agreement for a purchase price of \$6,000,000 and entered into a Royalty Income Agreement and a Consulting Agreement. The sale of the business has been reflected as a discontinued operation in the accompanying condensed consolidated financial statements.

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock-Based Compensation

At March 31, 2004, the Company had three stock based compensation plans (one incentive and nonqualified, one employee and one non-employee director plan). The Company accounts for these plans under the recognition and measurement principles of APB Opinion No. 25, "Accounting for Stock Issued to Employees," and complies with the disclosure requirements of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-based Compensation" as amended by SFAS No. 148, "Accounting for Stock-based Compensation - Transition and Disclosure, an amendment of SFAS No. 123, issued in December 2002. Under APB Opinion No. 25, compensation expense is based on the difference, if any, generally on the date of grant, between the fair value of our stock and the exercise price of the option. No stock-based employee compensation cost is reflected within the statement of operations for the three and six month periods ended March 31, 2004 and 2003.

If the Company had elected to recognize compensation costs for the Company's option plans 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 March 31,		Six months ended M	
	2004	2003	2004	
	-----	-----	-----	-----
Net income (loss) as Reported	\$ (947,611)	\$ (700,138)	\$ (1,605,287)	\$
Deduct:				
Stock-based employee compensation determined under fair value method for all awards, net of Related tax effects	(13,687)	(27,846)	(27,374)	
	-----	-----	-----	-----
Pro forma net income (loss)	\$ (961,298)	\$ (727,984)	\$ (1,632,661)	\$
	=====	=====	=====	=====
Basic and diluted income (loss) per share of Common Stock				
As reported	\$ (0.05)	\$ (0.03)	\$ (0.08)	\$
Pro forma	\$ (0.05)	\$ (0.04)	\$ (0.08)	\$

Loss per Share

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share", which provides for the calculation of "basic" and "diluted" earnings (loss) per share. Basic loss per share includes no dilution and is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur through the effect of common shares issuable upon the exercise of stock options and warrants and convertible securities. For the period ended March 31, 2004, potential common shares amount to 5,524,672 shares and have not been included in the computation of diluted loss per share since the effect would be antidilutive.

Revenue recognition

The medical infectious waste business recognizes revenues from either the sale or rental of its SteriMed units. Revenues for sales are recognized at the time that the unit is shipped to the customer. Rental revenues are recognized based upon either services provided for each month of activity or evenly over the year in the event that a fixed rental agreement is in place.

NOTE 4 - INVENTORY

Inventories are accounted for at the lower of cost or market using the first-in, first out ("FIFO") method. Inventories consist of the following:

Edgar Filing: CAPRIUS INC - Form 10QSB

	March 31, 2004
Raw materials	\$ 208,100
Finished goods	583,205
	\$ 791,305
	=====

NOTE 5 - NOTES PAYABLE - RELATED PARTY TRANSACTION

During the second quarter of 2004, the Company authorized a short-term bridge loan for an aggregate of up to \$500,000 through the issuance of loan notes due on July 31, 2005. The funds will be utilized primarily for general working capital. The Company has raised the \$500,000, the majority of which was provided by management of the Company. The loan notes bear interest at a rate of 11% per annum and are secured by a first lien on any royalties received by Opus Diagnostics Inc. from Seradyn, Inc. in accordance with their Royalty Agreement. For every three dollars (\$3.00) loaned, the lender received two warrants to purchase one share of Common Stock, exercisable at \$0.25 per share for a period of five years. The estimated fair value of the warrants approximated \$27,400 and such amount shall be treated as a discount to debt and a corresponding increase to paid in capital. The discount shall be amortized over the life of the loan. For the six months ended March 31, 2004, the Company recorded an additional interest expense related to this discount of approximately \$3,000, and that amount is included in interest expense, net in the condensed consolidated statement of operations.

NOTE 6 - ECONOMIC DEPENDENCY

For the six months ended March 31, 2004, revenue from two major customers was approximately \$124,000 and \$237,000 representing 26% and 50% of total revenue, respectively. For the six months ended March 31, 2003, revenue from two major customers was approximately \$255,000 and \$ 45,000 representing 71% and 13% of total revenue, respectively. At March 31, 2004 and 2003, no accounts receivable exist from these customers.

NOTE 7 - 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 alleged 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"). In September 2003, the Company resolved the State

Court Action by making an Offer of Judgment which was accepted by the plaintiff.

Edgar Filing: CAPRIUS INC - Form 10QSB

Under the terms of the Offer of Judgment, which was made without any admission or finding of liability on part of the defendants, the Company made a payment of \$125,000 to the plaintiff and the action was discontinued.

On May 3, 2004, the Court in the Federal Derivative Action granted the motion made by the Company and Messrs. Aaron and Joels for judgment on the pleadings based upon the pre-suit demand requirement and dismissed the plaintiff's complaint without prejudice, but denied their motion for judgment on the pleadings based upon the Private Securities Litigation Reform Act. The Court also granted the plaintiff's cross-motion to file an amended complaint to add allegations of insider trading.

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 "Class Action"). The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The initial plaintiff is a relative of the wife of the plaintiff in the State Court Action and Federal Derivative Action. The allegations in the purported Class Action were substantially similar to those in the other two Actions. The complaint sought an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders of the Company.

On May 3, 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The federal securities claims asserted by the plaintiffs were dismissed with prejudice, and having dismissed all federal law claims, the Court declined to exercise jurisdiction over the remaining state law claims and dismissed those claims without prejudice.

The independent directors have authorized the Company to advance the legal expenses of Messrs. Aaron and Joels in these litigations with respect to claims against them in their corporate capacities, subject to review of the legal bills and compliance with applicable law, and Messrs. Aaron and Joels will repay the Company in the event it was determined that they were not entitled to be indemnified as to the claim for which the advance was made.

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 2 of this report for information regarding the Company's investment in MCM. Although the Company believed there was no merit to the plaintiff's claim, in October 2003, the Company and Mr. Aaron settled the action for the sum of \$83,000 in order to avoid a lengthy and expensive litigation. The purchaser of Strax is an entity controlled by the same person who is a principal in BDC Corp. 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 to the BDC complaint. The Company has made a claim for indemnification.

NOTE 8 - SALE OF STRAX

Effective September 30, 2003, the Company sold its comprehensive breast imaging business to EMT pursuant to a Stock Purchase Agreement dated September 30, 2003 (the "Purchase Agreement") among the Registrant, EMT and the other parties thereto. The purchase price was \$412,000. 50% of the purchase price was paid on closing and the balance is payable in installments commencing January 1, 2004 and ending December 31, 2004, evidenced by a note secured by the accounts

Edgar Filing: CAPRIUS INC - Form 10QSB

receivables of Strax Institute, Inc. In addition, the Company was required to provide certain specified transitional services for up to 180 days pursuant to a Management Services Agreement.

The sale of the Strax business has been reflected as a discontinued operation in the accompanying condensed consolidated financial statements. Revenues from discontinued operations, which have been excluded from income from continuing operations in the accompanying condensed consolidated statements of

10

operations for fiscal year 2002 is shown below. The effects of the discontinued operations on net loss and per share data are reflected within the accompanying condensed consolidated statements of operations.

A summary of operations of the Strax business segment for the six months ended March 31, 2003 is as follows:

	March 31, 2003 -----
Revenues	\$ 805,051
Operating expenses	856,697 -----
Loss from operations	\$ (51,646) =====

NOTE 9 - SUBSEQUENT EVENT -----

During April and May 2004, the Company raised an aggregate of \$1.4 million through the issuance of 8% Senior Secured Convertible Promissory Notes ("the Notes"), prior to fees and expenses. Under the terms of this financing, the Company may raise a maximum of \$1.5 million. The Company granted a security interest in substantially all of the assets of the Company. The Notes mature in one year and can be converted into shares of common stock at the election of the investor at any time using a conversion price of \$0.20 per share. If certain conditions are not met as of September 30, 2004, then the conversion price shall be reduced to \$0.15 per share. The financing was arranged through Sands Brothers International Ltd. ("Sands") which has been retained by the Company to act as selected dealer for the sale and issuance of the Notes. Based upon the funds raised, Sands will receive fees of six percent and an expense allowance of one percent of the gross proceeds, and warrants to purchase up to 1,425,000 shares of the Company's common stock at an exercise price of \$0.28 per share for a period of five years.

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

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

Edgar Filing: CAPRIUS INC - Form 10QSB

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 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 is also subject to numerous Risk Factors relating to manufacturing, regulatory, financial resources and personnel as defined in the Company's September 30, 2003 Form 10-KSB as filed with the Securities and Exchange Commission. The Company disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

11

RESULTS OF OPERATIONS

As more fully described in the Form 10-KSB for fiscal year ended September 30, 2003, the Company's continuing operation is classified as medical infectious waste business (the "MCM Business"). In the fiscal year ended September 30, 2002 the Company's operations were classified into two business segments: imaging and rehabilitation services ("Strax") and the therapeutic drug monitoring assay business (the "TDM Business").

The Company disposed of its TDM Business in October, 2002 and of Strax effective September 30, 2003. Operations related to the TDM Business and Strax were reclassified to discontinued operations.

The Company's MCM Business is comprised of SteriMed(R) systems which are patented, environmentally-friendly, on-site disinfecting disposal units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 12 minute cycle. The units, comparable in size to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid(R) solution. After treatment, the material may be discarded as conventional solid waste, in accordance with appropriate regulatory requirements. The resultant treated waste is as low as 10% of the original volume.

The SteriMed(R) systems consist of two different sized units, and the required Ster-Cid(R) disinfectant solution can be utilized with both units. The larger SteriMed(R) can treat up to 18.5 gallons (70 liters) of medical waste per cycle. The smaller version, SteriMed Junior(R), can treat up to 4 gallons (15

Edgar Filing: CAPRIUS INC - Form 10QSB

liters) per cycle.

The SteriMed(R) systems enable generators of RMW, such as clinics and hospitals, to significantly reduce costs for treatment and disposal of RMW, eliminate the liability associated with the regulated "cradle to grave" tracking system involved in the treatment of RMW, and treat in house RMW on-site in an effective, safe and easy manner.

THREE MONTHS ENDED MARCH 31, 2004 COMPARED TO THREE MONTHS ENDED MARCH 31, 2003

Revenues generated from product sales totaled \$158,739 for the three months ended March 31, 2004 as compared to \$191,060 for the three months ended March 31, 2003. Revenues generated from leased equipment rentals totaled \$16,334 as compared to \$6,781 for the comparable periods. Consulting income of \$12,500 was generated for the three months ended March 31, 2004 and 2003 in connection with the sale of the TDM Business.

Cost of product sales and leased equipment amounted to \$169,459 or 90.3% of total revenues versus \$184,705 or 87.8% of total revenues for the three month period ended March 31, 2004 and 2003, respectively. The Company has not advanced to a level of sales for the Company to fully absorb the fixed costs related to its revenues.

Selling, general and administrative expenses totaled \$909,467 for the three months ended March 31, 2004 versus \$805,145 for the three months ended March 31, 2003. This increase reflects increased legal and professional expenses during the quarter related to our public filings.

SIX MONTHS ENDED MARCH 31, 2004 COMPARED TO SIX MONTHS ENDED MARCH 31, 2003

Revenues generated from product sales totaled \$417,623 and \$317,534 for the six month periods ended March 31, 2004 and 2003, respectively. Revenues generated from leased equipment rentals totaled \$34,683 and \$15,209 for the six month periods ended March 31, 2004 and 2003, respectively. Consulting income of \$25,000 was generated for the six month periods ended March 31, 2004 and 2003 in connection with the sale of the TDM business.

Cost of product sales and leased equipment amounted to \$374,178 or 78.4% of total revenues versus \$307,441 or 85.9% of total revenues for the six month period ended March 31, 2004 and 2003, respectively.

12

Selling, general and administrative expenses totaled \$1,583,703 for the six months ended March 31, 2004 versus \$2,341,746 for the six months ended March 31, 2003. This decrease is due to the non payment of incentive performance compensation of \$332,000 and the effects of other costs savings initiatives implemented by management.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2004 the Company's cash and cash equivalent position approximated \$36,400 versus \$775,000 at September 30, 2003. This decrease is principally due to the use of funds to support the Company's operating activities.

Edgar Filing: CAPRIUS INC - Form 10QSB

The Company has for the past several years met its need for capital in its various businesses through loans from officers, directors and related parties other than the monies received from the sale of the TDM business, which were primarily used to finance the recently acquired MCM business. Due to the poor equity market for companies such as Caprius, there has been significant difficulty in obtaining funds from traditional sources.

During the second quarter of 2004, the Company authorized a short-term bridge loan for an aggregate of up to \$500,000 through the issuance of loan notes due on July 31, 2005. The funds were utilized primarily for general working capital. The Company has raised the \$500,000, the majority of which was provided by management of the Company. The loan notes bear interest at a rate of 11% per annum and are secured by a first lien on any royalties received by Opus Diagnostics Inc. from Seradyn, Inc. in accordance with their Royalty Agreement. For every three dollars (\$3.00) loaned, the lender received two warrants to purchase one share of Common Stock, exercisable at \$0.25 per share for a period of five years.

During April and May 2004, the Company secured additional financing of \$1.4 million in the form of 8% Senior Secured Convertible Promissory Notes, prior to fees and expenses. Under the terms of this financing, the Company may raise a maximum of \$1.5 million. The funds will be used for the expansion of the medical infectious waste disposal business and for working capital needs.

In light of the cash requirements needed to develop the MCM business, the Company is actively seeking funding. The Company will continue its efforts to seek additional funds through funding options, including banking facilities, equipment financing, government-funded grants and private equity offerings. There can be no assurance that such funding initiatives will be successful due to the difficulty in raising equity from third parties given the Company's low stock price and current revenue base, and if successful, will not be dilutive to existing stockholders. These funds are required to permit the Company to expand its marketing efforts and for the manufacture of its SteriMed(R) System as well as for general working capital requirements. To date, Management, their affiliates, and Sands have been the primary resources of funding. In addition, depending upon the outcome of the pending legal actions, additional funding for legal expenses could also be required. Consequently, the Company's viability could be threatened. Accordingly, the auditors' report on the Fiscal 2003 financial statements included an explanatory paragraph expressing a substantial doubt about the Company's ability to continue as a going concern.

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 Rules 13a-14 (c) and 15d-14 (c) of the Securities Exchange Act of 1934) as of March 31, 2004 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 subsidiaries are 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 for the quarter ended March 31, 2004, the date of their most recent

Edgar Filing: CAPRIUS INC - Form 10QSB

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 alleged 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 were for breach of contract, breach of fiduciary duty and misrepresentation. The complaint in the Federal Derivative Action also alleged 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.

On or about September 5, 2003, the Company resolved the State Court Action by making an Offer of Judgment, which was accepted by the plaintiff. Under the terms of the Offer of Judgment, which was made without any admission or finding of liability on the part of the defendants, the Company made a payment of \$125,000 to the plaintiff and the action was discontinued.

On May 3, 2004, the Court in the Federal Derivative Action granted the motion made by the Company and Messrs. Aaron and Joels for judgment on the pleadings based upon the pre-suit requirement and dismissed the plaintiff's complaint without prejudice, but denied their motion for judgment on the pleadings based upon the Private Securities Litigation Reform Act. The Court also granted the plaintiff's cross-motion to file an amended complaint to add allegations of insider trading.

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 "Class Action"). The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The initial plaintiff is a relative of the wife of the plaintiff in the State Court Action and Federal Derivative Action. The allegations in the purported Class Action were substantially similar to those in the other two Actions. The complaint sought an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders of the Company. On April 9, 2003, an amended complaint was filed in the purported Class Action naming an additional plaintiff. On September 23, 2003, the Court entered an order: (1) appointing lead plaintiffs; and (2) appointing the plaintiffs' law firm to act as lead counsel for the class. On November 21, 2003, the defendants made a motion to dismiss the purported Class Action. On May 3, 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The federal securities claims asserted by the plaintiffs were dismissed with prejudice, and having dismissed all federal law claims, the Court declined to exercise jurisdiction over the remaining state law claims and dismissed those claims without prejudice.

For further information regarding these litigations, reference is made to Item 3 of the Company's Form 10 KSB.

Edgar Filing: CAPRIUS INC - Form 10QSB

The independent directors have authorized the Company to advance the legal expenses of Messrs. Aaron and Joels in these litigations with respect to claims against them in their corporate capacities, subject to review of the legal bills and compliance with applicable law, and Messrs. Aaron and Joels will repay the Company in the event it was determined that they were not entitled to be indemnified as to the claim for which the advance was made.

14

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 Item 1 of this report for information regarding the Company's investment in MCM. Although the Company believed there was no merit to the plaintiff's claim, in October 2003, the Company and Mr. Aaron settled the action for the sum of \$83,000 in order to avoid a lengthy and expensive litigation. The purchaser of Strax is an entity controlled by the same person who is a principal in BDC Corp. 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 to the BDC complaint. The Company has made a claim for indemnification.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 Securities Purchase Agreement, dated April 16, 2004, between the Company and the investors (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K for an event of April 27, 2004 (the May 2004 Form 8-K)).
- 10.2 Form of 8% Senior Secured Convertible Promissory Notes (incorporated by reference to Exhibit 10.2 to Registrants May 2004 Form 8-K).
- 10.3 Security and Pledge Agreement, dated April 26, 2004, by the Company in favor of CAP Agent Associates, LLC (incorporated by reference to Exhibit 10.3 to Registrants May 2004 Form 8-K).
- 10.4 Registration Rights Agreement, dated April 25, 2004, by and among the Company, the purchasers of the Notes, and Sands Brothers International, Ltd. ("SBIL") incorporated by reference to Exhibit 10.4 to Registrants May 2004 Form 8-K).
- 10.5 Dealer Agreement, dated April 12, 2004, between the Company and SBIL (incorporated by reference to Exhibit 10.5 to Registrants May 2004 Form 8-K).
- 10.6 Common Stock Purchase Warrant Agreement, dated April 26, 2004, between the Company and SBIL (incorporated by reference to Exhibit 10.6 to Registrants May 2004 Form 8-K).
- 31.1* Rule 13a-14(a)/15d-14(a) Certification

Edgar Filing: CAPRIUS INC - Form 10QSB

31.2 * Rule 13a-14(a)/15d-14(a) Certification
32 * Section 1350 - Certification

*filed herewith

(b) Reports on Form 8-K:

(1) On February 18, 2004, the Company filed a current report on Form 8-K to report an event of February 13, 2004 in Item 9, through the issuance of a press release, announcing preliminary unaudited financials for fiscal year ended September 30, 2003 and the reason for the delay in filing its annual report.

(2) On March 19, 2004, the Company filed a current report on Form 8-K for an event of March 15, 2004 in Item 4, reporting a change of the Company's accountants.

15

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: May 14, 2004

/s/George Aaron

George Aaron
President & Chief Executive Officer

Date: May 14, 2004

/s/Jonathan Joels

Jonathan Joels
Chief Financial Officer