

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC
Form 10QSB
August 12, 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 JUNE 30, 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

(State or other jurisdiction of
incorporation or organization)

22-2457487

(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
Common Stock. Par value \$0.01

Outstanding at July 30, 2004
20,446,562 shares

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS, INC. AND SUBSIDIARIES

INDEX

	Page No.

PART I - FINANCIAL INFORMATION	
ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	
Condensed Consolidated Balance Sheet as of June 30, 2004	3
Condensed Consolidated Statements of Operations for the three months and nine months ended June 30, 2004 and 2003.	4
Condensed Consolidated Statement of Stockholders' Equity (Deficiency) for the nine months ended June 30, 2004	5
Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 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 2. CHANGES IN SECURITIES IN SMALL BUSINESS ISSUERS PURCHASE OF EQUITY SECURITIES	15
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	15
SIGNATURES	16

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

June 30, 2004

ASSETS

Edgar Filing: CAPRIUS INC - Form 10QSB

CURRENT ASSETS:

Cash and cash equivalents	\$	337,575
Accounts receivable, net of reserve for bad debts of \$5,163		209,997
Inventories		741,802
Due from sale of Strax		169,458
Other current assets		117,112
Deferred financing cost, net of accumulated amortization of \$25,583		127,917

Total current assets		1,703,861

PROPERTY AND EQUIPMENT:

Office furniture and equipment		159,340
Equipment for lease		108,321
Leasehold improvements		18,359

		286,020
Less: accumulated depreciation		176,939

Property and equipment, net		109,081

OTHER ASSETS:

Goodwill		737,010
Intangible assets, net of accumulated amortization of \$424,417		615,583
Other		13,330

Total other assets		1,365,923

TOTAL ASSETS

\$ 3,178,865
=====

LIABILITIES AND STOCKHOLDERS' DEFICIENCY

CURRENT LIABILITIES:

Secured convertible notes	\$	1,500,000
Accounts payable		793,599
Accrued expenses		350,764
Accrued compensation		114,316

Total current liabilities		2,758,679

LONG-TERM LIABILITIES:

Notes payable - related parties, net of unamortized discount of \$19,788		480,212

TOTAL LIABILITIES

3,238,891

MINORITY INTEREST IN MCM SUBSIDIARY

20,000

STOCKHOLDERS' DEFICIENCY:

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

Edgar Filing: CAPRIUS INC - Form 10QSB

Common stock, \$.01 par value	
Authorized - 50,000,000 shares	
Issued - 20,469,062 shares	204,691
Additional paid-in capital	67,637,158
Accumulated deficit	(70,619,625)
Treasury stock (22,500 common shares, at cost)	(2,250)

Total stockholders' deficiency	(80,026)

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	\$ 3,178,865
	=====

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		For t
	June 30, 2004	June 30, 2003	June 30
	-----	-----	-----
REVENUES:			
Product sales	\$ 257,308	\$ 93,449	\$ 6
Equipment rental income	14,865	13,826	1
Consulting fees	12,500	12,500	
	-----	-----	-----
Total revenues	284,673	119,775	7
	-----	-----	-----
OPERATING EXPENSES:			
Cost of product sales and equipment rental income	177,204	74,204	5
Research and development	77,999	30,646	1
Selling, general and administrative	693,277	954,742	2,2
	-----	-----	-----
Total operating expenses	948,480	1,059,592	2,9
	-----	-----	-----
Operating loss	(663,807)	(939,817)	(2,2
Interest expense, net	(67,515)	(20,019)	(
	-----	-----	-----
Loss from continuing operations	(731,322)	(959,836)	(2,3
Income from operations of discontinued TDM business segment (including gain on disposal of \$3,050,350 in October 2002)	-	-	(
Loss from operations of discontinued Strax Business	-	(30,300)	(
	-----	-----	-----
Loss before minority interest	(731,322)	(990,136)	(2,3

Edgar Filing: CAPRIUS INC - Form 10QSB

Loss applicable to minority interest	-	117,795	
	-----	-----	-----
Net (loss) income	\$ (731,322)	\$ (872,341)	(2,3
	=====	=====	=====
Net income (loss) per basic and diluted common share			
Continuing operations	\$ (0.04)	\$ (0.04)	\$
Discontinued operations	-	-	-
	-----	-----	-----
Net income (loss) per basic and diluted common share	\$ (0.04)	\$ (0.04)	\$
	=====	=====	=====
Weighted average number of common shares outstanding, basic and diluted	20,446,562	20,396,562	20,4
	=====	=====	=====

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

4

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)
(UNAUDITED)

	Series B Convertible Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit
	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	\$(68,283,016)
Fair Value of warrants issued in connection with bridge financing					27,400	
Fair value of warrants issued in connection with secured convertible notes					28,500	
NET LOSS						(2,336,609)

BALANCE, JUNE 30, 2004	27,000	\$2,700,000	20,469,062	\$204,691	\$67,637,158	\$(70,619,625)
	=====					

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

Edgar Filing: CAPRIUS INC - Form 10QSB

5

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the nine months ended June 30, 2004	June 30, 2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (2,336,609)	\$ 136,000
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Minority interest in loss of MCM	-	(363,000)
Gain on sale of TDM business	-	(3,123,000)
Amortization of debt discount on bridge financing	7,613	24,000
Amortization of deferred financing cost	25,583	
Depreciation and amortization	275,474	157,000
Changes in operating assets and liabilities:		
Accounts receivable, net	(130,337)	(204,000)
Inventories	78,682	(206,000)
Other assets	(38,478)	187,000
Accounts payable and accrued expenses	(430,366)	(12,000)
	-----	-----
Net cash used in operating activities	(2,548,438)	(3,405,000)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of TDM business	-	5,400,000
Proceeds from sale of Strax business	242,552	
Acquisition of property and equipment	(6,358)	
Acquisition of MCM, net of cash acquired (including loans to MCM)	-	(278,000)
	-----	-----
Net cash provided by investing activities	236,194	5,121,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable-related parties	500,000	
Proceeds from issuance of secured convertible notes	1,500,000	
Financing fees in connection with secured convertible notes	(125,000)	
Repayment of debt and capital lease obligations	-	(560,000)
	-----	-----
Net cash provided by (used in) financing activities	1,875,000	(560,000)
	-----	-----
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(437,244)	1,155,000
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	774,819	505,000
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 337,575	\$ 1,660,000

Edgar Filing: CAPRIUS INC - Form 10QSB

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest during the period	\$ 11,642	\$ 11
--	-----------	-------

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 June 30, 2004, the condensed consolidated statement of operations for the three and nine month periods ended June 30, 2004 and 2003, the condensed consolidated statements of cash flows for the nine month period ended June 30, 2004 and 2003, and the condensed consolidated statement of stockholders' equity (deficiency) for the nine month period ended June 30, 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 Company's condensed consolidated financial statements do 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. The results of operations for the three and nine month periods ending June 30, 2004 and 2003 are not indicative of a full year or any other interim period.

NOTE 2 - THE COMPANY

Caprius, Inc. ("Caprius" or the "Company") is engaged in the medical infectious waste disposal business. In the first quarter of Fiscal 2003, Caprius, Inc. acquired a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM") which develops, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and disinfect Regulated Medical Waste. The Company's unique SteriMed systems are sold in both the domestic and international markets.

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

Edgar Filing: CAPRIUS INC - Form 10QSB

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 July 2004 and ending January 2005, 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 June 1999, we acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring Business ("TDM"). 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.

Caprius, Inc. was founded in 1983 and through June 1999 essentially operated in the business of developing specialized medical imaging systems, as well as operating the Strax Institute ("Strax"), a comprehensive breast imaging center. The Strax Institute was sold in September 2003 (see Note 9).

7

NOTE 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Stock-Based Compensation

At June 30, 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 nine month periods ended June 30, 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 (loss) income and (loss) income per share for the periods shown below would have been as follows:

	Three months ended June 30, 2004	2003	Nine months ended June 30, 2004	2003
	-----	-----	-----	-----
Net (loss) income as Reported	\$ (731,322)	\$ (872,341)	\$ (2,336,609)	\$ 136,532

Deduct:

Edgar Filing: CAPRIUS INC - Form 10QSB

Stock-based employee compensation determined under fair value method for all awards, net of related tax effects	(16,051)	(28,399)	(43,425)	(85,197)
	-----	-----	-----	-----
Pro forma net (loss) income	\$ (747,373)	\$ (900,740)	\$ (2,380,034)	\$ 51,335
	=====	=====	=====	=====
Basic and diluted (loss) income per share of common stock				
As reported	\$ (0.04)	\$ (0.04)	\$ (0.11)	\$ 0.01
Pro forma	\$ (0.04)	\$ (0.04)	\$ (0.11)	\$ 0.00

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 periods ended June 30, 2004 and 2003, potential common shares amount to 13,524,672 shares versus 5,995,124 respectively, and have not been included in the computation of diluted loss per share since the effect would be antidilutive.

8

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 consisted of the following at June 30, 2004:

Raw materials	\$271,300
Finished goods	470,502

	\$741,802

NOTE 5 - NOTES PAYABLE

Edgar Filing: CAPRIUS INC - Form 10QSB

During the third quarter of fiscal 2004, the Company raised an aggregate of \$1.5 million through the issuance of 8% Senior Secured Convertible Promissory Notes ("the Notes"), prior to fees and expenses. 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. This reduction would result in an additional charge of approximately \$200,000 to the statement of operations at such time. 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 received a six percent fee and an expense allowance of one percent of the gross proceeds and warrants valued at approximately \$29,000 using the Black Scholes Model to purchase 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. The total fees for the offering were \$125,000. The debt issuance cost shall be amortized over the term of the loan. Amortization for the three months ended June 30, 2004 amounted to \$25,583.

NOTE 6 - NOTES PAYABLE - RELATED PARTY TRANSACTION

During the second quarter of fiscal 2004, the Company authorized a short-term bridge loan for an aggregate of \$500,000 through the issuance of loan notes due on July 31, 2005. The funds were utilized primarily for general working capital. The majority of the funds were 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 using the Black Scholes Model 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 nine months ended June 30, 2004, the Company recorded an additional interest expense related to this discount of approximately \$7,500, and that amount is included in interest expense, net in the condensed consolidated statement of operations.

9

NOTE 7 - ECONOMIC DEPENDENCY

For the nine months ended June 30, 2004, revenue from two customers was approximately \$486,000 (\$305,000 for the nine months ended June 30, 2003 which represented 64% of the total revenue) and \$131,000 representing 64% and 17% of total revenue, respectively. At June 30, 2004 accounts receivable from these customers were approximately \$169,000 and \$0.

NOTE 8 - 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

Edgar Filing: CAPRIUS INC - Form 10QSB

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. 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. On May 14, 2004, the plaintiffs filed a motion for reconsideration which defendants opposed and subsequently this motion for reargument was denied.

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 and is currently resolving this matter with the indemnifying parties.

Edgar Filing: CAPRIUS INC - Form 10QSB

NOTE 9 - 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 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 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 nine months ended June 30, 2003 is as follows:

Revenues	\$ 1,162,896
Operating expenses	\$ 1,244,842

Loss from operations	\$ (81,946)
	=====

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 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,

Edgar Filing: CAPRIUS INC - Form 10QSB

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

The SteriMed 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.

As regulations for the disposal of RMW in this multi billion dollar industry become more stringent, there are increasing opportunities for the Company's unique SteriMed systems.

THREE MONTHS ENDED JUNE 30, 2004 COMPARED TO THREE MONTHS ENDED JUNE 30, 2003

Revenues generated from product sales totaled \$257,308 for the three months ended June 30, 2004 as compared to \$93,449 for the three months ended June 30, 2003. Revenues generated from leased equipment rentals totaled \$14,865 as compared to \$13,826 for the comparable period. Consulting income of \$12,500 was generated for the three months ended June 30, 2004 and 2003 in connection with

Edgar Filing: CAPRIUS INC - Form 10QSB

the sale of the TDM Business.

Cost of product sales and leased equipment amounted to \$177,204 or 62.2% of total revenues versus \$74,204 or 62.0% of total revenues for the three month period ended June 30, 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 \$693,277 for the three months ended June 30, 2004 versus \$954,742 for the three months ended June 30, 2003. A significant portion of this decrease was due to the reduction of legal expenses relating to litigation defense costs as disclosed herein paid during the three months ended June 30, 2004 as compared to the same period in the previous year.

NINE MONTHS ENDED JUNE 30, 2004 COMPARED TO NINE MONTHS ENDED JUNE 30, 2003

Revenues generated from product sales totaled \$674,931 and \$410,983 for the nine month periods ended June 30, 2004 and 2003, respectively. Revenues generated from leased equipment rentals totaled \$49,548 and \$29,035 for the nine month periods ended June 30, 2004 and 2003, respectively. Consulting income of \$37,500 was generated for the nine month periods ended June 30, 2004 and 2003 in connection with the sale of the TDM business.

12

Cost of product sales and leased equipment amounted to \$551,382 or 72.4% of total revenues versus \$381,645 or 79.9% of total revenues for the nine month period ended June 30, 2004 and 2003, respectively.

Selling, general and administrative expenses totaled \$2,276,980 for the nine months ended June 30, 2004 versus \$3,296,488 for the nine months ended June 30, 2003. This decrease is due to a significant reduction for legal expenses relating to litigation defense costs as disclosed herein as well as reduced insurance expenses relating to changes in our business for the nine months ended June 30, 2004 versus June 30, 2003.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2004 the Company's cash and cash equivalent position approximated \$337,600 versus \$775,000 at September 30, 2003. This decrease is principally due to the use of funds to support the Company's operating activities.

During the third quarter of fiscal 2004, the Company secured additional financing of \$1.5 million in the form of 8% Senior Secured Convertible Promissory Notes, prior to placement fees of approximately \$125,000. The funds are being used for the expansion of the medical infectious waste disposal business and for working capital needs.

During the second quarter of fiscal 2004, the Company authorized a short-term bridge loan for an aggregate of \$500,000 through the issuance of loan notes due on July 31, 2005. The funds were utilized primarily for general working capital. The majority of the funds were 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,

Edgar Filing: CAPRIUS INC - Form 10QSB

exercisable at \$0.25 per share for a period of five years.

In light of the cash requirements needed to expand the MCM business, the Company is actively seeking additional funding. The Company will continue its efforts to seek 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 broaden its marketing efforts, provide capital for the manufacture of its SteriMed systems, and for general working capital. The Company may also require funds for future acquisitions to complement its existing business. To date, management, their affiliates, and the recent placement 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 June 30, 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 June 30, 2004, 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.

13

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

Edgar Filing: CAPRIUS INC - Form 10QSB

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. On May 14, 2004, the plaintiffs filed a motion for reconsideration, which defendants opposed and subsequently this motion for reargument was denied.

For further information regarding these litigations, reference is made to Item 3 of the Company's Form 10 KSB and to Note 8 of this report.

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.

ITEM 2. CHANGES IN SECURITIES AND SMALL BUSINESS ISSUER PURCHASES

OF EQUITY SECURITIES

Edgar Filing: CAPRIUS INC - Form 10QSB

c) During third quarter fiscal 2004, the Company sold an aggregate of \$1.5 million of 8% Senior Secured Convertible Promissory Notes ("the Notes"), prior to fees and expenses. 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. Sands Brothers International Ltd. ("Sands") acted as selected dealer for the sale and issuance of the Notes. Based upon the funds raised, Sands received a six percent fee and an expense allowance of one percent of the gross proceeds and warrants to purchase 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. Each Note purchaser entered into a Purchase Agreement in which he represented, among other things, as to his status as an "accredited investor" under Regulation D and his awareness of the restrictions on resale or other transfer of the Notes and the underlying shares of Common Stock. The placement claimed exemption from the registration provisions of the Securities Act of 1933 by reason of Section 4(2) thereof and Rule 144 thereunder.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

*filed herewith

(b) Reports on Form 8-K:

On May 3, 2004, the Company filed a current report on Form 8-K to report an event of April 27, 2004 in Item 5, whereby the Company issued and sold a series of 8% Senior Secured Convertible Promissory Notes.

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 12, 2004

/s/ George Aaron
George Aaron
President & Chief Executive Officer

Date: August 12, 2004

/s/ Jonathan Joels

Edgar Filing: CAPRIUS INC - Form 10QSB

Jonathan Joels
Chief Financial Officer