

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC  
Form 10QSB  
March 22, 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 DECEMBER 31, 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  
Common Stock. Par value \$0.01

Outstanding at March 8, 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 December 31, 2003	3
Condensed Consolidated Statements of Operations for the three months ended December 31, 2003 and 2002	4
Condensed Consolidated Statement of Stockholders' Equity for the three months Ended December 31, 2003	5
Condensed Consolidated Statements of Cash Flows for the three months Ended December 31, 2003 and 2002	6
Notes to Condensed Consolidated Financial Statements	7
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	10
ITEM 3. CONTROLS & PROCEDURES	13

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS	13
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	14

SIGNATURES	15
------------	----

2

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

December 31, 2003

-----

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$	121,618
Accounts receivable, net of reserve for bad debts of \$5,163		40,380
Inventories		818,052
Other current assets		184,042
Due from Sale of Strax		198,820
		-----

## Edgar Filing: CAPRIUS INC - Form 10QSB

Total current assets	1,362,912
<hr style="border-top: 1px dashed black;"/>	
PROPERTY AND EQUIPMENT:	
Office furniture and equipment	155,108
Equipment for lease	108,321
Leasehold improvements	18,119
	<hr style="border-top: 1px dashed black;"/>
	281,548
Less: accumulated depreciation	118,661
	<hr style="border-top: 1px dashed black;"/>
Property and equipment, net	162,887
<hr style="border-top: 1px dashed black;"/>	
OTHER ASSETS:	
Deferred financing cost, net of accumulated amortization of \$36,816	4,534
Goodwill	737,010
Intangible assets net of accumulated amortization of \$274,083	765,917
Other	13,330
	<hr style="border-top: 1px dashed black;"/>
Total other assets	1,520,791
<hr style="border-top: 1px dashed black;"/>	
TOTAL ASSETS	\$ 3,046,590
<hr style="border-top: 1px dashed black;"/>	
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	\$ 960,196
Accrued expenses	432,015
Accrued compensation	91,372
	<hr style="border-top: 1px dashed black;"/>
Total current liabilities	1,483,583
<hr style="border-top: 1px dashed black;"/>	
MINORITY INTEREST IN MCM SUBSIDIARY	20,000
<hr style="border-top: 1px dashed black;"/>	
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	67,581,258
Accumulated deficit	(68,940,692)
Treasury stock (22,500 common shares, at cost)	(2,250)
	<hr style="border-top: 1px dashed black;"/>
Total stockholders' equity	1,543,007
<hr style="border-top: 1px dashed black;"/>	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,046,590
<hr style="border-top: 1px dashed black;"/>	

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

Edgar Filing: CAPRIUS INC - Form 10QSB

3

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

	For the three months ended	
	December 31, 2003	December 31, 2002
<b>REVENUES:</b>		
Product sales	\$ 258,884	\$ 126,474
Equipment rental income	18,349	8,427
Consulting fees	12,500	12,500
<b>Total revenues</b>	<b>289,733</b>	<b>147,401</b>
<b>OPERATING EXPENSES:</b>		
Cost of product sales	201,126	120,739
Cost of rental income	3,593	1,997
Research and development	39,595	69,869
Selling, general and administrative	669,538	1,496,756
Provision for bad debts and collection costs	4,698	39,845
<b>Total operating expenses</b>	<b>918,550</b>	<b>1,729,206</b>
<b>Operating loss</b>	<b>(628,817)</b>	<b>(1,581,805)</b>
Interest income (expense), net	(434)	5,627
<b>Loss from continuing operations</b>	<b>(629,251)</b>	<b>(1,576,178)</b>
Income from operations of discontinued TDM business segment (including gain on disposal of \$3,050,350 in October 2002)	-	3,123,748
Loss from operations of discontinued Strax Business	(28,425)	(2,751)
<b>Income (loss) before minority interest</b>	<b>(657,676)</b>	<b>1,544,819</b>
Loss applicable to minority interest	-	(164,192)
<b>Net income (loss)</b>	<b>\$ (657,676)</b>	<b>\$ 1,709,011</b>
<b>Net income (loss) per basic and diluted common share</b>		
Continuing operations	\$ (0.03)	\$ (0.07)
Discontinued operations	-	0.15
<b>Net income (loss) per basic and diluted common share</b>	<b>\$ (0.03)</b>	<b>\$ 0.08</b>

Edgar Filing: CAPRIUS INC - Form 10QSB

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 STATEMENTS OF STOCKHOLDERS' EQUITY  
(UNAUDITED)

	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)
Net loss						(657,676)
BALANCE, DECEMBER 31, 2003	27,000	\$2,700,000	20,469,062	\$204,691	\$67,581,258	\$ (68,940,692)

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)

	Three Months 2003
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net income (loss)	\$ (657,676)

5

## Edgar Filing: CAPRIUS INC - Form 10QSB

Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Minority interest in loss of MCM	
Gain on sale of TDM business	
Amortization of discount on bridge financing	
Depreciation and amortization	62,
Changes in operating assets and liabilities:	
Accounts receivable, net	39,
Inventories	2,
Other assets	(105,
Accounts payable and accrued expenses	(205,
	-----
Net cash used in operating activities	(864,
	-----
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of TDM business	
Proceeds from sale of Strax business	213,
Acquisition of property and equipment	(1,
Acquisition of MCM, net of cash acquired (including loans to MCM)	
	-----
Net cash provided by investing activities	211,
	-----
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Repayment of debt and capital lease obligations	
	-----
Net cash used in financing activities	
	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(653,
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	774,
	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 121,
	=====
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for interest during the period	\$
	=====

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

CAPRIUS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 - BASIS OF PRESENTATION  
-----

## Edgar Filing: CAPRIUS INC - Form 10QSB

The condensed consolidated balance sheet as of December 31, 2003, and the condensed consolidated statements of operations and cash flows for the three month periods ended December 31, 2003 and 2002 and the condensed consolidated statement of stockholders' equity for the three month period ended December 31, 2003, 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 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.

### 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"). Until fiscal year end 2003, the Company continued to own and operate a comprehensive imaging center located in Lauderhill, Florida (see Note 6 sale of the Strax Institute).

Effective September 30, 2003, the Company completed the sale of the Strax Institute ("Strax") to Eastern Medical Technologies, Inc. ("EMT") pursuant to a Stock Purchase Agreement among the Company, EMT and the other parties thereto. The sale price was \$412,000 payable over a one year period based upon collections of the accounts receivable outstanding as of the date of closing. The sale of the business has been reflected as a discontinued operation in the accompanying condensed 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 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 (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.

On October 9, 2002, Opus sold the assets of the TDM Business to Seradyn, Inc. ("Seradyn") pursuant to a Purchase and Sale Agreement among Opus, Caprius, and Seradyn for a purchase price of \$6,000,000 and entered into a

Edgar Filing: CAPRIUS INC - Form 10QSB

7

Royalty 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 - 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:

	December 31, 2003
	-----
Raw materials	\$554,203
Finished goods	263,849
	-----
	\$818,052
	=====

NOTE 4 - STOCK OPTIONS

-----

At December 31, 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 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 month period ended December 31, 2003 and 2002.

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:

	Three months ended December 31,	
	2003	2002
	-----	
Net income (loss) as reported	\$ (657,676)	\$ 1,709,011
Deduct:		
Stock-based employee compensation determined under fair value method		



## Edgar Filing: CAPRIUS INC - Form 10QSB

for all awards, net of related tax effects	(13,687)	(28,136)	
	-----	-----	
Pro forma net income (loss)	\$ (671,363)	\$ 1,680,875	
	=====	=====	
Basic and diluted income (loss) per share of Common Stock			
As reported	\$ (0.03)	\$ 0.08	
Pro forma	\$ (0.03)	\$ 0.08	

8

### 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 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"). 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. A motion to dismiss the Federal Derivative Action has been filed with the Federal Court and is currently pending.

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. The Company is vigorously contesting the allegations in the complaint.

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

## Edgar Filing: CAPRIUS INC - Form 10QSB

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.

### NOTE 6 - 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 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 is required to provide certain specified transitional services for up to 180 days pursuant to a Management Services Agreement.

9

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 years 2003 and 2002, are 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 three months ended December 31, 2002 is as follows:

	December 31, 2002 -----
Revenues	\$419,988
Operating Expenses	422,739 -----
Loss from operations	\$ (2,751) =====

### NOTE 7: RECENT ACCOUNTING PRONONCEMENTS

In January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new

## Edgar Filing: CAPRIUS INC - Form 10QSB

variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the FASB issued Interpretation No. 46(R) ("FIN 46R") which revised certain provisions of FIN 46. Publicly reporting entities that are small business issuers must apply FIN 46R to all entities subject to FIN 46R no later than the end of the first reporting period that ends after December 15, 2004 (as of December 31, 2004, for a calendar year enterprise) The effective date includes those entities to which FIN 46 had previously been applied. However, prior to the application of FIN 46R, a public entity that is a small business issuer shall apply FIN 46 or FIN 46R to those entities that are considered special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003 (as of December 31, 2003 for a calendar year). The Company does not have any entities that require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

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

#### 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. 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 for the years ended September 30, 2003 and 2002.

#### THREE MONTHS DECEMBER 31, 2003 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2002

-----

Revenues generated from MCM product sales totaled \$258,884 for the three months ended December 31, 2003 as compared to \$126,474 for the period commencing December 17, 2002 through December 31, 2002. Revenues generated from MCM rentals totaled \$18,349 as compared to \$8,427 for the comparable periods.

10

Consulting income of \$12,500 which was generated for the three months ended December 31, 2003 and 2002 is in connection with the sale of the TDM Business.

Selling, general and administrative expenses totaled \$669,538 for the three months ended December 31, 2003 versus \$1,496,756 for the three months ended December 31, 2002. This decrease is partially due to the non payment of incentive performance compensation of \$332,000 and the effects of other cost saving initiatives implemented by management.

#### LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2003 the Company's cash and cash equivalent position approximated \$122,000 versus \$775,000 at September 30, 2003. This decrease is principally due to the use of funds to support the first quarter'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 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 exercise price was in excess of the market price on the day the loans were authorized.

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 and their affiliates have been the primary resource 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.

### 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.

11

#### 1. 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

## Edgar Filing: CAPRIUS INC - Form 10QSB

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.

### 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 January 2003, the FASB issued Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after December 15, 2003. In December 2003, the FASB issued Interpretation No. 46(R) ("FIN 46R") which revised certain provisions of FIN 46. Publicly reporting entities that are small business issuers must apply FIN 46R to all entities subject to FIN 46R no later than the end of the first reporting period that ends after December 15, 2004 (as of December 31, 2004, for a calendar year enterprise) The effective date includes those entities to which FIN 46 had previously been applied. However, prior to the application of FIN 46R, a public entity that is a small business issuer shall apply FIN 46 or FIN 46R to those entities that are considered special-purpose entities no later than as of the end of the first reporting period that ends after December 15, 2003 (as of December 31, 2003 for a calendar year). The Company does not have any entities that require disclosure or new consolidation as a result of adopting the provisions of FIN 46.

### 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

## Edgar Filing: CAPRIUS INC - Form 10QSB

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

12

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.

### 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 December 31, 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 for the quarter ended December 31, 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 exchanged written discovery in the State Court Action. No depositions were 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.

## Edgar Filing: CAPRIUS INC - Form 10QSB

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 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 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. 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. 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 former Director, Sanjay Mody.

13

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. In January, 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. On September 23, 2003, the Court entered 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. On November 21, 2003, the defendants made a motion to dismiss the purported class action. 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 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 Item 1 of this report for information regarding the Company's investment in MCM. Although the Company

Edgar Filing: CAPRIUS INC - Form 10QSB

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

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

(b) Reports on Form 8-K:

The Company filed a current report on Form 8-K to report that on March 15, 2004, at a special meeting of the Board of Directors and the Audit Committee, it was resolved to appoint Marcum and Kliegman LLP, New York, NY, as the Company's independent accountants for the fiscal year ending September 30, 2004. BDO Seidman LLP, the previously engaged independent accountants for the Company, has resigned.

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: March 19, 2004

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

Date: March 19, 2004

/s/Jonathan Joels  
Jonathan Joels  
-----  
Chief Financial Officer