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CAPRIUS INC  
Form 10QSB  
May 15, 2003

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

FORM 10-QSB

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 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 April 30, 2003  
20,396,562 shares

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CAPRIUS, INC. AND SUBSIDIARIES

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

March 31, 2003  
-----

September 30, 2002  
-----

ASSETS

CURRENT ASSETS:

Cash and cash equivalents, (including \$302,380 of

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|   |              |              |
|---|--------------|--------------|
| restricted funds held in escrow)  | \$ 2,730,782 | \$ 505,282   |
| Accounts receivable, net of reserve for bad debts<br>of \$19,086 and \$13,000 at March 31, 2003 and<br>September 30, 2002       | 385,906      | 141,731      |
| Inventories   | 359,101      | -            |
| Other current assets  | 90,916       | 6,948        |
| Net assets of TDM business segment  | -            | 2,511,147    |
|   | -----        | -----        |
| Total current assets  | 3,566,705    | 3,165,108    |
|   | -----        | -----        |
| PROPERTY AND EQUIPMENT:   |              |              |
| Medical equipment   | 314,318      | 314,318      |
| Office furniture and equipment  | 504,274      | 193,469      |
| Leasehold improvements  | 18,373       | 950          |
|   | -----        | -----        |
|   | 836,965      | 508,737      |
| Less: accumulated depreciation  | 606,302      | 478,136      |
|   | -----        | -----        |
| Net property and equipment  | 230,663      | 30,601       |
|   | -----        | -----        |
| OTHER ASSETS:   |              |              |
| Note receivable   | -            | 350,000      |
| Deferred financing cost, net of accumulated<br>amortization of \$16,107 and \$2,301 at<br>March 31, 2003 and September 30, 2002 | 25,243       | 39,049       |
| Deferred acquisition costs  | -            | 189,463      |
| Goodwill  | 1,777,010    | -            |
| Other   | 322,794      | 22,794       |
|   | -----        | -----        |
| Total other assets  | 2,125,047    | 601,306      |
|   | -----        | -----        |
| TOTAL ASSETS  | \$ 5,922,415 | \$ 3,797,015 |
|   | =====        | =====        |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |              |              |
| CURRENT LIABILITIES:  |              |              |
| Notes payable, net of unamortized discount of<br>\$5,000 at September 30, 2002  | \$ -         | \$ 546,650   |
| Accounts payable  | 1,221,027    | 408,841      |
| Accrued expenses  | 730,834      | 198,087      |
| Accrued compensation  | 177,134      | 86,018       |
| Current maturities of long-term debt and capital<br>lease obligations   | 14,328       | 12,806       |
|   | -----        | -----        |
| Total current liabilities   | 2,143,323    | 1,252,402    |
|   | -----        | -----        |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS,<br>net of current maturities  | 13,602       | 22,226       |
|   | -----        | -----        |
| TOTAL LIABILITIES   | 2,156,925    | 1,274,628    |
|   | -----        | -----        |
| MINORITY INTEREST IN MCM  | 234,230      | -            |
|   | -----        | -----        |
| COMMITMENTS AND CONTINGENCIES   | -            | -            |
| STOCKHOLDERS' EQUITY:   |              |              |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$.01 par value  |              |              |
| Authorized - 1,000,000 shares   |              |              |
| Issued and outstanding - Series A, none; Series B, convertible, 27,000 shares at March 31, 2003 and September 30, 2002. |              |              |
| Liquidation preference \$2,700,000  | 2,700,000    | 2,700,000    |
| Common stock, \$.01 par value   |              |              |
| Authorized - 50,000,000 shares  |              |              |
| Issued - 20,419,062 shares at March 31, 2003 and at September 30, 2002  | 204,191      | 204,191      |
| Additional paid-in capital  | 67,579,258   | 67,579,258   |
| Accumulated deficit   | (66,949,939) | (67,958,812) |
| Treasury stock (22,500 common shares, at cost)  | (2,250)      | (2,250)      |
|   | -----        | -----        |
| Total stockholders' equity  | 3,531,260    | 2,522,387    |
|   | -----        | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 5,922,415 | \$ 3,797,015 |
|   | =====        | =====        |

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

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CAPRIUS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | For the three months ended |                | For   |
|---|----------------------------|----------------|-------|
|   | March 31, 2003             | March 31, 2002 | March |
|   | -----                      | -----          | ----- |
| REVENUES:                                   |                            |                |       |
| Net patient service revenues                | \$ 385,064                 | \$ 387,420     | \$    |
| Product sales and rental revenues           | 197,841                    | -              |       |
| Consulting income                           | 12,500                     | -              |       |
|   | -----                      | -----          | ----- |
| Total revenues                              | 595,405                    | 387,420        | 1,    |
|   | -----                      | -----          | ----- |
| OPERATING EXPENSES:                         |                            |                |       |
| Cost of patient service revenues            | 163,756                    | 205,518        |       |
| Cost of product sales and rental revenue    | 144,860                    | -              |       |
| Research and development                    | 34,536                     | -              |       |
| Selling, general and administrative         | 1,103,991                  | 192,778        | 2,    |
| Provision for bad debt and collection costs | 9,440                      | 13,102         |       |
|   | -----                      | -----          | ----- |
| Total operating expenses                    | 1,456,583                  | 411,398        | 3,    |
|   | -----                      | -----          | ----- |
| Operating loss                              | (861,178)                  | (23,978)       | (2,   |
| Interest income (expense)                   | 10,717                     | (2,740)        |       |
|   | -----                      | -----          | ----- |

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|  |              |            |       |
|--|--------------|------------|-------|
| Loss from continuing operations  | (850,461)    | (26,718)   | (2,   |
| Income (loss) from operations of discontinued TDM business segment (including gain on disposal of \$3,123,748 in October 2002) | 68,839       | 28,857     | 3,    |
|  | -----        | -----      | ----- |
| Net income (loss) before minority interest   | (781,622)    | 2,139      |       |
| Loss applicable to minority interest   | (81,484)     | -          | (     |
|  | -----        | -----      | ----- |
| Net income (loss)  | \$ (700,138) | \$ 2,139   | \$ 1, |
|  | =====        | =====      | ===== |
| Net income (loss) per basic and diluted common share:  |              |            |       |
| Continuing operations  | \$ (0.04)    | \$ (0.00)  | \$    |
| Discontinued operations  | 0.01         | 0.00       |       |
|  | -----        | -----      | ----- |
| Net income (loss) per basic and diluted common share   | \$ (0.03)    | \$ 0.00    | \$    |
|  | =====        | =====      | ===== |
| Weighted average number of common shares outstanding, basic and diluted  | 20,396,562   | 17,098,862 | 20,   |
|  | =====        | =====      | ===== |

The accompanying notes are an integral part of these consolidated financial sta

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CAPRIUS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|                             | Preferred Stock     |             | Common Stock<br>\$0.01 Par Value |           | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit |
|-----------------------------|---------------------|-------------|----------------------------------|-----------|----------------------------------|------------------------|
|                             | Number<br>of Shares | Amount      | Number<br>of Shares              | Amount    |                                  |                        |
| BALANCE, SEPTEMBER 30, 2002 | 27,000              | \$2,700,000 | 20,419,062                       | \$204,191 | \$67,579,258                     | \$(67,958,812)         |
| Net income                  | -                   | -           | -                                | -         | -                                | 1,008,873              |
|                             | -----               |             |                                  |           |                                  |                        |
| BALANCE, MARCH 31, 2003     | 27,000              | \$2,700,000 | 20,419,062                       | \$204,191 | \$67,579,258                     | \$(66,949,939)         |
|                             | =====               |             |                                  |           |                                  |                        |

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

|   | Six Months Ended March 31,<br>2003 | 2002        |
|---|------------------------------------|-------------|
|   | -----                              | -----       |
| CASH FLOWS FROM OPERATING ACTIVITIES:   |                                    |             |
| Net income (loss)   | \$ 1,008,873                       | \$ (63,052) |
| Adjustments to reconcile net loss to net cash used<br>in operating activities:                |                                    |             |
| Minority interest in loss of MCM  | (245,676)                          | -           |
| Gain on sale of TDM business  | (3,123,748)                        | -           |
| Amortization of discount on bridge financing  | 17,156                             | 5,000       |
| Depreciation and amortization   | 49,015                             | 130,621     |
| Changes in operating assets and liabilities:  |                                    |             |
| Accounts receivable, net  | (193,090)                          | (61,846)    |
| Inventories   | (33,308)                           | 68,951      |
| Other assets  | 222,682                            | 3,701       |
| Accounts payable and accrued expenses   | (40,964)                           | (92,901)    |
|   | -----                              | -----       |
| Net cash used in operating activities   | (2,339,060)                        | (9,526)     |
|   | -----                              | -----       |
| CASH FLOWS FROM INVESTING ACTIVITIES:   |                                    |             |
| Proceeds from sale of TDM business (excluding<br>restricted cash held in escrow of \$600,000) | 5,400,000                          | -           |
| Acquisition of MCM, net of cash acquired<br>(including loans to MCM)                          | (278,338)                          | -           |
|   | -----                              | -----       |
| Net cash provided by investing activities   | 5,121,662                          | -           |
|   | -----                              | -----       |
| CASH FLOWS FROM FINANCING ACTIVITIES:   |                                    |             |
| Repayment of debt and capital lease obligations   | (557,102)                          | (34,081)    |
|   | -----                              | -----       |
| Net cash used in financing activities   | (557,102)                          | (34,081)    |
|   | -----                              | -----       |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | 2,225,500                          | (43,607)    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD  | 505,282                            | 89,776      |
|   | -----                              | -----       |
| CASH AND CASH EQUIVALENTS, END OF PERIOD  | \$ 2,730,782                       | \$ 46,169   |
|   | =====                              | =====       |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:  |                                    |             |
| Cash paid for interest during the period  | \$ 8,857                           | \$ 27,751   |
|   | =====                              | =====       |

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

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## CAPRIUS, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

#### NOTE 1 - BASIS OF PRESENTATION

-----

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

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

#### NOTE 2 - THE COMPANY

-----

Caprius, Inc. ("Caprius" or the "Company") was founded in 1983 and through June 1999 essentially operated in the business of medical imaging systems as well as healthcare imaging and rehabilitation services. On June 28, 1999, the Company acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring ("TDM") Business. The Company continues to own and operate a comprehensive imaging center located in Lauderhill, Florida. 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").

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

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

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with loans totaling \$565,000 which loans were repaid upon closing by a reduction in the cash portion of the purchase price. For a six month period commencing 19 months and ending 25 months from December 17, 2002, pursuant to a Stockholders Agreement, the stockholders of MCM (other than the Company) shall have the right to put all of their MCM shares to MCM, and MCM shall have the right to call all of such shares, at a price based upon a pre-determined methodology calculated at such time. At the Company's option, the purchase price for the remaining MCM shares may be paid in cash or the Company's common stock.

In July 1998, the Company acquired The Strax Institute ("Strax"), a comprehensive breast imaging center, located in Lauderhill, Florida. Strax is a multi-modality breast care center that performs approximately 24,000 procedures per year comprising of x-ray mammography, ultrasound, stereotactic biopsy and bone densitometry. The Company continues in its efforts to secure the sale of Strax and is in active discussions with a third party.

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NOTE 3 - STOCK OPTIONS  
-----

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

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

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

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

|                               | Three months ended March 31,<br>2003 | 2002     | Six months ended March 31,<br>2003 | 2002        |
|-------------------------------|--------------------------------------|----------|------------------------------------|-------------|
|                               | -----                                | -----    | -----                              | -----       |
| Net income (loss) as reported | \$ (700,138)                         | \$ 2,139 | \$ 1,008,873                       | \$ (63,052) |
| Add:                          |                                      |          |                                    |             |



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|  |              |             |            |              |
|--|--------------|-------------|------------|--------------|
| Stock-based employee compensation expense included in reported net income, net of related tax effects                      | -            | -           | -          | -            |
| Deduct:<br>Stock-based employee compensation determined under fair value method for all awards, net of related tax effects | (27,846)     | (21,996)    | (55,691)   | (43,992)     |
| Pro forma net income (loss)  | \$ (727,984) | \$ (19,857) | \$ 953,182 | \$ (107,044) |
| Basic and diluted income (loss) per share  |              |             |            |              |
| As reported  | \$ (0.03)    | \$ (0.00)   | \$ 0.05    | \$ 0.00      |
| Pro forma  | \$ (0.04)    | \$ (0.00)   | \$ 0.05    | \$ (0.01)    |

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NOTE 4 - INDUSTRY SEGMENTS

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

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

|                                       | Corporate     | Imaging and Rehabilitation Services | MCM Business | Consolidated  |
|---------------------------------------|---------------|-------------------------------------|--------------|---------------|
| Three months ended March 31, 2003     |               |                                     |              |               |
| Revenues                              | \$12,500      | \$385,064                           | \$197,841    | \$595,405     |
| Loss from continuing operations       | (\$691,187)   | (\$48,895)                          | (\$110,379)  | (\$850,461)   |
| Three months ended March 31, 2002     |               |                                     |              |               |
| Revenues                              | -             | \$387,420                           | -            | \$387,420     |
| Loss from continuing operations       | -             | (\$26,718)                          | -            | (\$26,718)    |
| Six months ended March 31, 2003       |               |                                     |              |               |
| Revenues                              | \$25,000      | \$805,051                           | \$332,743    | \$1,162,794   |
| Loss from continuing operations       | (\$2,044,951) | (\$51,646)                          | (\$332,793)  | (\$2,429,390) |
| Identifiable assets at March 31, 2003 | \$2,152,700   | \$286,698                           | \$3,483,017  | \$5,922,415   |

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Six months ended March 31, 2002  
-----

|                                       |             |            |   |             |
|---------------------------------------|-------------|------------|---|-------------|
| Revenues                              | -           | \$829,838  | - | \$ 829,838  |
| Loss from continuing operations       | -           | (\$25,282) | - | (\$25,282)  |
| Identifiable assets at March 31, 2002 | \$2,940,319 | \$346,557  | - | \$3,286,877 |

### NOTE 5 - LITIGATION -----

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

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

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

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amount of damages arising from the defendants' alleged tortious interference with a series of agreements between the plaintiff and third party MCM pursuant to which the plaintiff had intended to purchase MCM. See Note 6 of this report for information regarding the Company's investment in MCM. The Company believes there is no merit to the plaintiff's claim (see Part II, Item 1 for further explanation).

### NOTE 6 - ACQUISITION OF MCM -----

On December 17, 2002, the Company closed the acquisition of 57.53% of the capital stock of MCM, which is engaged in the medical infectious waste disposal business, for a purchase price of \$2.4 million. The Company's consolidated financial statements include MCM's results of operations from December 17, 2002. In June 2002, the Company and MCM had signed a Letter of Intent to enter into an

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agreement whereby the Company would have the right to acquire 51% of the outstanding stock on a fully diluted basis of MCM. Concurrent with the signing of the Letter of Intent, Caprius provided MCM with a loan totaling \$245,000. At the time of the acquisition of MCM, the Company's outstanding loans to MCM aggregated \$565,000 which were paid by reducing the cash portion of the purchase price.

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

The purchase price has been allocated to net assets acquired based on the preliminary estimate of their fair values. The excess of the purchase price over net assets acquired has been allocated to goodwill and other intangibles for approximately \$1,777,010. Additional adjustments to the purchase price allocations may still be required.

The unaudited pro forma combined results of operations of the Company and the MCM business acquired in December for the six month periods ended March 31, 2003 and 2002, assuming that the transaction had occurred on October 1, 2001 and after giving effect to certain pro forma adjustments are as follows:

| Six months ended March 31,                                 | 2003                    | 2002                  |
|--|-------------------------|-----------------------|
| Sales  | \$ 1,403,876<br>=====   | \$ 1,206,100<br>===== |
| Loss from operations                                       | \$ (2,535,104)<br>===== | \$ (565,746)<br>===== |
| Net income (loss)  | \$ 948,056<br>=====     | \$ (621,231)<br>===== |
| Net income (loss) per share basic and diluted common share | \$ 0.05                 | \$ (0.04)             |

### NOTE 7 - DISPOSAL OF TDM BUSINESS SEGMENT

-----

Effective October 9, 2002, the Company completed the sale of the assets and certain liabilities of its TDM business segment for \$6,000,000. Pursuant to a Consulting Agreement as part of the sale, Opus will consult with Seradyn on ongoing projects for a \$50,000 annual fee for a two-year period. The purchased assets included three diagnostic assays still in development, for which Opus will receive royalty payments upon the commercialization of any of these assays based upon varying percentages of net sales. Caprius, Opus and its three executive officers entered into non-compete agreements with Seradyn restricting them for five years from competing in the TDM business. The sale of the TDM business has been reflected as discontinued operations in the accompanying consolidated financial statements. Revenues from discontinued operations, which have been excluded from income from continuing operations in the accompanying consolidated statements of operations for the six months ended March 31, 2003 and 2002, are shown below. The effects of the discontinued operations on net loss and per share data are reflected within the accompanying consolidated

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statements of operations. The gain on disposal of \$3,123,748 is net of applicable taxes totaling \$325,000.

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

|                        | 2002        |
|------------------------|-------------|
| Current assets         | \$ 638,609  |
| Property and equipment | 34,923      |
| Intangible assets      | 2,001,937   |
| Liabilities            | 164,322     |
| Net assets             | \$2,511,147 |
|                        | =====       |

A summary of operations of the TDM business segment for the six month period ended March 31, 2003 and 2002 is as follows:

|                               | 2003     | 2002        |
|-------------------------------|----------|-------------|
| Revenues                      | \$96,698 | \$1,077,444 |
| Operating Expenses            | 23,300   | 1,115,214   |
| Income (loss) from Operations | \$73,398 | (\$37,770)  |
|                               | =====    | =====       |

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

#### RESULTS OF OPERATIONS

As more fully described in the 10-KSB of September 30, 2002, the Company completed the sale of its TDM business segment effective October 9, 2002. As a result, the Company's consolidated balance sheet as of the six months ended March 31, 2003 and consolidated statements of operations for the six months ended March 31, 2002 have been restated to reflect the TDM business as discontinued operations.

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

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Net patient service revenue at Strax totaled \$385,064 for the three months ended March 31, 2003, versus \$387,420 for the three months ended March 31, 2002. Cost of service operations totaled \$163,756 for the three months ended March 31, 2003 versus \$205,518 for the three months ended March 31, 2002. The decrease reflects lower consulting expenses for the period.

Selling, general and administrative expenses totaled \$1,103,991 for the

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three months ended March 31, 2003 versus \$192,778 for the three months ended March 31, 2002. The increase reflects costs related to the acquisition of MCM and the operation of MCM, as well as increased legal and insurance fees.

MCM product sales and rental revenues totaled \$197,841 for the three months ended March 31, 2003. There are no comparisons for prior periods as the Company commenced this business effective December 17, 2002.

### SIX MONTHS ENDED MARCH 31, 2003 COMPARED TO SIX MONTHS ENDED MARCH 31, 2002

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Net patient service revenue at Strax totaled \$805,051 for the six months ended March 31, 2003, versus \$829,838 for the six months ended March 31, 2002. Cost of service operations totaled \$466,709 for the six months ended March 31, 2003 versus \$432,537 for the six months ended March 31, 2002. The increase reflects higher contractual allowances due to a decrease in reimbursement rates from healthcare providers.

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Selling, general and administrative expenses totaled \$2,710,235 for the six months ended March 31, 2003 versus \$393,864 for the six months ended March 31, 2002. The increase reflects costs related to the acquisition of MCM and the operation of MCM, performance and salary adjustments to employees as well as increased legal and insurance fees.

MCM product sales and rental revenues totaled \$332,743 for the six months ended March 31, 2003. There are no comparisons for prior periods as the Company commenced this business effective December 17, 2002.

### LIQUIDITY AND CAPITAL RESOURCES

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

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

Also during September 2002, the Company entered into a short-term line of credit arrangement with one of its board members, Shrikant Mehta, whereby Mr. Mehta agreed to extend a \$500,000 line of credit to the Company for up to 18 months, expiring March 2004. This line of credit can be utilized for working capital needs as determined by the Company and agreed with by Mr. Mehta. Interest would be paid at a rate of 11% per annum on monies drawn down. In

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return for the provision of the short-term line of credit, Mr. Mehta was granted warrants to purchase 500,000 shares of Common Stock, exercisable at \$0.11 per share for a period of five years. The Company has not drawn down on this line of credit.

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

The Company continues in its efforts to secure the sale of the Strax Institute and is in active discussions with a third party.

Net cash used in operations for the six months ended March 31, 2003 amounted to \$2,339,060. Net cash flows provided by investing activities for the six months ended March 31, 2003 amounted to \$5,121,662.

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

### CRITICAL ACCOUNTING POLICIES

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

#### 1. Revenue recognition

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

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determining net patient service revenue during the period that the services are provided.

### 2. Goodwill and other intangibles

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

### RECENT ACCOUNTING PRONOUNCEMENTS

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

In November 2002, the Emerging Issues Task Force (EITF) reached consensus on Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenue arrangements with multiple deliverables include arrangements which provide for the delivery or performance of multiple products, services and/or rights to use assets where performance may occur at different points in time or over different periods of time. EITF Issue No. 00-21 is effective for the Company beginning October 1, 2003. The Company has not completed the evaluation of the impact of this EITF.

### 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

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

### ITEM 3. CONTROLS & PROCEDURES

The Company's principal executive officer and principal financial officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14 (c) and 15d-14 (c) of the Securities Exchange Act of 1934) as of March 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 subsequent to March 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 have exchanged written discovery in the State Court Action. No depositions have been taken. In January 2003, motions were made on behalf of the Company and Messrs. Aaron and Joels to dismiss both the Federal Derivative Action and the State Court Action. On April 25, 2003, the Court in the State Court Action denied the portion of the motion which sought dismissal of the breach of contract claim but granted the 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. The Court has also ordered the parties



to proceed with mediation in an attempt to resolve the dispute. The motion to dismiss the Federal Derivative Action is currently pending before the Federal Court. In addition, the plaintiff has filed a cross-motion to amend his complaint to add allegations of securities violations against George Aaron, Jonathan Joels, Shrikant Mehta and Sanjay Mody.

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

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

In September 2002, BDC Corp., d/b/a BDC Consulting Corp., brought an action against the Company and Mr. Aaron in the Circuit Court for the Seventeenth Judicial Circuit, Broward County, Florida seeking an unspecified amount of damages arising from the defendants' alleged tortious interference with a series of agreements between the plaintiff and third party MCM pursuant to which the plaintiff had intended to purchase MCM. See Item I of this report for information regarding the Company's investment in MCM. The Company believes there is no merit to the plaintiff's claim. On January 6, 2003, the Company answered the complaint. The parties have entered into discussions in an effort to resolve this litigation. Under the Company's Purchase Agreement with MCM, MCM, its subsidiaries and certain pre-existing shareholders of MCM have certain obligations to indemnify the Company with respect to damages, losses, liabilities, costs and expenses arising out of any claim or controversy in respect of this proceeding.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 99.1 Certification of George Aaron, President and Executive Officer
- 99.2 Certification of Jonathan Joels, Chief Financial Officer

(b) Reports on Form 8-K

- 1) On March 3, 2003, the Company filed a current report on Form 8-K/A to provide the required financial information in response to parts (a) and (b) of Item 7 of the Company's Form 8-K filed on January 3, 2003, to report it completed its acquisition of 33,191 shares of Series A Preferred Stock of MCM Environmental Technologies, Inc., a Delaware

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Corporation ("MCM"), representing 57.53% of the voting stock of MCM.

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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.

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(Registrant)

Date: May 14, 2003

/s/ George Aaron

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George Aaron

President & Chief Executive Officer

Date: May 14, 2003

/s/ Jonathan Joels

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Jonathan Joels

Chief Financial Officer

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