

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC
Form 10QSB
August 15, 2005

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

FORM 10-QSB

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

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

Commission File Number: 0-11914

CAPRIUS, INC.

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

Delaware

22-2457487

(State or other jurisdiction of
incorporation or organization)

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

One Parker Plaza, Fort Lee, NJ 07024

(Address of principal executive offices) (Zip Code)

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

N/A

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

Indicate by check mark whether the registrant (1) filed all reports
required to be filed under Section 13 or 15 (d) of the Exchange Act during the
past 12 months (or for such shorter period that the Registrant was required to
file such reports), and (2) has been subject to such filing requirements for the
past 90 days. Yes X No

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

| | |
|--------------------------------|-----------------------------|
| Class | Outstanding at Aug 11, 2005 |
| Common Stock. Par value \$0.01 | 3,321,673 shares |

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS, INC. AND SUBSIDIARIES

INDEX

| | Page No. |
|--|----------|
| | ----- |
| PART I - FINANCIAL INFORMATION | |
| ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS | |
| Condensed Consolidated Balance Sheet as of June 30, 2005 | 3 |
| Condensed Consolidated Statements of Operations for the three months and nine months ended June 30, 2005 and 2004 | 4 |
| Condensed Consolidated Statement of Stockholders' (Deficiency) Equity for the nine months ended June 30, 2005 | 5 |
| Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2005 and 2004 | 6 |
| Notes to Condensed Consolidated Financial Statements | 7 |
| ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 12 |
| ITEM 3. CONTROLS & PROCEDURES | 15 |
| PART II - OTHER INFORMATION | |
| ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 15 |
| ITEM 6. EXHIBITS | 15 |
| SIGNATURES | 16 |

2

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET AS OF JUNE 30, 2005 (UNAUDITED)

ASSETS

CURRENT ASSETS:

| | |
|--|--------------|
| Cash and cash equivalents | \$ 1,961,645 |
| Accounts receivable, net of reserve for bad debts of \$5,163 | 137,817 |
| Inventories, net | 579,314 |
| Other current assets | 26,399 |
| | ----- |
| Total current assets | 2,705,175 |

Edgar Filing: CAPRIUS INC - Form 10QSB

| | |
|---|--------------|
| ----- | |
| PROPERTY AND EQUIPMENT: | |
| Office furniture and equipment | 182,689 |
| Equipment for lease | 76,666 |
| Leasehold improvements | 19,536 |
| | ----- |
| | 278,891 |
| Less: accumulated depreciation | 214,902 |
| | ----- |
| Property and equipment, net | 63,989 |
| | ----- |
| OTHER ASSETS: | |
| Goodwill | 737,010 |
| Intangible assets, net of accumulated amortization of \$705,750 | 334,250 |
| Other | 13,330 |
| | ----- |
| Total other assets | 1,084,590 |
| | ----- |
| TOTAL ASSETS | \$ 3,853,754 |
| | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES: | |
| Accounts payable | 508,898 |
| Accrued expenses | 117,407 |
| Accrued compensation | 122,793 |
| | ----- |
| Total current liabilities | 749,098 |
| | ----- |
| COMMITMENTS AND CONTINGENCIES | - |
| STOCKHOLDERS' EQUITY: | |
| Preferred stock, \$.01 par value (stated value at \$100) | |
| 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 3,322,798 shares | |
| and outstanding 3,321,673 shares | 33,228 |
| Additional paid-in capital | 74,241,755 |
| Accumulated deficit | (73,868,077) |
| Treasury stock (1,125 common shares, at cost) | (2,250) |
| | ----- |
| Total stockholders' equity | 3,104,656 |
| | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 3,853,754 |
| | ===== |

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

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

| | For the three months ended | |
|--|----------------------------|---------------|
| | June 30, 2005 | June 30, 2004 |
| REVENUES: | | |
| Product sales | \$ 185,878 | \$ 257,308 |
| Equipment rental income | 2,677 | 14,865 |
| Consulting & royalty fees | 15,157 | 12,500 |
| Total revenues | 203,712 | 284,673 |
| OPERATING EXPENSES: | | |
| Cost of product sales and equipment rental income | 121,420 | 177,204 |
| Research and development | 69,439 | 77,999 |
| Selling, general and administrative | 752,327 | 693,277 |
| Total operating expenses | 943,186 | 948,480 |
| Operating loss | (739,474) | (663,807) |
| Other income | - | - |
| Interest income (expense), net | 311 | (67,515) |
| Loss from continuing operations | (739,163) | (731,322) |
| Loss from operations of discontinued Strax Business | - | - |
| Net loss | (739,163) | (731,322) |
| Beneficial conversion feature - Series C Mandatory Convertible Preferred Stock | (124,528) | - |
| Net loss attributable to common stockholders | \$ (863,691) | \$ (731,322) |
| Net loss per basic and diluted common share | | |
| Continuing operations | \$ (0.26) | \$ (0.72) |
| Discontinued operations | - | - |
| Net loss per basic and diluted common share | (0.26) | (0.72) |
| Weighted average number of common shares outstanding, basic and diluted | 3,321,673 | 1,022,328 |

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

Edgar Filing: CAPRIUS INC - Form 10QSB

4

CAPRIUS, INC. AND SUBSIDIARIES

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

| | Series B Convertible Preferred Stock | | Series C Mandatory Convertible Preferred Stock | |
|--|--------------------------------------|--------------|--|-------------|
| | Number of Shares | Amount | Number of Shares | Amount |
| BALANCE, SEPTEMBER 30, 2004 (SEE NOTE 8) | 27,000 | \$ 2,700,000 | - | \$ - |
| Issuance Series C Mandatory Convertible Preferred Stock (see Note 7) | | | 45,000 | 4,500,000 |
| Conversion of secured convertible notes and bridge financing into Series C Mandatory Convertible Preferred Stock | | | 21,681 | 2,168,100 |
| Conversion of Series C Preferred into common stock (see Note 7) | | | (66,681) | (6,668,100) |
| NET LOSS | | | | |
| BALANCE, JUNE 30, 2005 | 27,000 | \$ 2,700,000 | - | \$ - |

[TABLE CONTINUED]

| | Accumulated Deficit | Treasury Stock | | Stock (Deficiency) |
|--|---------------------|------------------|------------|--------------------|
| | | Number of Shares | Amount | |
| BALANCE, SEPTEMBER 30, 2004 (SEE NOTE 8) | \$ (71,638,785) | 1,125 | \$ (2,250) | \$ - |
| Issuance Series C Mandatory Convertible Preferred Stock (see Note 7) | | | | 4 |
| Conversion of secured convertible notes and bridge financing into Series C Mandatory Convertible Preferred Stock | | | | 2 |
| Conversion of Series C Preferred into common stock (see Note 7) | | | | (2) |
| NET LOSS | | | | (2) |
| BALANCE, JUNE 30, 2005 | \$ (73,868,077) | 1,125 | \$ (2,250) | \$ 3 |

Edgar Filing: CAPRIUS INC - Form 10QSB

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)

| | Nine Months 2005 |
|--|---------------------|
| | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net loss | \$ (2,229,292) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Amortization of debt discount | 165,220 |
| Amortization of deferred financing costs | 89,542 |
| Depreciation and amortization | 233,152 |
| Interest on secured convertible notes | 95,300 |
| Changes in operating assets and liabilities: | |
| Accounts receivable | (64,334) |
| Inventories | 197,381 |
| Other assets | (11,177) |
| Accounts payable and accrued expenses | (728,660) |
| | ----- |
| Net cash used in operating activities | (2,252,868) |
| | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Proceeds from sale of Strax business | 66,000 |
| Acquisition of property and equipment | (16,904) |
| | ----- |
| Net cash provided by investing activities | 49,096 |
| | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Proceeds from issuance of notes payable - related party | - |
| Proceeds from issuance of secured convertible notes | - |
| Financing fees in connection with secured convertible notes | - |
| Proceeds from short term loan | 100,000 |
| Repayment of short term loan | (100,000) |
| Proceeds from short term loans - related party | 145,923 |
| Repayment of short term loans - related party | (73,123) |
| Net proceeds from issuance of Series C Preferred Stock | 4,065,034 |
| | ----- |
| Net cash provided by financing activities | 4,137,834 |
| | ----- |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,934,062 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 27,583 |
| | ----- |

Edgar Filing: CAPRIUS INC - Form 10QSB

| | |
|---|-----------------------|
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 1,961,645 ===== |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | |
| Cash paid for interest during the period | \$ 49,541 ===== |
| Cash paid for income taxes during the period | \$ 192,672 ===== |
| NON CASH-FLOW ITEMS: | |
| Transfer of net book value of certain equipment for leases to inventory | \$ 66,177 ===== |
| Conversion of secured convertible notes and interest into equity | \$ 1,595,300 ===== |
| Conversion of notes payable -related party into equity | \$ 500,000 ===== |
| Conversion of short-term loans payable - related party into equity | \$ 72,800 ===== |

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

6

CAPRIUS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BASIS OF PRESENTATION

The condensed consolidated balance sheet as of June 30, 2005, the condensed consolidated statements of operations for the three months ended June 30, 2005 and 2004 and for the nine month periods ended June 30, 2005 and 2004, the condensed consolidated statement of stockholders' (deficiency) equity for the nine month period ended June 30, 2005 and the condensed consolidated statements of cash flows for the nine month periods ended June 30, 2005 and 2004, have been prepared by the Company without audit. In the opinion of management, the information contained herein reflects all adjustments necessary to make the presentation of the Company's condensed financial position, results of operations and cash flows not misleading. All such adjustments are of a normal recurring nature. This quarterly report gives retroactive effect to the Company's 1 for 20 reverse common stock split of April 5, 2005.

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, 2004.

NOTE 2 - THE COMPANY

Caprius, Inc. ("Caprius", the "Company", "we", "us" and "our") is engaged in the infectious medical waste disposal business. In the first quarter of

Edgar Filing: CAPRIUS INC - Form 10QSB

Fiscal 2003, we acquired a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM") which developed, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and disinfect Regulated Medical Waste. The SteriMed Systems are sold and leased in both the domestic and international markets.

In December 2002, the Company closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our 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. As part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, the Company's ownership interest increased by 5% in the fiscal year 2004.

During the first quarter of fiscal year 2005, an agreement was reached between the Company and the 20% minority ownership of an MCM subsidiary which has been dormant since inception. The minority shareholders shall be repaid their initial investment, by way of a credit towards the site installation expense of SteriMed units that they are purchasing for their dialysis centers. This subsidiary was dissolved on February 9, 2005.

NOTE 3 - SUMMARY OF CERTAIN SIGNIFICANT ACCOUNTING POLICIES

Stock Based Compensation

At June 30, 2005, 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"

7

as amended by SFAS No. 148, "Accounting for Stock-based Compensation - Transition and Disclosure, an amendment of SFAS No. 123, issued in December 2002. Under APB Opinion No. 25, compensation expense is based on the difference, if any, generally on the date of grant, between the fair value of our stock and the exercise price of the option. No stock-based employee compensation cost is reflected within the statement of operations for the three and nine month periods ended June 30, 2005 and 2004.

If the Company had elected to recognize compensation costs for the Company's option plans using the fair value method at the grant dates, the effect on the Company's net loss and loss per share for the periods shown below would have been as follows:

| Three months ended June 30, | | Nine months ended Ju | |
|-----------------------------|-------|----------------------|-------|
| 2005 | 2004 | 2005 | 2 |
| ----- | ----- | ----- | ----- |

Edgar Filing: CAPRIUS INC - Form 10QSB

| | | | | | | | | |
|---|----|-----------|----|-----------|----|-------------|----|-------------|
| Net loss attributable to common stockholders as reported | \$ | (863,691) | \$ | (731,322) | \$ | (2,353,820) | \$ | (2,353,820) |
| Deduct: | | | | | | | | |
| Stock-based employee compensation determined under fair value method for all awards, net of related tax effects | | (748) | | (16,051) | | (2,243) | | (2,243) |
| Pro forma net loss attributable to common stockholders | | (864,439) | | (747,373) | | (2,356,063) | | (2,356,063) |
| Basic and diluted loss attributable to common stockholders | | | | | | | | |
| As reported | \$ | (0.26) | \$ | (0.72) | \$ | (1.21) | \$ | (1.21) |
| Pro forma | \$ | (0.26) | \$ | (0.73) | \$ | (1.21) | \$ | (1.21) |

Loss Per Share

The Company follows Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share", which provides for the calculation of "basic" and "diluted" earnings (loss) per share. Basic loss per share is computed by dividing loss available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur through the effect of common shares issuable upon the exercise of stock options and warrants and convertible securities. For the periods ended June 30, 2005 and 2004, potential common shares amount to 1,020,660 and 909,311 respectively, and have not been included in the computation of diluted loss per share since the effect would be antidilutive.

8

Revenue Recognition

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

NOTE 4 - INVENTORIES

Inventories consist of the following, net of reserves of approximately \$34,200 at June 30, 2005:

| | |
|----------------|------------|
| Raw materials | \$ 258,379 |
| Finished goods | 320,935 |
| | ----- |
| | \$ 579,314 |
| | ===== |

NOTE 5 - NOTES PAYABLE

Edgar Filing: CAPRIUS INC - Form 10QSB

On February 2, 2005, the Company raised \$100,000 through the issuance of 8% Senior Secured Convertible Promissory Notes, repayable, together with interest to April 3, 2005, subject to prepayment in the event of an equity financing in excess of \$2 Million, or conversion by the investors into shares of the Company's common stock at a conversion price of \$3.00 per share. The lenders also received warrants to purchase 5,000 shares of the Company's common stock exercisable at \$5.60 per share for a period of five years. The allocated fair value of these warrants are deemed to be immaterial. On February 17, 2005 the Company repaid this loan together with interest.

During the third quarter of fiscal 2004, the Company raised an aggregate of \$1.5 million through the issuance of 8% Senior Secured Convertible Promissory Notes ("the Notes"), prior to underwriting fees and expenses. The Company granted a security interest in substantially all of the assets of the Company. The Notes were to mature in one year and convert into shares of common stock at the election of the investor at any time at a conversion price of \$4.00 per share, subject to reduction if certain conditions were not met as of September 30, 2004. The conditions were not met and the conversion price was reduced to \$3.00 per share. The beneficial conversion feature of the Notes, amounted to \$200,000 and as such the amount was treated as a discount to debt and a corresponding increase to paid-in capital. This amount is being amortized over the life of the loan (which was accelerated to February 15, 2005). Amortization for the nine month period ended June 30, 2005 amounted to \$150,000 and such amount is included in interest expense, net in the consolidated statement of operations. The financing was arranged through Sands Brothers International Ltd. ("Sands") who were retained by the Company to act as selected dealer for the sale and issuance of the Notes. Based upon the funds raised, Sands received a six percent cash fee and an expense allowance of one percent of the gross proceeds, plus warrants valued at \$28,500 using the Black Scholes Model to purchase 71,250 shares of the Company's common stock at an exercise price of \$5.60 per share for a period of five years. The total fees for the offering were \$125,000. The debt issuance costs are being amortized over the term of the loan (which was accelerated to February 15, 2005). Amortization for the nine month period ended June 30, 2005 amounted to \$89,542 and such amount is included in interest expense, net in the consolidated statement of operations. On February 15, 2005 the Company closed on a \$4.5 million preferred stock equity financing (see Note 7). As a condition of this financing, the holders of the Notes amended and converted their Notes together with accrued interest, into an aggregate of 15,953 shares of Series C Mandatory Convertible Preferred Stock and the security interest was terminated.

NOTE 6 - NOTES PAYABLE - RELATED PARTY TRANSACTIONS

During 2005, the Company was advanced the principal amount of approximately \$7,100 through short term loans until additional equity funding is secured. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note in Note 5. The lender also received warrants to purchase 355 shares of the Company's common stock exercisable at \$5.60 per share for a period of five years. The allocated fair value of the warrants associated with this advance are deemed to be immaterial. These short-term loans were provided by an executive officer, Mr. Koppel. On February 15, 2005 the Company

repaid these short-term loans in exchange for 34 shares of Series C Mandatory Convertible Preferred Stock at a stated value of \$100 per share, with the

Edgar Filing: CAPRIUS INC - Form 10QSB

remaining balance plus interest being paid in cash.

During the three month period ended December 31, 2004, the Company was advanced the principal amount of \$138,790 through short term loans until additional equity funding was secured. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note in Note 5. The lenders also received warrants to purchase 6,940 shares of the Company's common stock exercisable at \$5.60 per share for a period of five years. The allocated fair value of the warrants associated with this advance are deemed to be immaterial. These short-term loans were provided by executive officers, Messrs. Aaron, Joels, and Koppel who advanced \$64,000, \$62,350 and \$12,440, respectively. On February 15, 2005 the Company repaid these short-term loans in exchange for 694 shares of Series C Mandatory Convertible Preferred Stock at a stated value of \$100 per share, with the remaining balance plus interest being paid in cash.

During the second quarter of fiscal 2004, the Company authorized a short-term bridge loan for an aggregate of \$500,000 through the issuance of loan notes due on July 31, 2005. The majority of the funds were provided by management of the Company. The loan notes bear interest at a rate of 11% per annum and were secured by a first lien on any royalties received by Opus Diagnostics Inc. from Seradyn, Inc. in accordance with their Royalty Agreement. For every sixty dollars (\$60.00) loaned, the lender received two warrants to purchase one share of Common Stock, exercisable at \$5.00 per share for a period of five years. The warrants were valued at \$27,400 using the Black Scholes Model and such amount was treated as a discount to debt and a corresponding increase to paid in capital. The discount is being amortized over the life of the loan (which was accelerated to February 15, 2005). For the nine month period ended June 30, 2005, the Company recorded an additional interest expense related to this discount of approximately \$15,200. On February 15, 2005 the Company closed on a \$4.5 million preferred stock equity financing (see Note 7). As a condition of this financing the holders of the Notes converted their notes, into an aggregate of 5,000 shares of Series C Mandatory Convertible Preferred Stock and the security interest was terminated.

NOTE 7 - EQUITY FINANCING

On February 15, 2005, the Company closed on a \$4.5 million preferred stock equity financing transaction before financing fees and expenses of approximately \$435,000. As part of this financing transaction, the Company issued 45,000 shares of Series C Mandatory Convertible Preferred Stock ("Series C Stock") at a stated value of \$100 per share. The Company also issued Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of \$5.60 per share for a period of five years. In addition, the Company issued Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of \$2.90 per share for a period of five years exercisable after nine months, subject to a termination condition as defined in the warrant agreement. The Company determined that the preferred stock was issued with an effective beneficial conversion feature of approximately \$125,000 based upon the relative fair values of the preferred stock and warrants. The Company calculated the fair values of the warrants using the Black Scholes valuation model. Upon conversion of the Series C Stock to common shares on April 5, 2005 the Company recorded a deemed preferred stock dividend of approximately \$125,000; which represents the beneficial conversion feature of the Series C Stock (See Note 8).

Simultaneously, the Company converted the short-term secured debt outstanding in the aggregate of approximately \$2.1 million inclusive of interest, together with \$72,962 of unsecured indebtedness, into 21,681 shares of Series C Stock. As part of the condition for raising the equity financing, holders of a majority of the outstanding shares irrevocably undertook to effect a 1:20 reverse stock split of any outstanding shares of common stock ("the

Edgar Filing: CAPRIUS INC - Form 10QSB

Reverse Split"). Upon the effectiveness of the Reverse Split ("the Mandatory Conversion Date"), the new equity investors and the debt holders who converted their debt agreed to automatically convert their Series C Stock into common shares at a conversion price of \$2.90 per share and/or 2,299,345 shares of the Company's common stock (post reverse split), subject to adjustment in certain circumstances, (see Note 8). The Company also agreed to increase the number of independent directors by one additional director.

10

NOTE 8 - REVERSE SPLIT

On April 5, 2005, the Company effected the Reverse Split. On such date, the 66,681 outstanding shares of Series C Stock automatically converted into 2,299,345 shares of the Company's common stock. As a result of the Reverse Split, the Company has outstanding 3,321,673 shares of common stock. The reverse split did not change the number of authorized shares of common and preferred stock. All share and per share information in the accompanying financial statements have been restated to reflect the 1 for 20 reverse stock split.

NOTE 9 - OTHER INCOME

During the second quarter of fiscal 2005, the Company recorded income of \$132,200 as a result of favorable settlements of certain outstanding accounts payable balances.

NOTE 10 - ECONOMIC DEPENDENCY

For the nine months ended June 30, 2005, revenue from four customers was approximately \$223,000, \$91,000, \$78,000 and \$74,000 which represented approximately 66% of the total revenue. At June 30, 2005 accounts receivable from these customers were approximately \$3,000, \$0, \$57,400, and \$0 respectively.

For the nine months ended June 30, 2004, revenue from two customers was approximately \$486,000 and \$131,000, which represented approximately 81% of the total revenue.

NOTE 11 - LITIGATION

In June 2002, Jack Nelson, a former Caprius executive officer and director, commenced two legal proceedings against us and George Aaron and Jonathan Joels, executive officers, directors and principal stockholders. The two complaints alleged that the individual defendants made misrepresentations to the plaintiff upon their acquisition of a controlling interest in the Company in 1999 and thereafter made other alleged misrepresentations and engaged in mismanagement and other misconduct and took other actions as to the plaintiff to the supposed detriment of the plaintiff and Caprius. 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, we 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, we paid \$125,000 to the plaintiff and the action was discontinued.

Edgar Filing: CAPRIUS INC - Form 10QSB

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

In September 2002, we were served with a complaint naming us and our principal officers and directors in the Federal District Court of New Jersey as a purported class action (the "Class Action"). The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The initial plaintiff is a relative of the wife of the plaintiff in the State Court Action and Federal Derivative Action. The allegations in the purported Class Action were substantially similar to those in the other two Actions. The complaint sought an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders.

On May 3, 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The federal securities claims asserted by the plaintiffs were dismissed with prejudice, and having dismissed all federal law claims, the Court declined to exercise jurisdiction over the remaining state law claims and

11

dismissed those claims without prejudice. On May 14, 2004, the plaintiffs filed a motion for reconsideration, which defendants opposed and subsequently this motion for reargument was denied. The plaintiff did not file a notice of appeal during the statutory time period.

The independent directors had authorized us 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 us in the event it was determined that they were not entitled to be indemnified as to the claim for which the advance was made.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

On April 18, 2005, the Company entered into an agreement, commencing May 1, 2005 for certain services related to investor relations and financial media program for a one year period. The agreement is renewable unless terminated by either party. According to the agreement, the Company agreed to pay fees of \$96,000 per annum in monthly installments of \$8,000.

NOTE 13 - SUBSEQUENT EVENT

In July 2005, we entered into a Settlement Agreement and Policies Release with the carrier of our Directors and Company Reimbursement Policies and shall receive a payment of \$350,000 under such Policies as a settlement of our claim for expenses incurred in litigations described in Note 11. At that time, the independent directors determined that we should not seek contribution from Messrs. Aaron and Joels for any portion of our net costs in defending those litigations. The Company did not advance any amounts to such individuals in connection with the litigations.

Edgar Filing: CAPRIUS INC - Form 10QSB

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

FORWARD LOOKING STATEMENTS

The Company is including the following cautionary statement in this Quarterly Report of Form 10-QSB to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in our 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 our view, could cause actual results to differ materially from those discussed in the forward-looking statements: technological advances by our competitors, changes in health care reform, including reimbursement programs, changes to regulatory requirements relating to environmental approvals for the treatment of infectious medical waste, capital needs to fund any delays or extensions of development programs, delays in the manufacture of new and existing products by us 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 us. We are also subject to numerous Risk Factors relating to manufacturing, regulatory, financial resources and personnel as described in the Company's Form SB-2 (File No. 333-124096) dated April 15, 2005 as filed with the Securities and Exchange Commission. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

12

RESULTS OF OPERATIONS

As more fully described in the Form 10-KSB for fiscal year ended September 30, 2004, our continuing operation is classified as medical infectious waste business.

THREE MONTHS ENDED JUNE 30, 2005 COMPARED TO THREE MONTHS ENDED JUNE 30, 2004

Revenues generated from MCM product sales totaled \$185,878 for the three months ended June 30, 2005 as compared to \$257,308 for the three months ended June 30, 2004. This decrease was a result of consolidation within our target market of dialysis clinics, which included the acquisition of our largest client in the US. Consequently, the client's scheduled rollout of units was placed on hold. The revenues generated for the three months ended June 30, 2005 included the Company's recent sale of a SteriMed system to a dialysis clinic on St. Croix

Edgar Filing: CAPRIUS INC - Form 10QSB

in the U.S. Virgin Islands. This marks the first sale of a SteriMed unit to a customer in the U.S. Virgin Islands. Revenues generated from MCM rentals totaled \$2,677 as compared to \$14,865 for the comparable periods. Consulting and royalty income from the TDM Business, which was sold in 2002, totaled \$15,157 as compared to \$12,500 for the three months ended June 30, 2005 and 2004.

Cost of product sales and leased equipment amounted to \$121,420 or 64.4% of total related revenues versus \$177,204 or 65.1% of total related revenues for the three month period ended June 30, 2005 and 2004, respectively. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues.

Research and development expense decreased to \$69,439 versus \$77,999 for the three month period ended June 30, 2005 as compared to the same period in 2004.

Selling, general and administrative expenses totaled \$752,327 for the three months ended June 30, 2005 versus \$693,277 for the three months ended June 30, 2004. This increase was due to legal and professional fees in connection with the Company's Registration Statement, which was declared effective on May 10, 2005, and the Company's retention of an investor relations firm.

Interest income, net totaled \$311 (net of interest expense of \$16,943) for the three months ended June 30, 2005 versus \$67,515 interest expense, net totaled for the three months ended June 30, 2004. There was no outstanding debt during the three months ended June 30, 2005.

The net loss amounted to \$739,163 and \$731,322 for the three month periods ended June 30, 2005 and 2004, respectively.

NINE MONTHS ENDED JUNE 30, 2005 COMPARED TO NINE MONTHS ENDED JUNE 30, 2004

Revenues generated from MCM product sales totaled \$622,486 for the nine months ended June 30, 2005 as compared to \$674,931 for the nine months ended June 30, 2004. Revenues generated from MCM rentals totaled \$ 10,627 as compared to \$49,548 for the comparable periods. Consulting and royalty income from the TDM Business, which was sold in 2002, totaled \$77,810 as compared to \$37,500 for the nine months ended June 30, 2005 and 2004.

Cost of product sales and leased equipment amounted to \$451,810 or 71.4% of total related revenues versus \$551,382 or 76.1% of total related revenues for the nine month period ended June 30, 2005 and 2004, respectively. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues.

Research and development expense increased to \$ 262,935 versus \$171,301 for the nine month period ended June 30, 2005 as compared to the same period in 2004. This was a result of our continuing efforts to improve our products, streamline the manufacturing processes and reduce the product cost.

Selling, general and administrative expenses totaled \$2,026,961 for the nine months ended June 30, 2005 versus \$2,276,980 for the nine months ended June 30, 2004. This reduction was due to a decrease in the cost of legal and accounting fees incurred primarily in connection with prior and settled litigations.

Edgar Filing: CAPRIUS INC - Form 10QSB

Other income totaled \$132,200 for the nine months ended June 30, 2005 as compared to \$0 for the nine months ended June 30, 2004. This resulted from the favorable settlement of certain outstanding liabilities.

Interest expense, net totaled \$ 330,709 for the nine months ended June 30, 2005 versus \$70,500 for the nine months ended June 30, 2004. The majority of the interest expense incurred during the nine month period ended June 30, 2005, related to interest fees and amortization in connection with the secured convertible notes and bridge financing, which occurred in the year ended September 30, 2004.

The loss from continuing operations amounted to \$2,229,292 and \$2,308,184 for the nine month periods ended June 30, 2005 and 2004, respectively.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2005 the Company's cash and cash equivalents position approximated \$1,962,000 versus \$28,000 at September 30, 2004. As further discussed below, on February 15, 2005 we received net proceeds of approximately \$4 million from the sale of Series C Preferred Stock and warrants, and approximately \$2.1 million of indebtedness was converted into or exchanged for Series C Preferred Stock.

On January 14, 2005 we received advances of approximately \$7,100 through short-term related party loans until additional equity funding was secured. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note outlined in Note 5 to the Notes to the Financial Statements in Item 1. These funds were utilized for general working capital purposes. These loans were repaid on February 15, 2005 as part of the Preferred Stock Equity Financing arrangement.

On February 2, 2005 we raised \$100,000 through the issuance of an 8% Senior Secured Convertible Promissory Note, due April 3, 2005, subject to repayment in the event of an equity financing in excess of \$2 million or conversion by the investors to shares of our common stock at \$ 3.00 per share. This loan was repaid on February 17, 2005 as part of the Preferred Stock Equity Financing arrangement.

On February 15, 2005, we closed on a \$4.5 million preferred stock equity financing before financing related fees and expenses of approximately \$435,000. The Company issued 45,000 shares of Series C Mandatory Convertible Preferred Stock ("Series C Preferred Stock") at a stated value of \$100 per share, together with Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of \$5.60 per share for a period of five years, and Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of \$2.90 per share for a period of five years exercisable after nine months, subject to a termination condition as defined in the warrant. Simultaneously, the outstanding short-term secured debt in the aggregate of approximately \$2.1 million inclusive of interest, together with \$72,962 of unsecured indebtedness, were converted into 21,681 shares of Series C Preferred Stock. Under the terms of the Series C Preferred Stock, upon the reverse stock split, effective April 5, 2005, the outstanding Series C Preferred Stock was converted into 2,299,345 shares of the Company's common stock at a conversion price of \$2.90 per share.

The net cash proceeds from the equity financing should provide the funds necessary to expand our business as well as meeting our needs to satisfy specific outstanding obligations and accrued expenses, through June 30, 2006, based upon our present business plan. Specifically, the funds are being used to increase our marketing effort both in the US and overseas markets. The availability of this working capital will also permit us to build inventory to fulfill both current and future needs arising from our increased marketing

Edgar Filing: CAPRIUS INC - Form 10QSB

efforts. In addition, as we start to increase our penetration in the US market, we will need to expand our customer service and technical support capabilities to meet the needs of our clients. Similarly, in overseas markets, resources will be required to obtain regulatory approvals in markets where we believe there

14

exists great opportunities for our business. We may also use our resources to develop further versions of our SteriMed System if it is determined that there is a market for such a product.

We had for the past several years met our need for capital in our 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 acquired MCM business on December 17, 2002, and the February 2005 preferred stock equity financing. As our activities expand, we may require additional working capital or other funds within the next 12 months and there can be no assurance that we will be successful in obtaining the needed capital, and if obtained, on terms that may not be highly dilutive to existing stockholders.

ITEM 3. CONTROLS & PROCEDURES

Our principal executive officer and principal financial officer, based on their evaluation of our disclosure controls and procedures (as defined in Rules 13a-14 (c) and 15d-14 (c) of the Securities Exchange Act of 1934) as of June 30, 2005, have concluded that our disclosure controls and procedures are adequate and effective to ensure that material information relating to us and our consolidated subsidiaries are recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period in which this quarterly report has been prepared.

Our principal executive officer and principal financial officer have concluded that there were no significant changes in our internal controls or in other factors that could significantly affect these controls for the quarter ended June 30, 2005, the date of their most recent evaluation of such controls, and that there were no significant deficiencies or material weaknesses in our internal controls.

PART II: OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Reference is made to Note 8 to the financial statements herein and to the Form 8-K filed for an event of April 5, 2005 to report the conversion of our Series C Mandatory Convertible Preferred Stock and a 1 for 20 reverse split of our common stock. These transactions were exempt from registration under the Securities Act of 1933 by reason of Section 3(a) (9) thereof.

ITEM 6. EXHIBITS

(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
- 10.1* Settlement Agreement and Policies Release by and among Admiral

Edgar Filing: CAPRIUS INC - Form 10QSB

Insurance Company and Caprius, Inc. and certain Caprius directors and officers including George Aaron, Jonathan Joels, Shrikant Mehta, and Sanjay Mody.

* filed herewith

15

SIGNATURES

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

Caprius, Inc.

(Registrant)

Date: August 11, 2005

/s/ George Aaron

George Aaron
President & Chief Executive Officer

Date: August 11, 2005

/s/ Jonathan Joels

Jonathan Joels
Chief Financial Officer

16