CAPRIUS INC
Form 10QSB
February 19, 2003

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

FORM 10-QSB

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2002

[ ] 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 January 31, 2003
Common Stock. Par value $0.01	20,396,562 shares

CAPRIUS, INC. AND SUBSIDIARIES

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

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ASSETS	
Current Assets:	
Cash and cash equivalents, (including $600,000 of restricted funds held in escrow)	$ 4,0
Accounts receivable, net of reserve for bad debts of $19,086 and $13,000 at December 31, 2002 and September 30, 2002	3
Inventories	1
Other current assets	
Net assets of TDM business segment	
Total current assets	4,7
Property and Equipment:	
Medical equipment	3
Office furniture and equipment	4
Leasehold improvements	
	8
Less: accumulated depreciation	5
Net property and equipment	2
Other Assets:	
Note receivable	
Deferred financing cost, net of accumulated amortization of $9,204 and $2,301 at December 31, 2002 and September 30, 2002	
Deferred acquisition costs	
Goodwill	1,7
Other	
Total other assets	1,8
Total Assets	$ 6,8
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Notes payable, net of unamortized discount of $5,000 at September 30, 2002	$
Accounts payable	1,1
Accrued expenses	8
Accrued compensation	2
Current maturities of long-term debt and capital lease obligations	
Total current liabilities	2,2
Long-term Debt and Capital Lease Obligations, net of current maturities	
Total Liabilities	2,2
Minority Interest in MCM	3
Commitments and contingencies	

Stockholders' Equity:	
Preferred stock, $.01 par value	
Authorized - 1,000,000 shares	
Issued and outstanding - Series A, none; Series B, convertible,	
27,000 shares at December 31, 2002 and September 30, 2002	
Liquidation preference $2,700,000	2,7
Common stock, $.01 par value	
Authorized - 50,000,000 shares	
Issued - 20,419,062 shares at December 31, 2002	
and at September 30, 2002	2
Additional paid-in capital	67,5
Accumulated deficit	(66,2
Treasury stock (22,500 common shares, at cost)	
Total stockholders' equity	4,2
Total Liabilities and Stockholders' Equity	$ 6,8

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

CAPRIUS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three mo
	December 31, 2002
Revenues:	
Net patient service revenues	$ 419,987
Product sales and rental revenues	134,901
Consulting income	12,500
Total revenues	567,389
Operating Expenses:	
Cost of patient service revenues	302,953
Cost of product sales and rental revenue	162,581
Research and development	69,869
Selling, general and administrative	1,606,244
Provision for bad debt and collection costs	8,366
Total operating expenses	2,150,013
Operating loss	(1,582,625)
Interest income (expense)	3,696

Loss from continuing operations	(1,578,929)
Income from operations of discontinued TDM business segment (including gain on disposal of $3,050,350 in 2002)	3,123,748
Net income (loss) before minority interest	1,544,819
Loss applicable to minority interest	(164,192)
Income (loss)	$ 1,709,011
Net income (loss) per basic and diluted common share:	
Continuing operations	$ (0.07)
Discontinued operations	0.15
Net income (loss) per basic and diluted common share	$ 0.08
Weighted average number of common shares outstanding, basic and diluted	20,396,562

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

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CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock		Common Stock $0.01 Par Value			
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit
BALANCE, SEPTEMBER 30, 2002	27,000	$ 2,700,000	20,419,062	$ 204,191	$ 67,579,258	$(67,958,812
Net income	-	-	-	-	-	1,709,011
BALANCE, DECEMBER 31, 2002	27,000	$ 2,700,000	20,419,062	$ 204,191	$ 67,579,258	$(66,249,801

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

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CAPRIUS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months End 2002
Cash Flows from Operating Activities:	
Net income (loss)	$ 1,709,011
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:	
Minority interest in loss of MCM	(164,192)
Gain on sale of TDM business	(3,123,748)
Amortization of discount on bridge financing	6,903
Depreciation and amortization	25,484
Changes in operating assets and liabilities:	
Accounts receivable, net	(190,937)
Inventories	131,093
Other assets	(88,036)
Accounts payable and accrued expenses	61,615
Net cash provided by (used in) operating activities	(1,632,807)
Cash Flows from Investing Activities:	
Proceeds from sale of TDM business	6,000,000
Acquisition of MCM, net of cash acquired	(63,338)
Loans to MCM	(215,000)
Net cash provided by investing activities	5,721,662
Cash Flows from Financing Activities:	
Repayment of debt and capital lease obligations	(553,898)
Net cash used in financing activities	(553,898)
Net increase in cash and cash equivalents	3,534,957
Cash and cash equivalents, beginning of period	505,282
Cash and cash equivalents, end of period	$ 4,040,239

Supplemental Disclosures of Cash Flow Information:

Cash paid for interest during the period	$ 6,666

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

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 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 to evaluate the possible sale of Strax.

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NOTE 3 - 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	Con
Three months ended December 31, 2002				
Revenues	$12,500	$419,988	$134,901	
Net loss from continuing operations	$(1,352,864)	$(2,751)	$(222,414)	$(1
Identifiable assets at December 31, 2002	$4,468,490	$294,315	$2,047,015	$6
Three months ended December 31, 2001				
Revenues	$0	$442,418	$0	
Net loss from continuing operations	$(419,213)	$1,437	$0	$
Identifiable assets at December 31, 2001	$2,930,764	$456,468	$0	$3

NOTE 4 - 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 plans to vigorously contest 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 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 planned 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 (see Part II, Item 1 for further explanation).

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NOTE 5 - 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 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 three month periods ended December 31, 2002 and 2001, assuming that the transaction had occurred on October 1, 2001 and after giving effect to certain pro forma adjustments are as follows:

Three months ended December 31,	2002	2001
Revenues	$ 808,471	$ 526,978
Loss from operations	$ (1,602,818)	$(776,083)
Net income (loss)	$ 1,524,254	$ (353,301)
Net income (loss) per basic and diluted common share	$ 0.07	$ (0.02)

NOTE 6 - 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, 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 three months ended December 31, 2002 and 2001, are shown below. The effects of the discontinued operations on net loss and per share data are reflected within the accompanying consolidated statements of operations. The gain on disposal of $3,050,350 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 periods ended December 31, 2002 and 2001 is as follows:

	2002	2001
Revenues	$96,698	$475,353
Operating Expenses	23,300	541,981
Income (loss) from Operations	$73,398	($66,628)

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 three months ended December 31, 2002 and consolidated statements of operations for the three months ended December 31, 2001 have been restated to reflect the TDM business as discontinued operations.

THREE MONTHS ENDED DECEMBER 31, 2002 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2001

Net patient service revenue at Strax totaled $419,987 for the three months ended December 31, 2002 versus $442,418 for the three months ended December 31, 2001. Cost of service operations totaled $302,953 for the three months ended December 31, 2002 versus $227,019 for the three months ended December 31, 2001. The increase reflects the continuing efforts at Strax to change its mix of procedures at a time when reimbursement rates from healthcare providers have decreased.

Selling, general and administrative expenses totaled $1,606,244 for the three months ended December 31, 2002 versus $567,473 for the three months ended December 31, 2001. The increase reflects costs related to the acquisition of MCM, performance and salary adjustments to employees as well as increased legal and insurance fees.

MCM product sales and rental revenues totaled $134,901 for the period

commencing December 17, 2002 through December 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

During 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 on a dollar for dollar basis to the extent the net asset value of the purchased assets as shown on a post-closing proforma asset statement is greater the $420,000 or less than $380,000. 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. 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 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.

During February and March 2001, the Company completed a short-term bridge loan of $300,000 through the issuance of loan notes due on February 28, 2002 together with warrants, the proceeds of which were used principally for working capital and purchase of raw materials previously owned by Oxis, the previous manufacturer and owner of the Opus products. The $300,000 bridge loan notes were secured by the assets of Strax and were due for repayment on February 28, 2002. The bridge loan holders agreed to extend the repayment date to October 31, 2002 and continued to receive interest at the rate of 11%. On October 10, 2002, the Company repaid the bridge loan holders in an aggregate of $300,000 plus accrued interest.

The Company continues in its efforts to secure the sale of the Strax Institute.

Net cash used in operations for the three months ended December 31, 2002 amounted to $1,632,807. Net cash flows provided by investing activities for the three months ended December 31, 2002 amounted to $5,721,662.

The Company will continue its efforts to seek additional funds through funding options, including banking facilities, equipment financing and government-funded grants in order to provide capital for future expansion. 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 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 December 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 148, Accounting for Stock-Based Compensation - Transition and Disclosure ("SFAS No. 148"). SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of FSAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock based employee compensation and the effect of the method used on reporting results. SFAS No. 148 will be effective for the Company in the third quarter of fiscal 2003. The Company is currently evaluating the impact of adoption of SFAS No. 148 and has not yet determined the effect, if any, such adoption would have on the results of operations or financial position.

In November 2002, the Emerging Issues Task Force (EITD) 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 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 December 31, 2002 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 December 31, 2002 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, 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. The complaint in the Federal Court 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 are currently engaged in written discovery. No depositions have been taken. Since January 1, 2003, motions have been made on behalf of the Company and Messrs. Aaron and Joels to dismiss both the derivative action pending in the Federal District Court in New Jersey and the individual action

brought by Mr. Nelson in the Superior Court of New Jersey, Bergen County. These motions are presently pending before the respective courts.

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.

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 planned 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) The Company filed a current report on Form 8-K to report that on October 9, 2002, its wholly owned subsidiary, Opus Diagnostics, Inc., sold the assets of its TDM Business to Seradyn, Inc. pursuant to a Purchase and Sale Agreement.

2) The Company filed a current report on Form 8-K to report that on December 17, 2002, the Company completed its acquisition of 33,191 shares of Series A Preferred Stock of MCM Environmental Technologies, Inc. ("MCM"), representing 57.53% of the voting stock of MCM for a purchase price of $2.4 million.

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: February 18, 2003

/s/George Aaron

George Aaron
President & Chief Executive Officer

Date: February 18, 2003

/s/Jonathan Joels

Jonathan Joels
Chief Financial Officer