

Edgar Filing: CAPRIUS INC - Form 10QSB

CAPRIUS INC  
Form 10QSB  
February 14, 2002

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

FORM 10-QSB

(Mark one)

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2001

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

Commission File Number: 0-11914  
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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

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

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Class  
Common Stock. Par value \$0.01

Outstanding at January 31, 2002  
17,098,862 shares

CAPRIUS, INC. AND SUBSIDIARIES

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

December 31, 2001  
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### ASSETS

#### CURRENT ASSETS:

|                                                                                                              |    |           |
|--------------------------------------------------------------------------------------------------------------|----|-----------|
| Cash and cash equivalents                                                                                    | \$ | 181,473   |
| Accounts receivable, net of reserve for bad debts of \$26,000 at<br>December 31, 2001 and September 30, 2001 |    | 527,461   |
| Inventories                                                                                                  |    | 362,388   |
| Other current assets                                                                                         |    | 5,324     |
|                                                                                                              |    | -----     |
| Total current assets                                                                                         |    | 1,076,646 |
|                                                                                                              |    | -----     |

#### PROPERTY AND EQUIPMENT:

|                                |  |         |
|--------------------------------|--|---------|
| Medical equipment              |  | 341,140 |
| Office furniture and equipment |  | 220,290 |
| Leasehold improvements         |  | 950     |
|                                |  | -----   |
|                                |  | 562,380 |
| Less: accumulated depreciation |  | 438,475 |
|                                |  | -----   |
| Net property and equipment     |  | 123,905 |
|                                |  | -----   |

#### OTHER ASSETS:

|                                                                                                                             |  |           |
|-----------------------------------------------------------------------------------------------------------------------------|--|-----------|
| Goodwill, net of accumulated amortization of \$742,121 at<br>December 31, 2001 and \$721,511 at September 30, 2001          |  | 908,061   |
| Other intangibles, net of accumulated amortization of \$182,547 at<br>December 31, 2001 and \$164,292 at September 30, 2001 |  | 1,277,826 |
| Other                                                                                                                       |  | 794       |
|                                                                                                                             |  | -----     |
| Total other assets                                                                                                          |  | 2,186,681 |

#### TOTAL ASSETS

\$ 3,387,232  
=====

### LIABILITIES AND STOCKHOLDERS' EQUITY

#### CURRENT LIABILITIES:

|                                                                                                                |    |         |
|----------------------------------------------------------------------------------------------------------------|----|---------|
| Note payable, net of unamortized discount of \$2,000 at<br>December 31, 2001 and \$5,000 at September 30, 2001 | \$ | 298,000 |
| Accounts payable                                                                                               |    | 281,024 |
| Accrued expenses                                                                                               |    | 217,087 |
| Accrued compensation                                                                                           |    | 113,373 |
| Current maturities of long-term debt and capital lease obligations                                             |    | 28,482  |
|                                                                                                                |    | -----   |
| Total current liabilities                                                                                      |    | 937,966 |

LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS, net of current maturities 32,095

#### TOTAL LIABILITIES

970,061  
-----

#### COMMITMENTS AND CONTINGENCIES

-

#### STOCKHOLDERS' EQUITY:

Preferred stock, \$.01 par value  
 Authorized - 1,000,000 shares  
 Issued and outstanding - Series A, none; Series B, convertible,

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|                                                                           |              |
|---------------------------------------------------------------------------|--------------|
| 27,000 shares at December 31, 2001 and September 30, 2001.                |              |
| Liquidation preference \$2,700,000                                        | 2,700,000    |
| Common stock, \$.01 par value                                             |              |
| Authorized - 50,000,000 shares                                            |              |
| Issued - 17,121,362 shares at December 31, 2001<br>and September 30, 2001 | 171,214      |
| Additional paid-in capital                                                | 67,154,517   |
| Accumulated deficit                                                       | (67,606,310) |
| Treasury stock (22,500 common shares, at cost)                            | (2,250)      |
|                                                                           | -----        |
| Total stockholders' equity                                                | 2,417,171    |
|                                                                           | -----        |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY                                | \$ 3,387,232 |
|                                                                           | =====        |

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 De<br>2001 |
|---------------------------------------------|----|---------------------------------------|
|                                             |    | -----                                 |
| REVENUES:                                   |    |                                       |
| Net patient service revenues                | \$ | 442,418                               |
| Net product sales                           |    | 475,353                               |
|                                             |    | -----                                 |
| Total revenues                              |    | 917,771                               |
|                                             |    | -----                                 |
| OPERATING EXPENSES:                         |    |                                       |
| Cost of operations                          |    | 227,019                               |
| Cost of product sales                       |    | 122,768                               |
| Selling, general and administrative         |    | 567,473                               |
| Research and development                    |    | 41,790                                |
| Provision for bad debt and collection costs |    | 9,549                                 |
|                                             |    | -----                                 |
| Total operating expenses                    |    | 968,599                               |
|                                             |    | -----                                 |
| Operating loss                              |    | (50,828)                              |
| Interest income                             |    | 398                                   |
| Interest expense                            |    | (14,761)                              |

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|                                                                            |             |
|----------------------------------------------------------------------------|-------------|
| Net loss                                                                   | \$ (65,191) |
| Net loss per basic and diluted common share                                | \$ (0.00)   |
| Weighted average number of common shares outstanding,<br>basic and diluted | 17,098,862  |

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  
(unaudited)

|                             | Preferred Stock     |              | Common Stock \$0.01 Par Value |            |
|-----------------------------|---------------------|--------------|-------------------------------|------------|
|                             | Number<br>of Shares | Amount       | Number<br>of Shares           | Amount     |
| BALANCE, SEPTEMBER 30, 2001 | 27,000              | \$ 2,700,000 | 17,121,362                    | \$ 171,214 |
| Net loss                    | -                   | -            | -                             | -          |
| BALANCE, DECEMBER 31, 2001  | 27,000              | \$ 2,700,000 | 17,121,362                    | \$ 171,214 |

|                             | Treasury Stock \$0.01 Par Value |            | Total                   |
|-----------------------------|---------------------------------|------------|-------------------------|
|                             | Number<br>of Shares             | Amount     | Stockholders'<br>Equity |
| BALANCE, SEPTEMBER 30, 2001 | 22,500                          | \$ (2,250) | \$ 2,482,362            |
| Net loss                    | -                               | -          | (65,191)                |

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|                            |        |            |              |
|----------------------------|--------|------------|--------------|
| BALANCE, DECEMBER 31, 2001 | 22,500 | \$ (2,250) | \$ 2,417,171 |
|                            | =====  |            |              |

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 Ended D<br>2001 |
|-------------------------------------------------------------------------------------------|------------------------------|
|                                                                                           | -----                        |
| CASH FLOWS FROM OPERATING ACTIVITIES:                                                     |                              |
| Net loss                                                                                  | \$ (65,191)                  |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                              |
| Amortization of discount on bridge financing                                              | 3,000                        |
| Depreciation and amortization                                                             | 68,986                       |
| Changes in operating assets and liabilities:                                              |                              |
| Accounts receivable, net                                                                  | 51,347                       |
| Inventories                                                                               | 34,042                       |
| Other assets                                                                              | 22,000                       |
| Accounts payable and accrued expenses                                                     | (1,396)                      |
| Net cash provided by (used in) operating activities                                       | 112,788                      |
|                                                                                           | -----                        |
| CASH FLOWS FROM INVESTING ACTIVITIES:                                                     |                              |
| Purchase of equipment, furniture and leasehold improvements                               | -                            |
| Net cash used in investing activities                                                     | -                            |
|                                                                                           | -----                        |
| CASH FLOWS FROM FINANCING ACTIVITIES:                                                     |                              |
| Proceeds from issuance of common stock                                                    | -                            |
| Repayment of debt and capital lease obligations                                           | (21,091)                     |
| Net cash provided by (used in) financing activities                                       | (21,091)                     |
|                                                                                           | -----                        |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                                      | 91,697                       |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                            | 89,776                       |
|                                                                                           | -----                        |

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CASH AND CASH EQUIVALENTS, END OF PERIOD \$ 181,473  
=====

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid for interest during the period \$ 14,761  
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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  
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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, 2001.

NOTE 2 - THE COMPANY  
-----

Caprius, Inc. 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. The Company continues to own and operate a comprehensive breast-imaging center located in Lauderhill, Florida.

The Opus Merger was consummated coincident with the closing of an Asset Purchase Agreement (the "Oxis Purchase Agreement") between Opus and Oxis Health Products Inc. ("Oxis") at which time George Aaron and Jonathan Joels became executive officers, directors, and principal stockholders of the Company. The purchase price consisted of \$500,000 in cash, a secured promissory note (the "Oxis Note") in the principal amount of \$586,389 which was repaid as of December 8, 1999, and a warrant granting Oxis the right to acquire 617,898 shares of the Company's Common Stock. Additionally, pursuant to a Services Agreement, Oxis had manufactured the products of the TDM Business of Opus through December 31, 2000. After December 31, 2000, the Company transferred its production to third party manufacturers.

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Opus currently produces and sells 14 diagnostic assays, their calibrators and controls for therapeutic drug monitoring which are used on the Abbott TDx(R) and TDxFLx(R) instruments. Therapeutic drug monitoring ("TDM") is used to assess medication efficacy and safety of a given therapeutic drug in human bodily fluids, usually blood. The monitoring allows physicians to individualize therapeutic regimens for optimal patient relief. The test kits are used for in vitro testing, meaning the tests are performed outside of the body.

Effective October 15, 2000, Opus entered into a Development and License Agreement with Novartis Pharma AG to develop and market internationally an assay to monitor Certican(TM). Certican(TM) is a Novartis drug candidate and is presently in the Phase III clinical trial process, as required by the FDA. When cleared by the FDA, it is anticipated Certican(TM) will be used initially to treat renal transplant patients. The Opus test to measure Certican is expected to be used regularly to monitor blood levels of the drug, guiding physicians as to correct dosage and patient compliance. There are approximately 25,000 renal transplants annually that take place in the U.S. alone with approximately the same number outside the U.S.

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### NOTE 3 - INDUSTRY SEGMENTS

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The Company operations are classified into two business segments: imaging and rehabilitation services and the therapeutic drug monitoring assay business (the "TDM Business").

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

|                                          | IMAGING AND<br>REHABILITATION<br>SERVICES | TDM<br>BUSINESS |
|------------------------------------------|-------------------------------------------|-----------------|
| Three months ended December 31, 2001     |                                           |                 |
| Revenues                                 | \$ 442,418                                | \$ 475,353      |
|                                          | =====                                     | =====           |
| Net income (loss)                        | \$ 1,437                                  | \$ (66,628)     |
|                                          | =====                                     | =====           |
| Identifiable assets at December 31, 2001 | \$ 456,468                                | \$2,930,764     |
|                                          | =====                                     | =====           |
| Three months ended December 31, 2000     |                                           |                 |
| Revenues                                 | \$ 412,341                                | \$ 386,614      |
|                                          | =====                                     | =====           |
| Net loss                                 | \$ (3,814)                                | \$ (97,343)     |
|                                          | =====                                     | =====           |
| Identifiable assets at December 31, 2000 | \$ 1,055,542                              | \$2,967,160     |
|                                          | =====                                     | =====           |

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



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### RESULTS OF OPERATIONS

THREE MONTHS ENDED DECEMBER 31, 2001 COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2000

### RESULTS OF OPERATIONS

Included in revenues for three months ended December 31, 2001 are \$475,353 of net product sales revenues for Opus therapeutic drug monitoring assays versus \$386,614 for three months ended December 31, 2000. The cost of product sales for the Opus business for the three months ended December 31, 2001 was \$122,768 versus \$140,188 for the three months ended December 31, 2000. The increase in net sales revenues for the three months ending December 31, 2001 versus the three months ending December 31, 2000 is a result from both an increase in overseas sales as well as from higher sales of the Company's exclusive products. The cost of product sales decreased during the three months ending December 31, 2001 versus the three months ending December 31, 2000 as a result of the Company's change of manufacturer for its exclusive products.

Net patient service revenues at Strax totaled \$442,418 for the three months ended December 31, 2001 versus \$412,341 for the three months ended December 31, 2000. This increase was due to a change in amounts billed for patient services. Cost of service operations totaled \$227,019 for the three months ended December 31, 2001 versus \$208,290 for the three months ending December 31, 2000.

Selling, general and administrative expenses totaled \$567,473 for the three months ended December 31, 2001 versus \$520,468 for the three months ended December 31, 2000. This change in expenses includes certain categories of costs that increased by an amount greater than the average inflationary rate due to prevailing market conditions.

Research and development expenses totaled \$41,790 for the three months ended December 31, 2001 versus \$20,800 for the three months ended December 31, 2000. This increase reflects the Company's increasing expenditures on the projects under development for new therapeutic drug monitoring tests.

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### LIQUIDITY AND CAPITAL RESOURCES

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.

In March and April 2000, the Company completed an equity private placement of \$1,950,000 through the sale of 650,000 units at \$3.00 per unit as described in Note H-3 to the Financial Statements for the year ended September 30, 2001. The Company utilized the net funds for the payment of certain liabilities and the balance was used for working capital purposes to continue developing the business of Opus by adding new distributors in territories currently not covered by existing distributors and for the development of new diagnostic kits and the acquisition of additional product lines. The Company continues to evaluate the possible sale of Strax. The \$300,000 short-term bridge loan notes are secured by the assets of Strax and are due for repayment on February 28, 2002. The Company is in discussions with its bridge loan holders to extend the repayment date. The Company continues to pursue efforts to identify

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additional funds through various funding options, including banking facilities, government-funded grants and equity offerings in order to provide capital for future expansion. The ability to secure equity financing has been more difficult due to the Company's June 1999 delisting from the NASDAQ Small Cap System. There can be no assurance that such funding initiatives will be successful, and in light of the current low market price any equity placement would result in substantial dilution to current stockholders. Consequently, the Company's viability could be threatened. Accordingly, the auditors' report on the 2001 financial statements contains an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern.

Net cash provided by operations for the three months ended December 31, 2001 was \$112,788. There were no significant cash flows used in investing activities for the three months ended December 31, 2001.

### 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, capital needs to fund any delays or extensions of development programs, delays in new product development, delays in obtaining regulatory clearance for new products, changes in governmental regulations, 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.

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### PART II: OTHER INFORMATION

#### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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- (a) Exhibits  
None
- (b) Reports on Form 8-K  
None

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: February 14, 2002

/s/ George Aaron

-----

George Aaron  
President & Chief Executive Officer

Date: February 14, 2002

/s/ Jonathan Joels

-----

Jonathan Joels  
Chief Financial Officer