

Edgar Filing: CAPRIUS INC - Form 8-K/A

CAPRIUS INC  
Form 8-K/A  
March 03, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT (AMENDED)

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

Date of Report (date of earliest event reported): December 17, 2002

CAPRIUS, INC.

(Exact name of registrant as specified in its charter)

|   |                             |   |
|---|-----------------------------|---|
| DELAWARE  | 0-11914                     | 22-2457487                              |
| -----   | -----                       | -----                                   |
| (State or other jurisdiction<br>of incorporation) | (Commission<br>File Number) | (I.R.S. Employer<br>Identification No.) |

One Parker Plaza, Fort Lee, New Jersey 07024  
-----  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code - (201) 592-8838  
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On January 3, 2003, Caprius, Inc. (the "Company") filed a Form 8-K to report it completed its acquisition of 33,191 shares of Series A Preferred Stock of MCM Environmental Technologies, Inc., a Delaware corporation ("MCM"), representing 57.53% of the voting stock of MCM. In response to parts (a) and (b) of Item 7 of such Form 8-K, the Company stated that it would file the required financial information by amendment. This Form 8-K/A is filed to provide the required financial information.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS  
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- (a) Financial Statements of Business Acquired The following financial statements of MCM are filed as part of this current report on Form 8-K/A:

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- o Consolidated Financial Statements as of and for the years ended December 31, 2001 and 2000 (audited)
  - o Condensed Interim Consolidated Financial Statements as of September 30, 2002 including the three and nine month periods ended September 30, 2002 and 2001 (unaudited)
- (b) Pro forma financial information
- o Unaudited Pro Forma Combined Condensed Statement of Operations for the year ended September 30, 2002

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SIGNATURE

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.

By: /s/ Jonathan Joels  
-----  
Name: Jonathan Joels  
Title: Treasurer and CFO

Dated: March 03, 2003

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.  
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CONSOLIDATED FINANCIAL STATEMENTS  
AS OF DECEMBER 31, 2001  
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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.  
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## CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2001

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# # # # #

This is a copy of the audit report previously issued by Arthur Andersen LLP issued in connection with the audit of M.C.M. Environmental Technologies, Inc. for the years ended December 31, 2001 and 2000. This audit report has not been reissued by Arthur Andersen LLP in connection with this filing on Form 8-K/A, as Arthur Andersen LP ceased providing audit services as of August 31, 2002.

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#### AUDITORS' REPORT TO THE SHAREHOLDERS

OF

M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

We have audited the accompanying consolidated balance sheets of M.C.M. ENVIRONMENTAL TECHNOLOGIES INC. (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, changes in shareholders' deficiency and cash flows for the years then ended. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, including those prescribed under the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present

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fairly, in all material respects, the financial position of the Company as of December 31, 2001 and 2000, and the results of its operations, changes in shareholders' deficiency and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States.

Without qualifying our opinion, we draw attention to Note 1C regarding the Company's dependence on financing from external sources to fund its activities.

LUBOSHITA-KASIERER  
ARTHUR ANDERSEN

Haifa, February 24, 2002

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### M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

#### CONSOLIDATED BALANCE SHEETS IN U.S. DOLLARS

|  |      | DECEMBER 31 |            |
|--|------|-------------|------------|
|  | NOTE | 2001        | 2000       |
| <b>CURRENT ASSETS</b>                        |      |             |            |
| Cash and cash equivalents                    |      | \$ 191,437  | \$ 339,761 |
| Receivables and prepayments                  | (3)  | 52,357      | 125,187    |
| Inventories                                  | (4)  | 345,700     | 623,656    |
|  |      | 589,484     | 1,088,604  |
| <b>FIXED ASSETS</b>                          |      |             |            |
| Cost   | (5)  | 207,030     | 101,102    |
| Less - accumulated depreciation              |      | 62,130      | 41,014     |
|  |      | 144,909     | 60,088     |
| <b>LEASE COSTS</b>                           |      |             |            |
|  |      | -           | 11,364     |
|  |      | 734,403     | 1,160,056  |
| <b>CURRENT LIABILITIES</b>                   |      |             |            |
| Current maturities of convertible debentures | (9)  | 2,335,588   | -          |
| Trade payables                               |      | 488,496     | 368,148    |
| Other payables and accrued expenses          | (6)  | 359,826     | 324,655    |
|  |      | 3,183,910   | 692,803    |
| <b>LONG-TERM LIABILITIES</b>                 |      |             |            |
| Loan from shareholder                        | (7)  | 699,708     | 753,978    |
| Accrued severance pay                        | (8)  | 57,708      | 73,709     |
|  |      | 757,416     | 827,687    |
| <b>CONVERTIBLE DEBENTURES</b>                |      |             |            |
|  | (9)  | -           | 1,468,781  |

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|                          |      |             |             |
|--------------------------|------|-------------|-------------|
| COMMITMENTS              | (10) |             | -           |
| SHAREHOLDERS' DEFICIENCY |      |             |             |
| Share capital            | (11) | 755         | 755         |
| Share premium            |      | 2,737,164   | 2,737,164   |
| Accumulated deficit      |      | (5,944,842) | (5,567,134) |
|                          |      | -----       | -----       |
|                          |      | (3,206,923) | (1,829,215) |
|                          |      | -----       | -----       |
|                          |      | \$ 734,403  | \$1,160,056 |
|                          |      | =====       | =====       |

The notes to the financial statements form an integral part thereof.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
IN U.S. DOLLARS

|                                     |      | FOR THE YEAR ENDED<br>DECEMBER 31 |                |
|-------------------------------------|------|-----------------------------------|----------------|
|                                     | NOTE | 2001                              | 2000           |
|                                     | ---- | ----                              | ----           |
| REVENUES                            | (12) | \$ 650,342                        | \$ 758,200     |
| COST OF REVENUES                    | (13) | 760,574                           | 811,754        |
| Gross loss                          |      | -----                             | -----          |
|                                     |      | (110,232)                         | (53,554)       |
| RESEARCH AND DEVELOPMENT COSTS      | (14) | 345,616                           | 584,375        |
| MARKETING AND SELLING EXPENSES      | (15) | 414,202                           | 455,983        |
| GENERAL AND ADMINISTRATIVE EXPENSES | (16) | 485,136                           | 468,173        |
|                                     |      | -----                             | -----          |
|                                     |      | 1,244,954                         | 1,508,531      |
|                                     |      | -----                             | -----          |
| Operating loss                      |      | (1,355,186)                       | (1,562,085)    |
| FINANCING EXPENSES, NET             |      | 22,522                            | 136,810        |
|                                     |      | -----                             | -----          |
| Net loss                            |      | \$ (1,377,708)                    | \$ (1,698,895) |
|                                     |      | =====                             | =====          |

The notes to the financial statements form an integral part thereof.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF  
CHANGES IN SHAREHOLDERS' DEFICIENCY  
IN U.S. DOLLARS

|   | SHARED CAPITAL      |                    |                  | RECEIPTS<br>ON<br>ACCOUNT<br>OF SHARES | ACCUMULATED<br>DEFICIENCY |
|---|---------------------|--------------------|------------------|--|---------------------------|
|   | PREFERRED<br>SHARES | ORDINARY<br>SHARES | SHARE<br>PREMIUM |  |                           |
| Balance as of January 1, 2000           | 21                  | 340                | \$ 723,263       | \$ 375,000                             | \$ (2,868)                |
| Issuance of shares(*)                   | 376                 | -                  | 1,845,919        | (375,000)                              |                           |
| Issuance of shares to service providers | -                   | 18                 | 167,982          | -                                      |                           |
| Net loss                                | -                   | -                  | -                | -                                      | (1,698)                   |
| Balance as of<br>December 31, 2000      | 397                 | 359                | 2,737,164        | -                                      | (4,567)                   |
| Net loss                                | -                   | -                  | -                | -                                      | (1,377)                   |
| Balance as of September 30, 2002        | 397                 | 358                | \$2,737,164      | \$ -                                   | \$ (5,944)                |

The notes to the financial statements form an integral part thereof.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
IN U.S. DOLLARS

|   | DECEMBER 31    |                |
|---|----------------|----------------|
|   | 2001           | 2000           |
| CASH FLOWS FROM OPERATING ACTIVITIES  |                |                |
| Net Loss  | \$ (1,377,708) | \$ (1,698,895) |
| Adjustments to reconcile net loss to net cash used in operating activities (see below). | 493,921        | 446,316        |

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|  |            |             |
|--|------------|-------------|
| Net cash used in operating activities                                      | (883,787)  | (1,252,579) |
| CASH FLOWS FROM INVESTING ACTIVITIES                                       |            |             |
| Purchase of fixed assets   | (4,537)    | (9,613)     |
| Net cash used in investing activities                                      | (4,537)    | (9,613)     |
| CASH FLOWS FROM FINANCING ACTIVITIES                                       |            |             |
| Receipts on account of shares  | -          | 1,846,183   |
| Receipts from issuance of shares   | -          | (375,000)   |
| Proceeds from convertible debentures                                       | 740,000    | -           |
| Short-term bank credit, net  | -          | (11,376)    |
| Net cash provided by financing activities                                  | 740,000    | 1,459,447   |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS                           |            |             |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR                             | (148,324)  | 197,255     |
| CASH AND CASH EQUIVALENTS AT END OF YEAR                                   | 339,761    | 142,506     |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES |            |             |
| Revenues and expenses not affecting operating cash flows:                  |            |             |
| Depreciation   | 21,116     | 20,628      |
| Issuance of shares in consideration for services provided                  | -          | 168,000     |
| Linkage differences on loan from shareholder                               | (54,270)   | 20,781      |
| Provision for severance pay  | (16,001)   | (534)       |
| Accrued interest on convertible debentures                                 | 88,132     | 65,311      |
|  | 38,977,132 | 274,186     |
| Changes in operating assets and liabilities:                               |            |             |
| Decrease (increase) in receivables and prepayments                         | 72,830     | (45,4920)   |
| Decrease in inventories  | 176,556    | 278,471     |
| Increase (decrease) in payables and accrued expenses                       | 194,194    | (50,178)    |
| Decrease in advances from customers  | -          | (10,671)    |
| Decrease in deferred costs   | 11,364     | -           |
|  | 454,944    | 172,130     |
|  | 493,921    | 446,316     |
| NON CASH TRANSACTIONS  |            |             |
| Conversion of liabilities into convertible debentures                      | \$ 38,675  | \$ -        |

The notes to the financial statements form an integral part thereof.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN U.S. DOLLARS

#### NOTE 1 - GENERAL

- A. M.C.M. Environmental Technologies Inc. (the "Company"), a Corporation registered in the state of Delaware (U.S), was established and commenced operations in March 2001. All of the shareholders of M.C.M. Ltd. transferred their holdings in M.C.M. Ltd. to the Company in consideration for the same proportional number of shares of the Company. The transfer was approved as a tax exempt transaction pursuant to section 104 of the Israeli Income Tax Ordinance, subject to certain conditions.

Comparative data for the year ended December 31, 2000 in these financial statements present the financial position and results of operations of the Company as if M.C.M. Ltd. had been a wholly - owned subsidiary of the Company since inception.

- B. In September 2001, an agreement was signed between the Company, National Nephrology Associates Inc. ("NNA"), a Delaware Corporation and SteriMed Renal Inc. ("SRI"), a Delaware Corporation. According to the agreement, the Company will invest \$80,000 in SRI for 80% of its share capital and NNA will invest \$20,000 for 20% of SRI's share capital. According to the agreement NNA agreed to lease 5 SteriMed and 65 SteriMed Junior Systems from SRI for a five year period in consideration for a per-treatment fee.
- C. The Company has not generated sufficient revenues from its operations to fund its activities and therefore its continuing operations are dependent on financing from external sources, including shareholders (see Note 9D). Although the Company believes that based on its current contracts and potential business the Company will obtain sufficient financing to fund its activities, there is no assurance that the Company will obtain the necessary financing.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN U.S. DOLLARS

#### NOTE 2 - ACCOUNTING POLICIES (CONT.)

The significant accounting policies followed in the preparation of these financial statements, on a consistent basis are as follows:

- A. BASIS OF PRESENTATION

The financial statements of the Company have been prepared in U.S. dollars, as the Company's revenues are determined principally in U.S. dollars and its primary source of financing is received in U.S. dollars. Thus, the functional currency of the



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Company is the U.S. dollars.

Transactions and balances originally denominated in U.S. dollars are presented at their original amounts. Transactions and balances in other currencies are remeasured into U.S. dollars in accordance with principles identical to those prescribed in Statement No. 52 of the Financial Accounting Standards Board of the United States (FASB). Accordingly, items have been remeasured as follows:

- Monetary items - at the current exchange rate at balance sheet date.
- Nonmonetary items - at historical exchange rates.
- Income and expenditure items - at average exchange rates (excluding depreciation and other items deriving from nonmonetary items).

Exchange gains and losses from the aforementioned remeasurement are reflected in the statement of operations.

### B. CASH AND CASH EQUIVALENTS

All highly liquid investments are considered as cash equivalents if the investments mature within three months from the date of acquisition.

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## M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN U.S. DOLLARS

### C. INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined as follows:

|                 |   |  |
|-----------------|---|--|
| Raw materials   |   | Weighted average method.               |
| Work in process | - | Average production costs including raw |
| Finished goods  | - | materials, labor and overhead.         |

### D. FIXED ASSETS

Fixed assets are stated at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets.

### E. RESEARCH AND DEVELOPMENT COSTS

Research and development costs are charged to operations as incurred.

### F. LINKED BALANCES

Balances in currencies other than the U.S. dollar are stated at

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the exchange rate at balance sheet date. The representative exchange rate-at December 31, 2001 - U.S. \$ 1 - NIS 4.416 (2000 - NIS 4.041). Balances linked to the Consumer Price Index ("CPI") are based on the appropriate index for each linked asset or liability. In the year of account the CPI increased by 1.4% (for the year ended December 31, 2000, there was no change in CPI).

### G. REVENUE RECOGNITION

Revenues from the sales of products are recognized upon shipment.

### NOTE 3 - RECEIVABLES AND PREPAYMENTS

|                        | DECEMBER 31 |           |
|------------------------|-------------|-----------|
|                        | 2001        | 2000      |
| Trade receivables      | \$ 42,907   | \$ 51,710 |
| Government departments | 6,628       | 64,137    |
| Others                 | 2,822       | 9,340     |
|                        | -----       | -----     |
|                        | \$ 52,357   | \$125,187 |
|                        | =====       | =====     |

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## M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN U.S. DOLLARS

### NOTE 4 - INVENTORIES

|                 | DECEMBER 31 |           |
|-----------------|-------------|-----------|
|                 | 2001        | 2000      |
| Raw materials   | \$ 189,900  | \$230,903 |
| Work in process | -           | 82,243    |
| Finished goods  | 155,800     | 310,500   |
|                 | -----       | -----     |
|                 | 345,700     | 623,656   |
|                 | -----       | -----     |
|                 | \$ 345,700  | \$623,656 |
|                 | =====       | =====     |

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)  
IN U.S. DOLLARS

## NOTE 5 - FIXED ASSETS

|                           | COMPUTER<br>EQUIPMENT | EQUIPMENT<br>FOR LEASE | LEASEHOLD<br>IMPROVEMENTS | OFFICE<br>FURNITURE<br>AND<br>EQUIPMENT | TO        |
|---------------------------|-----------------------|------------------------|---------------------------|---|-----------|
|                           | -----                 | -----                  | -----                     | -----                                   | -----     |
| COST                      |                       |                        |                           |   |           |
| As of January 1, 2001     | \$56,956              | \$ -                   | \$17,090                  | \$27,056                                | \$101,102 |
| Additions                 | 2,370                 | 101,400                | 332                       | 1,835                                   | 105,937   |
|                           | -----                 | -----                  | -----                     | -----                                   | -----     |
| As of December 31, 2001   | 59,326                | 101,400                | 17,422                    | 28,891                                  | 207,039   |
| ACCUMULATED DEPRECIATION  |                       |                        |                           |   |           |
| As of January 1, 2001     | 34,804                | -                      | 2,068                     | 4,142                                   | 41,014    |
| Provision                 | 16,889                | -                      | 1,718                     | 2,509                                   | 21,116    |
|                           | -----                 | -----                  | -----                     | -----                                   | -----     |
| As of December 31, 2001   | 51,693                | -                      | 3,786                     | 6,651                                   | 62,130    |
| NET BOOK VALUE            |                       |                        |                           |   |           |
| As of December 31, 2001   | \$ 7,633              | \$101,400              | \$13,636                  | \$22,240                                | \$144,809 |
|                           | =====                 | =====                  | =====                     | =====                                   | =====     |
| Annual depreciation rates | 25%-33%               | 15%                    | 10%                       | 6%-15%                                  |           |
|                           | -----                 | -----                  | -----                     | -----                                   |           |

## NOTE 6 - OTHER PAYABLES AND ACCRUED EXPENSES

|  | DECEMBER 31   |               |
|--|---------------|---------------|
|  | 2001          | 2000          |
|  | ----          | ----          |
| Salaries and related expenses (*)      | \$ 232,931    | \$195,066     |
| Advances from customers                | 55,243        | 65,365        |
| Accrued expenses                       | 70,265        | 64,224        |
|  | 1,387         | -             |
|  | -----         | -----         |
|  | \$ 359,826    | \$324,655     |
|  | =====         | =====         |
| <br>(* ) Includes accrued vacation pay | <br>\$ 41,080 | <br>\$ 43,275 |
|  | =====         | =====         |

## NOTE 7 - LOAN FROM SHAREHOLDER

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A long-term loan from a shareholder is linked to the CPI and bears no interest. The loan shall be repaid when the Company's revenues exceed \$1.5 million for a six month period, and only 5% of such revenues may be remitted to the shareholder for the repayment of the loan.

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### M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

#### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS IN U.S. DOLLARS

##### NOTE 8 - ACCRUED SEVERANCE PAY

The Company's liability for severance pay to employees is covered by deposits with insurance companies in respect of managers' insurance and by the liability in the balance sheet. As the amounts deposited with the insurance companies are not under the Company's control or management, such deposits and the respective liability are not reflected in the balance sheet.

##### NOTE 9 - CONVERTIBLE DEBENTURES

- A. Convertible debentures amounting to \$875,000 are convertible into 103 Preferred A shares of the Company, upon the occurrence of certain events, including the sale of the shares of the Company by the shareholders. The debentures bear interest of 7% per annum. Through December 31, 2001 no debentures have been converted.
- B. Convertible debentures amounting to \$500,000 will be repaid with no interest in four equal quarterly installments commencing March 31, 2002, and ending December 31, 2002.
- C. In 2001, the Company issued convertible debentures to certain shareholders, a service provider and one of the Company's employees, for an aggregate amount of \$778,675. The debentures will be converted into Preferred A shares automatically after a minimum subsequent equity investment of \$1 million. The conversion price will be equivalent to 65% of the price per share as determined in the aforementioned equity investment. If not converted the debentures will be repaid with interest of 8% per annum. In the event of a merger or acquisition of the Company's shares or assets, the Company will redeem the debentures at twice the principle amount of the debentures, not including interest. Through December 31, 2001 no debentures have been repaid or converted.
- D. Subsequent to the balance sheet date, in February 2002, the Company issued convertible debentures to certain shareholders for an aggregate amount of \$220,000. The convertible debentures will be in the same terms of the convertible debentures described in 9C above.
- E. The convertible debentures include accrued interest of \$181,913 at December 31, 2001 (2000 - \$93,781).

M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
IN U.S. DOLLARS

NOTE 10 - COMMITMENTS

- A. The Company is obligated to pay royalties to the Office of the Chief Scientist of the Government of Israel in respect of Government participation in research and development expenses, calculated at the rate of 3%-3.5% of sales of the products developed with the Government's participation up to the dollar amount of such participation. The balance of the royalty obligation at December 31, 2001, is approximately \$452,000.

In respect with the establishment of the Company (see Note IA), M.C.M. Ltd. received an, approval from the Chief Scientist to transfer its production rights to the Company, subject to certain conditions. According to the approval, M.C.M. Ltd. will be obligated to pay royalties based on the sales of the Company, ranging from 100% to 300% of the royalty obligation mentioned above.

- B. The Company has leased premises from a related party. The rent expenses is \$1,500 per month.
- C. M.C.M. Ltd. has provided floating liens on all of its assets as collateral for the Company's convertible debentures.

NOTE 11 - SHARE CAPITAL

- A. The share capital as of December 2001 and December 2000 is composed of shares of NIS 1 par value as follow: Authorized - 1,806 Ordinary shares, 2,176 Preferred A shares; Issued and paid up - 1,098 Ordinary shares, 1,624 Preferred A shares.
- B. The Preferred A shares entitle the holders to rights identical to those of the Ordinary shares, except that the Preferred shares have preference in liquidation and full participation rights, a preference in future dividend distributions and anti dilution rights. The Preferred A shares are convertible into Ordinary shares on one-to-one basis.
- C. The Company has decided to reserve 47 Ordinary shares for issuance to employees. The shares have not yet been issued.

M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
IN U.S. DOLLARS

- D. During 2000, the Company issued 76 Ordinary shares in consideration for their par value to marketing service providers.

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The issuance of the shares was recorded at their fair value, and accordingly, the Company recorded marketing and selling expenses of \$168,000.

### NOTE 12 - REVENUES

In 2001, 44% of the Company's sales were to one customer (2000 - 60%)

### NOTE 13 - COST OF REVENUES

For the year ended

|  | FOR THE YEAR ENDED<br>DECEMBER 31 |           |
|--|-----------------------------------|-----------|
|  | 2001                              | 2000      |
| Salaries and related expenses                            | \$ 136,515                        | \$109,761 |
| Materials and subcontractors                             | 211,634                           | 324,889   |
| Other  | 175,472                           | 140,112   |
|  | 523,621                           | 574,762   |
| Decrease in work in process and finish goods inventories | \$ 236,953                        | \$236,992 |
|  | \$ 760,574                        | \$811,754 |

### NOTE 14 - RESEARCH AND DEVELOPMENT COSTS

|                               | FOR THE YEAR ENDED<br>DECEMBER 31 |           |
|-------------------------------|-----------------------------------|-----------|
|                               | 2001                              | 2000      |
| Salaries and related expenses | \$ 130,689                        | \$222,387 |
| Materials and subcontractors  | 97,918                            | 146,558   |
| Professional fees             | 95,031                            | 63,821    |
| Other                         | 21,978                            | 151,609   |
|                               | \$ 345,616                        | \$584,375 |
|                               | \$ 345,616                        | \$584,375 |

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NOTE 15 - MARKETING AND SELLING EXPENSES

|                               | FOR THE YEAR ENDED<br>DECEMBER 31 |           |
|-------------------------------|-----------------------------------|-----------|
|                               | 2001                              | 2000      |
|                               | -----                             | -----     |
| Salaries and related expenses | \$ 114,174                        | \$130,548 |
| Marketing consultant          | 75,568                            | 226,158   |
| Travel                        | 78,427                            | 56,951    |
| Other (*)                     | 146,033                           | 42,326    |
|                               | -----                             | -----     |
|                               | \$ 414,202                        | \$455,983 |
|                               | =====                             | =====     |

NOTE 16 - GENERAL AND ADMINISTRATIVE EXPENSES

|                                | FOR THE YEAR ENDED<br>DECEMBER 31 |           |
|--------------------------------|-----------------------------------|-----------|
|                                | 2001                              | 2000      |
|                                | -----                             | -----     |
| Salaries and related expenses  | \$ 243,014                        | \$217,911 |
| Legal and economic consultants | 113,101                           | 162,379   |
| Travel                         | 7,793                             | 15,392    |
| Other                          | 121,228                           | 72,491    |
|                                | -----                             | -----     |
|                                | \$ 485,136                        | \$468,173 |
|                                | =====                             | =====     |

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
IN U.S. DOLLARS

NOTE 17 - TAXES ON INCOME

- A. The M.C.M Ltd is subject to the Income Tax Law (Inflationary Adjustments), 1985. M.C.M. Ltd. has been provided with a status of an "approved enterprise", under the alternative benefits track, in accordance with the Law for the Encouragement of Capital Investments, 1959. A principal benefit arising from the program is a full tax exemption on undistributed income for a period of ten years. Should M.C.M. Ltd. pay dividends from income earned during the tax exemption period, it will be liable to

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10%-25% tax on that income (the rate is dependent on the shareholdings rate of the non-Israeli investors). Due to the accumulated losses of M.C.M Ltd., the benefit period has not yet commenced.

- B. M.C.M. Ltd. has carry forward losses for tax purposes of approximately \$5.5 million at December 31, 2001. M.C.M. Inc. has carry forward losses for tax purposes of approximately \$30,000 at December 31, 2001.
- C. M.C.M. Ltd. has not received final tax assessments since incorporation.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.  
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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2002  
(UNAUDITED)

-----  
M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.  
-----

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
AS OF SEPTEMBER 30, 2002

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## M.C.M. ENVIRONMENTAL TECHNOLOGIES

CONSOLIDATED BALANCE SHEETS  
IN U.S. DOLLARS

|                                     | SEPTEMBER 30 |             |
|-------------------------------------|--------------|-------------|
|                                     | 2002         | 2001        |
|                                     | -----        | -----       |
|                                     | (UNAUDITED)  | (UNAUDITED) |
| CURRENT ASSETS                      |              |             |
| Cash and cash equivalents           | \$ 92,710    | \$ 59,489   |
| Other receivables and prepayments   | 78,836       | 56,859      |
| Inventories                         | 393,800      | 485,800     |
|                                     | -----        | -----       |
|                                     | 565,346      | 602,148     |
|                                     | -----        | -----       |
| FIXED ASSETS                        |              |             |
| Cost                                | 219,476      | 107,138     |
| Less - accumulated depreciation     | 82,385       | 56,850      |
|                                     | -----        | -----       |
|                                     | 137,091      | 50,288      |
|                                     | -----        | -----       |
| LEASE DEPOSIT                       | -            | 11,364      |
|                                     | -----        | -----       |
|                                     | \$ 702,437   | \$ 663,800  |
|                                     | =====        | =====       |
| CURRENT LIABILITIES                 |              |             |
| Convertible debentures              | 3,090,277    |             |
| Trade payables                      | 511,377      | 377,886     |
| Other payables and accrued expenses | 429,442      | 479,254     |
|                                     | -----        | -----       |
|                                     | 4,031,096    | 857,140     |
|                                     | -----        | -----       |
| LONG-TERM LIABILITIES               |              |             |
| Loan from shareholder               | 675,515      | 711,602     |
| Accrued severance pay, net          | 58,744       | 85,713      |
|                                     | -----        | -----       |
|                                     | 734,259      | 797,315     |
|                                     | -----        | -----       |
| CONVERTIBLE DEBENTURES              | -            | 1,928,161   |
|                                     | -----        | -----       |
| MINORITY INTEREST                   | 20,000       | -           |
|                                     | -----        | -----       |
| SHAREHOLDERS' DEFICIENCY            |              |             |
| Share capital                       | 755          | 755         |
| Share premium                       | 2,737,164    | 2,737,164   |
| Accumulated deficit                 | (6,820,837)  | (5,656,735) |
|                                     | -----        | -----       |

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|             |             |
|-------------|-------------|
| (4,082,918) | (2,918,816) |
| -----       | -----       |
| \$ 702,437  | \$ 663,800  |
| =====       | =====       |

The accompanying notes are an integral part of the financial statements.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF OPERATIONS  
IN U.S. DOLLARS

|  | FOR THE NINE MONTHS ENDED<br>SEPTEMBER 30 |                | FOR THE THREE MONTHS ENDED<br>SEPTEMBER 30 |              |
|--|---|----------------|--|--------------|
|  | 2002                                      | 2001           | 2002                                       | 2001         |
|  | ----                                      | ----           | ----                                       | ----         |
|  | (UNAUDITED)                               | (UNAUDITED)    | (UNAUDITED)                                | (UNAUDITED)  |
| REVENUES                               | \$ 358,384                                | \$ 520,777     | \$ 103,146                                 | \$ 53,801    |
| COST OF REVENUES                       |   |                |  |              |
| Gross loss                             | 372,369                                   | 650,524        | 142,615                                    | 107,466      |
|  | -----                                     | -----          | -----                                      | -----        |
|  | (13,985)                                  | (129,747)      | (39,469)                                   | (53,665)     |
|  | -----                                     | -----          | -----                                      | -----        |
| RESEARCH AND DEVELOPMENT<br>EXPENSES   | 78,505                                    | 262,719        | 33,867                                     | 72,778       |
| MARKETING AND SELLING EXPENSES         | 337,748                                   | 302,794        | 115,562                                    | 97,194       |
| GENERAL AND ADMINISTRATIVE<br>EXPENSES | 360,608                                   | 388,414        | 147,878                                    | 138,607      |
|  | -----                                     | -----          | -----                                      | -----        |
|  | 776,861                                   | 953,927        | 297,307                                    | 308,579      |
|  | -----                                     | -----          | -----                                      | -----        |
| Operating loss                         | (790,846)                                 | (1,083,674)    | (336,776)                                  | (362,244)    |
| FINANCING INCOME (EXPENSES), NET       | (85,149)                                  | (5,927)        | (36,213)                                   | 5,772        |
|  | -----                                     | -----          | -----                                      | -----        |
| Net loss                               | \$ (875,995)                              | \$ (1,089,601) | \$ (372,989)                               | \$ (356,472) |
|  | =====                                     | =====          | =====                                      | =====        |

The accompanying notes are an integral part of the financial statements.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF  
CHANGES IN SHAREHOLDERS' DEFICIENCY  
IN U.S. DOLLARS EXCEPT FOR NUMBER OF SHARES

(unaudited)

|                                  | NUMBER<br>OF<br>SHARES | SHARE CAPITAL       |                    | SHARE<br>PREMIUM | ACCUMULATED<br>DEFICIT |
|----------------------------------|------------------------|---------------------|--------------------|------------------|------------------------|
|                                  |                        | PREFERRED<br>SHARES | ORDINARY<br>SHARES |                  |                        |
| Balance as of January 1, 2002    | 2,722                  | 397                 | 358                | \$2,737,164      | \$ (5,944,842)         |
| Net loss                         | -                      | -                   | -                  | -                | (875,995)              |
| Balance as of September 30, 2002 | 2,722                  | 397                 | 358                | 2,737,164        | (6,820,837)            |
| Balance as of January 1, 2001    | 2,722                  | 397                 | 358                | 2,737,164        | (4,567,134)            |
| Net loss                         | -                      | -                   | -                  | -                | (1,089,601)            |
| Balance as of September 30, 2001 | 2,722                  | 397                 | 358                | 2,737,164        | (5,656,735)            |
| Balance as of July 1, 2002       | 2,722                  | 397                 | 358                | 2,737,164        | (6,447,848)            |
| Net loss                         | -                      | -                   | -                  | -                | (372,989)              |
| Balance as of September 30, 2002 | 2,722                  | 397                 | 358                | 2,737,164        | (6,820,837)            |
| Balance as of July 1, 2001       | 2,722                  | 397                 | 358                | 2,737,164        | (5,300,263)            |
| Net loss                         | -                      | -                   | -                  | -                | (356,472)              |
| Balance as of September 30, 2001 | 2,722                  | 397                 | 358                | \$2,737,164      | \$ (5,656,735)         |

The accompanying notes are an integral part of the financial statements.

M.C.M. ENVIRONMENTAL TECHNOLOGIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
IN U.S. DOLLARS

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|   | FOR THE NINE MONTHS TO<br>SEPTEMBER 30 |             |
|---|--|-------------|
|   | 2002                                   | 2001        |
|   | (UNAUDITED)                            | (UNAUDITED) |
|   | \$                                     | \$          |
| CASH FLOWS FROM OPERATING ACTIVITIES  |  |             |
| Net loss  | (875,995)                              | (1,089,601) |
| Adjustments to reconcile net loss to net cash used in operating activities (see below). | 140,343                                | 415,365     |
| Net cash used in operating activities   | (836,786)                              | (674,236)   |
| CASH FLOWS FROM INVESTING ACTIVITIES  |  |             |
| Purchase of fixed assets  | (12,446)                               | (6,036)     |
| Net cash used in investing activities   | (12,446)                               | (6,036)     |
| CASH FLOWS FROM FINANCING ACTIVITIES  |  |             |
| Receipts from minority interest   | 20,000                                 | 0           |
| Proceeds from convertible debentures  | 629,362                                | 400,000     |
| Net cash provided by financing activities   | 649,362                                | 400,000     |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS  | (98,736)                               | (280,272)   |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD  | 191,446                                | 339,761     |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | 92,710                                 | 59,489      |
| ADJUSTMENTS TO RECONCILE NET LOSS<br>TO NET CASH USED IN OPERATING ACTIVITIES           |  |             |
| Revenues and expenses not affecting operating cash flows:                               |  |             |
| Depreciation  | 20,255                                 | 15,840      |
| Linkage differences on loan from shareholder  | (24,193)                               | (42,398)    |
| Provision for severance pay   | 1,036                                  | 12,004      |
| Accrued interest on convertible debentures  | 125,327                                | 59,830      |
|   | 122,425                                | 45,276      |
| Changes in operating assets and liabilities:  |  |             |
| Decrease (increase) in receivables and prepayments                                      | (26,479)                               | 68,322      |
| Decrease in inventories   | (48,100)                               | 137,856     |
| Increase in payables and accrued expenses   | (836)                                  | 172,894     |
| Decrease (increase) in advances from customers  | 93,333                                 | 8,983       |
|   | 17,918                                 | 370,089     |
|   | 140,343                                | 413,365     |
| NON CASH TRANSACTIONS   |  |             |
| Conversion of liabilities into convertible debentures                                   | 58,062                                 | 0           |

The accompanying notes are an integral part of the financial statements.

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M.C.M. ENVIRONMENTAL TECHNOLOGIES, INC.

NOTES TO THE CONDENSED INTERIM  
CONSOLIDATED FINANCIAL STATEMENTS  
In U.S. dollars  
(unaudited)

NOTE 1 - GENERAL

- A. The accompanying financial statements have been prepared in a condensed format as of September 30, 2002, and for the nine months and three months then ended in accordance with generally accepted accounting principles in the United States (U.S. GAAP) relating to the preparation of financial statements for interim periods. Operating results for the nine months ended September 30, 2002, are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. These statements should be read in conjunction with the Company's annual financial statements and accompanying notes as December 31, 2001. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation. All such adjustments were of a normal recurring nature.
- B. Comparative data for the nine months ended September, 2001 in these financial statements present the financial position and results of operations of the Company as if M.C.M Ltd. has been a wholly-owned subsidiary of the Company since inception.
- C. The Company has not generated sufficient revenues from its operations to fund its activities and therefore its continuing operations are dependent on financing from external sources, including shareholders. Although the Company believes that based on its current contracts and potential business, the Company will obtain sufficient financing to fund its activities; there is no assurance that the Company will obtain the necessary financing.
- D. As part of an investor proposal to the Company in May 2002, the Company received a loan of \$545,000 (out of which \$200,000 was received subsequent to balance sheets date) from the investor. The loan is repayable upon the earlier of ("Maturity date"): (1) twelve months after grant date (2) an investment in equity or debt in the Company (3) upon acceleration after an event of default or (4) six months after grant date if the proposed acquisition is not completed as a result of the inability to complete certain conditions to the closing.

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## NOTE 1 - GENERAL

### D. (Cont.)

Prior to maturity date, the loan shall bear interest of Prime plus 2% per annum. Following the Maturity date the loan shall bear interest of Prime plus 6%. Upon completion of the acquisition, the loan and accrued interest will be converted and credited to the investor as part of the acquisition price.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are identical to those applied in the preparation of the latest annual financial statements.

## NOTE 3 - FINANCIAL STATEMENTS IN U.S. DOLLARS

The financial statements of the Company have been prepared in U.S. dollars, as the Company's revenues are determined principally in U.S. dollars and its primary source of financing is received in U.S. dollars. Thus, the functional currency of the Company is the U.S. dollars.

The exchange rate of the U.S. dollar as of balance sheet date was \$1 = NIS 4.871 (December 31, 2001 - NIS 4.416). The changes in the exchange rate of the U.S. dollar are as follows:

|                                      | INCREASE (DECREASE)<br>IN THE EXCHANGE RATE<br>OF U.S. DOLLAR<br>% |
|--------------------------------------|--|
|                                      | -----  |
| For the nine months ended:           |  |
| September 30, 2002                   | 10.3   |
| September 30, 2001                   | 0.8  |
| For the three months ended:          |  |
| September 30, 2002                   | 2.1  |
| September 30, 2001                   | 0.5  |
| For the year ended December 31, 2001 | 9.3  |

#####

8

## Unaudited Pro Forma Combined Condensed Statement of Operations

The following unaudited pro forma combined condensed statement of operations gives effect to the acquisition of MCM Environmental Technologies, Inc. ("MCM") by Caprius, Inc. (the "Company") using the purchase method of

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accounting, as required by Statement of Financial Accounting Standard No. 141, "Business Combinations." Under this method of accounting, the Company will allocate the purchase price to the fair value of assets acquired, including identified intangible assets and goodwill. The purchase price allocation is subject to revision when the Company obtains additional information regarding asset valuation. On December 17, 2002, the Company acquired 33,191 shares of Series A Preferred Stock of MCM, representing 57.53% of the voting stock of MCM, for a purchase price of \$2.4 million. 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 unaudited pro forma combined condensed statement of operations is based on the historical financial statements and the accompanying notes of MCM which are included with this filing. The unaudited pro forma combined statement of operations assumes the acquisition took place on October 1, 2001. The unaudited pro forma information is presented for illustration purposes only in accordance with the assumptions set forth below. This information is not necessarily indicative of the operating results that would have occurred if the acquisition had been consummated on the date indicated nor is it necessarily indicative of future operating results of the combined companies. The unaudited pro forma combined condensed financial information does not reflect any adjustments to conform accounting practices or to reflect any cost savings or other synergies anticipated as a result of the acquisition or any acquisition related expenses. The unaudited pro forma combined condensed balance sheet as of December 31, 2002 is not included in this filing on Form 8-K/A, as the transaction occurred on December 17, 2002. The transaction is reflected in the Consolidated Balance Sheet included in the Company's previously filed December 31, 2002 Form 10-Q.

PF-1

Unaudited Pro Forma Combined Condensed Statement of Operations  
For the year ended September 30, 2002  
(Unaudited)

|   | Caprius<br>----- | MCM<br>----- | Profor<br>Adjustm<br>----- |
|---|------------------|--------------|----------------------------|
| <b>REVENUES:</b>                            |                  |              |                            |
| Net patient service revenues                | \$ 1,549,794     | \$ -         | \$                         |
| Product sales and rental revenues           | -                | 487,949      |                            |
|   | -----            | -----        | -----                      |
| Total revenues                              | 1,549,794        | 487,949      |                            |
|   | -----            | -----        | -----                      |
| <b>OPERATING EXPENSES:</b>                  |                  |              |                            |
| Cost of patient service revenues            | 1,169,491        | -            |                            |
| Cost of product sales and rental revenue    | -                | 482,419      |                            |
| Research and development                    | -                | 161,402      |                            |
| Selling, general and administrative         | 498,030          | 906,486      |                            |
| Goodwill impairment                         | 67,356           | -            |                            |
| Provision for bad debt and collection costs | 66,638           | -            |                            |
|   | -----            | -----        | -----                      |
| Total operating expenses                    | 1,801,515        | 1,550,307    |                            |
|   | -----            | -----        | -----                      |
| Operating loss                              | (251,721)        | (1,062,358)  |                            |

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|   |              |                |       |
|---|--------------|----------------|-------|
| Interest and other income (expense)   | (10,619)     | (101,744)      | 14    |
|   | -----        | -----          | ----- |
| Loss from continuing operations before minority interest                      | (262,340)    | (1,164,102)    | 14    |
| Loss applicable to minority interest  | -            | -              | 43    |
|   | -----        | -----          | ----- |
| Loss from continuing operations   | (262,340)    | (1,164,102)    | 58    |
| Loss from operations of discontinued TDM segment                              | (155,353)    | -              |       |
|   | -----        | -----          | ----- |
| Net loss  | \$ (417,693) | \$ (1,164,102) | \$ 58 |
|   | =====        | =====          | ===== |
| Net loss per basic and diluted common share:                                  |              |                |       |
| Continuing operations   | \$ (0.01)    | \$ -           | \$    |
| Discontinued operations   | (0.01)       | -              |       |
|   | -----        | -----          | ----- |
| Net loss per basic and diluted common share                                   | \$ (0.02)    | \$ -           | \$    |
|   | =====        | =====          | ===== |
| Weighted average number of common shares used in computing earnings per share | 17,171,140   | -              |       |
|   | =====        | =====          | ===== |

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

PF-2

1. Basis of Pro Forma Presentation

The unaudited pro forma combined condensed statement of operations of the Company has been prepared on the basis of assumptions relating to the allocation of consideration paid to the acquired assets and liabilities of MCM. The actual allocation of the amount of the consideration may differ from that reflected in these unaudited pro forma combined statement of operations after a third party valuation and other procedures have been completed. Below are tables of the estimated purchase price allocations for MCM:

|                                      |             |
|--------------------------------------|-------------|
| Cash consideration at closing        | \$1,835,000 |
| Loans previously advanced            | 565,000     |
|                                      | -----       |
| Total purchase price                 | \$2,400,000 |
|                                      | =====       |
| Goodwill and other intangible assets | \$1,777,010 |
| Net tangible assets                  | 622,990     |
|                                      | -----       |
| Total acquisition cost               | \$2,400,000 |
|                                      | =====       |



2. Pro Forma Adjustments

- (a) Reflects the elimination of interest accrued on shareholders loans that were converted to equity upon the consummation of the acquisition.
- (b) Reflects the allocation of loss to minority interest. This amount represents 42.47% of the net loss for MCM held by minority interest holders, after the affect of other pro forma adjustments.

PF-3