CAPRIUS INC
Form POS AM
November 13, 2007

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As filed with the Securities and Exchange Commission on November 13, 2007

Registration No. 333-124096

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**SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

**FORM SB-2**

**POST-EFFECTIVE AMENDMENT NO. 3**
**TO**
**REGISTRATION STATEMENT**
**UNDER**
**THE SECURITIES ACT OF 1933**

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**CAPRIUS, INC.**
(Name of Small Business Issuer in Its Charter)

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| **Delaware** | **3845** | **22-2457487** |
|---|---|---|
| (State or other jurisdiction of incorporation or organization | (Primary Standard Industrial Classification Code Number | (I.R.S. Employer Identification Number |

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**One University Plaza, Suite 400**
**Hackensack, New Jersey 07601**
**(201) 342-0900**
(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

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**Jonathan Joels**
**Treasurer and Chief Financial Officer**
**One University Plaza, Suite 400**
**Hackensack, New Jersey 07601**
**(201) 342-0900**
(Name, Address and Telephone Number of Agent For Service)

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*Copies to:*
**Bruce A. Rich, Esq.**
**Thelen Reid Brown Raysman & Steiner LLP**
**875 Third Avenue**
**New York, New York 10022**

**(212) 603-2000**

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**Approximate Date of Proposed Sale to the Public:** from time to time after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o
If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o
If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

**Explanatory Notes**

Caprius, Inc. had initially filed the registration statement (No. 333-124096) to register shares of its common stock, as well as shares of its common stock underlying warrants held by certain selling stockholders. Pursuant to Rule 429 of the Securities Act of 1933, as amended, this Post-Effective Amendment No. 3 to the registration statement eliminates or modifies information regarding certain selling stockholders who have previously sold or otherwise ceased beneficial ownership of their shares and also eliminates those selling stockholders to whom we no longer have registration obligations, and also updates the financial and other information that was in the definitive prospectus, dated March 28, 2006, to the Post-Effective Registration Statement No. 1.

In addition the Company has filed Registration Statement (No. 333-132849) for its 2006 Series D Preferred Stock Placement for which the Company is preparing a Post-Effective Amendment No. 2 pursuant to Rule 429 of the Securities Act of 1933. The Company has also filed a Registration Statement (No.333-141647) for its 2007 Series E Preferred Stock Placement which is currently under review.

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**SUBJECT TO COMPLETION NOVEMBER 13, 2007**

PROSPECTUS

2,646,121 shares of Common Stock

**CAPRIUS, INC.**

This prospectus relates to the sale or other disposition by the selling stockholders identified on pages 41 to 44 of this prospectus, or their transferees, of up to 2,646,121 shares of our common stock, which includes (i) 1,837,730 outstanding shares and (ii) 808,391 shares issuable upon exercise of warrants. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

We will receive no proceeds from the sale or other disposition of the shares, or interests therein, by the selling stockholders. However, we will receive proceeds in the amount of $1,643,161 assuming the cash exercise of all of the warrants held by the selling stockholders, subject to certain of the warrants being exercised under a "cashless exercise" right.

Our common stock is traded on the over-the-counter electronic bulletin board. Our trading symbol is CAPS. On November 6, 2007, the last bid price as reported was $0.85 per share.

The selling stockholders, and any participating broker-dealers may be deemed to be "underwriters" within the meaning of the Securities Act of 1933, and any commissions or discounts given to any such broker-dealer may be regarded as underwriting commissions or discounts under the Securities Act. The selling stockholders have informed us that they do not have any agreement or understanding, directly or indirectly, with any person to distribute their common stock.

Brokers or dealers effecting transaction in the shares should confirm the registration of these securities under the securities laws of the states in which transactions occur or the existence of our exemption from registration.

**An investment in shares of our common stock involves a high degree of risk. We urge you to carefully consider the Risk Factors beginning on page 4**.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

November __, 2007

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## PROSPECTUS SUMMARY

This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before investing in the common stock. You should carefully read the entire prospectus, including "Risk Factors" and the Consolidated Financial Statements, before making an investment decision.

## THE COMPANY

### Background

Caprius, Inc. is engaged in the infectious medical waste disposal business. In the first quarter of Fiscal 2003, we acquired a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM"), which developed, markets and sells the SteriMed and SteriMed Junior compact systems (together, the "SteriMed Systems") that simultaneously shred and disinfect regulated medical waste ("RMW"). The SteriMed Systems are sold and leased in both the domestic and international markets.

Our principal business office is located at One University Plaza, Suite 400, Hackensack, New Jersey 07601, and our telephone number at that address is (201) 342-0900. Our internet website is www.caprius.com. The information contained on our website is not incorporated by reference in this prospectus and should not be considered a part of this prospectus.

In this prospectus, "Caprius," the "Company," "we," "us" and "our" refer to Caprius, Inc. and, unless the context otherw indicates, our subsidiary MCM.

### History

We were founded in 1983 and until June 1999 essentially operated in the business of developing specialized medical imaging systems, as well as operating the Strax Institute ("Strax"), a comprehensive breast imaging center. In June 1999, we acquired Opus Diagnostics, Inc and began manufacturing and selling medical diagnostic assays constituting the therapeutic drug monitoring ("TDM") Business. In October 2002, we sold the TDM business. The Strax Institute was sold in September 2003.

### Acquisition of M.C.M. Environmental Technologies, Inc.

In December 2002, we closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of $2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, our then chairman, and Jonathan Joels, our CFO, filling two seats. Additionally, as part of the acquisition, certain debt of MCM to its existing stockholders and to certain third-parties was converted to equity in MCM or restructured. Pursuant to our Letter of Intent with MCM, we had provided MCM with loans totaling $565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. Our ownership interest in MCM has increased to 96.66% by reason of conversion of loans we had made to MCM and our meeting cash calls of MCM.

### SteriMed Systems

We developed and market worldwide the SteriMed and SteriMed Junior compact units. These units simultaneously shred and disinfect RMW, reducing its volume up to 90%, and rendering it harmless for disposal as ordinary

waste. The SteriMed Systems are patented, environmentally-friendly, on-site disinfecting and destruction units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 15 minute cycle. The units, comparable in size

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to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid® solution. After treatment, the material may be discarded as conventional solid waste, in accordance with appropriate regulatory requirements.

The SteriMed Systems enable generators of RMW, such as clinics and hospitals, to significantly reduce cost for treatment and disposal of RMW, eliminate the potential liability associated with the regulated "cradle to grave" tracking system involved in the transport of RMW, and treat in-house RMW on-site in an effective, safe and easy manner. As the technology for disinfection is chemical-based, within the definitions used in the industry, it is considered as an alternative treatment technology.

The SteriMed Systems are comprised of two different sized units, and the required Ster-Cid® disinfectant solution can be utilized with both units. The larger SteriMed can treat up to 18.5 gallons (70 liters) of medical waste per cycle. The smaller version, the SteriMed Junior, can treat 4 gallons (15 liters) per cycle.

Ster-Cid® is our proprietary disinfectant solution used in the SteriMed Systems. Ster-Cid® is biodegradable and is registered with the U.S. Environmental Protection Agency ("U.S. EPA") in accordance with the Federal Insecticide, Fungicide, Rodenticide Act of 1972 ("FIFRA"). During the SteriMed disinfecting cycle, the concentration of Ster-Cid® is approximately 0.5% of the total volume of liquids. The Ster-Cid® disinfectant in conjunction with the SteriMed Systems has been tested in independent laboratories. Results show that disinfection levels specified in the U.S. EPA guidance document, "Report on State and Territorial Association on Alternate Treatment Technologies" ("STAATT"), are met. Furthermore, it is accepted by the waste water treatment authorities to discharge the SteriMed effluent containing a low concentration of the disinfectant into the sewer system. STAATT is a worldwide organization involved in setting criteria for efficacy of alternative medical waste treatment technologies.

Both SteriMed units are safe and easy to operate requiring only a half day of training. Once the cycle commences, the system is locked, and water and Ster-Cid® are automatically released into the treatment chamber. The shredding, grinding and mixing of the waste is then initiated exposing all surfaces of the medical waste to the chemical solution during a processing cycle which takes approximately 15 minutes. At the end of each cycle, the disinfected waste is ready for disposal as regular solid waste.

In the United States, the initial focus of marketing the SteriMed Systems has been to dialysis clinics on a lease or sales basis. We have also begun initial installations in other new sectors such as surgical centers, laboratories, plasmapheresis centers, and hospitals. Other potential markets include blood banks, cruise ships and military medical facilities.

Internationally, we continue to market our SteriMed Systems both directly and indirectly through distributors. Our distributors are trained by us to enable them to take on the responsibility for the installation and maintenance that are required for the SteriMed Systems.

## RECENT DEVELOPMENTS

In June 2007, pursuant to an Amendment to Royalty Agreement among us, our subsidiary Opus Diagnostics Inc. and Seradyn, Inc. the parties terminated the Royalty Agreement, dated October 9, 2002, upon Seradyn paying us $500,000 plus the royalties due for the period from April 1, 2007 to May 15, 2007. We had entered into the Royalty Agreement as part of the October 2002 sale of the TDM business to Seradyn.

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## PRIOR PLACEMENTS

On March 1, 2007, we closed a private placement of 10,000 shares of Series E Convertible Preferred Stock ("Series E Preferred Stock") and warrants for net proceeds of approximately $2,350,000. The Series E Preferred Stock is convertible into 6,250,000 shares of common stock, and the warrants are for the purchase of 3,125,000 shares of common stock at $0.50 per share, exercisable for five years, subject to anti-dilution provisions therein. The net proceeds of the placement were used to repay a $100,000 bridge loan and the balance is being used for general working capital purposes, primarily for manufacturing and marketing purposes.

In February 2006, we received gross proceeds of $3.0 million upon issuance of Series D Convertible Preferred Stock and warrants for the purchase of 850,751 shares of common stock at exercise prices ranging from $0.90 to $2.00 per share. The currently outstanding Series D Convertible Preferred Stock is convertible into 3,370,286 shares of common stock, after giving effect to anti-dilution adjustments thereon and prior conversions into 376,200 shares of common stock.

In February 2005, we received gross proceeds of $4.5 million upon issuance of Series C Convertible Preferred Stock and warrants for the purchase of 695,682 shares of common stock at exercise prices ranging from $1.11 to $1.66 per share, after giving effect to anti-dilution adjustments thereon. In April 2005 all of the Series C Preferred Stock was converted into common stock.

## THE OFFERING

| | |
|---|---|
| **Securities Covered Hereby** | 2,646,121 shares, which includes (i) 1,837,730 shares outstanding, (ii) 808,391 shares subject to warrants.<br><br>1,504,514 of the outstanding shares included herein were issued upon conversion of the Series C Convertible Preferred Stock, and 695,682 shares included herein underlie warrants that were issued to the investors in the Series C Preferred Stock placement. 333,216 of the outstanding shares and warrants for the purchase of 112,709 shares of common stock at exercise prices ranging from $1.80 to $5.60 per share included herein were issued in other placements or upon conversion of notes. |
| **Common Stock Outstanding prior to the Offering** | 3,791,673 shares |
| **Common Stock to be Outstanding after the Offering** | 4,600,064 shares, assuming the selling stockholders exercise all their warrants, and no conversion of outstanding preferred stock, nor exercise of other outstanding warrants and options. |

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|---|---|
| **Use of Proceeds** | We will receive no proceeds from the sale or other disposition of the shares of common stock covered hereby by the selling stockholders. However, we will |

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| | |
|---|---|
| | receive $1,643,161 if all of the warrants for underlying shares included in this prospectus are exercised for cash. We will use these proceeds for general corporate purposes. |
| **OTC Electronic Bulletin Board Symbol** | "CAPS" |

## RISK FACTORS

Although we have been conducting our current operations for more than four years, our business has not yet produced any positive cash flow or profits. We had net losses of approximately $3,396,000 or ($1.02) per share for the fiscal year ended September 30, 2006 and approximately $2,037,000 or ($0.55) per share for the nine months ended June 30, 2007. Our accountants' report for the 2006 fiscal year expressed we had "suffered recurring losses from operations which raises substantial doubt about (our) ability to continue as a going concern." Our ability to maintain and expand our operations depends upon the generation of increased sales with positive cash flow and also the raising of additional capital, as needed.

See "RISK FACTORS" for a discussion of the above factors and certain additional factors that should be considered in evaluating an investment in the common stock.

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## SUMMARY FINANCIAL AND OPERATING INFORMATION

The following selected financial information is derived from the Consolidated Financial Statements appearing elsewhere in this prospectus and should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this prospectus.

| | Year Ended September 30, | | Nine Months Ended June 30, (Unaudited) | |
|---|---|---|---|---|
| Summary of Operations | 2006 | 2005 | 2007 | 2006 |
| Total revenues | $ 1,235,469 | $ 848,802 | $ 1,823,777 | $ 833,502 |
| Net loss | (3,396,041) | (2,538,408) | (2,036,896) | (2,092,064) |
| Net loss per common share (basic and diluted) | $ (1.02) | $ (1.16) | $ (0.55) | $ (0.63) |
| Weighted average common shares outstanding, basic and diluted | 3,321,673 | 2,288,543 | 3,681,490 | 3,321,673 |

| Statement of Financial Position | As of September 30, 2006 | As of June 30, 2007 (Unaudited) |
|---|---|---|
| Cash and cash equivalents | $ 1,068,954 | $ 1,373,919 |
| Total assets | 2,777,020 | 3,723,759 |
| Working capital | 1,653,302 | 2,275,761 |
| Long-term debt | - | - |
| Stockholders' equity | 2,159,491 | 2,725,359 |

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## RISK FACTORS

The shares of our common stock being offered for resale by the selling stockholders are highly speculative in nature, involve a high degree of risk and should be purchased only by persons who can afford to lose the entire amount invested in the common stock. Before purchasing any of the shares of common stock, you should carefully consider the following factors relating to our business and prospects. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline and you may lose all or part of your investment. The risks and uncertainties described below are not the only risks facing us.

### Business Risks

**We Have a History of Losses**

To date, we have been unable to generate revenue sufficient to be profitable. We had a net loss of approximately $3,396,000, or $(1.02) per share, for the fiscal year ended September 30, 2006, compared to a net loss of approximately $2,538,000, or $(1.11) per share, for the fiscal year ended September 30, 2005, and a net loss of approximately $2,037,000 or $(0.55) per share, for the nine month period ended June 30, 2007. We can expect to incur losses for the immediate foreseeable future. There can be no assurance that we will achieve the level of revenues needed to be profitable in the future or, if profitability is achieved, that it will be sustained. Due to these losses, we have a continuing need for additional capital.

**Risk of Need for Additional Financing**

We raised gross proceeds of $2.5 million in a placement of Series E Convertible Preferred Stock in the second quarter of fiscal 2007, gross proceeds of $3.0 million in a placement of Series D Convertible Preferred Stock in the second quarter of fiscal 2006, and gross proceeds of $4.5 million in a placement of Series C Preferred Stock in the second quarter of 2005. The net proceeds from these placements should fulfill our capital needs through March 31, 2008 based upon our present business plan. However, we expect to require additional working capital or other funds in the near future should we need to modify our business plan. These funds are required to support our marketing efforts, obtain additional regulatory approvals both domestically and overseas as well as to provide working capital for our manufacturing purposes. In the event we are unable to achieve any market penetration in the near term, secure regulatory approvals or build inventory available for immediate delivery, our ability to secure future additional funding could be severely jeopardized. No assurance can be given that we will be successful in obtaining additional funds, whether publicly or privately or through equity or debt. Any such financing could be highly dilutive to stockholders.

**Our Lack of Operating History Makes Evaluation of our Business Difficult.**

The MCM business, our primary business, has yet to realize the acceptance in the market place that we had anticipated, so there is no meaningful historical financial or other information available upon which you can base your evaluation of this business and its prospects. We acquired the MCM business in December 2002 and have generated insubstantial revenues to date from it.

We have so far been unable to attract and convince customers to switch from their current method of dealing with the disposal of their medical waste to a new technology and to adjust their current in-house system to adapt to our SteriMed Systems. As a consequence, the revenue and income potential of our business is unproven. Further, we cannot estimate the expenses for operating the business. If we are incorrect in our estimates, it could be detrimental to our business.

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**We Expect our Manufacturing and Marketing Development Work for our MCM Business to Continue for Some Time, and our Manufacturing and Marketing may not Succeed or may be Significantly Delayed.**

At present, the SteriMed is manufactured at our own facility in Israel. The SteriMed Junior is currently manufactured by a third-party manufacturer in Israel. While we expect our manufacturing and product development work to continue in Israel, due to the limited capacity as well as the high costs of transportation from Israel, we continue to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as alternative locations for the manufacture of our SteriMed Junior. As we receive interest from these manufacturers, we will then undertake a detailed analysis to ensure that they are sufficiently qualified to manufacture our unit and that their costs are acceptable to us. If we fail to effectively manufacture or cause the manufacture of or fail to develop a market to increase the manufacturing needs for our SteriMed Systems, we will likely be unable to recover the losses we will have incurred in attempting to produce and market these products and technologies and may be unable to make sales or ever become profitable.

**Dependence on Our Third-Party Component Suppliers**

We are dependent on third-party suppliers for the components of our SteriMed and SteriMed Junior Systems and also for the Ster-Cid® disinfectant. At present there are no supply contracts in place and our requirements are fulfilled against purchase orders. There can be no assurances that we will have adequate supplies of materials. Although we believe that the required components are readily available and can be provided by other suppliers, delays may be incurred in establishing relationships or in waiting for quality control assurance with other manufacturers for substitute components.

**We Are Subject to Extensive Governmental Regulation with which it is Frequently Difficult, Expensive And Time-Consuming to Comply.**

The medical waste management industry is subject to extensive U.S. EPA, state and local laws and regulations relating to the collection, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated medical waste. The use of the Ster-Cid® disinfectant in the SteriMed Systems is registered with the U.S. EPA under FIFRA; however, the SteriMed Systems are not subject to U.S. EPA registration. Our business requires us to comply with these extensive laws and regulations and also to obtain permits, authorizations, approvals, certificates or other types of governmental permission from all states and some local jurisdictions where we sell or lease the SteriMed Systems. The SteriMed has been approved for marketing in 46 states and the SteriMed Junior in 42 states. It is our objective to obtain approvals for marketing in the remaining states. The Ster-Cid® has been registered in 50 states. Our ability to obtain such approvals in the remaining states and the timing and cost to do so, if successful, cannot be easily determined nor can the receipt of ultimate approval be assumed.

In markets outside the U.S., our ability to market the SteriMed Systems is governed by the regulations of the specific country. In foreign countries, we primarily market through distributors and we rely on them to obtain the necessary regulatory approvals to permit the SteriMed Systems to be marketed in that country. We are therefore dependent on the distributors to process these applications where required. In many of these countries, we have no direct control or involvement in the approval process, and therefore we cannot estimate when our product will be available in that market.

State and local regulations often change and new regulations are frequently adopted. Changes in the applicable regulations could require us to obtain new approvals or permits, to change the way in which we operate or to make changes to our SteriMed Systems. We might be unable to obtain the new approvals or permits that we require and the cost of compliance with new or changed regulations could be significant. In the event we are not in compliance, we can be subject to fines and administrative, civil or criminal sanctions or suspension of our business.

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The approvals or permits that we require in foreign countries may be difficult and time-consuming to obtain. They may also contain conditions or restrictions that limit our ability to operate efficiently, and they may not be issued as quickly as we need (or at all). If we cannot obtain the approval or permits that we need when we need them, or if they contain unfavorable conditions, it could substantially impair our ability to sell the SteriMed Systems in certain jurisdictions or to import the system into the United States.

**We May Not Be Able to Effectively Protect Our Intellectual Property Rights and Proprietary Technology, Which Could Have a Material Effect on Our Business and Make It Easier For Our Competitors to Duplicate Our Products.**

We regard certain aspects of our products, processes, services and technology as proprietary, and we have trademarks and patents for certain aspects of the SteriMed Systems. Our ability to compete successfully will depend in part on our ability to protect our proprietary rights and to operate without infringing on the proprietary right of others, both in the United States and abroad. Our proprietary rights to Ster-Cid® relate to an exclusive worldwide license that we had obtained from a third party manufacturer in Europe to purchase the Ster-Cid® disinfectant. The patent positions of medical waste technology companies generally involve complex legal and factual questions. While patents are important to our business, the regulatory approvals are more critical in permitting us to market our products. We may also apply in the future for patent protection for uses, processes, products and systems that we develop. There can be no assurance that any future patent for which we apply will be issued, that any existing patents issued will not be challenged, invalidated or circumvented, that the rights granted thereunder will provide any competitive advantage, that third-parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties, the expenditure of which we might not be able to afford. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or require us to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we could develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business and profitability.

We may have to resort to litigation to enforce our intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, or defend ourselves from claims of infringement, invalidity or unenforceability. Litigation may be expensive and divert resources even if we win. This could adversely affect our business, financial condition and operating results such that it could cause us to reduce or cease operations.

**We May Not Be Able to Develop New Products That Achieve Market Acceptance**

Our future growth and profitability depend in part on our ability to respond to technological changes and successfully develop and market new products that achieve significant market acceptance. This industry has been historically marked by very rapid technological change and the frequent introductions of new products. There is no assurance that we will be able to develop new products that will realize broad market acceptance.

**The Nature of Our Business Exposes Us to Professional and Product Liability Claims, Which Could Materially Adversely Impact Our Business and Profitability**

The malfunction or misuse of our SteriMed Systems may result in damage to property or persons, as well as violation of various health and safety regulations, thereby subjecting us to possible liability. Although our insurance coverage is in amounts and deductibles customary in the industry, there can be no assurance that such insurance will be sufficient to cover any potential liability. We currently retain a claims made worldwide product liability insurance policy. Further, in the event of either adverse claim

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experience or insurance industry trends, we may in the future have difficulty in obtaining product liability insurance or be forced to pay very high premiums, and there can be no assurance that insurance coverage will continue to be available on commercially reasonable terms or at all. In addition, there can be no assurance that insurance will adequately cover any product liability claim against us. A successful product liability, environmental or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, financial condition and operations. To date, no claims have been made against us. We believe that our insurance coverage is adequate to cover any claims made, and we review our insurance requirement with our insurance broker on an annual basis.

**Other Parties May Assert That Our Technology Infringes On Their Intellectual Property Rights, Which Could Divert Management Time and Resources and Possibly Force Us To Redesign Our Products.**

Developing products based upon new technologies can result in litigation based on allegations of patent and other intellectual property infringement. While no infringement claims have been made or threatened against us, we cannot assure you that third parties will not assert infringement claims against us in the future, that assertions by such parties will not result in costly litigation, or that they will not prevail in any such litigation. In addition, we cannot assure you that we will be able to license any valid and infringed patents from third parties on commercially reasonable terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement.

**The Loss of Certain Members of Our Management Team Could Adversely Affect Our Business.**

Our success is highly dependent on the continued efforts of Dwight Morgan, Chairman, President and Chief Executive Officer, George Aaron, Executive Vice President – International and Business Development, and Jonathan Joels, Chief Financial Officer, Treasurer and Secretary, who are our key management persons. Should operations expand, we will need to hire persons with a variety of skills and competition for these skilled individuals could be intense. Neither Mr. Morgan, Mr. Aaron, nor Mr. Joels plan to retire or leave us in the near future. However, there can be no assurance that we will be successful in attracting and/or retaining key personnel in the future. Our failure to do so could adversely affect our business and financial condition. We do not have employment agreements with or carry any "key-man" insurance on the lives of any of our officers or employees.

**Dependence on Principal Customers**

Three principal customers, Euromedic, which is a foreign distributor in Central and Eastern Europe, a major U.S. dialysis company and another U.S. customer accounted for approximately 56% of our revenues from our SteriMed business for fiscal year 2006. Two customers including Euromedic accounted for approximately 57% of our revenues in the nine months ended June 30, 2007. We are presently working on the expansion of our sales, both internationally and domestically. In the first two quarters of fiscal year 2007, we received orders for several SteriMed Systems from one of the largest independent providers of dialysis services in the U.S. However, no assurance can be given that these orders will be shipped and accepted, or that future orders would be given. The loss of any one of our principal customers or the inability to obtain or expand our sales to additional customers would have a significant adverse impact on our business.

**Competition**

There are numerous methods of handling and disposing of RMW, of which our technology is one of the available systems. We believe that our SteriMed Systems, due to their ability to be used on site, competitive cost and ease of use, offer a significant advantage over RMW systems offered by our competitors. We realize, however, there can be no assurance that a different or new technology may not supplant us in the market. Further, we cannot guarantee that in the event that we are successful in the

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deployment of our systems in the marketplace, the predominant companies in the field, which have substantially greater resources and market visibility than us, will not try to develop similar systems.

**Control by a Lead Investor**

An investor group beneficially owns approximately 79.3% of the outstanding common stock, including shares of common stock underlying Series D Preferred Stock and Series E Preferred Stock and warrants currently held by them, and have the right to vote approximately 35.8% of our aggregate voting securities. Accordingly, this group could exercise a significant voting block in the election of directors and other matters to be acted upon by stockholders. See "SECURITY OWNERSHIP."

**Increased Cost and Management Time in Seeking Compliance with the Requirements of the Sarbanes-Oxley Act of 2002**

Currently the SEC's rules under Section 404 of the Sarbanes-Oxley Act of 2002 will require us to have our management attest to the adequacy of our internal controls in the Form 10-KSB for the year ending September 30, 2008. No member of our management has any experience in complying with Section 404 and we have not yet prepared an internal plan of action for compliance with requirements of Section 404. Furthermore, we may be required to make substantial changes to our internal controls in order for our management to be able to attest that as of September 30, 2008, they are effective. Larger public companies which have been required to comply with Section 404 have encountered significant expenses, both from diversion of management time and attention, the acquisition of new computer software, the employing of additional personnel and training and third party internal controls consultants. While our business is not as sophisticated or complex as these larger companies, we anticipate it will be time consuming, costly and difficult for us to develop and implement the internal controls necessary for our management to attest that they are effective at September 30, 2008. We may need to hire additional financial reporting and internal controls personnel, acquire software and retain a third party consultant during fiscal 2008. If our management is unable to attest that our internal controls are effective as of September 30, 2008, investors may react by selling our stock and causing its price to fall.

**Market Risks**

**There is Only a Volatile Limited Market for Our Common Stock**

Recent history relating to the market prices of public companies indicates that, from time to time, there may be periods of extreme volatility in the market price of our securities because of factors unrelated to the operating performance of, or announcements concerning, the issuers of the affected stock, and especially for stock traded on the OTC Bulletin Board. Our common stock is not actively traded, and the bid and asked prices for our common stock have fluctuated significantly. Since 2003, the common stock has traded on the OTC Bulletin Board from a high of $6.80 to a low of $0.45 per share. See "MARKET FOR OUR COMMON STOCK." General market price declines, market volatility, especially for low priced securities, or factors related to the general economy or to us in the future could adversely affect the price of the common stock. With the low price of our common stock, any securities placement by us would be very dilutive to existing stockholders, thereby limiting the nature of future equity placements.

**The Number of Shares Being Registered for Sale is Significant in Relation to our Trading Volume**

All of the shares registered for sale on behalf of the selling stockholders are "restricted securities" as that term is defined in Rule 144 under the Securities Act. At October 31, 2007, we had 3,849,662 outstanding shares of common stock and an aggregate of 17,775,741 shares of common stock reserved for the conversion of preferred stock and the

exercise of options and warrants. An aggregate of 808,391 of the 17,775,741 reserved shares, plus an aggregate of 1,837,730 shares presently outstanding, have been included in this prospectus. We have filed separate registration statements for 12,684,588 of such

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reserved shares. We have filed this registration statement to register these restricted shares for sale into the public market by the selling stockholders. Considering the low trading volume in our common stock, the sale, or even offer, of a major portion of these shares in the market all at once or at about the same time, could depress the market price during the period the registration statement remains effective and also could affect our ability to raise equity capital.

**We Have Never Paid Dividends and We Do Not Anticipate Paying Dividends in the Future**

We do not believe that we will pay any cash dividends on our common stock in the future. We have never declared any cash dividends on our common stock, and if we were to become profitable, it would be expected that all of such earnings would be retained to support our business. Since we have no plan to pay cash dividends, an investor would only realize income from his investment in our shares if there is a rise in the market price of our common stock, which is uncertain and unpredictable. However, the Series D Preferred Stock and the Series E Preferred Stock require us to accrue dividends for those securities commencing October 1, 2007. See “DIVIDEND POLICY.”

**Shares Eligible for Future Sale Could Negatively Affect Your Investment in Us**

The fact that we are seeking additional capital through the sale of our securities, including shares of our preferred stock, which include granting certain registration rights to the investors, could negatively impact us. At October 31, 2007, we had 795,067 shares of preferred stock authorized but not outstanding which our Board of Directors could issue without any approval of existing holders. The issuance of these shares, as well as the issuance of any new shares, and any attempts to resell them could depress the market for the shares being registered under this prospectus.

**We Are Subject to Penny Stock Regulations and Restrictions**

The Securities and Exchange Commission has adopted regulations which generally define Penny Stocks to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. As of November 6, 2007, the closing price for our common stock was $0.85 per share and therefore, it is designated a “Penny Stock.” As a Penny Stock, our common stock may become subject to Rule 15g-9 under the Securities Exchange Act of 1934, as amended (“Exchange Act”), or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Securities and Exchange Commission (“SEC”) relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

There can be no assurance that our common stock will qualify for exemption from the penny stock restrictions. In any event, even if our common stock were exempt from the Penny Stock restrictions, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the SEC the authority to restrict any person from participating in a distribution of penny stock, if the SEC finds that such a restriction would be in the public interest.

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**Certain Provisions of Our Charter Could Discourage Potential Acquisition Proposals or Change in Control**

Certain provisions of our Certificate of Incorporation and of Delaware law could discourage potential acquisition proposals and could make it more difficult for a third-party to acquire or discourage a third party from attempting to acquire control of us. These provisions could diminish the opportunities for a stockholder to participate in tender offers, including tender offers at a price above the then current market value of the common stock. Our Board of Directors, without further stockholder approval, may issue preferred stock that would contain provisions that could have the effect of delaying or preventing a change in control or which may prevent or frustrate any attempt by stockholders to replace or remove the current management. The issuance of additional shares of preferred stock could also adversely affect the voting power of the holders of common stock, including the loss of voting control to others.

## FORWARD LOOKING STATEMENTS

Information included or incorporated by reference in this prospectus may contain forward-looking statements. This information may involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by any forward-looking statements. Forward-looking statements, which involve assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of these words or other v on these words or comparable terminology.

This prospectus contains forward-looking statements, including statements regarding, among other things, (a) our projected sales and profitability, (b) our technology, (c) our manufacturing, (d) the regulation to which we are subject, (e) anticipated trends in our industry and (f) our needs for working capital. These statements may be found under "Management's Discussion and Analysis or Plan of Operations" and "Business," as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under "Risk Factors" and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this prospectus will in fact occur.

Except as otherwise required by applicable laws, we undertake no obligation to publicly update or revise any forward-looking statements or the risk factors described in the prospectus, whether as a result of new information, future events, changed circumstances or any other reason after the date of this prospectus.

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## USE OF PROCEEDS

We will not receive any portion of the proceeds from the sale or other disposition of the shares of common stock covered hereby, or interests therein, by the selling stockholders. We may receive proceeds of up to $1,643,161 if all the warrants held by the selling stockholders are exercised for cash. Management currently anticipates that any such proceeds will be utilized for working capital and other general corporate purposes. We cannot estimate how many, if any, warrants may be exercised as a result of this offering or that they will be exercised for cash.

We are obligated to bear the expenses of the registration of the shares. We anticipate that these expenses will be approximately $60,000.

## DIVIDEND POLICY

We have never declared dividends or paid cash dividends on our common stock. The Series D Preferred Stock provides for a cumulative dividend of $0.67 per share commencing October 1, 2007, and the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007. We intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends on the common stock or the Series B Preferred Stock in the foreseeable future.

## MARKET FOR OUR COMMON STOCK

### Principal Market and Market Prices

Our common stock has traded in the over-the-counter market on the OTC Electronic Bulletin Board (OTCBB) under the symbol CAPR until the April 5, 2005 reverse split when our trading symbol was changed to CAPS.

The following table sets forth, for the calendar quarters indicated, the reported high and low bid quotations per share of the common stock as reported on the OTCBB. These quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions. These tables give retroactive effect to our 1-for-20 reverse common stock split on April 5, 2005.

| **Fiscal Period** | **Fiscal Year Ending 9/30/08** | | **Fiscal Year Ended 9/30/07** | | **Fiscal Year Ended 9/30/06** | |
|---|---|---|---|---|---|---|
| | High | Low | High | Low | High | Low |
| First Quarter* | $1.01 | $0.50 | $0.65 | $0.51 | $2.45 | $1.05 |
| Second Quarter | | | 1.08 | 0.45 | 2.35 | 1.30 |
| Third Quarter | | | 1.05 | 0.60 | 1.69 | 0.80 |
| Fourth Quarter | | | 0.85 | 0.70 | 0.80 | 0.55 |

*Reflects prices through November 6, 2007

We have not paid any dividends on our shares of common stock since inception and do not expect to declare any dividends on our common stock in the foreseeable future.

### Approximate Number of Holders of Our Common Stock

On October 31, 2007, there were approximately 1,100 holders of record of our common stock. Since a large number of shares of common stock were held in street or nominee name, it is believed that there are a substantial number of additional beneficial owners of our common stock.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and notes thereto and the other financial information appearing elsewhere in this prospectus. In addition to historical information contained herein, the following discussion and other parts of this prospectus contain certain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed in the forward-looking statements due to factors discussed under "Risk Factors", as well as factors discussed elsewhere in this prospectus. The cautionary statements made in this prospectus should be read as being applicable to all related forward-looking statements wherever they appear in this prospectus.

**Results of Operations**

Our product sales growth in the U.S. was negatively impacted by consolidation in the dialysis clinic market by several of our customers which caused them to place their purchasing decisions on hold during the period ending with fiscal 2006. We have been actively pursuing new initiatives and we anticipate that these will enable us to show revenue growth during fiscal 2007. There is no assurance that we will show revenue growth during the fiscal year 2007 or that any revenue growth will result in profitability.

**Fiscal Year Ended September 30, 2006 Compared to Fiscal Year Ended September 30, 2005**

Revenues generated for fiscal year ended September 30, 2006 ("Fiscal 2006") were primarily generated by MCM product sales and rental revenues which totaled $1,069,902 for Fiscal 2006 as compared with $740,796 for fiscal year ended September 30, 2005 ("Fiscal 2005"). For Fiscal 2006, three customers accounted for approximately 56% of the consolidated total revenue. For Fiscal 2005, three customers accounted for approximately 51% of the consolidated total revenue. Product sales for the Fiscal 2006 increased due to a change in the product mix of units sold together with an increase in the sales of disposables for the SteriMed units.

Consulting and royalty income from the TDM Business which was sold in 2002 to Seradyn, Inc. totaled approximately $165,600 as compared to $108,000 for fiscal years ended September 30, 2006 and 2005, respectively. The increase of approximately $58,000 was attributable to the growth in sales of the diagnostic products underlying our Royalty Agreement, as they become more widely distributed and utilized.

Cost of product sales and equipment rental income aggregated approximately $803,000 as compared to $491,000 during Fiscal 2006 and Fiscal 2005, respectively. The increased costs of approximately $312,000 correlate to the increase in revenues and the absorption of certain production expenses incurred in Fiscal 2006 in order to enhance production efficiencies.

Research and development costs amounted to approximately $343,000 versus $325,000 for Fiscal 2006 and Fiscal 2005, respectively. Research and development costs are directly attributable to the development of manufacturing efficiencies for the SteriMed systems.

Selling, general and administrative expenses totaled $3,064,000 for Fiscal 2006 versus $2,730,000 for Fiscal 2005. This increase is a result of additional personnel costs (hiring of two additional employees and increased benefit costs), as well as the related increase in travel and marketing expenses incurred in order to facilitate the development of additional sales markets for our units.

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In 2006, management assessed our underlying fair value and determined the carrying value, including goodwill exceeded its fair value and as such management recorded an impairment charge to goodwill of $452,000. In 2005, management recorded no such charge.

Other income totaled $ 0 for Fiscal 2006 as compared to $482,200 for Fiscal 2005. Other income recorded in fiscal year 2005 resulted from the favorable settlement of certain outstanding liabilities as well as an insurance settlement of $350,000 for expenses incurred in defending prior litigations, settled in Fiscal 2005.

Interest income (expense), net totaled $29,693 for Fiscal 2006 versus ($323,026); net of interest income of approximately $30,000 for Fiscal 2005. In Fiscal 2006, we had no related debt borrowings.

The net loss totaled $3,396,041 for Fiscal 2006 versus $2,538,408 for Fiscal 2005.

**Nine Months Ended June 30, 2007 Compared to Nine Months Ended June 30, 2006**

Revenues generated from MCM product sales totaled $1,699,812 for the nine months ended June 30, 2007 as compared to $713,819 for the nine months ended June 30, 2006. This increase in sales is attributed to our expanded penetration into several markets that we have been developing for our products. Consulting and royalty income from the TDM Business, which was sold in 2002, totaled $123,965 for the nine months ended June 30, 2007 as compared to $119,683 for the nine months ended June 30, 2006. .

Cost of product sales amounted to $1,163,011 or 68.4% of total related revenues versus $520,058 or 72.9% of total related revenues for the nine month periods ended June 30, 2007 and 2006, respectively. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues. The reduced percentage cost is due to the sales product mix, as well as our initiatives to reduce costs as the number of units produced increases.

Research and development expense decreased to $207,142 versus $261,598 for the nine month period ended June 30, 2007 as compared to the same period in 2006. This decrease is due to the completion of the development work necessary for the ramp up of production of the Sterimed and Sterimed Junior.

Selling, general and administrative expenses totaled $2,994,634 for the nine months ended June 30, 2007 versus $2,170,936 for the nine months ended June 30, 2006. This increase is principally due to increased personnel, our adoption of FAS 123R which requires the recording of stock based compensation as part of the statement of operations, in which $208,764 was recorded during this period and other costs in connection with sales and marketing.

Other income totaled $500,000 for the nine months ended June 30, 2007 as compared to $0 for the nine months ended June 30, 2006. This resulted from the termination of our Royalty Agreement with Seradyn within this period.

Interest income net, totaled $4,114 for the nine months ended June 30, 2007 versus $27,026 for the nine months ended June 30, 2006.

The net loss amounted to $2,036,896 and $2,092,064 for the nine month periods ended June 30, 2007 and 2006, respectively.

**Liquidity and Capital Resources**

At June 30, 2007, our cash and cash equivalents position was $1,373,919.

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Net cash used in operations for the nine months ended June 30, 2007 amounted to $2,052,661. Net cash used in investing activities amounted to $36,374. Net cash provided by financing activities amounted to $2,394,000.

On January 30, 2007, we borrowed the principal amount of $100,000 through the issuance of a 10% promissory note, payable on April 30, 2007. This “bridge” loan was used for general working capital, until additional funding was secured. This note, plus interest, was repaid in March 2007 upon the placement of Series E Preferred Stock.

On March 1, 2007, we closed on a $2.5 million Series E Preferred Stock equity financing before financing related fees and expenses of approximately $106,000. This placement consisted of 10,000 shares of Series E Convertible Preferred Stock at $250 a share. Each share of the Series E Preferred Stock is convertible into 625 shares of common stock, subject to customary anti-dilution provisions, or an aggregate of 6,250,000 shares of common stock. Commencing October 1, 2007, the holders of the Series E Preferred Stock are entitled to receive a cash dividend at a per share rate equal to $13.50 per annum, and a liquidation preference of $250 per share plus accrued and unpaid dividends, and ranking pari passu with the Series B and Series D Preferred Stock. The Series E Preferred Stock votes on an as-converted basis with the common stock, and has a separate vote with respect to matters directly affecting this Series. Neither we nor the holders of the Series E Preferred Stock have the right to cause the redemption thereof. The net proceeds will be used for general working capital purposes and the repayment of the January 30, 2007 10% Promissory Note as outlined above.

In June 2007, we received $500,000 from Seradyn, Inc. as a lump sum payment upon the termination of the Royalty Agreement, plus an additional $29,500 representing royalties due for prior periods.

**Going Concern and Management’s Plan**

We continue to incur significant operating losses. In addition, we are a defendant in an action seeking damages in excess of $400,000. Although we believe we have a meritorious defense against such a lawsuit, an unfavorable outcome of such action would have a materially adverse impact on our business. In order to fund our additional cash requirements, we continue to pursue efforts to identify additional funds through various funding options. Given the Company’s low market price and current volume of business, there is no assurance that we will be able to obtain such additional funding or on terms not highly dilutive to current stockholders, and the lack of additional capital could have a material adverse impact on our business. If we are unable to generate sufficient cash flows from our business operations or raise additional funding to continue our operations, we will have to implement a plan to drastically curtail operations to reduce operating costs until sufficient additional capital is raised. There can be no assurance that such a plan, if implemented, will be successful. The aforementioned factors raise substantial doubt about our ability to continue as a going concern.

**Obligations**

Our principal contractual commitments include payments under operating leases.

**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 our 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

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

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 as of September 30. The valuation will be based upon estimates of the market value of the unit.

3. Off-balance sheet arrangements

We have no off-balance sheet arrangements, financings or other relationships with unconsolidated entities known "Special Purpose Entities."

**Recent Accounting Pronouncements**

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. The statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. This statement is effective for accounting changes and corrections of errors made in the fiscal years beginning after December 15, 2005. Management does not believe this pronouncement will have a material impact on our consolidated results of operations and financial condition.

In September 2005, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF") Issue No. 05-7. "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues", which addresses whether a modification to a conversion option that changes its fair value affects the recognition of interest expense for the associated debt instrument after the modification, and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishments, if a debt modification increases the intrinsic value of the debt. In September 2005, the FASB ratified the following consensus reached in EITF Issue 05-08 ("Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature"): a) the issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards SFAS No. 109, Accounting for Income Taxes. Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for book purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes; b) The resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled; and c) Recognition of deferred taxes for the temporary difference should be reported as an adjustment to additional paid-in capital. Both of these issues are effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to

EITF Issue 00-27, “Application of Issue No. 98-5 to Certain Convertible Debt Instruments” (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in

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the financial statements). These pronouncements had a material impact on our consolidated results of operations and financial condition.

In February 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard 155 - Accounting for Certain Hybrid Financial Instruments ("SFAS 155"), which eliminates the exemption from applying SFAS 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS 155 also allows the election of fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a re-measurement event. Adoption is effective for all financial instruments acquired or issued after the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 155 is not expected to have a material effect on our consolidated results of operations and financial condition

In March 2006, the FASB issued Statement of Financial Accounting Standard 156 - Accounting for Servicing of Financial Assets ("SFAS 156"), which requires all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. Adoption is required as of the beginning of the first fiscal year that begins after September 15, 2006. Early adoption is permitted. The adoption of SFAS 156 is not expected to have a material effect on our consolidated results of operations and financial condition.

In July 2006, the FASB released FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. This Interpretation shall be effective for fiscal years beginning after December 15, 2006. Earlier adoption is permitted as of the beginning of an enterprise's fiscal year, provided the enterprise has not yet issued financial statements, including financial statements for any interim period for that fiscal year. The cumulative effects, if any, of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The adoption of FIN 48 is not expected to have a material effect on our consolidated results of operations and financial condition.

In September 2006, the FASB issued Statement of Financial Accounting Standard 157, *"Fair Value Measurements"* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosure of fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements and accordingly, does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact of the adoption of SFAS No. 157 will have on our consolidated results of operations and financial condition and are currently not in a position to determine such effect.

In September 2006, the staff of the SEC issued Staff Accounting Bulletin No. 108 ("SAB 108") which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 becomes effective in fiscal 2007. Adoption of SAB 108 is not expected to have a material impact on our consolidated results of operations and financial position.

On October 1, 2006, we adopted Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 123R supersedes APB No. 25, "Accounting for Stock Issued to Employees", and amends SFAS No. 95, "Statement of Cash Flows." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock

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options, to be recognized in the financial statements based upon their fair values. As a result, the intrinsic value method of accounting for stock options with pro forma footnote disclosure, as allowed for under SFAS No. 123, is no longer permitted.

In December 2006, FASB issued FASB Staff Position EITF 00-19-2 "Accounting for Registration Payment Arrangements," which specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement should be separately recognized and measured in accordance with SFAS No. 5, "Accounting for Contingencies." Adoption of EITF 00-19-02 is required for fiscal years beginning after December 15, 2006. We are currently evaluating the expected effect of EITF 00-19-02 on our consolidated financial statements and are currently not yet in a position to determine such effects.

On February 15, 2007, FASB issued SFAS No. 159, entitled "The Fair Value Option for Financial Assets and Financial Liabilities." The guidance in SFAS No. 159 "allows" reporting entities to "choose" to measure many financial instruments and certain other items at fair value. The objective underlying the development of this literature is to improve financial reporting by providing reporting entities with the opportunity to reduce volatility in reported earnings that results from measuring related assets and liabilities differently without having to apply complex hedge accounting provisions, using the guidance in SFAS No. 133, as amended, entitled "Accounting for Derivative Instruments and Hedging Activities". The provisions of SFAS No. 159 are applicable to all reporting entities and is effective as of the beginning of the first fiscal year that begins subsequent to November 15, 2007. We do not believe this new accounting standard will have a material impact on our financial condition or results of operations

We adopted SFAS No. 123R using the modified prospective method, which requires us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Accordingly, prior period amounts have not been restated to reflect the adoption of SFAS No. 123R. After assessing alternative valuation models and amortization assumptions, we chose to continue using the Black-Scholes valuation model and recognition of compensation expense over the requisite service period of the grant.

**Inflation**

To date, inflation has not had a material effect on our business. We believe that the effects of future inflation may be minimized by controlling costs and increasing our manufacturing efficiency through the increase of our product sales.

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## BUSINESS

### Background

Caprius, Inc. ("Caprius", the "Company", "we", "us" and "our") is engaged in the infectious medical waste disposal busine through our subsidiary M.C.M. Environmental Technologies, Inc. ("MCM") which developed, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and disinfect Regulated Medical Waste. The SteriMed Systems are sold and leased in both the domestic and international markets.

In December 2002, we closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of $2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, our then chairman, and Jonathan Joels, our CFO, filling two seats. Additionally, as part of the acquisition, certain debt of MCM to its existing stockholders and to certain third-parties was converted to equity in MCM or restructured. Pursuant to our Letter of Intent with MCM, we had provided MCM with loans totaling $565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. Our ownership interest in MCM has increased to 96.66% by reason of conversion of loans we had made to MCM and our meeting cash calls of MCM.

Caprius, Inc. was founded in 1983, and in June 1999 essentially operated in the business of developing specialized medical imaging systems, as well as operating the Strax Institute, a comprehensive breast imaging center. In June 1999, we acquired Opus Diagnostics, Inc. and began manufacturing and selling medical diagnostic assays constituting the therapeutic drug monitoring ("TDM") Business. In October 2002, we sold the TDM business. The Strax Institute was sold in September 2003.

### Background of the Regulated Medical Waste Industry in the United States

In 1988, the Federal Government passed the Medical Waste Tracking Act ("MWTA"). This Act defined medical waste and the types of medical waste that were to be regulated. In addition to defining categories of medical waste, the law mandated that generators of Regulated Medical Waste ("RMW") be responsible for and adhere to strict guidelines and procedures when disposing of RMW. The mandates included a "cradle to grave" responsibility for any RMW produced by a facility, the necessity to track the disposal of RMW and defined standards for segregating, packaging, labeling and transporting of RMW.

The MWTA led to the development of individual state laws regulating how RMW is to be disposed of. As a result of these laws, it became necessary for medical waste generating facilities to institute new procedures and processes for transporting medical waste from the facility to an offsite treatment and disposal center, or obtain their own on-site system for treatment and disposal acceptable to the regulators. By 1999, Health Care Without Harm, a coalition of 440 member organizations, estimated that 250,000 tons of RMW was produced annually in the United States of America or worldwide.

The other major impact on the RMW market was the adoption of the Clean Air Amendments of 1997. This Act dramatically reduced or eliminated the type of emissions that are permitted from the incineration of RMW. Due to this, those generators of RMW, which were incinerating their waste, were forced into costly upgrades of their incinerators or to find other methods of disposal. Hospital incinerators decreased from 6,200 in 1988 to 115 in 2003 (Mackinac Chapter, Sierra Club Newsletter Aug-Oct 2003).

Most generators of RMW use waste management firms to transport, treat and dispose of their waste. Due to legislative and other market factors, the costs for this type of service have been increasing at a dramatic pace. At the

same time, many medical waste generators are coming under increasing pressure to reduce expenses as a result of the decreasing percentage of reimbursement from Medicare and

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other third party providers. Additionally, the added liability of RMW generators as a result of the "cradle to grave" manifest requirement has made it more attractive to use on-site medical waste disinfection methods that do not require manifest systems as the resultant waste is disinfected. The combination of these pressures is forcing medical waste generators to seek innovative methods for their waste disposal. MCM has identified and is working with specific segments and niches within the RMW market on which it feels it might capitalize. The specifics of these will be discussed in the Marketing section.

**Background of the Regulated Medical Waste Industry Outside of the United States**

The industrialized countries of the European Union and Japan are implementing medical waste laws that are or will be similar to U.S. regulations. In 1994, the European Commission implemented a directive where member states had to adhere to the provisions of the United Nations Economic Commission for Europe ("UNECE") European Agreement on the International Carriage of Dangerous Goods by Road. This requires that clinical or medical waste would be packed, marked, labeled and documented according to defined specifications including provisions of weight. Regulations and cost factors have prompted European RMW generators to seek alternative medical waste disposal options. MCM recognizes an excellent opportunity for SteriMed sales in Europe, and is working with regulators, potential joint venture partners and distributors.

Throughout the less industrialized and third world countries, the disposal of hospital waste is coming under increasing scrutiny and regulations. Many countries are in the process of updating and enforcing regulations regarding the disposal of RMW. MCM has been establishing relationships worldwide directly or through distributors in many of these countries. Additional information will be addressed in the Marketing section.

**The MCM SteriMed Systems**

We developed and market worldwide the SteriMed and SteriMed Junior compact units. These units simultaneously shred and disinfect RMW, reducing its volume up to 90%, and rendering it harmless for disposal as ordinary waste. The SteriMed Systems are patented, environmentally-friendly, on-site disinfecting and destruction units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 15 minute cycle. The units, comparable in size to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid® solution. After treatment, the material may be discarded as conventional solid waste, in accordance with appropriate regulatory requirements.

The SteriMed Systems enable generators of RMW, such as clinics and hospitals, to significantly reduce costs for treatment and disposal of RMW, eliminate the potential liability associated with the regulated "cradle to grave" tracking system involved in the transport of RMW, and treat in-house RMW on-site in an effective, safe and easy manner. As the technology for disinfection is chemical-based, within the definitions used in the industry, it is considered as an alternative treatment technology.

The SteriMed Systems are comprised of two different sized units, and the required Ster-Cid® disinfectant solution can be utilized with both units. The larger SteriMed can treat up to 18.5 gallons (70 liters) of medical waste per cycle. The smaller version, the SteriMed Junior, can treat 4 gallons (15 liters) per cycle.

Ster-Cid® is our proprietary disinfectant solution used in the SteriMed Systems. Ster-Cid® is biodegradable and is registered with the U.S. Environmental Protection Agency ("U.S. EPA") in accordance with the Federal Insecticide, Fungicide, Rodenticide Act of 1972 ("FIFRA"). During the SteriMed disinfecting cycle, the concentration of Ster-Cid® is approximately 0.5% of the total volume of liquids. The Ster-Cid® disinfectant in conjunction with the SteriMed Systems has been tested in independent laboratories. Results show that disinfection levels specified in the U.S. EPA guidance document, "Report on State and Territorial Association on Alternate Treatment Technologies"

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(STAATT"), are met. Furthermore, it is accepted by the waste water treatment authorities to discharge the SteriMed effluent containing a low concentration of the disinfectant into the sewer system. STAATT is a worldwide organization involved in setting criteria for efficacy of alternative medical waste treatment technologies.

Both SteriMed units are safe and easy to operate requiring only a half day of training. Once the cycle commences, the system is locked, and water and Ster-Cid® are automatically released into the treatment chamber. The shredding, grinding and mixing of the waste is then initiated exposing all surfaces of the medical waste to the chemical solution during the 15 minute processing cycle. At the end of each cycle, the disinfected waste is ready for disposal as regular solid waste.

In the United States, the initial focus of marketing the SteriMed Systems has been to dialysis clinics on a lease or sales basis. We have also begun initial installations in other new sectors such as surgical centers, laboratories, plasmapheresis centers, and hospitals. Other potential markets include blood banks, cruise ships and military medical facilities.

Internationally, we continue to market our SteriMed Systems both directly and indirectly through distributors. Our distributors are trained by us to enable them to take on the responsibility for the installation and maintenance that are required for the SteriMed Systems.

**Regulations and Regulatory Compliance for Alternative Medical Waste Treatment Technologies in the United States**

Our use of the Ster-Cid® disinfectant in the SteriMed Systems is registered by the U.S. EPA under FIFRA. The Ster-Cid® disinfectant is considered a pesticide, and is registered under FIFRA Number 71814. FIFRA gives the federal government control over the distribution, sale and use of pesticides. All pesticides used in the U.S. must be registered (licensed) by the U.S. EPA under FIFRA. Registration of pesticides is to seek assurance that they will be properly labeled, and if used in accordance with label specifications, will not cause unreasonable harm to the environment.

The SteriMed Systems are regulated at the state level by the individual states' Environmental, Conservation, Natural Resources, or Health Department. Each state has its own specific approval requirements for alternative treatment technologies. Generally, most states require an application for registration or approval be submitted along with back up information, including but not limited to operating manuals, service manuals, and procedures. Additionally, many states require contingency and safety plans be submitted, and that efficacy testing be performed. MCM has demonstrated through efficacy testing that it can inactivate the 4Log10 concentration of *Bacillus atrophaeus (*formerly *Bacillus subtilis)* spores and a 6Log10 concentration of Geobacillus stearothermophillus. This meets or exceeds most state regulatory requirements.

The SteriMed has been approved for marketing in 46 states and the SteriMed Junior in 42 states. The Ster-Cid® disinfectant has been registered in 50 states. We are currently seeking approvals for marketing in the remaining states.

Local and county level authorities generally require that discharge permits be obtained from waste water treatment authorities by all facilities that discharge a substantial amount of liquids or specifically regulated substances into the sewer system. The SteriMed Systems process effluent has been characterized and found to be within the lower range of the general discharge limits set forth by the National Pollutant Discharge Elimination System (NPDES) Permitting Program, which are used to establish waste water treatment authorities' discharge limits.

These approvals allow the SteriMed Systems effluent to be discharged into a municipal sewer and the treated disinfected shredded waste to be disposed of in a municipal landfill.

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The process used by the SteriMed Systems, unlike many other waste medical disposal technologies, is not subject to the Clean Air Act Amendments of 1990 because there is no incineration or generation of toxic fumes in the process. It is also not subject to the Hazardous Materials Transportation Authorization Act of 1994 as there is no transportation of hazardous waste involved.

**Regulations and Regulatory Compliance for Alternative Medical Waste Treatment Technologies outside of the United States**

CE Mark compliancy is a requirement for equipment sold in the European Union ("EU"). The SteriMed Systems are CE Mark compliant as well as ISO Certified, 9001:2000 and 14001:2004. In order to meet the specific regulatory requirements of the individual members of the EU, MCM will undertake further efficacy testing where necessary in order to demonstrate that the SteriMed Systems conform to all the standards in the specific EU member country. Outside of the EU, we are required to review and meet whatever the specific standards a country may impose. In countries where we have distributors, they are required to obtain the necessary regulatory approvals on our behalf at their expense. The Company has received approval to market its Sterimed Systems in the United Kingdom and Hungary.

**Competition**

RMW has routinely been treated and disposed of by of incineration. Due to the pollution generated by medical waste incinerators, novel technologies have been developed for the disposal of RMW. Some of the issues confronting these technologies are: energy requirements, space requirements, unpleasant odor, radiation exposure, excessive heat, volume capacity and reduction, steam and vapor containment, and chemical pollution. The use of the SteriMed Systems eliminates concern about these issues: space and energy requirements are minimal, there are no odors, radiation, steam, vapor or heat generated, solid waste volume is reduced by up to 90% and the disinfecting chemical is biodegradable. The following are the various competitive technologies:

Autoclave (steam under pressure): Autoclaves and retort systems are the most common alternative method to incineration used to treat medical waste. Autoclaves are widely accepted because they have historically been used to sterilize medical instruments. However, there are drawbacks as autoclaves may have limitations on the type of waste they can treat, the ability to achieve volume reduction, and odors generated as a result of the process. During the December 2005 meeting of STAATT, the efficacy of autoclaves has come under scrutiny due to inherent inability of autoclaves to physically destroy the waste.

Microwave Technology: Microwave technology is a process of disinfection that exposes material to moist heat and steam generated by microwave energy. The waves of microwave energy cycle rapidly between positive and negative at very high frequency, around 2.45 billion times per second. This generates the heat needed to change water to steam and carry out the disinfection process at a temperature between 95 and 100 degrees centigrade. Use of this technology requires that proper precautions be taken to exclude the treatment of hazardous material so that toxic emissions do not occur. Also offensive odors may be generated around the unit. The capital cost is relatively high.

Thermal Processes: Thermal processes are dry heat processes and do not use water or steam, but forced convection, circulating heated air around the waste or using radiant heaters. Companies have developed both large and small dry-heat systems, operating at temperatures between 350$^{o}$F-700$^{o}$F. Use of dry heat requires longer treatment times as the fluids trapped in the medical waste must be heated to create the steam required for disinfection.

High Heat Thermal Processes: High heat thermal processes operate at or above incineration temperatures, from 1,000$^{o}$F to 15,000$^{o}$F. Pyrolysis, which does not include combustion or burning, contains chemical reactions that create gaseous and residual waste products. The emissions are lower than that created by incineration, but the

pyrolysis demands heat generation by resistance heating such as

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with bio-oxidation, induction heating, natural gas or a combination of plasma, resistance hearing and superheated steam.

Radiation: Electron beam technology creates ionized radiation, damaging cells of microorganisms. Workers must be protected with shields and remain in areas secured from the radiation.

Chemical Technologies: Disinfecting chemical agents that integrate shredding and mixing to ensure adequate exposure are used by a variety of competitors. Chlorine based chemicals, using sodium hypochlorite and chlorine dioxide, are somewhat controversial as to their environmental effects and their impact on wastewater. Non-chloride technologies are varied and include peracetic acid, ozone gas, lime based dry powder, acid and metal catalysts as well as alkaline hydrolysis technology used for tissue and animal waste.

Among the competitors in the infectious medical waste business are Stericycle, Inc., Sanitec, Inc. Saniflash PTY LTD, AduroMed Corp., Meteka GmbH, Tecno Service First Srl (Newster srl), Ecodas, Waste Processing Solutions Company, and Waste Reduction, Inc.

**Competitive Features of the SteriMed Systems**

Seizing the opportunity afforded by the regulatory changes and pricing pressures in the healthcare industry, we are positioning our products as viable alternatives to the traditional medical waste disposal methods. The SteriMed Systems seek to offer medical waste generators a true on-site option that is less risky, less expensive, and more environmentally friendly than the alternatives. The main competitive advantages of the SteriMed Systems are:

*Safety*

a) No need to pack containers of medical waste
b) No need to transport infectious waste through facilities with patients
c) No need to ship infectious medical waste on public roads
d) Environmentally sound approach for disinfection – uses biodegradable chemicals; does not release smoke, odor, steam or other emissions to the air; removes the need for incineration
e) Quiet system - noise level during cycle is approx. 64.1dB(A), regarded below levels of noise safety concerns by most government regulations

*Labor*

a) Reduce the exposure to infectious medical waste by limiting the time an employee handles, stores and packs the waste
b) No need to administer and track waste that is shipped from the facility
c) Ease of use
d) Employees can continue to perform their regular functions while the SteriMed Systems treatment cycle is operational

*Convenience*

a) Rapid deployment through our system designs that enable “same day” installation and start up at a client’s site
b) Easily installed requiring only electricity, water and sewage outlet which are usually which are usually readily available. No special ventilation or lighting required
c) Fast cycle process times (approximately 15 minutes) that enables even our smallest system to generate a rapid throughput capability
d) Limited training required for operators due to the fully automated systems based upon a one-touch start method
e) Due to their compact size, units can be strategically placed in a health care facility close to the waste generation sites

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f) Due to its compact size, the SteriMed System is also appropriate for mobile facilities such as cruise ships and naval vessels.

*Cost Saving*

a) One of the lowest capital costs for comprehensive onsite medical waste systems
b) Reduced labor time as packaging for off site transportation is eliminated
c) No transportation costs to incineration site
d) Our business model allows for the SteriMed Systems to be leased to U.S. facilities generating the infectious clinical waste. This model obviates the need for capital investment by users, and should also reduce previous operating expenses in disposing of medical waste.
e) Ability to fix costs for a given period of time, avoiding future price increases and surcharges, while allowing for additional capacity at a low variable cost
f) Energy efficient systems that consume just pennies per cycle in electricity and water

*Compliant with Domestic and International Regulations*

a) Enable infectious medical waste generating facilities to replace existing systems while meeting federal, state and local environmental as well as health regulations.
b) Proprietary, environmentally safe, 90% biodegradable chemical for disinfection which has been cleared for use in many foreign countries and which is registered in most states.

These features are intended to make the use of the SteriMed Systems a very attractive solution to health care organizations, especially those that are forced to reconsider their current medical waste management programs. This is primarily due to federal and state regulations or the ongoing pressures to reduce their ever increasing operating costs.

**Marketing Strategy**

We have designed and are implementing a marketing program based upon our SteriMed Systems and its value proposition. Our overall marketing campaigns are also focused on the value statement "…..*Is Green*…….*Saves Green*…. statement that defines our business as one which helps our clients simultaneously achieve their goals of sustainability through environmental responsibility, and improved financial performance through the reduction in operating costs associated with waste treatment and disposal.

Our marketing strategy is driven by a sales program with a four pronged approach consisting of the following channels for product distribution: direct selling to end users of our products in the commercial market, direct selling to end users of our products in the government and defense industry, Sales to US based and foreign distributors of our products, and agent-based representatives.

**Direct Selling to End Users in the Commercial Market**

In the United States we employ sales personnel who are responsible for selling to key customers in our key applications. Our definition of a "key" customer group are generators of medical waste with sites which best fit the capabilities and capacity of our SteriMed Systems. Within the United States these "key" applications are dialysis centers, small hospitals, surgical centers, plasmapheresis centers, blood banks, commercial laboratories (both research and clinical) as well as independent physician group practices.

Many of these facilities are owned by regional, national or international corporations operating numerous facilities. Focusing our sales efforts on this customer profile affords us the opportunity to achieve multiple sales within the same organization and enhances our ability to service and support our customers. We are presently deploying our SteriMed

Systems at several dialysis centers in the

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implementation of this strategy which includes two companies that are leaders in the field both domestically and overseas.

Our business marketing models in the U.S. are either lease or purchase of the SteriMed Systems. A typical SteriMed lease (which, at the customer's option, can also include installation costs) is for a five year period. We have contacts with several leasing companies that offer this facility to our customers, including options for both capital leases and off balance sheet operating leases.

**Direct Selling to End Users in the Government and Defense Industry**

We have continued to build on our initiative to capture business with the government and defense industry. In Fiscal 2006, we shipped two SteriMed Juniors to the United States Department of Defense for use by the U.S. Navy. The first unit was for laboratory test and evaluation as part of the U.S. Navy's Shipboard Medical Waste Management Program. In September 2007, the second unit was deployed for shipboard evaluation on an LHD Class flagship vessel within the U.S. Navy's Expeditionary Strike Group. The SteriMed System as deployed is a modified version of our commercial-off-the-shelf (COTS) system. The program for the Navy represents a significant opportunity for us in that the Navy is actively seeking a "total fleet solution" to medical waste management problems. Of the medical waste processing systems considered by the Navy, the SteriMed System ranked among the highest to meet the needs (sterilization capability, size, ability to reduce the volume of waste and ability to render the waste non-recognizable) identified for evaluation aboard ship. Our SteriMed Junior was identified as a solution that achieved the Navy's cost, ship impact, and performance metrics. We are actively supporting the Navy project in an attempt to earn this business which could result in the sales of multiple SteriMed systems. The Navy recently placed an order for an additional SteriMed System as they continue their evaluation program.

In addition to these opportunities, we are actively marketing to other branches of the military, including ground based operations where the need to reduce cost and to improve the environmental impact of medical waste management are key issues.

**Sales to US-based and Foreign Distributors**

To maximize and augment our sales efforts in the U.S., we have been actively recruiting distributors. Ideally, we are seeking local and regional distributors who will have the right to sell the SteriMed Systems and related products within their prescribed geographical areas or business sectors. In order to gain exclusivity, the distributor must commit to minimum annual purchases. The distributor is obligated to work within the guidelines and regulatory approvals set up and maintained by us.

In addition, we have a non-exclusive distribution agreement with certain divisions of Fresenius Medical Care North America ("FMC"). FMC is permitted to distribute our consumables, i.e. SterCrad® and SteriMed Filter Bags throughout the U.S., Canada and the Caribbean Basin. This arrangement provides an efficient logistical system for customers to access our consumables as FMC has excellent penetration in the renal care market. FMC has numerous distributions sites throughout its territory which speeds delivery of these critical consumables to our clients, while reducing our need to provide a costly, distribution network for this supply chain solution.

In April 2007, we entered into a five year non-exclusive distribution agreement with McKesson Medical-Surgical, a leading provider of healthcare products and services to surgical centers, granting McKesson distribution rights to market our SteriMed systems for on-site medical waste processing to ambulatory surgical centers in the United States.

In May 2007, we entered into a non-exclusive distribution agreement granting Henry Schein, Inc., one of the largest providers of healthcare products and services to office-based practitioners in the

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combined North American and European markets, distribution rights to market MCM's SteriMed line of on-site medical waste processing units to dialysis clinics in the United States.

Internationally, we market our SteriMed Systems both directly and indirectly through distributors. In order to gain exclusivity, the distributor must commit to minimum annual purchases. In those countries where we have distributors, it is their responsibility to market and support the sales of the SteriMed Systems at their own expense as well as obtain all regulatory approvals which will be registered in the name of MCM.

We currently have international distributorship arrangements in Mexico, Russia and the Caribbean. We also have distributor agreements in Hungary, Japan, Portugal and South Africa (defined as South Africa Development Countries).

**Agent-based Representatives**

Concurrent to our direct sales in the U.S, we continue to actively recruit agents who will act as our selling representatives, thus reducing our cost of sales. We presently utilize the services of these agents on both the Eastern and Western coasts of the Unites States. These agents seek out opportunities for SteriMed in their local markets and are compensated for these sales through an agent based commission fee. The criteria for the selection of these agents is that they must have existing, strong, long-term relationships with clients that are within our "key" applications as defined herein.

**Manufacturing**

We recognize that to be successful, we need to be able to supply manufactured units that are robust, cost effective, reliable intrinsically safe, and of world class quality

We manufacture components for the SteriMed systems globally at several key suppliers. These components are then assembled at either our facility in Moshav Moledet, Israel or at a contract manufacturing partner. The SteriMed Junior is assembled by a third-party contract assembly company in Israel. The SteriMed is assembled in house at our engineering facility in Israel or at a contract assembly company as volume warrants. We continue to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as seek alternative locations for its manufacture and/or assembly in closer proximity to our customer base.

Our assembly facility in Israel is operated under the strictest guidelines of the global quality standard of ISO 9001:2000 and ISO 14001:2004.

Approximately half of the SteriMed Systems' components are commercially available from third-party suppliers. The remaining components are either generic with modification or customized specifically for the SteriMed. Presently we maintain an inventory of spare parts and supplies in our Hackensack, NJ warehouse and at our facility in Moledet, Israel.

**Maintenance and Customer Service Model**

Critical to the successful use of the SteriMed Systems is the proper training of the personnel carrying out the installation, operation and service of the equipment. Our technical service staff assists clients in the installation of units and the training of their staff and on-site operators. This training program is strongly geared to safety and maintenance to assure ongoing safe and smooth operation of the unit. After installation and training, operation of the unit is monitored by our technical staff to assure proper performance. In the U.S. our technical staff is on call around the clock to assist with any questions or issues relating to the operation of our SteriMed Systems. Our goal is to

minimize problems through ongoing training and strict adherence to maintenance schedules. We provide our customers with a

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warranty covering non-wear parts and labor for one year. In the U.S., an extended warranty program is available to our customers upon purchasing the unit.

In the U.S., we recently launched an industry's first, real time cellemetry program. The latest versions of the SteriMed systems have embedded wireless communication systems which communicate machine performance data to technical support personnel. This system provides us with real time reporting on machine performance data, including service data, to enable us to provide same or next business day onsite support to the waste processing equipment. The cellemetry system has resulted in improved machine availability and customer satisfaction. Cellemetry is a part of our overall customer service model and is available as an annual subscription service to our customers after the expiration of the one year machine warranty period.

**Proprietary Rights**

There exist various medical waste treatment technologies that can be combined and employed in different ways, making trademarks and patents very important pieces of intellectual property to possess in the medical waste treatment industry.

MCM acquired and/or applied for trademarks and patents for our SteriMed and Ster-Cid® products as indicated in the following tables. The validation for patents is extended to fifteen years, provided an annual fee (on renewal dates) is paid in the respective country.

**MCM STERIMED – INTERNATIONAL CLASS 10 TRADEMARK:**

| File No. | Country | Application No. | Application Date | Trademark No. |
|---|---|---|---|---|
| 99205 | Australia | 813207 | 11/9/1999 | 813207 |
| 99202 | Canada | 1035658 | 11/12/1999 | TMA 596,329 |
| 99203 | Common European Market Trademarks (CTM) | 1380195 | 11/11/1999 | 1380195 |
| 99215 | Hungary | M-9905279 | 11/10/1999 | 164682 |
| 99200 | Israel | 131893 | 11/1/1999 | 131893 |
| 99204 | Japan | 11-103144 | 11/12/1999 | 4562185 |
| 99206 | Mexico | 412940 | 2/23/2001 | 656603 |
| 99217 | Poland | Z-209696 | 11/10/1999 | 145760 |
| 99213 | Russia | 99719294 | 11/18/1999 | 200276 |
| 99201 | U.S.A | 75/904,150 | 1/29/2000 | 2,713,884 |

**MCM STER-CID® INTERNATIONAL CLASS 5 TRADEMARK:**

| File No. | Country | Application No. | Application Date | Trademark No. |
|---|---|---|---|---|
| 99205 | Australia | 813207 | 11/9/1999 | 813207 |
| 99202 | Canada | 1035658 | 11/12/1999 | TMA 596,329 |
| 99203 | Common European Market Trademarks (CTM) | 1380195 | 11/11/1999 | 1380195 |

| | | | | |
|---|---|---|---|---|
| 99215 | Hungary | M-9905279 | 11/10/1999 | 164682 |
| 99200 | Israel | 131893 | 11/1/1999 | 131893 |

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|---|---|---|---|---|
| 99204 | Japan | 11-103144 | 11/12/1999 | 4562185 |
| 99206 | Mexico | 412940 | 2/23/2001 | 656603 |
| 99217 | Poland | Z-209696 | 11/10/1999 | 145760 |
| 99213 | Russia | 99719294 | 11/18/1999 | 200276 |
| 99201 | U.S.A | 75/904,150 | 1/29/2000 | 2,713,884 |

**MCM STERIMED PATENTS & PATENT APPLICATIONS:**

| File No. | Country | Application No. | Application Date | Patent No. | Dates Patent Valid |
|---|---|---|---|---|---|
| 9454 | U.S.A | 08/369,533 | 1/5/1995 | 5,620,654 | 4/15/1997 - 4/15/2014 |
| 9456 | Canada | 2,139,689 | 1/6/1995 | 2,139,689 | 10/5/1999 - 1/6/2015 |
| 9452 | Australia | 10096/95 | 1/9/1995 | 684,323 | 4/2/1998-1/9/2015 |
| 9453 | Japan | 7-011844 | 1/23/1995 | 3058401 | 4/21/2000- 1/27/2015 |
| 9346 | Israel | 108,311 | 1/10/1994 | 108,311 | 12/23/1999-1/10/2014 |
| 9455 | Europe | 95630001.6 | 1/5/1995 | EP0662346 | 3/28/2001 - 1/5/2015 or according to National Phase |
| 6.1 - 2114 | Austria | | 1/5/1995 | E200039 | 2/15/2001-1/5/2015 |
| 6.2 - 2115 | Belgium | | 1/5/1995 | 10662346 | 2/15/2001-1/5/2015 |
| 6.3 - 2116 | Germany | | 1/5/1995 | DE69520458T2 | 2/15/2001-1/5/2015 |
| 6.4 - 2117 | Spain | | 1/5/1995 | EP0662346 | 2/15/2001-1/5/2015 |
| 6.5 - 2118 | France | | 1/5/1995 | EP0662346 | 2/15/2001-1/5/2015 |
| 6.6 - 2119 | United Kingdom | | 1/5/1995 | EP(UK)662346 | 2/15/2001-1/5/2015 |
| 6.7 - 2120 | Italy | | 1/5/1995 | 0662346 | 2/15/2001-1/5/2015 |
| 6.8 - 2121 | Netherlands | | 1/5/1995 | EP0662346 | 2/15/2001-1/5/2015 |

**MCM STERIMED PATENT CORPORATION TREATY ("PCT") INTERNATIONAL PHASE PATENTS –PCT/IL02/00093:**

| File No. | Country | Application No. | Application Date | Patent No. | Dates Valid (Patent or Application) |
|---|---|---|---|---|---|
| 2338 | Brazil | 200300398 | 7/31/2003 | P10206913-0 | 7/31/2003 - 2/4/2022 |
| 2339 | Mexico | PA/a/2003/ 006946 | 8/4/2003 | Pending | 8/4/2003 - 2/4/2022 |
| 2340 | Russia | 2003127023 | 9/4/2003 | Pending | 9/4/2003 - 2/4/2022 |
| 2341 | South Africa | 2003/5602 | 7/21/2003 | 2003/5602 | 9/23/2003 - 2/4/2022 |
| 2342 | Canada | 2437219 | 8/1/2003 | Pending | 8/1/2003 - 2/4/2022 |
| 2343 | China | 02806986.2 | 9/22/2003 | Pending | 9/22/2003 - 2/4/2022 |
| 2712 | Hong Kong | 4106248.3 | 8/20/2004 | ZL028069862 | 6/14/2006-2/4/2022 |
| 2344 | India | 01389/ chenp/03 | 9/2/2003 | Pending | 9/2/2003 - 2/4/2022 |

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| File No. | Country | Application No. | Application Date | Patent No. | Dates Valid (Patent or Application) |
|---|---|---|---|---|---|
| 2313/354 | Europe | 02711185.5 | 9/5/2003 | P210477 PCT/EP | 9/5/2003- 2/4/2022 |
| 2337 | Australia | 2002230065 | 2/4/2002 | Pending | 2/4/2002 - 2/4/2022 |
| 2373 | USA | 09/824,685 | 4/4/2001 | 6494391 | 12/17/2002 - 4/4/2021 |

We maintain, in-house, a system that tracks all expiration dates for our trademarks and patents. This internal tracking system alerts us when renewal submissions are required.

**Employees**

As of October 31, 2007, we employed 19 full time employees and one part-time employee, including four senior managers. Of these, eight employees are located at our facility in Israel.

None of our employees is represented by any labor organization and we are not aware of any activities seeking such organization. We consider our relations with employees to be good.

As the level of our activities grow, additional personnel may be required.

**Properties**

We lease approximately 4,200 square feet of office space in Hackensack, New Jersey for executive and administrative personnel pursuant to a lease that expires on September 30, 2011 at a base monthly rental of approximately $7,500, plus escalation. We also lease on a month to month basis approximately 400 square feet of space in Hackensack, NJ for warehousing purposes at a monthly cost of $575.

In Israel, we lease 2,300 square feet of industrial space at a monthly cost of approximately $1,000 and the lease expires on March 31, 2008.

**Litigation**

In May 2006, Andre Sassoon and Andre Sassoon International, Inc. (the “Plaintiffs”), filed a complaint against us, our subsidiary, M.C.M. Environmental Technologies, Inc. (“MCM”), and George Aaron, who was then our CEO(collectively, the “Company Defendants”) in the Supreme Court of the State of New York, New York County, claiming that the defendants had breached an agreement entered into as part of the December 2002 MCM acquisition to pay $400,000 as settlement of a note previously issued by MCM. The complaint also names all persons who were stockholders of MCM at the time of our original investment in MCM in December 2002. In June 2006, the Plaintiffs filed an amended complaint to include additional counts, alleging certain misrepresentations by the Company Defendants related to the agreement with the Plaintiffs. The Plaintiffs are seeking damages in excess of $400,000 or the stock interest of the MCM stockholders at the time of the Company’s acquisition. Discovery has been undertaken. Based upon our review of the amended complaint, we continue to believe the Plaintiffs’ claims have no merit, and the Company Defendants will vigorously defend this action. Accordingly, we have not recorded any accrual for this litigation as of June 30, 2007.

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## MANAGEMENT

### Executive Officers and Directors

As of October 31, 2007, our directors and executive officers were:

| Name | Age | Position |
|---|---|---|
| Dwight Morgan | 46 | Chairman of the Board, President & CEO |
| George Aaron | 55 | Executive Vice President – International Business Development |
| Jonathan Joels | 51 | Chief Financial Officer, Treasurer, Secretary and Director |
| Kenneth C. Leung (1)(2) | 62 | Director |
| Roger W. Miller | 61 | Director |
| Sol Triebwasser, Ph.D. (1)(2) | 86 | Director |

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(1) Member of the Audit Committee
(2) Member of the Compensation/Option Committee

The principal occupations and brief summary of the background of each Director and executive officer is as follows:

**Dwight Morgan**. Mr. Morgan has been Chairman of the Board since February 2007 and became President and CEO in November 2006. Mr. Morgan has served as our Chief Engineering Consultant since 2003. From 1999 to 2003, he was a founder, President and Chief Operating Officer of POM Group, which had developed an alternative metal fabricating technology. For 17 years to 1999, he served in various management positions at FANUC Robotics North America, with his last position being General Manager – Automation System Group. Mr. Morgan began his career in 1982 as a systems engineer at General Motor Technical Center. Mr. Morgan is a member of the Michigan Economic Development Corporation's Advanced Manufacturing Strategic Roundtable and is Chairman of the Corporate Development Committee of the American Diabetes Association. Mr. Morgan received a BS in Mechanical Engineering from Cornell University.

**George Aaron.** Mr. Aaron has been Executive Vice President – International Business Development since February 2007. Prior thereto Mr. Aaron had served as Chairman of the Board since June 1999 and as President and CEO from 1999 to November 2006. He has served as a Director since 1999 and had previously served as a Director from 1992 until 1996. From 1992 to 1998, Mr. Aaron was the co-Founder and CEO of Portman Pharmaceuticals, Inc. and in 1994 co-founded CBD Technologies, Inc. of which he remains a Director. Mr. Aaron also serves on the Board of Directors of DeveloGen AG, who merged with Peptor Ltd. (the company that had acquired Portman Pharmaceuticals). From 1983 to 1988, Mr. Aaron was the Founder and CEO of Technogenetics Inc. (a diagnostic company). Prior to

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1983, Mr. Aaron was Founder and Partner in Portman Group, Inc. and headed international business development at Schering Plough. Mr. Aaron is a graduate of the University of Maryland.

**Jonathan Joels.** Mr. Joels has been CFO, Treasurer, Secretary and a Director since June 1999. From 1992 to 1998, Mr. Joels was the co-founder and CFO of Portman Pharmaceuticals, Inc. and in 1994 co-founded CBD Technologies, Inc. Mr. Joels' previous experience included serving as a principal in Portman Group, Inc., CFO of London & Leeds Corp. and Chartered Accountant positions with both Ernst & Young and Hacker Young between 1977 and 1981. Mr. Joels qualified and was admitted as a Chartered Accountant to the Institute of Chartered Accountants in England and Wales in 1981 and holds a BA Honors Degree in Accountancy (1977) from the City of London.

**Kenneth C. Leung.** Mr. Leung has been a Director since December 6, 2006**.** Since 1995, Mr. Leung has been a Managing Director of Sanders Morris Harris Group and is engaged in investment banking in environmental and alternative energy, and is the Chief Investment Officer of its Environmental Opportunity Funds. From 1978 to 1994, Mr. Leung had served as a Managing Director at Smith Barney, and for more than ten years prior he served in different positions at other investment banking institutions. He currently serves as Chairman of the Board of American Ecology Corp., (NASDAQ: ECOL), and a director of SystemOne Technologies Inc.(other OTC: STEK.PK) and AeroGrowth International, Inc. Mr. Leung received an MBA in Finance from Columbia University and a BA in History from Fordham University.

**Roger W. Miller.** Mr. Miller has been a Director since February 23, 2007. Since 1992, Mr. Miller has been actively involved as a manager of personal portfolios of investments in private venture-stage companies and small public companies. Mr. Miller had served as a director at some of these companies. He is also a financial consultant and expert witness in valuation cases, merger-related transactions and work-out and restructuring situations. Prior to 1992, Mr. Miller held positions at Cambridge Capital where he was Co-Chairman of the private equity affiliate of Baker, Nye and held the position of General Partner and Managing Director at Salomon Brothers. Mr. Miller holds degrees in both Law and Economics from Cambridge University and London University, respectively.

**Sol Triebwasser, Ph.D.** Dr. Triebwasser has been a Director since 1984. Until his retirement in 1996, Dr. Triebwasser was Director of Technical Journals and Professional Relations for the IBM Corporation in Yorktown Heights New York, which he joined after receiving his Ph.D. in physics from Columbia in 1952. He had managed various projects in device research and applications at IBM, where he is currently a Research Staff member emeritus. Dr. Triebwasser is a fellow of the Institute for Electrical and Electronic Engineers, the American Physical Society and the American Association for the Advancement of Science.

Mr. Aaron and Mr. Joels are brothers-in-law.

The Board of Directors met either in person or telephonically five times in the fiscal year ended September 30, 2006. Each of the Directors attended at least 75% of the meetings.

**Board Committees**

The Board of Directors has standing Audit and Compensation/Option Committees.

The Audit Committee reviews with our independent public accountants the scope and timing of the accountants' audit services and any other services they are asked to perform, their report on our financial statements following completion of their audit and our policies and procedures with respect to internal accounting and financial controls. In addition, the Audit Committee reviews the independence of the independent public accountants and makes annual recommendations to the Board of Directors for the appointment of independent public accountants for the ensuing year. The Audit Committee met six times

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during the fiscal year ended September 30, 2006. The audit committee has not yet designated an "Audit Committee Financial Expert."

The Compensation/Option Committee reviews and recommends to the Board of Directors the compensation and benefits of all of our officers, reviews general policy matters relating to compensation and benefits of our employees and administers our stock option plans.

**Director Compensation**

Directors who are also employees are not paid any fees or additional compensation for services as members of our Board of Directors or any committee thereof. Non-employee Board members are entitled to an annual fee of $20,000 and 20,000 options under our 2002 Stock Option Plan, and may receive additional option grants at the discretion of the Board.

**Executive Compensation**

The following table sets forth the aggregate cash compensation paid by us over the past three fiscal years to (i) our Chief Executive Officer and (ii) our most highly compensated officers whose cash compensation exceeded $100,000 for services performed during the year ended September 30, 2006.

| | | **Annual Compensation** | | | **Long Term Compensation** | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | Awards | | Payouts | |
| Name and Principal Position | Year | Salary ($) | Bonus ($) | Other Annual Compensation ($) | Restricted Stock Award(s) ($) | Securities Underlying Options SARs (#) | LTIP Payouts ($) | All Other compensation ($) |
| George Aaron | 2006 | 240,000 | -0- | -0- | -0- | -0- | -0- | -0- |
| Chairman, | 2005 | 240,000 | -0- | -0- | -0- | -0- | -0- | -0- |
| President/CEO | 2004 | 240,000 | -0- | -0- | -0- | -0- | -0- | -0- |
| Jonathan Joels | 2006 | 220,000 | -0- | -0- | -0- | -0- | -0- | -0- |
| CFO | 2005 | 176,000 | -0- | -0- | -0- | -0- | -0- | -0- |
| | 2004 | 176,000 | -0- | -0- | -0- | -0- | -0- | -0- |

In fiscal 2006 we reimbursed Messrs. Aaron, and Joels in the amounts of $1,000 and $750 per month, respectively for automobile expenses excluding insurance. Messrs. Aaron and Joels are reimbursed for other expenses incurred by them on our behalf in accordance with our policies.

On November 13, 2006, Dwight Morgan was appointed as our President and CEO at an annual base salary of $250,000. In addition, Mr. Morgan received a sign-on bonus of $20,000 as well as a car allowance of $1,000 per month. Upon commencement of his employment, Mr. Morgan was granted an option for 350,000 shares of our common stock at an exercise price of $0.60 per share (the fair market value on the date of grant), with vesting after six months as to 1/8 of the options granted and the balance vesting at 1/48 per month (of the total granted) over the next 42 months under our 2002 Stock Option Plan. Options for 206,050 of the 350,000 shares were subject to stockholder approval of an increase in the number of shares of common stock underlying the Plan. These options were granted at an exercise price of $0.60 on February 26, 2007 when stockholder approval was received.

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In February 2007, upon becoming Executive Vice President – International Business Development, Mr. Aaron's compensation was changed to an annual base salary of $137,000, incentive payments based upon the achievement of prescribed sales milestones up to an additional $192,000, plus commissions.

We do not have any annuity, retirement, pension or deferred compensation plan or other arrangements under which any executive officers are entitled to participate without similar participation by other employees. As of September 30, 2006, under our 401(k) plan there was no matching contribution by the Company.

Listed below is information with respect to options for the above-named executive officers as of September 30, 2006:

**Options/SAR Grants in Last Fiscal Year**

| | | Individual Grants | | |
|---|---|---|---|---|
| **(a)** | **(b)** | **(c)** | **(d)** | **(e)** |
| **Name** | **Number of Securities Underlying Options/SARS Granted (#)** | **% of Total Options/SARS Granted to Employee(s) in Fiscal Year** | **Exercise On Base Price ($/Sh) *** | **Expiration Date** |
| George Aaron | 100,000 | 28.3% | 2.20 | 01/04/16 |
| Jonathan Joels | 100,000 | 28.3% | 2.20 | 01/04/16 |

* Repriced to $1.10 as outlined in the Stock Options section below

**Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year End Option/SAR Values**

| | | | Fiscal Year End Option Value | |
|---|---|---|---|---|
| **Name** | **Shares Acquired or Exercised** | **Value Realized** | **Number of Securities Underlying Unexercised Options at Sept. 30, 2006 Exercisable/Unexercisable** | **Value of Unexercised In-the Money Options at Sept. 30, 2006 Exercisable ($)** |
| George Aaron | - 0 - | - 0 - | 36,660/83,340 | $- 0 - |
| Jonathan Joels | - 0 - | - 0 - | 36,660/83,340 | $- 0 - |

**Stock Options**

In May 2002, our Board of Directors adopted the 2002 Stock Option Plan ("2002 Plan") which was ratified at our stockholder meeting of June 26, 2002. At September 30, 2006, 700,000 shares of common stock were reserved for issuance under the 2002 Plan, of which options for an aggregate of 506,050 shares were granted and outstanding, and

193,950 shares were available for future grants. Between October 1, 2006 and March 31, 2007, options were granted under the 2002 Plan for an aggregate of 1,180,000 shares, of which 1,036,050 shares were granted subject to stockholder approval of an increase in the number of shares of common stock underlying the 2002 Plan. These options which were granted to officers, directors and employees are at an exercise price ranging from $0.52 to $0.80 per share. They are for a 10 year term, vesting after six months as to one-eighth of the options granted, and

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the balance vesting in equal monthly installments over the next forty-two months. The vesting schedule of these options begins, on the date approved by our Board of Directors. Using the Black Scholes Option pricing model we determined that the fair value of these options range from $0.32 to $0.38 per share which equates to a fair value of approximately $371,000 On December 1, 2006, the Board of Directors voted to amend the 2002 Plan by increasing to 1,500,000 the total number of shares of common stock reserved for issuance thereunder, subject to stockholder approval, and on February 23, 2007, the Board raised the number of shares to 2,500,000, subject to stockholder approval. Stockholder approval was obtained as of February 26, 2007 by the written consent of the holders of more than a majority of outstanding voting shares, and notice thereof was given to the other stockholders. Under the 2002 Plan, options may be awarded to employees, directors and consultants. These options may be qualified or not qualified pursuant to the regulations of the Internal Revenue Code.

On March 5, 2007, we re-priced options for the purchase of an aggregate of 458,000 shares which were originally granted on January 4, 2006. The options were originally issued at an exercise price of $2.20 per share and were repriced at $1.10 per share, representing 110% of the then market price of the common stock. Using the Black Scholes Option pricing model, we determined that the additional fair value of these options due to the re-pricing is approximately $53,700. In the second quarter of fiscal 2007 we took a charge of $15,652 for those options which have previously vested and the balance will be expensed over the remaining vesting period of these options.

During 1993, we adopted an employee stock option plan and a stock option plan for non-employee directors. The employee stock option plan provides for the granting of options to purchase not more than 50,000 shares of common stock. These 1993 plans expired in May 2003. As of June 30, 2007, there remain options for 31,500 shares outstanding there under at exercise prices ranging from $3.00 to $5.00 per share, which terminate in 2010.

As of June 30, 2007, we had outstanding options granted outside our plans for an aggregate of 130,000 shares of common stock at exercise prices ranging from $0.70 to $1.75 per share, with expiration dates of September 2009 and July 2011.

**Compensation Committee Interlocks and Insider Participation**

During Fiscal 2006 members of our Compensation/Option Committee were Sol Triebwasser, Ph.D. and Jeffrey Hymes, M.D., neither is an executive officer or employee of the Company or our subsidiaries.

## SECURITY OWNERSHIP

The following table sets forth, as of October 31, 2007, certain information regarding the beneficial ownership of our common stock by (i) each person who is known by us to own beneficially more than five percent of the outstanding common stock, (ii) each of our directors and executive officers, and (iii) all directors and executive officers as a group:

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| Name and Address of Beneficial Owner* | Position with Company | Amount and Nature of Beneficial Ownership (1) of Common Stock | Percentage of Securities *** |
|---|---|---|---|
| Austin W. Marxe and David M. Greenhouse<br>527 Madison Ave.<br>New York, NY 10022 | Holder of over five percent | 9,440,037(2) | 79.3.% |
| Dolphin Offshore Partners LP<br>120 East 17th Street<br>New York, NY 10003 | Holder of over five percent | 3,375,000(3) | 46.7% |
| Bonanza Master Fund Ltd.<br>300 Crescent Ct. Ste. 250<br>Dallas, TX 75201 | Holder of over five percent | 2,799,977(4) | 44.6.% |
| Vision Opportunity Master Fund Ltd<br>20 West 55th Street<br>New York, NY 10019 | Holder of over five percent | 423,000(5) | 9.9% |
| Shrikant Mehta<br>Combine International<br>354 Indusco Court<br>Troy, Michigan 48083 | Holder of over five percent | 210,894 | 5.5% |
| Dwight Morgan | Chairman of the Board; Chief Executive Officer; President | 113,944(6) | 2.9% |
| George Aaron | Director, Executive Vice President | 402,701(7) | 10.0% |
| Jonathan Joels | Director; Chief Financial Officer; Vice President; Treasurer; Secretary | 397,915(8) | 9.9% |
| Sol Triebwasser, Ph.D. | Director | 20,068(9) | ** |
| Kenneth C. Leung | Director | 6,000(10) | ** |

| | | | |
|---|---|---|---|
| Roger W. Miller | Director | 4,166(11) | ** |
| All executive officers and Directors as a group (6 persons) | | 944,794(12) | 21.8% |

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*Address of all holders except those listed with a specific address above is, One University Plaza, Suite 400, Hackensack, New Jersey 07601.

** Less than one percent (1%)

(1) Includes voting and investment power, except where otherwise noted. The number of shares beneficially owned includes shares each beneficial owner and the group has the right to acquire within 60 days of October 31, 2007 pursuant to stock options, warrants and convertible securities.

(2) Consists of (A)(i)1,034,482 shares direct, (ii)2,656,092 shares underlying warrants presently exercisable, (iii) 1,045,718 shares underlying Series D Convertible Preferred Stock and (iv) 2,343,750 shares underlying Series E Convertible Preferred Stock held by Special Situations Private Equity Fund, L.P., (B)(i) 317,037 shares direct, (ii) 814,274 shares underlying warrants presently exercisable, (iii) 320,685 shares underlying Series D Convertible Preferred Stock and (iv) 718,750 shares underlying Series E Convertible Preferred Stock held by Special Situations Fund III, QP, L.P., and (C)(i) 27,790 shares direct, (ii) 71,088 shares underlying warrants presently exercisable, (iii) 27,871 shares underlying Series D Convertible Preferred Stock and (iv) 62,500 shares underlying Series E Convertible Preferred Stock held by Special Situations Fund III, L.P. MGP Advisors Limited ("MGP") is the general partner of the Special Situations Fund III, QP, L.P. and the general partner of and investment adviser to the Special Situations Fund III, L.P. AWM Investment Company, Inc. ("AWM") is the general partner of MGP and the investment adviser to the Special Situations Fund III, QP, L.P. and the Special Situations Private Equity Fund, L.P. Austin W. Marxe and David M. Greenhouse are the principal owners of MGP and AWM. Through their control of MGP and AWM, Messrs. Marxe and Greenhouse share voting and investment control over the portfolio securities of each of the funds listed above.

(3) Consists of (i) 2,250,000 shares underlying Series E Convertible Preferred Stock and (ii) 1,125,000 shares underlying warrants presently exercisable.

(4) Consists of (i) 376,200 shares, (ii) 1,976,012 shares underlying Series D Convertible Preferred Stock and (iii) 447,765 shares underlying warrants presently exercisable.

(5) Includes 416,621 shares underlying Series E Convertible Preferred Stock. Excludes (i) 333,379 shares underlying Series E Convertible Preferred Stock and (ii) 375,000 shares underlying warrants. Pursuant to a Letter Agreement, dated February 27, 2007, between us and Vision Opportunity Master Fund, Ltd. ("Vision"), Vision covenanted not to convert its Series E Convertible Preferred Stock or exercise its warrants if such conversion or exercise would cause its beneficial ownership to exceed 9.99%, which provision Vision may waive, upon not less than 61 days prior notice to us, as reported in its Schedule 13G filed on March 12, 2007.

(6) Includes 97,685 shares underlying options presently exercisable and excludes 276,056 shares underlying options which are currently not exercisable.

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(7) Includes (i) 353 shares in retirement accounts, (ii) 8,199 shares underlying warrants presently exercisable, (iii) 5 shares jointly owned with his wife and (iv)162,690 shares underlying options presently exercisable, and excludes 307,310 shares underlying options which are currently not exercisable.

(8) Includes (i) 48,000 shares as trustee for his children, (ii) 8,616 shares underlying warrants presently exercisable, (iii) 162,690 shares underlying options presently exercisable, (iv) 17,241 shares in a retirement account, and excludes 307,310 shares underlying options which are currently not exercisable.

(9) Includes 19,998 shares underlying options presently exercisable and excludes 25,002 shares underlying options which are currently not exercisable.

(10) Includes 5,000 shares underlying options presently exercisable and excludes 15,000 shares underlying options which are currently not exercisable.

(11) Includes 4,166 shares underlying options presently exercisable and excludes 15,834 shares underlying options which are currently not exercisable.

(12) Includes (i) 16,815 shares underlying warrants and (ii) 468,488 shares underlying options presently exercisable, and excludes 946,512 shares underlying options which are currently not exercisable.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the first two quarters of fiscal 2005, we received advances in the principal amount of $145,923 through short term loans until additional equity funding was secured. The lenders also received warrants to purchase 7,295 shares of common stock exercisable at $5.60 per share for a period of five years. The allocated fair value of the warrants associated with this advance are deemed to be immaterial. These short-term loans were provided by executive officers, Messrs. Aaron, and Joels who advanced $64,000, and $62,357 respectively. As a condition of this financing the holders of the Notes exchanged 50% of our indebtedness for 728 shares of Series C Mandatory Convertible Preferred Stock and on February 15, 2005 were paid the balance of their notes inclusive of interest.

On January 30, 2007, we borrowed the principal amount of $100,000 from Special Situations Private Equity Fund L.P, which is a principal stockholder, through the issuance of a 10% promissory note. This note plus interest of $805.56 was repaid on the closing of the 2007 placement.

We believe that the above referenced transactions were made on terms no less favorable to us than could have been obtained from an unaffiliated third party. Furthermore, any future transactions or loans between us and our officers, directors, principal stockholders or affiliates will be on terms no less favorable to us than could be obtained from an unaffiliated third party, and will be approved by a majority of disinterested directors.

## DESCRIPTION OF SECURITIES

### Common Stock

We are authorized to issue 50,000,000 shares of common stock, $0.01 par value, of which 3,849,662 shares were issued and outstanding as of September 30, 2007.

The holders of common stock are entitled to one vote for each share held of record on all matters to be voted by stockholders. There is no cumulative voting with respect to the election of directors with

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the result that the holders of more than 50% of the shares of common stock and other voting shares voted for the election of directors can elect all of the directors.

The holders of shares of common stock are entitled to dividends when and as declared by the Board of Directors from funds legally available therefore, and, upon liquidation are entitled to share pro rata in any distribution to holders of common stock, subject to the right of holders of outstanding preferred stock. No dividends have ever been declared by the Board of Directors on the common stock. See "Dividend Policy." Holders of our common stock have no preemptive rights. There are no conversion rights or redemption or sinking fund provisions with respect to our common stock. All of the outstanding shares of common stock are, and all shares sold hereunder will be, when issued upon payment therefore, duly authorized, validly issued, fully paid and non-assessable.

**Preferred Stock**

We are authorized to issue 1,000,000 shares of preferred stock, par value $.01 per share, of which 27,000 shares of Series B Preferred Stock, 194,933 shares of Series D Preferred Stock and 10,000 shares of Series E Preferred Stock were outstanding at June 30, 2007. The Series B Preferred Stock ranks senior to any other shares of preferred stock which may be created and the common stock. It has a liquidation value of $100.00 per share, plus accrued and unpaid dividends, is non-voting except if we propose an amendment to our Certificate of Incorporation which would adversely affect the rights of the holders of the Series B Preferred Stock, and is convertible into 57,989 shares of our common stock, subject to customary anti-dilution provisions. No fixed dividends are payable on the Series B Preferred Stock, except that if a dividend is paid on the common stock, dividends are paid on the shares of Series B Preferred Stock as if they were converted into shares of common stock. The Series B Preferred Stock is convertible for ten years from the date of purchase, August 18, 1997, and subject to mandatory conversion upon a change of control or August 18, 2007, whichever occurs first

On February 16, 2006, we filed a Certificate of Designations authorizing the Series D Convertible Preferred Stock, consisting of 250,000 shares at a stated value of $12.40 per share, of which 194,933 shares were outstanding as of June 30, 2007. Pursuant to the 2006 preferred stock placement, we issued 241,933 shares of the Series D Preferred Stock, each share was initially convertible into ten shares of common stock, subject to customary anti-dilution provisions. By reason of these anti-dilution provisions, after the 2007 placement, each outstanding share of Series D Preferred Stock is convertible into 17.29 shares of common stock, or an aggregate of 3,370,286 shares of common stock. These shares are subject to a mandatory conversion commencing after the effective date of a registration statement covering the underlying common stock if the average closing bid price of the common stock for 15 days in any 20 consecutive trading days (including the last five trading days) exceeds $2.68 per share and if the average daily trading volume during such period exceeds 30,000 shares (subject to adjustment). The holders of the Series D Preferred Stock are entitled to an annual cumulative dividend of $0.67 per share, payable semi-annually, commencing October 1, 2007. Neither we nor the holders of the Series D Preferred Stock have the right to cause the redemption thereof.

On March 1, 2007, we closed a placement of 10,000 shares of Series E Convertible Preferred Stock at $250 a share. Each share of the Series E Preferred Stock is convertible into 625 shares of common stock, subject to customary anti-dilution provisions, or an aggregate of 6,250,000 shares of common stock. Commencing October 1, 2007, the holders of the Series E Preferred Stock are entitled to receive a cash dividend at a per share rate equal to $13.50 per annum, and a liquidation preference of $250 per share plus accrued and unpaid dividends, and ranking pari passu with the Series B and Series D Preferred Stock. The Series E Preferred Stock votes on an as-converted basis with the common stock, and has a separate vote with respect to matters directly affecting this Series. Neither we nor the holders of the Series E Preferred Stock have the right to cause the redemption thereof.

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We may issue the remaining authorized preferred stock in one or more series having the rights, privileges, and limitations, including voting rights, conversion rights, liquidation preferences, dividend rights and redemption rights, as may, from time to time, be determined by the Board of Directors. Preferred stock may be issued in the future in connection with acquisitions, financings, or other matters, as the Board of Directors deems appropriate. In the event that we determine to issue any shares of preferred stock, a certificate of designation containing the rights, privileges and limitations of this series of preferred stock will be filed with the Secretary of State of the State of Delaware. The effect of this preferred stock designation power is that our Board of Directors alone, subject to Federal securities laws, applicable blue sky laws, and Delaware law, may be able to authorize the issuance of preferred stock which could have the effect of delaying, deferring, or preventing a change in control without further action by our stockholders, and may adversely affect the voting and other rights of the holders of our common stock.

**Transfer Agent**

American Stock Transfer and Trust Company, New York, New York, is the transfer agent for our common stock.

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## SELLING STOCKHOLDERS

The selling stockholders are comprised of:

(i) George Aaron and Jonathan Joels, executive officers and directors, for an aggregate of 475,236 shares, including 16,815 shares underlying warrants (the "Prior Warrants") held by such officers at exercise prices ranging from $1.80 to $5.60 per share;

(ii) nine other persons who hold Prior Warrants exercisable for an aggregate of 24,644 shares;

(iii) three institutional investors who received an aggregate of 1,379,309 shares upon the April 2005 conversion of Series C Convertible Preferred Stock (the "Series C Preferred") that they had purchased in the February 2005 placement;

(iv) eleven persons, including the foregoing three institutional investors, who had acquired warrants for the purchase of an aggregate of 620,682 shares at exercise prices ranging from $1.11 to $1.66 per share (the "2005 Warrants") as part of the February 2005 placement of the Series C Preferred; and

(v) ten designees of the placement agent in the February 2005 placement who hold (A) placement warrants for the purchase of an aggregate of 75,000 shares at exercise prices ranging from $1.11 to $1.66 per share and (B) placement warrants for the purchase of an aggregate of 71,250 shares at an exercise price of $5.60 per share from prior placements (collectively, the "Agents' Warrants").

None of the selling stockholders has held any position or office or had any material relationship with us or any of our predecessors or affiliates within three years of the date of this prospectus other than (i) George Aaron and Jonathan Joels are executive officers and directors, and (ii) Special Situations Private Equity Fund, L.P. having made a $100,000 bridge loan to us in January 2007 that was repaid in March 2007 on the closing of the placement of Series E convertible preferred stock (the "Series E Preferred).

The following table sets forth, as of October 31, 2007, information with regard to the beneficial ownership of our common stock by each of the selling stockholders. The term "selling stockholder" includes the stockholders listed below and their respective transferees, assignees, pledges, donees and other successors.

Because the selling stockholders may offer all, some or none of their common stock, no definitive estimate as to the number of shares thereof that will be held by the selling stockholders after such offering can be provided and the following table has been prepared on the assumption that all shares of common stock offered under this prospectus will be sold.

| Name(1) | Shares Beneficially Owned Prior To Offering(1) | Percent Beneficially Owned Before Offering | Shares to be Offered | Amount Beneficially Owned After Offering(2) | Percent Beneficially Owned After Offering |
|---|---|---|---|---|---|
| George Aaron (3) | 402,701 | 10.0% | 240,011 | 162,690 | 4.1% |
| Diana Anderson (4) | 4,368 | * | 2,000 | 2,368 | * |
| Roberto Bianchi (5) | 18,907 | * | 1,666 | 17,241 | * |
| Bonanza Trust (6) | 66,307 | 1.7% | 29,250 | 37,057 | 1.0% |
| Robert Cohen (7) | 39,178 | 1.0% | 6,896 | 32,282 | * |
| Dianthus Trust (8) | 49,557 | 1.3% | 12,500 | 37,057 | 1.0% |
| | 39,178 | 1.0% | 6,896 | 32,282 | * |

| |
|---|
| Stanley Goldberg Ttee Ltnn<br>Intrater Ttee(9) |

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| Name(1) | Shares Beneficially Owned Prior To Offering(1) | Percent Beneficially Owned Before Offering | Shares to be Offered | Amount Beneficially Owned After Offering(2) | Percent Beneficially Owned After Offering |
|---|---|---|---|---|---|
| Jonathan Joels (10) | 397,915 | 9.9% | 235,225 | 162,690 | 4.1% |
| Nicholas Joels (11) | 32,144 | * | 2,834 | 29,310 | * |
| Kurt Kilstock (12) | 5,000 | * | 5,000 | - | * |
| Helen Kohn (13) | 78,027 | 2.0% | 27,500 | 50,527 | 1.3% |
| Eliott Koppel (14) | 32,777 | * | 3,894 | 28,883 | * |
| KWG Trust (15) | 16,750 | * | 16,750 | - | * |
| Laidlaw & Co. (UK) Ltd. (16) | 5,000 | * | 5,000 | - | * |
| Frayda Mason (17) | 45,316 | 1.2% | 9,000 | 36,316 | * |
| Little Bear Investments LLC (18) | 196,273 | 4.9% | 2,758 | 193,515 | 4.8% |
| Wolf Prensky (19) | 10,968 | * | 3,448 | 7,520 | * |
| Zachary Prensky (20) | 46,068 | 1.2% | 14,482 | 31,586 | * |
| Deborah Steinberger Raz (21) | 1,500 | * | 1,500 | - | * |
| David Roush (22) | 39,178 | 1.0% | 6,896 | 32,282 | * |
| Alan Rubin (23) | 78,356 | 2.0% | 13,792 | 64,564 | 1.7% |
| Special Situations Fund III LP (24)(25) | 189,249 | 4.8% | 38,906 | 150,343 | 3.8% |
| Special Situations Fund III QP, L.P. (24)(26) | 2,170,746 | 38.0% | 443,851 | 1,726,895 | 30.3% |
| Special Situations Private Equity Fund, L.P. (24)(27) | 7,080,042 | 71.6% | 1,448,274 | 5,631,768 | 56.9% |
| Mary Ellen Spedale (28) | 9,118 | * | 1,250 | 7,868 | * |
| Jonathan Steinberger (29) | 8,844 | * | 1,500 | 7,344 | * |
| Ruth Steinberger (30) | 3,000 | * | 3,000 | - | * |
| Howard Sterling (31) | 7,500 | * | 7,500 | - | * |
| Lisa Sucoff (32) | 49,316 | 1.3% | 13,000 | 36,316 | * |
| Ronit Sucoff (33) | 78,027 | 2.0% | 27,500 | 50,527 | 1.3% |
| Beverly Tkaczenko (34) | 15,174 | * | 250 | 14,924 | * |
| Valkyrie Leasing LLC (35) | 78,356 | 2.0% | 13,792 | 64,564 | 1.7% |

* Less than one percent (1%).

1. Unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable. Beneficial ownership includes shares of common stock underlying the Series D Preferred, Series E Preferred, options and warrants exercisable within 60 days from October 31, 2007. Ownership is calculated based upon 3,849,662 shares of common stock outstanding as of October 31, 2007.

2. Assumes the sale of all shares covered hereby. A portion of these securities are included in separate registration statements that we filed on behalf of the holders therein, see Nos. 333-132849 and 333-141647.

3. Includes (i) 231,454 shares owned directly, (ii) 8,199 shares underlying the Prior Warrants, (iii) 353 shares in retirement accounts, (iv) 5 shares owned jointly with his wife, all registered herein, and (v) 125,205 shares underlying options Does not include 344,795 shares underlying options not presently exercisable.

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4. Includes 2,000 shares underlying Agents' Warrants registered herein and 2,368 shares underlying other warrants. Does not include 1,000 shares underlying 2006 Agent's Warrants and 4,500 shares underlying Agent Warrants in connection with the 2007 Series E Preferred Stock Placement beneficially owned by Mrs. Anderson's husband in which shares she disclaims any beneficial ownership.

5. Include 1,666 shares underlying Prior Warrants registered herein.

6. Includes (i) 29,250 shares underlying Agents' Warrants, registered herein, and (ii) 37,057 shares underlying other warrants. Jeff Zaluda, Trustee for Agent, has dispositive power and voting power over these securities.

7. Includes 6,896 shares underlying 2005 Warrants registered herein and (ii) 15,041 shares underlying other warrants.

8. Includes (i) 12,500 shares underlying Agents' Warrants registered herein and (ii) 37,057 shares underlying other warrants. Deidre Henderson as Trustee has dispositive power and voting power over these securities.

9. Includes 6,896 shares underlying 2005 Warrants registered herein, and (ii) 15,041 shares underlying other warrants.

10. Includes (i) 161,368 shares owned directly, (ii) 8,616 shares underlying Prior Warrants, (iii) 48,000 shares as trustee for his children, (iv) 17,241 shares in a retirement account, all registered herein, and (v) 125,205 shares underlying options Does not include 344,795 shares underlying options not presently exercisable.

11. Includes 2,834 shares underlying Prior Warrants registered herein.

12. Includes 5,000 shares underlying Prior Warrants registered herein.

13. Includes (i) 27,500 shares underlying Agents' Warrants, registered herein and (ii) 50,527 shares underlying other Warrants. This does not include 13,000 shares underlying 2006 Agents' Warrants beneficially owned by Mrs. Kohn's husband in which shares she disclaims beneficial ownership

14. Includes (i) 3,894 shares underlying Prior Warrants registered herein and (ii) 28,883 shares underlying options.

15. Includes 16,750 shares underlying Agents' Warrants registered herein. Jeff Zaluda, as Trustee, has dispositive power and voting power over these securities.

16. Includes 5,000 shares underlying Prior Warrants.

17. Includes (i) 9,000 shares underlying Agents' Warrants registered herein and (ii) 36,316 shares underlying other warrants. This does not include 8,400 shares underlying 2006 Agents' Warrants beneficially owned by Mrs. Mason's husband in which shares she disclaims beneficial ownership

18. Includes (i) 2,758 underlying 2005 Warrants registered herein, (ii) 125,000 shares underlying Series E Preferred Stock and (iii) 68,515 shares underlying other warrants. Jeffrey Mann and Zachary Prensky each has dispositive power and voting power over these securities. Does not include 46,068 shares underlying warrants held by Mr. Prensky.

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19. Includes 3,448 shares underlying 2005 Warrants registered herein and (ii) 7,520 shares underlying other warrants.

20. Includes 14,482 shares underlying 2005 Warrants registered herein and (ii) 31,586 shares underlying other warrants.

21. Includes 1,500 shares underlying Prior Warrants, and does not include 5,000 shares owned jointly with her husband.

22. Includes 6,896 shares underlying 2005 Warrants registered herein and (ii) 15,041 shares underlying other warrants.

23. Includes 13,792 shares underlying 2005 Warrants registered herein and (ii) 30,082 shares underlying other warrants

24. MGP Advisors Limited ("MGP") is the general partner of the Special Situations Fund III, QP, L.P. and the general partner of and investment adviser to the Special Situations Fund III, L.P. AWM Investment Company, Inc. ("AWM") is the general partner of MGP and the investment adviser to the Special Situations Fund III, QP, L.P. and the Special Situations Private Equity Fund, L.P. Austin W. Marxe and David M. Greenhouse are the principal owners of MGP and AWM. Through their control of MGP and AWM, Messrs. Marxe and Greenhouse share dispositive power and voting power over the portfolio securities of each of the funds listed above.

25. Includes (i) 27,790 shares owned directly and (ii) 11,116 shares underlying 2005 Warrants all registered herein and (iii) 32,348 shares underlying Series D Preferred Stock and associated warrants, (iv) 93,750 shares underlying Series E Preferred Stock and associated warrants and (v) 24,245 shares underlying other warrants.

26. Includes (i) 317,037 shares owned directly and (ii) 126,814 shares underlying 2005 Warrants all registered herein and (iii) 372,178 shares underlying Series D Preferred Stock and associated warrants, (iv) 1,078,125 shares underlying Series E Preferred Stock and associated warrants and (v) 276,592 shares underlying other warrants.

27. Includes (i) 1,034,482 shares owned directly and (ii) 413,792 shares underlying 2005 Warrants all registered herein and (iii) 1,213,629 shares underlying Series D Preferred Stock and associated warrants, (iv) 3,515,625 shares underlying Series E Preferred Stock and associated warrants and (v) 902,514 shares underlying other warrants

28. Includes (i) 1,250 shares underlying Agents' Warrants, registered herein, and (ii) 7,868 shares underlying other warrants.

29. Includes 1,500 shares underlying Prior Warrants.

30. Includes 3,000 shares underlying Prior Warrants.

31. Includes 7,500 shares underlying Agents' Warrants.

32. Includes (i) 13,000 shares underlying Agents' Warrants, registered herein and (ii) 36,316 shares underlying other warrants.

33. Includes (i) 27,500 shares underlying Agents' Warrants, registered herein and (ii) 50,527 shares underlying other warrants.

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34. Includes (i) 250 shares underlying Prior Warrants registered herein and (ii) 14,924 shares underlying options. Does not include 10,876 shares underlying options presently not exercisable.

35. Includes 13,792 shares underlying 2005 Warrants registered herein and (ii) 30,082 shares underlying other warrants.

Under the terms of the Registration Rights Agreement entered into as part of the 2005 Placement, we were obligated to file a registration statement and we agreed to keep the registration statements effective until all the shares from the Placement have been sold or such shares may be sold without the volume restrictions under Rule 144(k) of the Securities Act, otherwise, we are obligated to make pro rata cash payments to each of the investors in the Placement, as liquidated damages.

The Registration Rights Agreements also provide that we pay all fees and expenses incident to the registration statement, other than brokerage commissions and underwriting discounts of the selling stockholders on the sale of their shares.

Laidlaw (formerly Sands) had been retained by us to act as a selected dealer for the February 2005 Series C Preferred Stock placement, as well as for the April 2004 convertible promissory notes placement, and a February 2005 bridge loan. As part of its compensation in these placements, we granted dealer warrants to Laidlaw. Laidlaw has transferred a portion of these warrants to certain designees. Certain affiliates of Laidlaw (then Sands) participated in the April 2004 placement.

We do not have any arrangement with any broker-dealer for it to act as an underwriter for the sale of the shares included herein for any of the selling stockholders. Each of the selling stockholders purchased or received the shares offered by it in this prospectus in the ordinary course of business, and at the time of purchase of such shares, it had no agreements or understandings, directly or indirectly, with any person for the distribution of such shares.

## PLAN OF DISTRIBUTION

The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling shareholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchases;
- block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;

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- privately negotiated transactions;
- settlement of short sales effected after the date the registration statement of which this prospectus is a part is declared effective by the SEC;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share; and
- a combination of any such methods of sale.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

Broker-dealers engaged by the selling stockholders may arrange for other broker-dealers to participate in sales. Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated. The selling stockholders do not expect these commissions and discounts to exceed what is customary in the types of transactions involved.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any underwriters, broker-dealers or agents that participate in the sale of the common stock or interests therein may be “underwriters” within the meaning of Section 2(11) of

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the Securities Act. Any discounts, commissions, concessions or profit they earn on any resale of the shares may be underwriting discounts and commissions under the Securities Act. Selling stockholders who are "underwriters" within the meaning of Section 2(11) of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. Each selling stockholder has informed us that it does not have any written or oral agreement or understanding, directly or indirectly, with any person to distribute the common stock.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act.

## LEGAL MATTERS

Thelen Reid Brown Raysman & Steiner LLP, New York, New York passed upon the validity of the common stock being offered hereby.

## EXPERTS

Included in the Prospectus constituting part of this Registration Statement are consolidated financial statements for fiscal 2006 and 2005, which have been audited by Marcum & Kliegman LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their respective report appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firms as experts in accounting and auditing.

## AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form SB-2 under the Securities Act with respect to the common stock offered hereby. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedule thereto, certain parts of which are omitted in accordance with the rules and regulations of

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the SEC. For further information regarding our common stock and our company, please review the registration statement, including exhibits, schedules and reports filed as a part thereof. Statements in this prospectus as to the contents of any contract or other document filed as an exhibit to the registration statement, set forth the material terms of such contract or other document but are not necessarily complete, and in each instance reference is made to the copy of such document filed as an exhibit to the registration statement, each such statement being qualified in all respects by such reference.

We are also subject to the informational requirements of the Exchange Act which requires us to file reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information along with the registration statement, including the exhibits and schedules thereto, may be inspected at public reference facilities of the SEC at 100 F Street N.E , Washington D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at prescribed rates. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Because we file documents electronically with the SEC, you may also obtain this information by visiting the SEC's Internet website at http://www.sec.gov.

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**CAPRIUS, INC. AND SUBSIDIARIES**

**I N D E X**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Caprius, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheet of Caprius, Inc. and Subsidiaries (the "Company") as of September 30, 2006, and the related consolidated statements of operations, stockholders' equity (deficiency), and cash flows for the years ended September 30, 2006 and 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by 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 fairly, in all material respects, the consolidated financial position of Caprius, Inc. and Subsidiaries as of September 30, 2006, and the consolidated results of their operations and their cash flows for the years ended September 30, 2006 and 2005 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note A to the consolidated financial statements, the Company has suffered recurring losses from operations which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note A. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Marcum & Kliegman LLP
New York, New York
November 17, 2006

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**CAPRIUS, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEET**
**September 30, 2006**

| | | |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ | 1,068,954 |
| Accounts receivable, net of reserve for bad debts of $ 5,163 | | 249,761 |
| Inventories, net | | 952,116 |
| Total current assets | | 2,270,831 |
| | | |
| **Property and Equipment:** | | |
| Office furniture and equipment | | 230,604 |
| Equipment for lease | | 23,500 |
| Leasehold improvements | | 29,003 |
| | | 283,107 |
| Less: accumulated depreciation | | 202,781 |
| Property and equipment, net | | 80,326 |
| | | |
| **Other Assets:** | | |
| Goodwill | | 285,010 |
| Intangible assets, net | | 120,083 |
| Other | | 20,770 |
| Total other assets | | 425,863 |
| **Total Assets** | $ | 2,777,020 |
| | | |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| | | |
| **Current Liabilities:** | | |
| Accounts payable | $ | 383,458 |
| Accrued expenses | | 59,402 |
| Accrued compensation | | 174,669 |
| Total current liabilities | | 617,529 |
| | | |
| **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 . Liquidation preference $2,700,000 | | 2,700,000 |
| Series D, stated value $12.40, convertible, 241,933 shares | | 3,000,000 |
| Common stock, $.01 par value | | |
| Authorized - 50,000,000 shares, issued 3,322,798 shares and outstanding 3,321,673 shares | | 33,228 |
| Additional paid-in capital | | 74,001,747 |
| Accumulated deficit | | (77,573,234) |
| Treasury stock (1,125 common shares, at cost) | | (2,250) |
| Total stockholders' equity | | 2,159,491 |

| | | |
|---|---|---|
| **Total Liabilities and Stockholders' Equity** | $ | 2,777,020 |

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

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**CAPRIUS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the years ended | |
|---|---|---|
| | September 30, 2006 | September 30, 2005 |
| **Revenues:** | | |
| Product sales | $ 1,069,902 | $ 727,491 |
| Equipment rental income | - | 13,305 |
| Consulting and royalty fees | 165,567 | 108,006 |
| Total revenues | 1,235,469 | 848,802 |
| | | |
| **Operating Expenses:** | | |
| Cost of product sales and equipment rental income | 802,532 | 490,827 |
| Research and development | 342,587 | 325,486 |
| Selling, general and administrative; includes stock based compensation of $52,642 in 2006 | 3,064,084 | 2,730,071 |
| Impairment of goodwill | 452,000 | - |
| Total operating expenses | 4,661,203 | 3,546,384 |
| | | |
| Operating loss | (3,425,734) | (2,697,582) |
| | | |
| Other income | - | 482,200 |
| Interest income | 29,693 | 30,477 |
| Interest expense | - | 353,503 |
| Net loss | (3,396,041) | (2,538,408) |
| | | |
| Deemed Dividend - Series D Convertible Preferred Stock | (1,317,061) | - |
| | | |
| Beneficial Conversion Feature - Series C Convertible Preferred Stock | - | (124,528) |
| | | |
| Net loss attributable to common stockholders | $ (4,713,102) | $ (2,662,936) |
| | | |
| Net loss per basic and diluted common share | $ (1.42) | $ (1.16) |
| | | |
| Weighted average number of common shares outstanding, basic and diluted | 3,321,673 | 2,288,543 |

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

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**CAPRIUS, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIENCY)**

| | Series B Convertible Preferred Stock | | Series C Convertible Preferred Stock | | Series D Convertible Preferred Stock | | Common Stock | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | Number of Shares | Amount | Additional Paid-in Capital | A |
| **Balance, October 1, 2004** | 27,000 | $ 2,700,000 | - | $ - | - | $ - | 1,023,453 | $ 10,235 | $ 68,031,614 | $ ( |
| Issuance of Series C Manadatory Convertible Preferred Stock | | | 45,000 | 4,500,000 | | | | | (434,966) | |
| Conversion of secured convertible notes and bridge financing into Series C Mandatory Convertible Preferred Stock | | | 21,681 | 2,168,100 | | | | | | |
| Conversion of Series C Preferred into common stock | | | (66,681) | (6,668,100) | | | 2,299,345 | 22,993 | 6,645,107 | |
| Net loss | | | | | | | | | | |
| **Balance, September 30, 2005** | 27,000 | $ 2,700,000 | - | $ - | - | $ - | 3,322,798 | $ 33,228 | $ 74,241,755 | $ ( |
| Issuance of Series D Convertible | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Preferred Stock, net | | | | | 241,933 | 3,000,000 | | | (292,650) | |
| Grant of stock options to Consultants for Services | | | | | | | | | 52,642 | |
| **Net loss** | | | | | | | | | | |
| **Balance, September 30, 2006** | 27,000 | $ 2,700,000 | - | $ - | 241,933 | $ 3,000,000 | 3,322,798 | $ 33,228 | $ 74,001,747 | $ ( |

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**

| | For the Years Ended | |
|---|---|---|
| | September 30, 2006 | September 30, 2005 |
| **Cash Flows from Operating Activities:** | | |
| Net loss | $ (3,396,041) | $ (2,538,408) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Amortization of debt discount | - | 165,220 |
| Amortization of deferred financing costs | - | 89,542 |
| Depreciation and amortization | 177,671 | 310,693 |
| Impairment of goodwill | 452,000 | - |
| Stock based compensation expense | 52,642 | - |
| Interest on secured convertible notes | - | 95,300 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (122,509) | (53,769) |
| Inventories, net | (283,500) | 108,079 |
| Other assets | 29,758 | (14,536) |
| Accounts payable and accrued expenses | 239,932 | (1,100,161) |
| Net cash used in operating activities | (2,850,047) | (2,938,040) |
| | | |
| **Cash Flows from Investing Activities:** | | |
| | | |
| Proceeds from sale of Strax business | - | 66,000 |
| Acquisition of property and equipment | (42,147) | (32,139) |
| Increase in security deposit | (3,360) | (4,080) |
| Net cash (used in) provided by investing activities | (45,507) | 29,781 |
| | | |
| **Cash Flows from Financing Activities:** | | |
| | | |
| Proceeds from short term loan | - | 100,000 |
| Repayment of short term loan | - | (100,000) |
| Proceeds from short term loans - related party | - | 145,923 |
| Repayment of short term loans - related party | - | (73,123) |
| Net proceeds from issuance of Series C Preferred Stock | - | 4,065,034 |
| Net proceeds from issuance of Series D Preferred Stock | 2,707,350 | - |
| Net cash provided by financing activities | 2,707,350 | 4,137,834 |
| | | |
| **Net (decrease) increase in cash and cash equivalents** | (188,204) | 1,229,575 |
| | | |
| **Cash and cash equivalents, beginning of year** | 1,257,158 | 27,583 |
| | | |
| **Cash and cash equivalents, end of year** | $ 1,068,954 | $ 1,257,158 |

**Supplemental Disclosures of Cash Flow Information:**

| | | |
|---|---|---|
| Cash paid for interest | $ - | $ 49,541 |
| Cash paid for income taxes | $ 3,110 | $ 192,672 |
| | | |
| **Non Cash Investing and Financing Activities:** | | |
| | | |
| Transfer of net book value of certain equipment for leases to inventory | $ - | $ 66,177 |
| Conversion of secured convertible notes into equity | $ - | $ 1,500,000 |
| Conversion of notes payable -related party into equity | $ - | $ 500,000 |
| Conversion of short-term loans payable - related party into equity | $ - | $ 72,800 |

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

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**CAPRIUS, INC. AND SUBSIDIARIES**
**Notes to the Consolidated Financial Statements**

(NOTE A) - Business and Basis of Presentation

Caprius, Inc. and Subsidiaries ("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. After the close of the 2002 fiscal year, ended September 30, 2002, 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") which developed, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and disinfect Regulated Medical Waste. Until the end of 2003 fiscal year ended September 30, 2003, the Company continued to own and operate a comprehensive imaging center located in Lauderhill, Florida. On September 30, 2003, the Company completed the sale of the Strax Institute ("Strax") to Eastern Medical Technologies. The sale consisted of the business of the Strax Institute comprehensive breast imaging center located in Lauderhill, Florida. During the fiscal years ended September 30, 2006, and September 30, 2005 the Company's operations were in the infectious medical waste disposal business.

The Company has business operations located in Israel. Although the region is considered to be economically stable, it is always possible that unanticipated events in foreign countries could disrupt the Company's operations.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred substantial recurring losses, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company has available cash and cash equivalents of approximately $1,069,000 at September 30,2006. The Company intends to utilize these funds for working capital purposes to continue developing the business of MCM. In order to fund the cash requirements of the Company beyond such date, the Company continues to pursue efforts to identify additional funds through various funding options, including banking facilities and equity offerings. There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders.

(NOTE B) - Summary of Significant Accounting Policies

[1] Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly or majority owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

[2] Revenue Recognition

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

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[3] Cash Equivalents

The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.