CAPRIUS INC
Form S-1/A
October 03, 2008

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As filed with the Securities and Exchange Commission on October __, 2008
Registration No. 333-148792

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-1
PRE-EFFECTIVE AMENDMENT – NO. 3
TO
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CAPRIUS, INC.
(Exact name of registrant as specified in its charter)

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

One University Plaza, Suite 400
Hackensack, New Jersey 07601
(201) 342-0900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Jonathan Joels
Treasurer and Chief Financial Officer
One University Plaza, Suite 400
Hackensack, New Jersey 07601
(201) 342-0900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:
Bruce A. Rich, Esq.
Thelen Reid Brown Raysman & Steiner LLP
875 Third Avenue
New York, New York 10022
(212) 603-2000

Approximate Date of Commencement of Proposed Sale to the Public: from time to time after the effective date of this Registration Statement as determined by market conditions and other factors.
If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box: x

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	x

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 Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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Explanatory Note

The Company has simultaneously filed Pre-Effective Amendment No. 4 on Form S-1 to a Registration Statement initially filed on Form SB-2 (No. 333-141647) for 9,557,500 shares of its Common Stock underlying the Series E Convertible Preferred Stock and warrants issued in its March 2007 Series E Preferred Stock Placement.

In addition, the Company has registered 2,646,121 shares of its Common Stock underlying shares of its Series C Convertible Preferred Stock and warrants issued in its 2005 Series C Preferred Stock Placement under Post-Effective Amendment No. 3 to Form SB-2 (No. 333-124096) declared effective on November 13, 2007, and 3,176,281 shares of its Common Stock underlying shares of its Series D Convertible Preferred Stock and warrants issued in its 2006 Series D Preferred Stock Placement under Post-Effective Amendment No. 2 to Form SB-2 (No. 333-132489), declared effective on November 13, 2007.

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SUBJECT TO COMPLETION OCTOBER __, 2008

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and neither we nor the selling stockholders are soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

11,366,760 shares of Common Stock

CAPRIUS, INC.

This prospectus relates to the sale or other disposition by the selling stockholders identified on pages 38 to 42 of this prospectus, or their transferees, of up to 11,366,760 shares of our common stock, which includes (i) 7,833,400 shares issuable upon conversion shares of our Series F Convertible Preferred Stock and (ii) 3,533,360 shares issuable upon exercise of warrants that were granted as part of the placement of the preferred stock. 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 $2,846,688 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 CAPI. On August 25, 2008, the last bid price as reported was $0.26 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 6.

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.

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No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offering made by this Prospectus, and, if given or made, such information or representations must not be relied upon as having been authorized by the Company or the selling stockholders. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than those specifically offered hereby or an offer to sell or a solicitation of an offer to buy any of these securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation. Except where otherwise indicated, this Prospectus speaks as of the effective date of the Registration Statement. Neither the delivery of this Prospectus nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Company since the date hereof.

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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", "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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. We also have business operations located in Israel. 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 a comprehensive breast imaging center. In June 1999, we ceased the operations of developing the imaging systems and 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 to Seradyn, Inc. The imaging center 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. As a result of performance adjustments, the conversion of various loans we made to MCM and our meeting cash calls made by MCM, our interest in MCM has increased to 96.66%.

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 cost for treatment and disposal of RMW, eliminate the potential liability associated with the regulated “cradle to

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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. 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 required for use with both units of 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. 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

On December 6, 2007, we closed a private placement of 78,334 shares of Series F Convertible Preferred Stock ("Series F Preferred Stock") and warrants to ten investors for gross proceeds of $4,700,000, or net proceeds of $4,400,000 after payment of $240,000 to the placement agent and other expenses aggregating approximately $60,000. Each share of Series F Preferred Stock, which has a stated value of $60 per share, as of July 31, 2008, was convertible into 100 shares of our common stock (the equivalent of $0.60 per common share), or an aggregate of 7,833,400 shares of common stock. The holders have the right to convert their shares at any time, while we have the right to require mandatory conversion only if after the effective date of a Securities Act registration statement covering the underlying shares of common stock (i) the closing bid price of the common stock for 15 trading days in any 20 consecutive trading day period exceeds $1.20 per share and (ii) the average daily trading volume during such 20 trading day period exceeds 30,000 shares a day. An annual dividend accrues at the rate of $3.24 per share. The liquidation and dividend rights of the holders of the Series F Preferred Stock rank pari passu with those of the holders of our Series E Preferred Stock and Series D Preferred Stock. The warrants are for the purchase of 3,133,360 shares of common stock at an exercise price of $0.80 per share, exercisable for five years, with the right of cashless exercise. We do not have the right to call the warrants. Both the Series F Preferred Stock and the warrants contain anti-dilution provisions,

including price dilution upon certain issuances by us of shares of common stock or granting rights to purchase our common stock at prices less than the applicable conversion price or exercise price. At the time we agreed to the pricing of this placement, the market price of our common stock was $0.75 per share. Private placements, especially for low priced securities, are usually placed at discounts from the current market prices. The pricing of the Series E Preferred Stock and the exercise price of the warrants were negotiated based upon their relationships to the then market price. At closing, the total market value of the common stock underlying the Series F Preferred Stock and the warrants was $8,225,070 (prior to us receiving $2,506,688 upon cash exercise of the warrants).

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As part of this placement, we entered into Registration Rights Agreements with the investors whereby we are obligated to register all of their underlying shares of common stock within specified time periods, otherwise we are subject to pay certain specified liquidated damages. The registration statement of which this prospectus is a part has been filed pursuant to such Agreements, see "Selling Stockholders." In addition, the Purchase Agreement for the Series F placement restricts us from selling shares of our common stock or common stock equivalents until 90 days after the effective date of the registration statement without the consent of purchasers of a majority of the Series F Preferred Stock.

PRIOR PRIVATE 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 to six investors for gross proceeds of $2,500,000. As of July 31, 2008, each of the 9,200 outstanding shares of the Series E Preferred Stock, which has a stated value of $250 per share, was convertible into 625 shares of our common stock, (the equivalent of $0.40 per share), or an aggregate of 5,750,000 shares of common stock). The holders have the right to convert their shares at any time, while we have the right to require mandatory conversion only if after the effective date of the registration statement covering such shares (i) the closing bid price of the common stock for 15 trading days in any 20 consecutive trading day period exceeds $0.80 per share and (ii) the average daily trading volume during such 20 trading day period exceeds 30,000 per share. As of October 1, 2007, an annual dividend accrues at the rate of $13.50 per share. The liquidation and dividend rights of the holders of the Series E Preferred Stock rank pari passu with those of the holders of our Series D Preferred Stock and Series F Preferred Stock. The warrants are for the purchase of 3,125,000 shares of common stock at an exercise price of $0.50 per share, exercisable for five years, with the right of cashless exercise. We do not have the right to call the warrants. The anti-dilution rights of the holders of the Series E Preferred Stock and related warrants are similar to those of the holders of the Series F Preferred Stock and related warrants, respectively. During the negotiation of the terms of this placement, the market price of our common stock increased from $0.45 per share to $0.60 per share at the time of the pricing. At closing, the total market value of the common stock underlying the Series E Preferred Stock and the related warrants was $5,625,000 (prior to us receiving $1,562,500 upon cash exercise of the warrants). As part of this placement, we entered into Registration Rights Agreements with the investors whereby we are obligated to register their underlying shares of common stock, otherwise we are subject to pay certain specified liquidated damages. Pursuant to such Agreements, we have filed a separate registration statement covering the underlying restricted shares of common stock.

In February 2006, we received gross proceeds of $3.0 million upon issuance of 241,933 shares 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. As of July 31, 2008, each of the 172,933 outstanding shares of Series D Convertible Preferred Stock was convertible into 19.42 shares of common stock, or an aggregate of 3,358,459 shares of common stock, after giving effect to prior anti-dilution adjustments thereon.

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 2,569,357 shares of common stock at exercise prices ranging from $0.93 to $5.60 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	11,366,760 shares, which includes (i) 7,833,400 shares underlying Series F Convertible Preferred Stock and (ii) 3,533,360 shares subject to warrants,

	including warrants for 400,000 shares of common stock granted to the placement agent.
Common Stock Outstanding Prior to the Offering	4,776,902 shares
Common Stock to be Outstanding after the Offering	16,143,662 shares, assuming the selling stockholders convert the portion of their Series F Convertible Preferred Stock included herein and exercise all their warrants, and no conversion of other series of outstanding preferred stock nor exercise of the 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 receive $2,846,688 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	“CAPI”

RISK FACTORS

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.

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.

Summary of Operations	Years ended September 30,		Nine months ended June 30, (Unaudited)	
	2007	2006	2008	2007
Total revenues	$ 2,664,404	$ 1,235,469	$ 2,584,165	$ 1,823,777
Net loss	$ (3,249,673)	$ (3,396,041)	$ (3,499,541)	$ (2,036,896)
Net loss per common share (basic and diluted)	$ (0.87)	$ (1.02)	$ (0.81)	$ (0.55)
Weighted average common shares outstanding, basic and diluted	3,716,252	3,321,673	4,302,313	3,681,490

Statement of Financial Position	As of September 30,		As of June 30, (Unaudited)	
	2007	2006	2008	2007
Cash and cash equivalents	$ 634,657	$ 1,068,954	$ 1,446,220	$ 1,373,919
Total assets	2,884,695	2,777,020	4,407,245	3,723,759
Working capital	1,153,116	1,653,302	2,287,471	2,275,761
Long-term debt	-	-	-	-
Stockholders’ equity	1,582,199	2,159,491	2,378,731	2,725,359

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,

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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.

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 $3.2 million or $(0.87) per share on revenues of $2.7 million, for the fiscal year ended September 30, 2007, compared to a net loss of approximately $3.4 million or $(1.02) per share on revenues of $1.2 million, for the fiscal year ended September 30, 2006, and a net loss of approximately $3.5 million or $(0.81) per share on revenues of $2,584,165 for the nine months ended June 30, 2008, compared to a net loss of approximately $2.0 million or $(0.55) per share on revenues of $1,823,777 million for the nine months 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 $4.7 million in a placement of Series F Preferred Stock in the first quarter of fiscal 2008, gross proceeds of $2.5 million in a placement of Series E 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 cash proceeds from the Series F equity financing provided the funds necessary to satisfy specific outstanding obligations and accrued expenses outstanding at the time of the financing and increase our marketing effort both in the US and overseas markets. These funds also will enable us to build up our inventory to fulfill our current backlog of orders and future demand arising from our increased marketing efforts. With our growing market penetration in the U.S., we will need to expand our customer service and technical support capabilities to meet the needs of our clients. Similarly, in overseas markets, resources will continue to be required to obtain regulatory approvals in markets where we believe there exists great opportunities for our business. Our working capital is currently projected to meet the needs of our business plan for the 2008 fiscal year. In the past, we have experienced significant losses and negative cash flows from operations. If these trends continue in the future, it could adversely affect our financial condition. Further, we have incurred negative cash flows from operations of approximately $2.8 million, $2.9 million and $3.6 million for the years ended September 30, 2007 and 2006, and the nine months ended June 30, 2008, respectively. These results have had a negative impact on our financial condition. There can be no assurance that our business will become profitable in the future or that additional losses and negative cash flows from operations will not be incurred. If these trends continue in the future, it could have a material adverse effect on our financial condition and possible reduction or discontinuance of our operations.

Our Lack of Marketplace Acceptance Makes Evaluation of our Business Difficult

The MCM 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 are still in the process of attempting 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. In addition, some potential customers may have existing arrangements or commitments to their current waste hauler or processor. As a consequence, the revenue and income potential of our business is unproven. Further, we cannot estimate with any degree of certainty the expenses for operating the business. If we are incorrect in our estimates, it could be detrimental to our business.

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

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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.

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

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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. The RWM 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 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 give assurance 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, Jonathan Joels, Chief Financial Officer, Treasurer and Secretary, and George Aaron,

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Executive Vice President – International Business Development, 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. Joels nor Mr. Aaron 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

Two principal customers, Euromedic, which is a foreign distributor in Central and Eastern Europe and a major U.S. dialysis company accounted for approximately 48% of our revenues from our SteriMed business for fiscal year 2007. Euromedic and a different major U.S. dialysis company accounted for approximately 43% of our revenues for fiscal year 2006. The same two principal customers that existed in fiscal year 2007 accounted for approximately 58% of such revenues for the nine months ended June 30, 2008 and accounted for approximately 57% of our revenues in the nine months ended June 30, 2007. 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 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 is deemed to beneficially own approximately 78.9% of our common stock, assuming conversion of shares of common stock underlying Series D Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and exercise of warrants currently held by them (and assuming no conversion or exercise of other outstanding preferred stock, warrants or options), and have the right to vote approximately 28.9% 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-K for the year ending September 30, 2009. 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, 2009, 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, 2009. We may need to hire additional financial reporting and internal controls personnel, acquire software and retain a third party consultant during fiscal 2009. If our management is unable to attest that our internal controls are effective as of September 30, 2009, investors may react by selling our stock and causing its price to fall.

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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 $0.10 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 July 31, 2008, we had 4,776,902 outstanding shares of common stock and an aggregate of 29,504,260 shares of common stock reserved for the conversion of preferred stock and the exercise of options and warrants. An aggregate of 11,366,760 of the 29,504,260 shares reserved have been included in this prospectus. We filed separate registration statements for 13,153,472 of such reserved shares, and have effective registration statements for an aggregate of 3,595,972 of such 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, and the Series F Preferred Stock require us to accrue dividends for those securities commencing December 6, 2007. At July 31, 2008, the accrued dividends aggregated approximately $375,000. The payment of these dividends would reduce any future return payable to holders of the common stock and adversely affect our cash flow. See "DIVIDEND POLICY."

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

The fact that we may seek 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 and substantially dilute your investment. At July 31, 2008, we had 660,000 shares of preferred stock authorized but not designated into an outstanding series 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, especially in light of the low trading volume in our shares.

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 August 25, 2008, the closing price for our common stock was $0.26 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

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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.

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 of Financial Condition and Results 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 $2,846,688 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 $40,000.

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, the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007, and the Series F Preferred Stock provides for a cumulative dividend of $3.24 per share commencing December 6, 2007. The dividends are payable pari passu on the series of preferred stock. At July 31, 2008, the accrued dividends aggregated $375,000. We intend to retain and use any future earnings for the development and expansion of our business and payment of accrued dividends on the preferred stock, and do not anticipate paying any cash dividends on the common stock in the foreseeable future.

MARKET FOR OUR COMMON STOCK

Principal Market and Market Prices

Our common stock is traded on the over-the-counter market on the OTC Electronic Bulletin Board (OTCBB) under the symbol CAPI since July 28, 2008. Prior thereto the symbol was 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.

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	0.85	0.36	1.08	0.45	2.35	1.30
Third Quarter	0.41	0.10	1.05	0.60	1.69	0.80
Fourth Quarter*	0.35	0.10	0.85	0.70	0.80	0.55

*Reflects prices through August 25, 2008

Approximate Number of Holders of Our Common Stock

On July 31, 2008, there were approximately 1,100 holders of record of the common stock. Since a large number of shares of common stock are 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

Fiscal Year Ended September 30, 2007 Compared to Fiscal Year Ended September 30, 2006

Revenues generated for fiscal year ended September 30, 2007 ("Fiscal 2007") were primarily generated by MCM product sales which totaled $2,540,439 as compared with $1,069,902 for fiscal year ended September 30, 2006 ("Fiscal 2006"). For Fiscal 2007, two customers accounted for approximately 33% and 15% respectively of the consolidated total revenue. For Fiscal 2006, three customers accounted for approximately 24%, 19% and 13% respectively of the consolidated total revenue. Product sales for the Fiscal 2007 increased due to our penetration into different geographical areas and our technologies growing acceptance in the market. To date, no revenue has been generated from the sale of extended warranty contracts.

Consulting and royalty revenue under a royalty agreement entered into in 2002 upon our sale of the TDM Business to Seradyn, Inc. ("Seradyn") totaled approximately $124,000 and $166,000 for fiscal years ended September 30, 2007 and 2006, respectively. This decrease of approximately $42,000 was attributable to the termination of the royalty agreement during the third quarter of Fiscal 2007, and subsequent to the third quarter of Fiscal 2007 we will no longer receive any consulting and royalty revenue. Upon termination of the royalty agreement, we received a $500,000 lump sum payment, plus an additional $29,500 representing royalties due for prior periods.

Cost of product sales aggregated approximately $1,860,000 and $803,000 during Fiscal 2007 and Fiscal 2006, respectively. The increased costs correlate to the increase in revenues and the absorption of certain production expenses incurred in Fiscal 2007 in order to enhance production efficiencies.

Research and development costs amounted to approximately $264,000 and $343,000 for Fiscal 2007 and Fiscal 2006, respectively. This decrease is due primarily 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 $4,272,118 for Fiscal 2007 versus $3,064,084 for Fiscal 2006. This increase is principally due to increased personnel costs (hiring of additional employees and increased benefit costs), our adoption of FAS 123R which requires the recording of stock based compensation as part of the statement of operations, in which $278,381 was recorded during Fiscal 2007 as well as the related increase in travel, marketing expenses and participation in multiple trade shows incurred in order to facilitate the development of additional sales markets both domestically and internationally for our units.

In 2007, management assessed the underlying fair value of the Company and determined the carrying value, including goodwill did not exceed its fair value and as such management recorded no impairment charge to goodwill for Fiscal 2007 as compared to the $452,000 charge taken in Fiscal 2006. Management estimated the fair value of the Company by multiplying the shares outstanding by the market price of the common stock on the last day of our fiscal

year. From this analysis, management determined that the fair value of the Company exceeded the carrying value by approximately $1.2 million, and therefore no impairment charge was taken. Management used the same method to assess goodwill in Fiscal 2006.

Interest (expense) income, net totaled ($18,056) for Fiscal 2007 related to a $100,000 bridge loan repaid in March 2007 upon the closing of the Series E placement, which totaled approximately ($805) as well as expense relating to currency exchange rate fluctuations which totaled approximately ($44,400), less interest earned, which totaled approximately $27,100 on the net cash proceeds from the Series E placement until used for operating purposes, versus $29,693 in Fiscal 2006 earned on cash balances from the Series D Placement of approximately

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$42,400 until used for operating purposes, less currency exchange rate fluctuations of approximately ($12,700). The decrease in interest income was due to variance in interest rates, exchange rates and available cash.

The net loss totaled $3,249,673 for Fiscal 2007 versus $3,396,041 for Fiscal 2006.

Nine Months Ended June 30, 2008 Compared to Nine Months Ended June 30, 2007

Revenues generated from MCM product sales totaled $2,584,165 for the nine months ended June 30, 2008 as compared to $1,699,812 for the nine months ended June 30, 2007. This increase in sales is attributed to the Company's expanded penetration into several markets that the Company has been developing for its products and the greater acceptance of our technology in the marketplace, both domestically and internationally. Through June 30, 2008, no revenue has been generated from the sale of extended warranty contracts.

By reason of the termination of the Seradyn royalty agreement during Fiscal 2007 we did not receive any consulting or royalty fees in the nine months ended June 30, 2008 as compared to $123,965 for the nine months ended June 30, 2007.

Cost of product sales amounted to $1,917,225 or 74.2% of total related revenues versus $1,163,011 or 68.4% of total related revenues for the nine month periods ended June 30, 2008 and 2007. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues. The increased percentage cost is due to increases in the cost of raw materials, the decline in the value of the US dollar, the sales product mix, increased production overhead and labor costs.

Research and development expense increased to $219,637 versus $207,142 for the nine month period ended June 30, 2008 as compared to the same period in 2007. This slight increase is due to our effort to continue to explore various technologies and upgrades to bring value-added technology to our products and to try an offset the increased costs of raw materials and the decline in the value of the US dollar.

Selling, general and administrative expenses totaled $3,984,369 for the nine months ended June 30, 2008 versus $3,009,442 for the nine months ended June 30, 2007. This increase is principally due to increased personnel costs (hiring of additional employees and related benefit costs), an increase in recorded stock-based compensation, as well as the related increase in travel, marketing expenses and participation in trade shows in order to facilitate the development of additional sales markets both domestically and internationally.

Other income totaled $0 for the nine months ended June 30, 2008 as compared to $500,000 for the nine months ended June 30, 2007. This resulted from the termination of the Company's Royalty Agreement within this period in fiscal 2007.

Interest income, net totaled $37,525 for the nine months ended June 30, 2008 versus $18,922 for the nine months ended June 30, 2007. The increase in interest income was due to the additional available cash that we had in interest bearing accounts, as a result of the closing of the Series F placement in December 2007, although interest rates have declined.

The net loss amounted to $3,499,541 and $2,036,896 for the nine month periods ended June 30, 2008 and 2007, respectively.

Liquidity and Capital Resources

At June 30, 2008, our cash and cash equivalents position approximated $1,446,220 versus $1,373,919 at June 30, 2007. The slight increase is a result of the net proceeds from a December 2007 placement. Our working capital as of June 30, 2008 was $2,287,471. Net cash used in operations for the nine months ended June 30, 2008 amounted to $3,554,427. The material activity within cash flows from operations is for inventory and accounts payable. Net cash used in investing activities amounted to $45,111. Net cash provided by financing activities (the December 2007 placement) amounted to $4,411,101

At September 30, 2007, our cash and cash equivalents position approximated $635,000. Net cash used in operations for fiscal year 2007 amounted to $2,785,972. Net cash used in investing activities amounted to––– $42,325. Net cash flows provided by financing activities for Fiscal 2007 amounted to $2,394,000 which resulted from the March 2007 issuance of the Series E Convertible Preferred Stock.

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At September 30, 2006, our cash and cash equivalents position approximated $1,069,000. Net cash used in operations for fiscal year 2006 amounted to $2,850,047. Net cash used in investing activities amounted to––– $45,507. Net cash flows provided by financing activities for Fiscal 2006 amounted to $2,707,350, which resulted from the issuance of the Series D Convertible Preferred Stock.

As of June 30, 2008, accounts receivable, net of allowance for doubtful accounts of approximately $76,000 totaled $877,779 and was 20% of total assets. Of the $877,779 in accounts receivable, approximately $448,991 was less than 30 days, $23,110 was 60 days and $405,678 was 90 days and older. The normal collection period is between 30 and 90 days, but as we develop new relationships or business in new countries, we sometimes permit customers or distributors, extended payment terms to attract new business. At September 30, 2007, accounts receivable, net of $833,033 was 29% of total assets. Of the $833,033 in accounts receivable, approximately $396,213 was less than 30 days, $87,525 was 60 days and $349,295 was 90 days and older. At September 30, 2006, accounts receivable, net of $249,761 was 9% of total assets. Of the $249,761 in accounts receivable, approximately $136,242 was less than 30 days. $19,305 was 60 days and $94,214 was 90 days and older. We only provide extended payment terms to well established customers or distributors. Presently those receivables that were 90 days at both September 30, 2007 and September 30, 2006 have been collected. We have collected 26% of those receivables that were 90 days or older at June 30, 2008, and continue to work closely with those remaining accounts to clear any outstanding balances. Due to our past history with collections, especially where we extend payment times for distributors in new territories that we are attempting to create markets for our product, we are reasonably confident that all of the remaining receivables are collectible.

Inventory turnover rates which are determined by computing the Annualized Cost of Goods sold divided by Average inventory are 2.02 for the nine months ended June 30, 2008, 1.46 for the nine months ended June 30, 2007, 2.00 for Fiscal 2007 and 0.99 for Fiscal 2006. The increase in the inventory turnover rate is due to the significant increase in the number of units sold in the comparative periods.

On December 6, 2007, we closed on a $4.7 million Series F Convertible Preferred Stock equity financing before financing related fees and expenses of approximately $300,000. As part of this financing transaction, we issued 78,334 shares of Series F Convertible Preferred Stock at $60 a share, and we issued warrants to purchase an aggregate of 3,133,360 shares of common stock at an exercise price of $0.80 per share for a period of five years. The net proceeds are being used for general working capital purposes, primarily manufacturing and marketing.

On August 18, 2007, the outstanding shares of the Series B Preferred Stock were automatically converted into 57,989 shares of common stock

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

Financing during Fiscal 2007 included a financing on March 1, 2007, whereby 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., and we issued warrants to purchase an aggregate of 3,125,000 shares of common stock at an exercise price of $0.50 per share for a period of five years. The net proceeds were used for general working capital purposes and the repayment of the January 30, 2007 10% Promissory Note as outlined below.

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.

Financing during Fiscal 2006 included a financing on February 17, 2006, when we closed a $3.0 million Series D Preferred Stock equity financing transaction before financing fees and expenses of approximately $293,000. On this financing transaction, we issued 241,933 shares of Series D Convertible Preferred Stock, convertible into 2,419,330 shares of common stock, together with Series A Warrants to purchase an aggregate of 223,881 shares of common stock at an exercise price of $1.50 per share for a period of five years, and Series B Warrants to purchase an aggregate of 447,764 shares of common stock at an exercise price of $2.00 per share for a period of five years.

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The Series D Preferred Stock provides for a cumulative dividend of $0.67 per share commencing October 1, 2007, the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007, and the Series F Preferred Stock provides for a cumulative dividend of $3.24 per share commencing December 6, 2007. The dividends are payable pari passu on the series of preferred stock. At July 31, 2008, the accrued dividends aggregated $375,000. These dividends accrue at a rate of approximately $120,000 per quarter.

Management's Plan

We have incurred substantial recurring losses. In addition, Caprius and MCM are defendants in an action seeking damages in excess of $400,000. Although management believes Caprius and MCM have a meritorious defense against such a lawsuit, an unfavorable outcome of such action could have a materially adverse impact on our business. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The net cash proceeds from the Series F equity financing provided the funds necessary to satisfy specific outstanding obligations and accrued expenses outstanding at the time of the financing and increase our marketing effort both in the U.S. and overseas markets. These funds also will enable us to build up our inventory to fulfill our current backlog of orders and future demand arising from our increased marketing efforts. With our growing market penetration in the U.S., we will need to expand our customer service and technical support capabilities to meet the needs of our clients. Similarly, in overseas markets, resources will continue to be required to obtain regulatory approvals in markets where we believe there exists great opportunities for our business. Our working capital is currently projected to meet the needs of our business plan for the current fiscal year.

Obligations

Our principal contractual commitments include payments under operating leases (see Note H of the accompanying consolidated financial statements).

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 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 the sale or lease of our SteriMed Systems. Revenues for sales or lease are recognized at the time that the unit is shipped to the customer. Revenues for consulting and royalty fees are recognized on a quarterly basis.

2. Goodwill and other intangibles

Under Statement of Financial Accounting Standards ("SFAS") No. 142, Goodwill and Other Intangible Assets, we are required to test goodwill and intangible assets with indefinite lives for impairment annually, or more frequently if impairment indicators occur. The impairment test requires management to make judgments in connection with identifying reporting units, assigning assets and liabilities to reporting units, assigning goodwill and indefinite-lived

intangible assets to reporting units, and determining the fair value of each reporting unit. Accordingly, significant judgments are required to estimate the fair value of reporting units. Management has estimated the fair value of our reporting unit by multiplying the shares outstanding by the market price of our common stock on the last day of each fiscal year. The fair value is then compared to the carrying value of the reporting unit. As of September 30, 2006, this test yielded a goodwill impairment of approximately $452,000. As of September 30, 2007, this test did not yield any impairment. The fair value of the reporting unit as of September 30, 2007 was based on our closing market price of $.66 per share for our common stock. The closing common stock market price over the last twelve months of our fiscal year ranged from $.55 to $.90. Our fair value over our carrying value was approximately $1.2 million at September 30, 2007. Significant changes in the closing price of

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our common stock and other significant triggering events, could effect the value of the recorded goodwill. However, based on the excess fair value over the carrying value at September 30, 2007, even if our stock price decreases by 10%, this would still not have any impact on the recorded amount of goodwill which was only $285,000 at September 30, 2007.

3. Off-balance sheet arrangements

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

4. Foreign currency

Our functional currency is the U.S dollar pursuant an analysis of Financial Accounting Standard No. 52. All foreign currency asset and liability amounts are re-measured into U.S. dollars at end-of-period exchange rates, except for certain assets, which are measured at historical rates. Foreign currency income and expense are re-measured at average exchange rates in effect during the year, except for expenses related to balance sheet amounts re-measured at historical exchange rates. Exchange gains and losses arising from re-measurement of foreign currency-denominated monetary assets and liabilities are included in operations in the period in which they occur. Exchange gains and losses included in the accompanying consolidated statements of operations were immaterial for the years ended September 30, 2007 and 2006.

A determination that our functional currency is the U.S. Dollar is based on the following facts:

1- For product sales, payment is required in equivalent US prices on the date of payment.
2- All cost of goods sold are denominated in US Dollar. All other expenses are generally local currency; however, payroll is administered to the extent possible on an equivalent US Dollar basis to allow for the moving of assets from one country to another.
3- All financing is done by the parent company via sale of equity security in the US. There is no financing done in Israel.
4- The foreign subsidiary is run as a country unit; however, our main management is done via US management.

Recent Accounting Pronouncements

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 did not 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 did not 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

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beginning of the period of adoption. The adoption of FIN 48 did not 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 is in the process of evaluating the impact of the adoption of SFAS No. 157 will have on the Company’s consolidated results of operations and financial condition and is 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.

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. The adoption of EITF 00-19-2 did not have a material effect on our consolidated results of operations and financial condition.

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.

In May 2008, FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles,” (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements that are presented in conformity with generally accepted accounting principles in the United States. SFAS 162 is effective 60 days following the Securities and Exchange Commission’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, “The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles.” The Company does not expect SFAS 162 to have a material impact on its condensed consolidated financial position, results of operations or cash flows.

Inflation and Foreign Currency Fluctuations

In the past, inflation has not had a material effect on our business. However, due to the recent fall of the US Dollar against many of the world currencies and the continued increase in cost of some of the raw materials used in the production of our Sterimed Systems, we may not be able to sufficiently offset these effects by controlling costs and increasing our manufacturing efficiency through the increase of our product sales. Consequently we may be forced to pass this cost on to our customers. There is no assurance that we will be able to recover the cost increases caused by inflation through higher prices.

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BUSINESS

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 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. The Stockholders Agreement among us and the other MCM stockholders contained certain provisions relating to performance adjustments for the twenty-four month period post-closing. As a consequence, our ownership interest in MCM increased by 5% in the fiscal year ended September 30, 2004 and by an additional 5% in the fiscal year ended September 30, 2005. Furthermore, our MCM equity ownership increased with the conversion of various loans we made to MCM and our meeting cash calls made by MCM during the fiscal year ended September 30, 2005. As of September 30, 2005, our interest in MCM increased to 96.66%. Our interest remains unchanged through the date hereof.

Caprius, Inc. was founded in 1983. By June 1999, Caprius essentially operated in the business of developing specialized medical imaging systems as well as operating a comprehensive breast imaging center. In June 1999, we ceased the operation of developing the imaging systems and 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 to Seradyn, Inc. The imaging center 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"). MWTA 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 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

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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 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. 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.

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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.

Our cost of complying with U.S.(including state and local) and foreign environmental law relates to obtaining and maintaining required licenses or permits. We estimate these costs were approximately $75,000 in fiscal 2007 and should be approximately the same amount in fiscal 2008.

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.

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. We have received approval to market its SteriMed Systems in the United Kingdom and Hungary.

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Competition

RMW has routinely been treated and disposed of by incineration. Due to the pollution generated by medical waste incinerators, novel technologies have been developed for the treatment and 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 350oF-700oF. 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 1,000oF to 15,000oF. 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 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 Corp, Waste Processing Solutions Company, and Waste Reduction, Inc. These companies, and other competitors, use different methods in treating and disposing of RMW. Our competitors range from large, well-capitalized public companies to small local companies.

Competitive Features of the SteriMed Systems

Seizing the opportunity afforded by the regulatory changes and pricing pressures in the healthcare industry, we have positioned 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:

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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
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 additional packaging or 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) Cellemetry monitoring system which allows for real time monitoring of the SteriMed Systems through wireless communication with technical support personnel, thus enabling same or next day support to our valued customers.
f) 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
g) 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 their cost saving ability. Our overall marketing campaigns are also focused on the value statement "…..Is

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Green…….Saves Green……"; a statement that defines our business as one which helps our clients simultaneously achieve thei 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 implementation of this strategy which includes two companies that are leaders in the field both domestically and overseas.

Two principal customers, Euromedic, which is a foreign distributor in Central and Eastern Europe and a major U.S. dialysis company accounted for approximately 48% of our revenues from our SteriMed business for fiscal year 2007. Euromedic and a different major U.S. dialysis company accounted for approximately 43% of our revenues for fiscal year 2006. The same two principal customers that existed in fiscal year 2007 accounted for approximately 58% of such revenues for the nine months ended June 30, 2008 and accounted for approximately 57% of our revenues in the nine months ended June 30, 2007. 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.

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. In September 2007, the Navy placed an order for an additional SteriMed System as they continue their evaluation program. In March 2008, the shipboard evaluation was completed and the LHD vessel returned to port. U.S. Navy personnel reported that the waste volume reduction was significant and the operation of the unit was user friendly. Due to the stringent shipboard specifications for the Navy's medical waste management program MCM will continue to work with the Navy to streamline the Sterimed Junior to meet these specifications.

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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 Domestic 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. SterCid® 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 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 predominantly 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, South Africa (defined as South Africa Development Countries) and the Caribbean. We also have distributor agreements in Hungary, Japan, Portugal and Russia.

Selling Agents

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 United 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 both SteriMed systems as well as seek alternative solutions for the manufacture of their components in lower cost regions. This also includes seeking

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alternatives to counteract the recent decline of the US dollar. We are also evaluating alternative manufacturing 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 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 or leasing unit.

In the U.S., in fiscal 2007 we 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 will be 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;

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MCM STERIMED – INTERNATIONAL CLASS 10 TRADEMARK:

File No.	Country	Application No.	Application Date	Trademark No.
99211	Australia	813208	11/9/1999	813208
99208	Canada	1035659	11/12/1999	TMA 596,538
99209	Common European Market Trademarks (CTM)	1380146	11/11/1999	1380146
99216	Hungary	m-9905278	11/10/1999	165158
99200	Israel	113,697	7/20/1997	113,697
99210	Japan	11-103145	11/12/1999	4462258
99212	Mexico			