CAPRIUS INC
Form 424B3
April 06, 2006

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Filed pursuant to Rule 424(b)(3)
Registration Statement No. 333-132849

PROSPECTUS

3,597,088 shares of common stock

CAPRIUS, INC.

This prospectus relates to the sale or other disposition by the selling stockholders identified on pages 31 to 33 of this prospectus, or their transferees, of up to 3,597,088 shares of our common stock, or interests therein, including 2,419,330 shares underlying shares of Series D Preferred Stock and 850,750 shares issuable upon exercise of warrants, plus an additional 327,008 shares by reason of provisions in the Registration Rights Agreement pursuant to which the registration statement of which this prospectus is a part is being filed. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

We will receive no proceeds from the sale or other disposition of the shares, or interests therein, by the selling stockholders. However, we will receive proceeds in the amount of $1,551,351 assuming the cash exercise of all of the warrants held by the selling stockholders, subject to certain of the warrants being exercised under a “cashless exercise” right.

Our common stock is traded on the over-the-counter electronic bulletin board. Our trading symbol is CAPS. On April 5, 2006, the closing price as reported was $1.65.

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

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

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

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

April 6, 2006

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PROSPECTUS SUMMARY

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

THE COMPANY

Background

Caprius, Inc. is engaged in the infectious medical waste disposal business. In the first quarter of Fiscal 2003, we acquired a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM"), which develops, markets and sells the SteriMed and SteriMed Junior compact units (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.

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

History

In June 1999, we acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring Business ("TDM"). In October 2002, we sold the assets of the TDM business to Seradyn, Inc., an unrelated company. We were founded in 1983 and, through June 1999, essentially operated in the business of seeking to develop specialized medical imaging systems, as well as operating the Strax Institute ("Strax"), a comprehensive breast imaging center. The Strax Institute was sold in September 2003 to an unrelated company.

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, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third-parties was converted to equity in MCM or restructured. Pursuant to its Letter of Intent with MCM, Caprius 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 part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty-four month period post-closing. As a consequence, our ownership interest increased by 5% in the fiscal year 2004 and by an additional 5% in the fiscal year 2005. Furthermore, our equity ownership increased with the conversion of various loans made to MCM and cash calls made by MCM during Fiscal 2005. As of September 30, 2005, our interest in MCM increased to 96.66%.

SteriMed Systems

We developed and market worldwide the SteriMed and SteriMed Junior compact units that 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 disposal 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

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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 approximately 90% 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”, are met. Furthermore, it is accepted by Publicly Owned Treatment Works (“POTW”) allowing for its discharge into the sewer system.

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

In the United States, the initial focus of marketing the SteriMed Systems has been to the medium-term to larger chains of dialysis clinics on a lease or sales basis. In addition, we are also pursuing other potential users, including laboratories, plasma phoresis centers, blood banks, surgical centers and hospitals.

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 February 17, 2006, we closed a private placement of 241,933 shares of Series D Convertible Preferred Stock and warrants for net proceeds of $2,700,000. The Series D Convertible Preferred Stock is convertible into 2,419,330 shares of common stock. The warrants consist of 2006 Series A Warrants for the purchase of 223,881 shares of Common Stock at $1.50 per share and 2006 Series B Warrants for the purchase of 447,764 shares of common stock at $2.00 per share, exercisable for five years.

THE OFFERING

Securities Covered Hereby	3,597,088 shares, includes 2,419,330 shares underlying Series D convertible preferred

stock and 850,750 shares subject to warrants, and an additional 327,008 shares that may become issuable by reason of provisions in the Registration Rights Agreement pursuant to which this prospectus is being filed to register 110% of the registrable shares.

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Common Stock to be Outstanding after the Offering	6,592,878 shares, assuming the selling stockholders convert all of their Series D Preferred Stock and exercise all their warrants.
Use of Proceeds	We will receive no proceeds from the sale or other disposition of the shares of common stock covered hereby, or interests therein, by the selling stockholders. However, we will receive $1,551,351 if all of the warrants for underlying shares included in this prospectus are exercised for cash. We will use these proceeds for general corporate purposes.
OTC Electronic Bulletin Board Symbol	“CAPS”

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RISK FACTORS

See “RISK FACTORS” for a discussion of certain 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.

	Year Ended September 30,		Three Months Ended December 31, (Unaudited)	
Summary of Operations	**2005**	**2004**	**2005**	**2004**
Total revenues	$ 848,802	$ 885,461	$ 240,888	$ 262,659
Loss from continuing operations	(2,538,408)	(3,249,963)	(693,438)	(797,072)
Loss from operations of discontinued Strax Business	-	(105,806)	-	-
Net loss	(2,538,408)	(3,355,769)	(693,438)	(797,072)
Loss from continuing operations per share	(1.16)	(3.18)	(0.21)	(0.78)
Income (loss) from discontinued operations per share	-	(0.10)	-	-
Net loss per common share (basic and diluted)	$ (1.16)	$ (3.28)	$ (0.21)	$ (0.78)
Weighted average common shares outstanding, basic and diluted	2,288,543	1,022,328	3,321,673	1,022,328

Statement of Financial Position	As of September 30, 2005	As of December 31, 2005 (Unaudited)
Cash and cash equivalents	$ 1,257,158	$ 620,934
Total assets	3,173,137	2,506,755
Working capital	1,705,187	1,086,326
Long-term debt	-	-
Stockholders’ equity	2,795,540	2,102,102

RISK FACTORS

The shares of our common stock being offered for resale by the selling stockholders are highly speculative in nature, involve a high degree of risk and should be purchased only by persons who can afford to lose the entire amount invested in the common stock. Before purchasing any of the shares of common stock, you should carefully consider the following factors relating to our business and prospects. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline and you may lose all or part of your investment.

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 $2,538,000, or $(1.16) per share, for the fiscal year ended September 30, 2005, compared to a net loss of approximately $3,356,000, or $(3.28) per share, for the fiscal year ended September 30, 2004, and a net loss of approximately $694,000, or $(0.21) per share, for the three month period ended December 31, 2005. We can expect to incur losses for the immediate foreseeable future. There can be no assurance that we will achieve the level of

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

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

The MCM business, our primary business, is at an early stage of commercialization and 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.

In addition, our early stage of commercialization means that we have less insight into how market and technology trends may affect our business. This includes our ability to attract and convince customers to switch from their current method of dealing with the disposal of their medical waste to a new technology and to adjust their current in-house system to adapt to our SteriMed Systems. As a consequence, the revenue and income potential of our business is unproven. Further, we cannot estimate the expenses for operating the business. If we are incorrect in our estimates, it could be detrimental to our business.

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

At present, the SteriMed is manufactured at our own facility in Israel. The SteriMed Junior is currently manufactured by a third-party manufacturer in Israel. While we expect our manufacturing and product development work to continue in Israel, due to the limited capacity as well as the high costs of transportation from Israel, we continue to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as alternative locations in North America 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 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 become profitable. As a result, the market price of our securities may decline, causing you to lose some or all of your investment.

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.

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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 cleared for marketing in 47 states and the SteriMed Junior in 42 states. It is our objective to obtain approvals from the remaining states. The Ster-Cid® has been registered in 49 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.

We believe that we currently comply in all material respects with all applicable laws, regulations and permitting requirements. State and local regulations change often, however, 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 Affect on Our Business and Make It Easier For Our Competitors to Duplicate Our Products.

We regard certain aspects of our products, processes, services and technology as proprietary, and we have trademarks and patents for certain aspects of the SteriMed Systems. Our ability to compete successfully will depend in part on our ability to protect our proprietary rights and to operate without infringing on the proprietary right of others, both in the United States and abroad. Our proprietary rights to Ster-Cid® relate to an exclusive worldwide license that we had obtained from a third party manufacturer in Europe to purchase the Ster-Cid® disinfectant. The patent positions of medical waste technology companies generally involve complex legal and factual questions. While patents are important to our business, the regulatory approvals are more critical in permitting us to market our products. We may also apply in the future for patent protection for uses, processes, products and systems that we develop. There can be no assurance that any future patent for which we apply will be issued, that any existing patents issued will not be challenged, invalidated or circumvented, that the rights granted thereunder will provide any competitive advantage, that third-parties will not infringe or misappropriate our proprietary rights or that third parties will not independently

develop similar products, services and technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties, the expenditure of which we might not be able to afford. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or require us to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we could develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business and profitability.

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

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

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

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

The malfunction or misuse of our SteriMed Systems may result in damage to property or persons, as well as violation of various health and safety regulations, thereby subjecting us to possible liability. Although our insurance coverage is in amounts and deductibles customary in the industry, there can be no assurance that such insurance will be sufficient to cover any potential liability. We currently retain a claims made $2 million 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 assure you that we will be able to license any valid and infringed patents from third parties on commercially reasonable terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement. Any infringement claim or other litigation against or by us could have a material adverse effect on us and could cause us to reduce or cease operations, and even if we are successful in a litigation to defend such claim, there may be adverse effects due to the significant expenses related to defending the litigation.

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

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

with or carry any “key-man” insurance on the lives of any of our officers or employees.

Dependence on Principal Customers

Two principal customers, Advanced Washroom and a major U.S. dialysis company accounted for approximately 39% of our revenues from our SteriMed business for fiscal year 2005. Four principal customers,

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Euromedic, which is a foreign distributor in Central and Eastern Europe, the U.S. Navy and two major U.S. dialysis companies accounted for approximately 70% of our revenues in the three months ended December 31, 2004. We are presently working on the expansion of our sales, both internationally and domestically. In fiscal year 2005, we received our first significant order for the SteriMed Junior from a major U.S. dialysis company. The loss of any one of our principal customers would have a significant adverse impact to our business.

Competition

There are numerous methods of handling and disposing of RMW, of which our technology is one of the available systems. We are not aware of any competitive product that is similar to the SteriMed Systems with respect to its design and compactness. 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 beneficially owns approximately 49.3% of the outstanding common stock, including shares of common stock underlying Series D Preferred Stock and warrants currently held by them. Accordingly, they could exercise a significant voting block in the election of directors and other matters to be acted upon by stockholders.

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 $1.00 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 March 1, 2006, we had 3,321,673 outstanding shares of common stock and an aggregate of 4,681,190 shares of common stock reserved for the conversion of Preferred Stock and the exercise of options and warrants. Of the 8,002,863 shares, an aggregate of 3,270,080 shares have been included in this prospectus. We have filed this registration statement to register these restricted shares for sale into the public market by the selling stockholders. We previously filed a separate registration statement for the restricted shares issuable in our February 2005 placement (see Form SB-2 No. 333-124096). These restricted securities, if sold 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. Any outstanding shares not sold by the selling stockholders

pursuant to this prospectus will remain as “restricted shares” in the hands of the holder, except for those held by non-affiliates for a period of two years, calculated pursuant to Rule 144.

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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.

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

The fact that we are seeking additional capital through the sale of our securities, including shares of our preferred stock, which include granting certain registration rights to the investors, could negatively impact us. At March 1, 2006, we had 44,474,456 shares of common stock and 731,067 shares of preferred stock which our Board of Directors could issue without any approval of existing holders. The issuance of these shares, as well as the issuance of any new shares, and any attempts to resell them could depress the market for the shares being registered under this prospectus.

We Are Subject to Penny Stock Regulations and Restrictions

The Securities and Exchange Commission has adopted regulations which generally define Penny Stocks to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. As of March 17, 2006, the closing price for our common stock was $2.00 per share and therefore, it is designated a “Penny Stock.” As a Penny Stock, our common stock may become subject to Rule 15g-9 under the Securities Exchange Act of 1934, as amended (“Exchange Act”), or the Penny Stock Rule. This rule imposes additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and “accredited investors” (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser’s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

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

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

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.

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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 variations on these v or comparable terminology.

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

USE OF PROCEEDS

We will not receive any portion of the proceeds from the sale of the shares of common stock covered hereby, or interests therein, by the selling stockholders. We may receive proceeds of up to $1,551,351 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 and options may be exercised as a result of this offering.

We are obligated to bear the expenses of the registration of the shares. We anticipate that these expenses will be approximately $90,000.

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. We intend to retain and use any future earnings for the development and expansion of our business and do not anticipate paying any cash dividends on the common stock or the Series B Preferred Stock in the foreseeable future.

MARKET FOR OUR COMMON STOCK

Principal Market and Market Prices

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

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

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Fiscal Period	Fiscal Year Ending 9/30/06		Fiscal Year Ending 9/30/05		Fiscal Year Ended 9/30/04	
	High	Low	High	Low	High	Low
First Quarter	$2.45	$1.05	$3.80	$2.20	$6.00	$2.20
Second Quarter	2.35	1.30	6.80	2.60	5.00	2.00
Third Quarter *	1.65	1.65	5.00	2.10	6.00	1.00
Fourth Quarter	—	—	2.98	2.00	5.00	2.20

*Reflects prices through April 5, 2006

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

Approximate Number of Holders of Our Common Stock

On March 1, 2006, there were approximately 1,100 holders of record of the common stock. Since a large number of shares of common stock were held in street or nominee name, it is believed that there are a substantial number of additional beneficial owners of our common stock.

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, 2005 Compared to Fiscal Year Ended September 30, 2004

Revenues generated for fiscal 2005 were primarily generated by MCM product sales and rental revenues which totaled $740,796 for fiscal year ended 2005 as compared with $835,461 for fiscal year ended 2004. For fiscal year ended September 30, 2005, three customers accounted for approximately 51% of the consolidated total revenue. For the year ended September 30, 2004, two customers, other than those in fiscal year 2005, accounted for approximately 72% of the consolidated total revenue. Product sales and equipment rental income for the fiscal year 2005 moderately decreased as we were negatively impacted by the consolidation in the dialysis clinic market by several of our customers which caused them to place their purchasing decisions on hold during the calendar year of 2005.

Consulting and royalty income from the TDM Business which was sold in 2002 to Seradyn, Inc. totaled approximately $108,000 as compared to $50,000 for fiscal years ended September 30, 2005 and 2004, respectively. The increase of approximately $58,000 was attributable to royalty income earned of approximately $100,000 in fiscal year 2005 (none in fiscal year 2004) under the provisions of a Royalty Agreement between Seradyn, Inc. and the Company. Pursuant to the terms of the sale of the TDM business, we received consulting fees of approximately

$5,000 in fiscal year 2005 versus $50,000 in fiscal year 2004. The consulting fee agreement expired in October 2004.

Cost of product sales and equipment rental income aggregated approximately $491,000 as compared to $619,000 during fiscal years ended September 30, 2005 and 2004, respectively. The lower costs of approximately $128,000 were a result of lower revenues and increased efficiencies in purchasing production materials and manufacturing the SteriMed systems.

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Research and development costs amounted to approximately $325,000 versus $284,000 for fiscal years ended September 30, 2005 and 2004, respectively. The increased costs are attributed to research and development activities relating to our production scale-up of components used to upgrade the SteriMed systems.

Selling, general and administrative expenses totaled $2,730,071 for fiscal year ended 2005 versus $3,020,212 for fiscal year ended 2004. This decrease is a result of a reduction in professional fees of approximately $347,000, primarily due to expenses incurred in defending prior litigations, offset by the additional hiring of two employees.

Other income totaled $482,200 for fiscal year ended September 30, 2005 as compared to $0 for the year ended September 30, 2004. This income resulted from the favorable settlement of certain outstanding liabilities as well as an insurance settlement of $350,000 for expenses incurred in defending prior litigations which were settled in fiscal year 2005.

Interest expense, net totaled $323,026 for fiscal year ended September 30, 2005 versus $212,571 for the fiscal year ended September 30, 2004. The principal reason for the increase of interest expense incurred during the fiscal year ended September 30, 2005 related to the write-off of debt issuance costs and debt discount of approximately $125,000 due to the early extinguishment of debt. This debt which was principally converted to equity in 2005 was in connection with the secured convertible notes and bridge financing (approximately $2.2 million) which occurred in the fiscal year ended September 30, 2004.

The loss from continuing operations totaled $2,538,408 for fiscal year ended 2005 versus $3,249,963 for fiscal year ended 2004.

Three Months Ended December 31, 2005 Compared to Three Months Ended December 31, 2004

Revenues generated from MCM product sales totaled $217,282 for the three months ended December 31, 2005 as compared to $236,908 for the three months ended December 31, 2004. Revenues generated from MCM rentals totaled $0 as compared to $5,326 for the comparable period. Consulting and royalty income from the TDM Business, which was sold in 2002, totaled $23,606 for the three months ended December 31, 2005 as compared to $20,425 for the three months ended December 31, 2004.

Cost of product sales and leased equipment amounted to $168,662 or 78% of total related revenues versus $161,794 or 67% of total related revenues for the three month period ended December 31, 2005 and 2004, respectively. The increase in the percentage of cost of goods sold to related revenue is related to the sales mix of the units sold in the three months ended December 31, 2005, versus December 31, 2004 as well as higher costs of materials and adverse exchange rate movement. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues.

Research and development expense increased to $81,839 versus $76,580 for the three month period ended December 31, 2005 as compared to the same period in 2004.

Selling, general and administrative expenses totaled $687,554 for the three months ended December 31, 2005 versus $672,278 for the three months ended December 31, 2004. This difference is principally due to the hiring of an investor relations firm, commencing May 1, 2005 at a monthly cost of $8,000, offset by certain reductions in other operating expenses.

Interest income, net totaled $3,729 for the three months ended December 31, 2005 versus $149,079 interest expense, net totaled for the three months ended December 31, 2004. There was no outstanding debt during the three months ended December 31, 2005.

The net loss amounted to $693,438 and $797,072 for the three month periods ended December 31, 2005 and 2004, respectively.

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Liquidity and Capital Resources

At December 31, 2005, our cash and cash equivalents position approximated $621,000 versus $1,257,000 at September 30, 2005.

On February 15, 2005, we closed on a $4.5 million preferred stock equity financing before financing related fees and expenses of approximately $435,000. We issued 45,000 shares of Series C Mandatory Convertible Preferred Stock ("Series C Preferred Stock") at a stated value of $100 per share, together with Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of $5.60 per share for a period of five years, and Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of $2.90 per share for a period of five years exercisable after nine months, subject to a termination condition as defined in the warrant. Simultaneously, the outstanding short-term secured debt in the aggregate of approximately $2.1 million inclusive of interest, together with $72,962 of unsecured indebtedness, were converted into 21,681 shares of Series C Preferred Stock. Under the terms of the Series C Preferred Stock, upon the reverse stock split, effective April 5, 2005, the outstanding Series C Preferred Stock was converted into 2,299,345 shares of common stock at a conversion price of $2.90 per share.

The proceeds from this capital raising transaction was principally used to finance the net cash used in operating activities, during the year ended September 30, 2005 ($2.9 million) and for the quarter ended December 31, 2005 ($633,000). The remaining funds of approximately $600,000 are targeted to finance the needs of our business through June 30, 2006, based upon our present business plan. Specifically, the funds are being used to increase our marketing effort both in the U.S. and overseas markets. The availability of this working capital has enabled us to build inventory to fulfill current needs arising from our increased marketing efforts. In addition, as we start to increase our penetration in the U.S. market, 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 be required to obtain regulatory approvals in markets where we believe there exists great opportunities for our business.

On February 17, 2006, we closed on a $3 million Series D Preferred Stock equity financing before financing related fees and expenses of approximately $300,000. The net proceeds will be used for general working capital purposes.

We believe that after the February 2006 placement we should have sufficient cash requirements to support our working capital needs through March 31, 2007. However, to further develop the MCM business, we will need to seek additional funding. We will continue its efforts to seek additional funds through funding options, including private and public equity offerings, banking facilities, equipment financing, and government-funded grants. There can be no assurance that such funding initiatives will be successful due to the difficulty in raising equity from third parties given our low stock price and current revenue base, and if successful, will be highly dilutive to existing stockholders. These funds are required to permit us to expand our marketing efforts and for the manufacture of its SteriMed System as well as for general working capital requirements. Accordingly, the auditors' report on the 2005 financial statements contains an explanatory paragraph expressing a substantial doubt about our ability to continue as a going concern.

Contingent Obligations

Our principal contractual commitments include payments under operating leases.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates our estimates and assumptions, including but not limited to those related to revenue recognition and the impairment of

long-lived assets, goodwill and other intangible assets. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making 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.

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1. Revenue recognition

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

2. Goodwill and other intangibles

Goodwill and other intangibles associated with the MCM acquisition will be subject to an annual assessment for impairment by applying a fair-value based test. The valuation will be based upon estimates of future income of the reporting unit and estimates of the market value of the unit.

3. Off-balance sheet arrangements

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

Recent Accounting Pronouncements

In September 2005, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF") Issue No. 05-7. "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues", which addresses whether a modification to a conversion option that changes its fair value affects the recognition of interest expense for the associated debt instrument after the modification, and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishments, if a debt modification increases the intrinsic value of the debt. In September 2005, the FASB ratified the following consensus reached in EITF Issue 05-08 ("Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature"): a) the issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting Standards SFAS No. 109, Accounting for Income Taxes. Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for book purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes; b) the resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled; and c) recognition of deferred taxes for the temporary difference should be reported as an adjustment to additional paid-in capital. These issues are effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to EITF Issue 00-27, "Application of Issue No. 98-5 to Certain Convertible Debt Instruments" (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements). Management does not believe these pronouncements will have a material impact on the Company's consolidated financial statements.

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

In December 2004, the FASB issued its final standard on accounting for share-based payments (“SBP”), FASB Statement No. 123 (R) (revised 2004) “Share-Based Payment.” This statement requires companies to expense the value of employee stock options and similar awards. Under FASB Statement No. 123 (R), SBP awards result in a cost that will be measured at fair value of the awards’ grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. Public entities that are small business issuers will be required to apply Statement No. 123

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(R) as of the first annual reporting period that begins after December 15, 2005. Although the adoption of FASB No. 123 (R) will have no adverse impact on the Company's balance sheet or total cash flows, it will affect the Company's net income and earning per share. The actual effects of adopting FASB No. 123 (R) will depend on numerous factors, including the amount of share-based payments granted in the future, the Company's future stock price volatility, estimated forfeiture rates and employee stock option exercise behavior.

In November 2004, the FASB issued SFAS No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4." The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not believe the adoption of SFAS 151 will have a significant impact on the Company's overall results of operations or financial position.

In October 2004, the FASB ratified the consensus reached in EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings Per Share." The EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible preferred stock, and other such securities should be included in diluted earnings per share (if dilutive) regardless of whether the market trigger price has been met. The consensus became effective for reporting periods ending after December 15, 2004. The adoption of this statement did not have a significant impact on the Company's consolidated financial statements.

Inflation

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

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BUSINESS

Background

Caprius, Inc. 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 develops, markets and sells the SteriMed and SteriMed Junior compact units 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, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. Pursuant to its Letter of Intent with MCM, Caprius 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 part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, the Company's ownership interest increased by 5% in the fiscal year 2004 and an additional 5% in the fiscal year 2005. Furthermore, our equity ownership increased with the conversion of various loans made to MCM and cash calls made by MCM during Fiscal 2005. As of September 30, 2005, our interest in MCM increased to 96.66%.

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

Background of the Regulated Medical Waste Industry in the United States

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

The MWTA led to the development of individual state laws regulating how RMW is to be disposed of. As a result of these laws, it became necessary for medical waste generating facilities to institute new procedures and processes for transporting medical waste from the facility to an offsite treatment and disposal center, or obtain their own on-site system for treatment and disposal acceptable to the regulators. By 1999, Health Care Without Harm, a coalition of 240 member organizations, estimated that 250,000 tons of RMW was produced annually.

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, 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 medical waste management methods that do not require manifest systems. The combination of

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these pressures is forcing medical waste generators to seek innovative methods for their waste disposal. MCM believes these factors create a demand for an onsite RMW treatment option. 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. 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 is attempting to establish relationships worldwide directly or through distributors, in many of these countries.

The MCM SteriMed Systems

The SteriMed Systems are patented, environmentally friendly, on-site disinfecting and disposal 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 unrecognizable conventional solid waste, in accordance with appropriate regulatory requirements. The resultant treated waste is as low as 10% of the original volume.

The SteriMed Systems are comprised of two different sized units, and the required Ster-Cid® disinfectant solution which can be utilized with both units. The larger SteriMed can treat up to 20 gallons (75 liters) of medical waste per cycle. The smaller version, SteriMed Junior, can treat 4 gallons (15 liters) per cycle. As the technology for disinfection is chemical based, within the definitions used in the industry, it is considered as an alternative treatment technology.

We have the worldwide exclusive rights for the manufacture, use and sale of the Ster-Cid® proprietary disinfectant used in the SteriMed Systems. The Ster-Cid® is currently manufactured solely for us by a licensor. In the event that the licensor is unable to manufacture the Ster-Cid®, we have the right to have Ster-Cid® manufactured by an alternative manufacturer. Ster-Cid® is approximately 90% biodegradable. Ster-Cid® is considered a pesticide by the U.S. EPA and, in compliance with Federal Insecticide, Fungicide, Rodenticide Act of 1973 ("FIFRA"); it is registered with the U.S. EPA. The process of registering a pesticide under FIFRA involves submission of an application package to the U.S. EPA. The EPA's review of this application includes assessment of the hazards to human health and the environment that may be posed by the pesticide. This process can take up to a year or more to complete. MCM had assigned an agent experienced with the FIFRA registration process to carry out this process for Ster-Cid®. This process was completed in September 1999 at which time the Ster-Cid® was assigned a FIFRA Registration number.

During the SteriMed disinfecting cycle, the concentration of Ster-Cid® is approximately 0.5% of the total volume of liquids. The Ster-Cid® disinfectant has been tested in independent laboratories and shown to meet U.S. EPA

guidelines for disinfection. Furthermore, it is accepted by Publicly Owned Treatment Works ("POTW") allowing for its discharge into the sewer system.

Both the SteriMed and SteriMed Junior are safe and easy to operate, involving ½ day of training provided by our technical support staff to operators as designated by the end-user. The operator is trained to handle the daily and weekly responsibilities for the routine preparation, maintenance, and minor troubleshooting of the SteriMed

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Systems. Daily maintenance includes filling the system with the Ster-Cid®, removal and replacement of the filter bags, and disposing of the filter bag as black bag waste.

The trained operator places the red bag waste containing RMW into the SteriMed receiver chamber and activates the start button. The water and Ster-Cid® are then automatically released into the treatment chamber. The shredding, grinding and mixing of the waste is then initiated to expose all surfaces of the medical waste to the chemical solution during the 15 minute processing cycle. At the end of each specified number of cycles, trained operator then puts the residue into a regular black bag, ready for disposal as regular solid waste.

Both SteriMed and the SteriMed Junior are equipped with an integrated monitoring system, including a PLC display, which indicates each of the system's functions to guide the operator through its operations. Access to the PLC program is secured, accessible only by MCM's technicians to prevent operators from overriding the treatment process. Relevant information concerning treatment parameters may be electronically forwarded, at the end of each treatment cycle, to a designated printer at any location within the facility. In addition, the system is capable, at the option of the facility, to have the treatment parameters for all cycles in a day forwarded to MCM's maintenance center.

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. 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. This meets or exceeds most state regulatory requirements.

The SteriMed has been cleared for marketing in 47 states and the SteriMed Junior in 42 states. The Ster-Cid® disinfectant has been registered in 49 states. We are currently seeking approvals from the remaining states.

Local and county level authorities generally require that discharge permits be obtained from POTW by all facilities that discharge a substantial amount of liquids or specifically regulated substances to 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 POTW's discharge limits.

These approvals allow the SteriMed Systems effluent to be discharged to a municipal sewer and the treated disinfected 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 an expected requirement for equipment sold in the European Union (“EU”). The SteriMed Systems are CE Mark compliant as well as ISO Certified, 9001:2000 and 14001:1996. In order to meet

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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.

Competition

RMW has routinely been treated and disposed of by of incineration. Due to the pollution generated by medical waste incinerators, novel technologies have been developed for the disposal of RMW. Some of the issues confronting these technologies are: energy requirements, space requirements, unpleasant odor, radiation exposure, excessive heat, volume capacity and reduction, steam and vapor containment, and chemical pollution. The use of the SteriMed Systems eliminates concern about these issues: space and energy requirements are minimal, there are no odors, radiation, steam, vapor or heat generated, solid waste volume is reduced by up to 90% and the disinfecting chemical is 94% 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 odor problems.

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

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

High Heat Thermal Processes: High heat thermal processes operate at or above incineration temperatures, from 1,000^{o}F to 15,000^{o}F. Pyrolysis, which does not include combustion or burning, contains chemical reactions that create gaseous and residual waste products. The emissions are lower than that created by incineration, but the pyrolysis demands heat generation by resistance heating such as 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 are Stericycle, Inc., Steris Corporation, Sanitec, Inc. Positive Impact Waste Solutions, Inc., Waste Processing Solutions Company, Global Environmental Technologies, LLC, and Waste Reduction, Inc.

Competitive Features of the SteriMed Systems

Seizing the opportunity afforded by the regulatory changes and pricing pressures in the healthcare industry, we are positioning our products as viable alternatives to the traditional medical waste disposal methods. The

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SteriMed Systems seek to offer medical waste generators a true on-site option that is less risky, less expensive, and more environmentally friendly than the alternatives. The main competitive advantages of the SteriMed Systems are:

Safety

a) No need to pack containers of medical waste
b) No need to transport infectious waste through facilities with patients
c) No need to ship infectious medical waste on public roads
d) Environmentally sound approach for disinfection - uses biodegradable chemicals; does not release smoke, odor, steam or other emissions to the air; removes the need for incineration
e) Noise level during cycle is approx. 70.1dB(A), regarded below levels of noise safety concerns by most government regulations

Labor

a) Reduce the exposure to infectious 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) Employee can continue to perform their regular functions while the SteriMed treatment cycle is operational

Convenience

a) Easily installed requiring only electricity, water and sewage outlet. No special ventilation or lighting required
b) Can fit through regular doorway
c) Limited training required for operators
d) Due to size, units can be strategically placed in a health care facility near high waste generation sites

Cost Saving

a) Less labor time
b) No transportation costs to incineration site
c) Our preferred business model is to rent the SteriMed Systems 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
d) Ability to fix costs for a given period of time, avoiding future price increases and surcharges

Compliant with Federal and States regulations

a) Enable infectious medical waste generating facilities to replace existing systems while meeting federal, state and local environmental as well as health regulations.

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 because of federal and state regulations or because of pressures to reduce operating costs.

Marketing Strategy

We have designed and are implementing a marketing program which maximizes the uniqueness and strengths of the SteriMed Systems while enhancing our customers' cash flow and minimizing their financial restraints. Our sales focus is to those sites which best fit the capabilities and requirements of our systems. These include those sites generating approximately 2,000 to 12,000 pounds of RMW per month and are able to provide a room with a minimum of 75 square feet with proper plumbing and electricity for the storage and operation of the machine. Within the United States these facilities include dialysis centers, surgical centers, plasma phoresis centers, blood banks, commercial laboratories (both research and clinical), large physician group practices and specific sites within hospitals.

Many of these facilities are owned by national or international corporations operating many facilities. By focusing our sales efforts on these corporations, we will be able to have multiple machine placements within the

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same organization. This offers many advantages to the customer and to us. Not only will we be able to maximize our selling efforts, we will also be able to compound our warranty and service effectiveness. This strategy should enable us to maximize resources and quickly obtain market penetration. We are presently working with a number of these customers in the implementation of this strategy and in fiscal year 2005, we received our first significant order in the U.S. for the SteriMed Junior from a major dialysis company. In addition, in December 2005, the Company received an order for two SteriMed Junior Systems from the United States Department of Defense for use by the U.S. Navy. The units are for laboratory test and evaluation as part of the U.S. Navy's Shipboard Medical Waste Management Program.

We do not have the depth of marketing or financial capacity that many of our competitors have and thus are reliant upon generating interest in our products by virtue of our technical advantages. This aspect is emphasized in our limited budget allocated for marketing.

Our business marketing models in the U.S. are either lease or purchase of the SteriMed Systems. The basic lease terms are a single monthly fee which includes the cost of the SteriMed, disposables and service for the life of the lease. Lease terms are usually five years. In the rest of the world, only the purchase option is available. Leasing is not available outside of the U.S. because of the potential difficulty in monitoring and collecting monthly leasing fees. Our distributors, however, are free to sell or lease the SteriMed Systems in their respective markets. Regulatory approvals are required prior to marketing in any country, whether the business is conducted by us or our 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 exclusive right to sell the SteriMed Systems and related products with 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.

Internationally, we have distribution agreements in the following countries: Argentina, Brazil, Columbia, Costa Rica, Cyprus, Greece, Japan, Mexico, Paraguay, Poland, Scandinavia (Norway, Sweden, Finland and Iceland), Singapore, Taiwan, Tunisia and Uruguay. In January 2006, we entered into a three-year exclusive distributorship agreement for the Caribbean. In February 2006, we entered into a five-year exclusive distributorship agreement for the territories of Australia and New Zealand. In each of the countries, it is the distributors' responsibility to obtain, at their own expense, all regulatory approvals which will be registered in the name of MCM.

Manufacturing

We recognize that to be successful, we need to manufacture units that are:

1) Robust
2) Reliable
3) Reproducible in their activity

Presently, we manufacture the SteriMed at our facility in Moshav Moledet, Israel. The SteriMed Junior is currently manufactured by a third-party manufacturer in Israel. We continue to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as alternative locations in North America for the manufacture of our SteriMed Junior.

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. We presently have depots for parts and supplies located in Ridgefield, NJ and 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. The Company provides our customers with a warranty covering parts and labor for one year. Thereafter, we offer an extended warranty program. Our technical service staff assists clients in the installation of units and the training of their staff and on-site operators. This training

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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. Our technical staff is on call to assist in fixing problems or perform repairs. Our goal is to minimize problems through ongoing training and strict adherence to maintenance schedules. Our Customer Service staff is available to help with any questions or issues our customers might have.

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.

SteriMed Systems has an International Class 10 Trademark for Israel, United States, Canada, Japan, Australia, Mexico, Russia, Hungary, Poland, and for Community Trademark ("CTM" - European).

MCM STERIMED - INTERNATIONAL CLASS 10 TRADEMARK:

File No.	Country	Application No.	Application Date	Trademark No.	Renewal Date
99200	Israel	113,697	7/20/1997	113,697	07/20/2007
99207	U.S.A.	75/904,419	01/28/2000	2,724,738	10/20/2013
99208	Canada	1035659	11/12/1999	TMA 596,538	12/04/2018
99209	CTM(European)	1380146	11/11/1999	1380146	11/11/2009
99210	Japan	11-103145	11/12/1999	4462258	03/23/2011
99211	Australia	813208	11/09/1999	813208	11/09/2009
99212	Mexico	472508	02/23/2001	701862	02/23/2011
99214	Russia	99719243	11/18/1999	209618	11/18/2009
99216	Hungary	m-9905278	11/10/1999	165158	11/10/2009
99218	Poland	Z-209695	11/10/1999	148086	11/10/2009

The Ster-Cid® disinfectant has an International Class 5 Trademark for Israel, United States, Canada, Japan, Australia, Mexico, Russia, Hungary, Poland, and CTM.

MCM STER-CID® INTERNATIONAL CLASS 5 TRADEMARK:

File No.	Country	Application No.	Application Date	Trademark No.	Renewal Date
99200	Israel	131893	11/01/1999	131893	11/01/2006
99201	U.S.A.	75/904,150	01/29/2000	2,713,884	05/06/2013
99202	Canada	1035658	11/12/1999	TMA 596,329	12/03/2018
99203	CTM(European)	1380195	11/11/1999	1380195	11/11/2009

99204	Japan	11-103144	11/12/1999	4562185	04/19/2007
99205	Australia	813207	11/09/1999	813207	11/09/2009
99206	Mexico	412940	02/23/2001	656603	02/25/2010
99213	Russia	99719294	11/18/1999	200276	11/17/2009
99215	Hungary	M-9905279	11/10/1999	164682	11/10/2009
99217	Poland	Z-209696	11/10/1999	145760	11/10/2009

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The SteriMed has patents in Australia, Japan, United States, Canada, Europe and South Africa. Additionally, there are patent applications pending in the United States (provisional), Australia, Brazil, Mexico, Russia, Canada, China, India, and Patent Corporation Treaty ("PCT").

MCM STERIMED PATENTS:

File No.	Country	Application No.	Application Date	Patent No.	Patent Date	Valid Until
9346	Israel	108,311	01/10/1994	108,311	12/23/1999	01/10/2014
9452	Australia	10096/95	01/09/1995	684,323	04/2/1998	01/09/2015
9453	Japan	7-011844	01/23/1995	3058401	04/21/2000	01/27/2015
9454	U.S.A.	08/369,533	01/05/1995	5,620,654	04/15/1997	04/15/2014
9456	Canada	2,139,689	01/06/1995	2,139,689	10/5/1999	01/06/2015
9455	Europe	95630001.6	01/05/1995	EP0662346	03/28/2001	01/05/2015

MCM STERIMED PCT INTERNATIONAL PHASE PATENTS:

File No.	Country	Application No.	Application Date	Patent No.	Patent Date	Valid Until
	PCT	PCT/IL02/00093	02/04/2002	WO2002/062479 A1	N/A	N/A
2337	Australia	2002230065	02/04/2002	Pending*	Pending	02/04/2022
2338	Brazil	200300398	07/31/2003	Pending*	Pending	02/04/2022
2339	Mexico	PA/a/2003/006946	08/04/2003	Pending*	Pending	02/04/2022
2340	Russia	2003127023	09/04/2003	Pending*	Pending	02/04/2022
2341	So. Africa	2003/5602	07/21/2003	2003/5602	09/23/2003	02/04/2022
2342	Canada	2437219	08/01/2003	Pending*	Pending	02/04/2022
2343	China	02806986.2	09/22/2003	Pending*	Pending	02/04/2022
2712	Hong Kong	4106248.3	08/20/2004	Pending*	Pending	N/A
2344	India	01389/chenp/03	09/02/2003	Pending*	Pending	02/04/2022
2373	USA	09/824,685	04/04/2001	6494391	12/17/2002	04/04/2021
2313/354	Europe	02711185.5	09/05/2003	P210477PCT/EP	Pending	02/04/2022

*Applied for as a temporary patent until the PCT takes effect.

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

Employees

As of March 1, 2006, we employed fourteen full-time employees, including three senior managers, of which five employees are located at our facility in Israel.

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

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

Properties

We lease approximately 4,200 square feet of office space in Hackensack, New Jersey for executive and administrative personnel pursuant to a lease that expires on September 30, 2011 at a base monthly rental of approximately $7,500, plus escalation. We also lease approximately 1,500 square feet of space in Ridgefield, NJ for warehousing and assembly at a monthly cost of $2,040 pursuant to a lease that expires on July 31, 2006.