CAPRIUS INC
Form 10-K
June 30, 2010

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

(Mark One) FORM 10-K
T Annual Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended September 30, 2009
Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-11914

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

Delaware	22-2457487
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

10 Forest Avenue, Suite 220, Paramus, New Jersey 07652
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (201) 342- 0900

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Securities registered pursuant to Section 12(b) of the Exchange Act:
None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, par value $0.01 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No T

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No T

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
Yes No T

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No T

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer	Accelerated filer	Non-accelerated filer	T Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No T

The aggregate market value of registrant's voting and non-voting common equity held by non-affiliates (as defined by Rule 12b-2 of the Exchange Act) computed by reference to the average bid and asked price of such common equity on March 31, 2010 was $71,499.

As of June 10, 2010, the registrant had outstanding 5,431,865 shares of common stock. The registrant also had outstanding 231,387 shares of preferred stock.

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INTRODUCTORY NOTE

This report on Form 10-K constitutes a comprehensive filing covering information that would have been reported not only in this Form 10-K for the fiscal year ended September 30, 2009, but also in a Form 10-K for the fiscal year ended September 30, 2008 and in Forms 10-Q for the fiscal quarters ended December 31, 2008, March 31, 2009 and June 30, 2009. We have been delinquent in the filing of all such reports. It is noted that the filing of this report will not result in us becoming "current" in our reporting requirements under the Securities Exchange Act of 1934.

The financial information included in this report consists of:

- --audited consolidated financial statements for each fiscal year from 2007 through 2009;
- --unaudited condensed consolidated financial statements in a level of detail consistent with Regulation S-X rule 10-01(a) and (b) for each quarter of fiscal 2009; and
- --management discussion and analysis based upon all the annual and quarterly financial information included in this report.

ITEM 1. BUSINESS

Forward Looking Statements

We are including the following cautionary statements in this Annual Report of Form 10-K to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, us. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Certain statements contained herein are forward-looking statements and accordingly involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. Our expectations, beliefs and projections are expressed in good faith and are believed by us to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in our records and other data available from third parties, but there can be no assurance that management's expectation, beliefs or projections will be achieved or accomplished. In addition to other factors and matters discussed elsewhere herein, the following are important factors that, in our view, could cause actual results to differ materially from those discussed in the forward-looking statements: technological advances by our competitors, changes in health care reform, including reimbursement programs, changes to regulatory requirements relating to environmental approvals for the treatment of infectious medical waste, ability to raise additional capital for marketing and manufacturing, delays in the manufacture of new and existing products by us or third party contractors, ability to attract and retain customers, challenges to our intellectual property, the loss of any key employees, the outcome of existing litigations and any future claims, delays in obtaining federal, state or local regulatory clearance for new installations and operations, changes in governmental regulations, and the location and the financial viability of the manufacturer in Israel. You are cautioned not to place undue reliance on forward looking statements, which speak only as of the date of this Annual Report. We undertake no obligation to make any revisions to the forward looking statements or reflect events or circumstances after the date of this Annual Report Form 10-K.

General

Caprius, Inc. ("Caprius", the "Company", "we", "us" and "our") is engaged in the infectious medical waste disposal busine through our wholly-owned subsidiary 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 chemically disinfect regulated medical waste ("RMW"), utilizing our proprietary, EPA registered,

bio-degradable chemical known as Ster-Cid. The SteriMed Systems are sold in both the domestic and international markets.

Recent Developments

Between June 2008 and September 2009, our business activities were substantially reduced while we were seeking to raise capital and reduce overall operating costs. Substantial amounts of capital are required to fund current operations for the manufacture, marketing and deployment of our SteriMed Systems. In September 2009, we entered into a Loan Facility with Vintage Capital Group LLC ("Vintage"). Since then we have taken steps to repay or settle our outstanding obligations and have started the process to reduce operating costs, restructure and restart our manufacturing by converting it from "company produced" to third-party contract assembled, and resume the marketing of the SteriMed Systems.

The Loan Facility provides for Vintage to make advances to Caprius up to an aggregate of $3.0 million. Interest on the advances accrues at a rate of 14% per annum (subject to a default rate of 17% per annum), and may be repaid in kind. All outstanding amounts under the Loan Facility, including any subsequent funding, are secured by the grant to Vintage of a first priority lien, pledge and security interest in substantially all of the assets of Caprius and its operating subsidiaries, and are guaranteed by those subsidiaries.

As part of the Loan Facility, we entered into an Investment Monitoring Agreement with Vintage providing for an Operating Committee initially composed of our Chief Executive Officer and Chief Financial Officer as well as two persons to be selected by Vintage. The Operating Committee was established to review budgets, strategic planning, financial performance and similar matters and has the right to make recommendations to our Board of Directors.

In January 2010, as a post-closing obligation under the Loan Facility, we issued a warrant to Vintage (the "Vintage Warrant") to purchase 40% of our common stock, $.01 par value ("Common Stock"), on a fully diluted basis at an exercise price of $0.01 per share for a term of seven years. Based upon our present capitalization, the Vintage Warrant would be exercisable into 25,602,333 shares of Common Stock. In addition, Vintage received certain rights to register under the Securities Act of 1933, as amended, the shares underlying the Vintage Warrant, pursuant to a Registration Rights Agreement. Further, we granted Vintage certain preemptive rights and observer rights for meetings of our Board of Directors pursuant to an Equity Rights Agreement.

As a condition to the Loan Facility, holders of more than a majority of the outstanding shares of each class of our outstanding preferred stock waived the anti-dilution provisions covering the shares of preferred stock with respect to the issuance of the Vintage Warrant and the underlying shares of Common Stock, and holders of more than a majority of our outstanding voting securities consented to approval of an increase in the number of authorized shares of our Common Stock.

On December 15, 2009, we increased our authorized shares of Common Stock to 250,000,000 shares from 50,000,000 shares, upon the filing of a Certificate of Amendment to the Certificate of Incorporation with the Secretary of State of Delaware. The number of authorized shares of preferred stock was not changed.

In November 2009, the Office of the Chief Scientist ("OCS") in Israel approved the request of our Israeli Subsidiary MCM Environmental Technologies Ltd. to transfer its technology rights to MCM upon repayment to the OCS of approximately $240,000 representing the balance of an OCS grant, and the royalty obligation was terminated. The OCS grant had been to assist MCM Environmental Technologies LTD in the development of certain technology related to our SteriMed System.

In October 2009, as part of the settlement of an outstanding litigation matter, we acquired the balance of the outstanding capital stock of MCM, resulting in MCM becoming a wholly-owned subsidiary of Caprius.

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In June 2009, we had entered into short term Bridge Loans pursuant to Unsecured Promissory Notes (the "Notes") to borrow up to a sum of $150,000 subject to interest at 14%. The Noteholders were to be granted 30 warrants for each $1.00 invested to purchase an aggregate of up to 4,500,000 shares of Common Stock at an exercise price of $0.10 per share for a period of five years. During June and August 2009, we received an aggregate of $100,000 in bridge loans, and issued to the noteholders warrants to purchase an aggregate of 3,000,000 shares of Common Stock. These Notes in aggregate principal of $100,000, plus accrued interest remain outstanding.

In February 2009, we entered into a short term bridge loan for a sum of $50,000 subject to 12% interest. This short term loan together with accrued interest was repaid in September 2009 from the Vintage Loan Facility.

In December 2007, we closed a $4.7 million Series F Convertible Preferred Stock placement, prior to payment of financing fees and expenses of approximately $300,000. The placement consisted of 78,334 shares of Series F Convertible Preferred Stock at $60 per share and 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 were used for general working capital purposes, primarily manufacturing and marketing.

PRODUCTS

The MCM SteriMed Systems

We developed and market worldwide the SteriMed and SteriMed Junior compact units. However, as noted, due to our inability to obtain needed working capital, the level of the development and marketing activities was substantially reduced. In September 2008, as part of our overall strategy to reduce operating costs the Company elected to close its manufacturing and assembly facility in Moledet, Israel, and began the process of outsourcing these responsibilities to a third-party contract assembly supplier located in Israel. This process also involved the relocation of the Company's current work in process and inventory, and our workforce to the contract assembly facility. As a result of the September 2009 Loan Facility with Vintage Capital Group LLC ("Vintage"), we have recently established an interim manufacturing relationship with a contract assembly partner. Under the terms of the Loan Facility, the Company is obligated establish a manufacturing source based in the United States, or such other location as is mutually agreed to by Vintage and the Company.

The SteriMed Systems 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 cycle lasting approximately 15 minutes. The units, comparable in size to a residential 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. Our technology enables healthcare providers to reduce their operating costs, while reducing the environmental impact associated with waste treatment and disposal by reduced carbon, water, and landfill footprints.

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, that 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 up to 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. Additionally, our technology also meets the very stringent requirements of several overseas markets, including but not limited to the U.K. Environment Agency ("EA") for Mobile Plant for the treatment of clinical waste, performed under accepted testing protocols. 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 operator 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.

Governmental Regulations

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 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. The number of hospital incinerators decreased from 6,200 in 1988 to 115 in 2003 (Mackinac Chapter, Sierra Club Newsletter Aug-Oct 2003).

A recent market-driven factor, impacting the rate of adoption of alternative technologies for onsite medical waste treatment technologies are the healthcare industry's environmental sustainability initiatives such as LEED (Leadership in Energy and Environmental Design) certification for not only their facility, but more recently for the operations and maintenance activities as well. Our technology is an enabling technology for healthcare facilities who are seeking to improved the environmental design of its facility's operations and maintenance through reduced carbon, water, and solid waste footprints associated with the treatment and disposal of its RMW waste stream.

Additionally, as part of the post-911 era, the Center for Disease Control and Prevention, more commonly known as the CDC, has advised all healthcare facilities to adopt a disaster preparedness plan, which should include how medical waste will be stored and treated during a national healthcare emergency. National emergency preparedness, as defined by the CDC, requires a coordinated effort involving every level of government as well as the private sector, non-governmental organizations, and individual citizens. CDC's work in preparedness supports the Department of Homeland Security, which has overall authority for emergency response activities as laid out in the National Response Framework. Our technology is an enabling technology for healthcare facilities who are seeking to develop a disaster preparedness initiative that includes their ability to be self-sufficient in treating their medical waste during a national or healthcare emergency, as opposed to reliance upon an unrelated third party supplier who may be unable to provide transportation and logistics for medical waste as a result of a national emergency such as earthquake, hurricanes, floods, or pandemics.

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 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.

During the 2008 and 2009 periods, the Company successfully attained approval for its technology in the United Kingdom whereby the EA granted us a Mobile Treatment License for the treatment of clinical waste utilizing the SteriMed technology. MCM recognizes this approval as an opportunity for SteriMed sales in Europe, due to the overall size of the UK market, the relatively high cost of clinical waste treatment in this market as compared to the US market, and the fact that many of the European Union countries, have adopted the technical guidelines of the UK in establishing their own local approval requirements; thereby enabling SteriMed technology to be more readily adopted throughout Europe at a faster pace.

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.

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

The use of our technology in the United States is subject to the following regulatory approvals; (1) State and Federal EPA registration of the chemical antimicrobial disinfectant use in our process, (2) State Approval as an Alternative Treatment Technology for RMW, which is typically jointly managed by the individual State's Department of Health and its State Department of Environmental Protection, and (3) the local municipalities waste water treatment discharge ordinances.

Our use of the Ster-Cid® antimicrobial disinfectant in the SteriMed Systems is registered by the U.S. EPA under FIFRA. The EPA regulates pesticides under the statutory authority of the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA). The registration requirements for antimicrobial pesticides such as Ster-Cid, differs somewhat from those of other pesticides. For example, EPA requires special tests to ensure efficacy of public health pesticides when the pests are invisible disease-causing microbes, rather than insects or rodents that may be harboring disease organisms. Similarly, determining human and ecological risks from exposure to antimicrobial pesticides requires different types of measurements and models than those needed for pesticides largely applied to crops and other plants. In view of these and other differences, EPA decided that its regulations governing pesticide registration requirements should also incorporate special antimicrobial sections, for which Ster-Cid must achieve.

The Ster-Cid® disinfectant, 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 people or 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.

Local and county 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. The Company and/or its distributors have received approval to market its SteriMed Systems in the Mexico, the United Kingdom, Israel, Russia, Japan, Australia, Serbia, and Hungary.

Our cost of complying with U.S. (including state and local) and foreign environmental law relates to the costs in obtaining and maintaining required licenses or permits. We estimate these costs were approximately $110,000 in fiscal 2008, the period in which the Company continued to invest to obtain the UK EA regulatory approval, and were approximately $25,000 in fiscal 2009.

Competition

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

Safety

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

Labor

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

Convenience

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

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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.

Environmental Benefit
a) Reduced fresh water footprint as compared to steam based alternative treatment technology (i.e. Auto Clave).
b) Elimination of carbon footprint associated with burning of fossil fuels required for transportation of the waste for traditional offsite waste treatment.
c) Reduce solid waste landfill footprint as the waste is volume reduced by as much as 90% of its original amounts though shredding and granulation technology used in the SteriMed.
d) Reduced carbon footprint associated with the use of a room temperature process, which reduces the carbon footprint associated with generating high levels of electricity for the production of steam for other treatment technologies, such as steam-based autoclaves.
e) Use of an environmentally friendly disinfectant which is biodegradable and as such does not require any neutralization of treatment prior to discharge into the domestic waste water treatment works.

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, approximately 90% biodegradable chemical for disinfection which has been cleared for use in many foreign countries and which is registered in all 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

In the United States, the initial focus of marketing the SteriMed Systems has been to dialysis clinics. We have sought entry in other new sectors, such as surgical centers, laboratories, plasmapheresis centers, and hospitals. Additional 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 practice has been to train the distributors in the overseas market to enable them to take on the responsibility for the installation and maintenance that are required for the SteriMed Systems in these foreign markets.

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 Green…….Saves Green……”; a stat that defines our business as one which helps our clients simultaneously achieve their goals of sustainability through environmental responsibility, and improved financial performance through the reduction in operating costs associated with waste treatment and disposal.

Our marketing strategy is driven by a sales program with a four pronged approach consisting of the following channels for product distribution: (1) direct selling to end users of our products in the commercial market, (2) direct selling to end users of our products in the government and defense industry, (3) sales to US based and foreign distributors of our products, (4) and agent-based representatives. The implementation of the marketing strategy is dependent upon the amount of capital resources available to devote to this effort. As a result of funding provided by the Loan Facility with Vintage Capital Group LLC ("Vintage"), we have recently been able to continue our marketing efforts in the United Stated, Israel, and Russia, as well as entering into a new business relationship in Mexico.

Direct Selling to End Users in the Commercial Market

In the United States, our sales efforts are directed by the President, who is responsible for selling to key customers in our key applications. In our international market, our sales efforts are direct by our Executive Vice President, who is responsible for selling to key distribution customers. 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. Our definition of a "key distribution customer" is a distributor who has an existing established business with key customers in the healthcare market, who have an existing clinical or medical waste stream, and who also have an existing infrastructure for providing its customers with post-sale technical support.

Many of these facilities that we target in the United States 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.

For the year ended September 30, 2009, two customers accounted for $792,470 of the consolidated total revenue, which represented approximately 54% and 10% respectively of the total revenue. For the year ended September 30, 2008, two customers accounted for approximately 39% and 20% respectively of the consolidated total revenue. These two customers for Fiscal 2008 accounted for approximately 33% and 15% respectively of our revenues for fiscal year 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 sale 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 has continued to work with the Navy NAVSEA group to streamline the shipboard installation process, continued testing and evaluation of the technology to validate it under certain shock, vibration, and noise environments associated with combat, along with recent work with the Navy Bureau of Medicine (BUMED) to validate that the SteriMed Junior will meet their specifications.

In addition to these opportunities, we are marketing to other branches of the military, including other NATO allies, 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 International Distributors

To maximize and augment our sales efforts in the U.S., we have been recruiting distributors. Recently, we have entered into distribution agreements in Columbia, and Mexico through execution of distribution agreements with Bio-Origen, S.A. and Terapias Dialysis respectively.

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 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. Our customers have relied upon our relationship with Henry Schein to streamline their procurement and logistics process for obtaining the consumables for the SteriMed Systems.

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, if allowed by local regulations.

We currently have international distributorship arrangements in Mexico, Australia & New Zealand, Hungary, Japan, 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. 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.

Employees

As of May 31, 2010 and September 30, 2009, we had nine full time employees, one of which is located in Israel. Of these, four are senior managers.

None of our employees is represented by any labor organization and we are not aware of any activities seeking such organization.

Manufacturing

We manufactured the hundreds of components used in the SteriMed units using global component suppliers. These components were then assembled at either our facility in Moledet until September 2008 when the Company elected to close this facility and to outsource these operations to a nearby contract manufacturing partner. The SteriMed Junior historically had been assembled by a third-party contract assembly company in Israel, while the Company had historically performed the assembly of the SteriMed Senior at its own facility in Moledet, Israel. As a result of the global economic downturn in 2009, the Israeli contract assembly company, who was unable to provide sufficient working capital to survive the downturn went into receivership and subsequently restructured its own business, resulting in our need to relocate our contract assembly to another supplier. As part of our efforts to resume full-scale manufacturing for our SteriMed Systems, as well as to comply with the terms of the Loan Facility, we are actively seeking new manufacturers to produce both SteriMed Systems as well as seeking alternative solutions for the manufacture of their components in lower cost regions. Included in our evaluation of alternative manufacturing, we are also considering assembly in the United States which is in closer proximity to a large percentage of our customer base. The Company has reached an agreement with a contract assembly supplier to assemble both the SteriMed Junior and Senior, under the direct supervision of MCM. The Company has sufficient work in process and inventory of components to support its near-term marketing requirements as well as spare parts to its installed base of equipment.

Approximately half of the SteriMed Systems' components are commercially available from third-party suppliers as COTS (commercial off the shelf) industrial components. The remaining components are either generic with modification or are custom fabrications, such as castings and weldments for the SteriMed. Presently, we maintain an inventory of spare parts and supplies in our Brighton, MI warehouse and in Tel Yosef, 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 we operate a 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.

Intellectual Property

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. We consider the protection of our technology to be relevant to our business. It is the Company's policy to protect our technology by a variety of means, including applying for patents in the United States and in foreign countries as well. Under the terms of the Loan Facility, we granted to Vintage a security interest in all of our assets, including our intellectual property.

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

Research and Development

Any product engineering, including those costs associated with design and configuration for specific customer applications are accounted for in our financial statements as research and development expenses. The Company's research and development costs decreased to $84,000 in fiscal 2009 from $288,000 in fiscal 2008 and $264,000 in fiscal 2007 resulting primarily from the reduction of available funds and need for such projects within the Company during fiscal 2009.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Prospective and exisiting investors should carefully consider the risks described below and other information contained in this annual report, including our financial statements and related notes before purchasing shares of our common stock. There are numerous and varied risks, known and unknown, that may prevent us from achieving our goals. If any of these risks actually occurs, our business, financial condition or results of operations may be materially adversely affected. In that case, the trading price of our common stock could decline and investors in our common stock could lose all or part of their investment.

Risks Related to Our Business

The medical infectious waste disposal industry is subject to extensive federal, state and local laws and regulations, both in the US and overseas. Our business requires us to obtain many different approvals and permits or other types of governmental authorizations for each jurisdiction in which we operate. In addition, we have never generated profits from the infectious waste disposal business, and there can be no assurance that such business will become profitable in the future. The continuation of losses and negative cash flows from operations require us to obtain additional funds. No assurance can be given that we will be successful in obtaining additional funds from Vintage under the Credit Facility or other sources, whether publicly or privately or through equity or debt. Any such financing could be highly dilutive to stockholders.

We have a history of operating losses and negative cash flows.

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 ability to continue as a going concern. Further, we have incurred negative cash flows from operations of approximately $0.8 million, $4.7 million and $2.8 million for the years ended September 30, 2009, 2008 and 2007, respectively and as of September 30, 2009 have a working capital deficiency of approximately $2.2 million. These results have had a negative impact on our financial condition. There can be no assurance that our business will become profitable or cash flow positive 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 ability to continue as a going concern.

Our business requires capital for continued growth, and our growth will be slowed if we do not have sufficient capital.

The continued growth and operation of our business may require additional funding for working capital, debt service, manufacture of our products, and expansion of our sales and support forces. We may be unable to secure such funding when needed in adequate amounts or on acceptable terms, if at all. To execute our business strategy, we may issue additional equity securities in public or private offerings, potentially at a price lower than the market price at the time of such issuance. Similarly, we may seek debt financing and may be forced to incur significant interest expense. If we cannot secure sufficient funding, we may be forced to forego sales opportunities and scale back operations.

The global economic crisis could have a material adverse effect on our liquidity and capital resources.

The current economic credit crisis is continuing to have a significant negative impact on businesses around the world, and the impact of this crisis on our major suppliers cannot be predicted. The inability of key suppliers to access liquidity, or the insolvency of key suppliers, could lead to delivery delays or failures.

We may experience difficulties in manufacturing, sourcing components or supply of our proprietary disinfectant which could adversely affect our ability to generate sales.

The SteriMed and the SteriMed Junior were manufactured for us by a third-party manufacturer in Israel that recently went into receivership and was acquired by third parties. While we expect our manufacturing to continue in Israel on a limited basis, we are seeking alternative, qualified manufacturers to produce our SteriMed Systems at costs that 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 continue this business.

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. Our requirements are fulfilled against purchase orders. There can be no assurances that we will have adequate supplies of materials or the funds to procure such supplies of materials when needed. 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.

In selling our products, we could infringe on the intellectual property rights of others and if we do not prevail, this could also cause us to pay substantial damages and prohibit us from selling 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 for the future 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.

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 assertion 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.

Our products may become obsolete and we may not be able to develop competitive products on a timely basis or at all.

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 RMW industry has been historically marked by very rapid technological change and the frequent introductions of new products. There is no assurance that we will have the financial or technological capacity to be able to develop new products that will realize broad market acceptance.

The industry in which we operate is continually evolving which makes it difficult to evaluate our future prospects and increases the risk of an investment in our securities.

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.

A failure in the performance or operation of our product could expose us to liability.

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. We currently retain a claims made product liability insurance policy. 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. 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 may not be able to effectively control and manage our growth which would negatively impact our operations.

If our business and markets continue to grow and develop, it will be necessary for us to finance and manage expansion in an orderly fashion. In addition, we may face challenges in managing the demand for our products and providing adequate service support. Such events would increase demands on our existing management, workforce and facilities. Failure to satisfy increased demands could interrupt or adversely affect our operations and cause backlogs and administrative inefficiencies.

Risks Relating to Our Industry

We are subject to extensive regulations that could limit or restrict our activities, a change in which could adversely affect our financial condition and results of operations.

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. We continue our efforts to seek approvals for marketing in the remaining 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. The Ster-Cid® has been registered in 50 states.

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 success of our business depends on the continuing contributions of key personnel

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, 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. Mr. Morgan, Mr.; Aaron nor Mr. Joels plan to retire or leave us in the near future. However, there can be no assurance that we will be successful in attracting and/or retaining key personnel in the future. Our failure to do so could adversely affect our business and financial condition. We do not carry any “key-man” insurance on the lives of any of our officers or employees. Currently, the only executive with an Employment Agreement in place is Mr. Morgan.

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Risks Relating to Our Organization

Our certificate of incorporation allows for our board to create new series of preferred stock without further approval by our stockholders which could adversely affect the rights of the holders of our common stock.

Our board of directors has the authority to fix and determine the relative rights and preferences of preferred stock. Our board of directors also has the authority to issue preferred stock without further stockholder approval. As a result, our board of directors could authorize the issuance of a series of preferred stock that would grant to such holders (i) the preferred right to our assets upon liquidation, (ii) the right to receive dividend payments before dividends are distributed to the holders of common stock and (iii) the right to the redemption of the shares, together with a premium, prior to the redemption of our common stock. In addition, our board of directors could authorize the issuance of a series of preferred stock that has greater voting power than our common stock or that is convertible into our common stock, which could decrease the relative voting power of our common stock or result in dilution to our existing common stockholders. Any new series of preferred stock issued is subject to the provisions or restrictions as contained in any previously issued outstanding series of preferred stock and the covenants and restrictions under our Vintage Loan Facility.

Risks Relating to 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, especially for stock traded on the OTC Bulletin Board "OTCBB) and the Pink Sheets. Our common stock is not actively traded, and the bid and asked prices for our Common stock have fluctuated significantly.

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 that $5.00 per share, subject to certain exemptions. Our failure to comply with the OTCBB Stock Exchange listing requirements has caused our stock to be moved to the Pink Sheets. As of May 31, 2010, the closing price for our common stock was $0.026 per share and therefore, it is designated a "Penny Stock."

We have not paid dividends on our common stock in the past

We do not have the financial capacity to pay dividends and also our Credit Facility prohibits us from paying any cash dividends on our capital stock in the future. If we were to become profitable, it is expected that such earnings would be retained to support our business.. Any declared dividend in the future would be subject to the terms of the outstanding preferred stock under which amounts are accruing for future dividends (as to date, we have failed to pay any dividends on our outstanding preferred stock) or other payments on liquidation. Since we have no plans to pay cash dividends, an investor would only realize income from their investment in our shares if there is a rise in the market price of our Common Stock, which is uncertain and unpredictable. We are currently subject to penny stock regulations and restrictions. We are also subject to certain covenants with Vintage which could affect our ability to source additional capital from other third parties.

Our common stock may be affected by limited trading volume and price fluctuations which could adversely impact the value of our common stock.

There has been limited trading in our common stock and there can be no assurance that an active trading market in our common stock will either develop or be maintained. Our common stock has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of our common

stock without regard to our operating performance. In addition, we believe that factors such as quarterly fluctuations in our financial results and changes in the overall economy or the condition of the financial markets could cause the price of our common stock to fluctuate substantially. These fluctuations may also cause short sellers to periodically enter the market in the belief that we will have poor results in the future. We cannot predict the actions of market participants and, therefore, can offer no assurances that the market for our common stock will be stable or appreciate over time.

Failure to comply with covenants under an existing loan facility could jeopardize the survival of our business and make it difficult to source additional capital for our business.

In September 2009, we secured a Loan Facility to finance the operations of our business. These funds have been used to pay off various creditors and secure our intellectual property rights. Provided we meet certain defined criteria and cure several existing events of defaults as defined in the Loan Facility with Vintage, these funds will also enable us to build up our inventory to fulfill our current orders and future demand arising from our increased marketing efforts. As sales grow, we will need to expand our customer service and technical support capabilities to meet the needs of our clients.

Under the terms of the Loan Facility Agreement with Vintage, we were obliged to fulfill certain defined covenants and achieve specific milestones, including those relating to unit sales, relocation of manufacturing and the provision and filing of specific financial information. To date, these aforementioned covenants and milestones have not been met and we have been put on notice by Vintage of these defaults. Notwithstanding, while Vintage have not waived these defaults, we are endeavoring to cure them.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

The Company leases administrative office space in Paramus, New Jersey and approximately 2,000 square feet of warehouse space in Brighton, Michigan. The Company currently leases a facility on a month-to-month basis in Tel Yosef, Israel for storage of its inventory and parts prior to their dispatch to the contract assembly partner's facility. These locations are leased on a month to month basis with a 60 day cancellation notification period by either party at an aggregate monthly rent of approximately $4,000.

ITEM 3. LEGAL PROCEEDINGS

In September 2008, Goldstar Medical Corporation, filed a complaint against Caprius Inc. and MCM Environmental Technologies, Inc. , (collectively, the "Defendants") in the Supreme Court of the State of New York, County of Rockland, claiming that the Defendants had breached a letter agreement for commissions due to them on sales of SteriMed Systems to one of the Company's customers. The Plaintiffs are seeking damages in excess of $250,000. Based upon our review of the complaint, we believe the Plaintiffs' claims has no merit and the Company will continue to defend this action. We have filed a motion for summary judgment with the Court requesting that this matter be dismissed, this motion is currently pending. Accordingly, we have not recorded any accrual for this litigation as of the date of this filing.

In July 2009, Venture Hackensack Holding, Inc (the "Plaintiffs"), filed a complaint against Caprius Inc., in the Superior Court of New Jersey, Bergen County Law Division for non-payment of rent at the Company's previous location to the end of the lease term. The case is at the discovery stage. The potential exposure could be up to $250,000. We have accrued $64,000 (prior to offset of $16,000 security deposit) being the past due rent up until the date that we vacated the premises.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock previously traded on the OTC Electronic Bulletin Board (OTCBB) under the symbol of “CAPS", and since July 28, 2008 has traded on the Pink Sheets under the symbol “CAPI”.

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 and Pink Sheets. Such quotations reflect inter-dealer quotations without retail mark-up, markdowns or commissions, and may not necessarily represent actual transactions.

Common Stock	High	Low
FISCAL YEAR ENDED SEPTEMBER 30, 2009		
Fourth Quarter	$0.07	$0.02
Third Quarter	0.10	0.04
Second Quarter	0.25	0.06
First Quarter	0.23	0.08
FISCAL YEAR ENDED SEPTEMBER 30, 2008		
Fourth Quarter	$0.35	$0.10
Third Quarter	0.41	0.10
Second Quarter	0.85	0.36
First Quarter	1.01	0.50
FISCAL YEAR ENDED SEPTEMBER 30, 2007		
Fourth Quarter	$0.85	$0.70
Third Quarter	1.05	0.60
Second Quarter	1.08	0.45
First Quarter	0.65	0.51

On May 31, 2010, there were approximately 550 holders of record of the Company’s 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. Our failure to comply with the OTCBB Stock Exchange listing requirements has caused our stock to be moved to the Pink Sheets. As of May 31, 2010, the closing price for our common stock was $0.026 per share and therefore, it is designated a “Penny Stock.”

Dividend Policy

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. Any declared dividend in the future would be subject to the terms of the outstanding preferred stock at that time and to the Vintage Credit Facility which imposes prohibitions on dividends or other distributions.

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Securities Authorized for Issuance Under Incentive Stock Plan

As of May 31, 2010, securities issued and securities available for future issuance under our 2002 Incentive Stock Plan ("ISP") were as follows:

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under ISP
ISP approved by security holders	2,292,924	$ 0.63	207,076
ISP not approved by security holders	-	-	-
Total	2,292,924	$ 0.63	207,076

Recent Sales of Unregistered Securities

(1) On January 22, 2010, we issued a warrant to purchase 40% of our Common Stock on a fully-diluted basis to Vintage as part of the Loan Facility, which warrant is exercisable at a price of $0.01 per share for a period of seven years. The issuance was exemption from registration by reason of Section 4(2) of and Rule 506 under the Securities Act of 1933, as amended (the "Securities Act").

(2) On September 30, 2009, we issued (i) 36,800 shares of Common Stock to a holder of our Series F Convertible Preferred Stock upon its conversion of 368 shares thereof, (ii) 62,500 shares of Common Stock to such holder upon its conversion of 100 shares of our Series E Convertible Preferred Stock and (iii) 31,323 shares of Common Stock to such holder upon its conversion of 1,612 shares of our Series D Convertible Preferred Stock. These conversions were exempt from registration by reason of Section 3(a)(9) of the Securities Act.

(3) On October 14, 2008, we issued 524,340 shares of Common Stock to a holder of our Series D Convertible Preferred Stock upon its conversion of 27,000 shares thereof. The conversion was exempt from registration by reason of Section 3 (a) (9) of the Securities Act.

(4) In March 19, 2008, we issued 500,000 shares of Common Stock to holders of our Series E Convertible Preferred Stock upon its conversion of 800 shares thereof. The conversions were exempt from registration by reason of Section 3 (a) (9) of the Securities Act.

(5) On January 16, 2008, we issued 427,240 shares of Common Stock to a holder of our Series D Convertible Preferred Stock upon its conversion of 22,000 shares thereof. The conversion was exempt from registration by reason of Section 3 (a) (9) of the Securities Act.

(6) On December 6, 2007, we issued (i) 78,334 shares of Series F Convertible Preferred Stock and (ii) warrants to purchase 3,133,360 shares of Common Stock to 10 investors for aggregate gross proceeds of $4.7 million. As part of the fee to the placement agent, we granted them warrants to purchase 400,000 shares of Common Stock at an exercise price of $0.85 per share. These issuances were exempt from registration by reason of Section 4(2)of and Rule 506 under the Securities Act.

(7) On March 1, 2007, we issued (i) 10,000 shares of Series E Convertible Preferred Stock and (ii) warrants to purchase 3,125,000 shares of Common Stock to six institutional investors for aggregate gross proceeds of $2.5 million. As part of the fee to the placement agent and an advisor, we granted them warrants to purchase 182,500

shares of Common Stock at an exercise price of $0.60 per share. These issuances were exempt from registration by reason of Section 4(2) of and Rule 506 under the Securities Act.

(8) On December 4, 2006, we issued 470,000 shares of Common Stock to a holder of our Series D Convertible Preferred Stock upon its conversion of 47,000 shares thereof. The conversion was exempt from registration by reason of Section 3(a)(9) of the Securities Act.

(9) During the fiscal years ended September 30, 2009 and 2008, we did not make any repurchases of our Common Stock.

ITEM 6. SELECTED FINANCIAL DATA

Not required as we are a Smaller Reporting Company.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the results of our operations and financial condition should be read in conjunction with (i) the audited consolidated financial statements of the Company and the related notes thereto for the fiscal years ended September 30, 2009, 2008 and 2007 and (ii) the unaudited consolidated financial statements of the Company and the related notes thereto for the fiscal quarters ended June 30, 2009, March 31, 2009 and December 31, 2008.

We are engaged in the infectious medical waste disposal business. Our SteriMed Systems simultaneously shred and disinfect regulated medical waste.

Results of Operations

Fiscal Year Ended September 30, 2009 Compared to Fiscal Year Ended September 30, 2008

Revenues generated for fiscal year ended September 30, 2009 (“Fiscal 2009”) were primarily generated by MCM product sales which totaled $1,239,865 as compared with $2,864,229 for fiscal year ended September 30, 2008 (“Fiscal 2008”). For Fiscal 2009, two customers accounted for approximately 54% and 10% respectively of the consolidated revenue. For Fiscal 2008, two customers accounted for approximately 41% and 21% respectively of the consolidated total revenue. Product sales for the Fiscal 2009 decreased due the Company’s lack of funds to produce units for sale. As a consequence, the Company was forced to curtail our marketing efforts.

Cost of product sales aggregated $1,051,858 or 85% of total revenue and $2,196,225 or 77% of total revenue during Fiscal 2009 and Fiscal 2008, respectively. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues. The increased percentage costs correlate to the decrease in revenues, the sales product mix and not fully absorbing production overhead and labor costs in addition to write offs of obsolete inventory relating to the cessation in production.

Research and development costs amounted to $83,918 and $288,380 for Fiscal 2009 and Fiscal 2008, respectively. This decrease is due primarily from the reduction of customer specific requirements relating to the decrease in sales activity and the available funds for such projects within the company during fiscal 2009.

Selling, general and administrative expenses totaled $2,990,388 for Fiscal 2009 versus $5,425,524 for Fiscal 2008. This decrease is principally due to the cessation of various marketing activities, closure of facilities and premises, as well as reduction in personnel, personnel related costs and other corporate activity.

In 2008, management assessed the underlying fair value of the Company and determined the carrying value, including goodwill exceeded its fair value and as such management recorded an impairment charge of $285,010 for the full

amount of goodwill in Fiscal 2008. 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. As goodwill was fully impaired in Fiscal 2008, no such assessment was required in Fiscal 2009.

Other income totaled $70,443 for the year ended September 30, 2009 as compared to $91,988 for the year ended September 30, 2008. The majority of other income in both Fiscal 2009 and 2008 resulted from a D&O insurance claim.

Interest expense totaled $75,969 for Fiscal 2009 as compared to $12,034 for Fiscal 2008. This variance was do to the increase in interest due on short term loans and notes payable throughout fiscal 2009.

The net loss totaled $2,891,825 for Fiscal 2009 versus $5,250,956 for Fiscal 2008.

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

Revenues generated from MCM product sales totaled $ 423,580 for the three months ended June 30, 2009 as compared to $795,492 for the three months ended June 30, 2008. This decrease is due the Company's lack of funds to produce units for sale. As a consequence, the Company was forced to curtail its marketing efforts.

Cost of product sales amounted to $268,705 or 63% of total related revenues versus $557,108 or 70% of total related revenues for the three month periods ended June 30, 2009 and 2008. We have not advanced to a level of sales for us to fully absorb the fixed costs related to our revenues. However, the reduction in the percentage cost of product sales was a result of the product mix sold.