CAPRIUS INC
Form 10-K
December 17, 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, 2010
Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

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

_____

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 o No x

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 o No x

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 o No x

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 o No o

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. o

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

o Large accelerated filer | o Accelerated filer | o Non-accelerated filer | x 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 o No x

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 November 26, 2010, the registrant had outstanding 5,431,865 shares of common stock. The registrant also had outstanding 64,200 shares of preferred stock.

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PART I

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, and the completion of a pending merger transaction or the termination thereof. 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

On November 10, 2010, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Vintage Capital Group LLC ("Vintage") and its newly-formed wholly-owned subsidiary Capac Co. ("Merger Sub"), for Vintage to acquire us whereby Merger Sub would merge (the "Merger") with and into us, and we would become a wholly-owned subsidiary of Vintage. Vintage is our primary lender, as described below, and holds warrants exercisable into 40% of our common stock $0.01 par value (the "Common Stock") on a fully-diluted basis. The Merger is a "going-private" transaction whereby after the Merger is completed, we would cease to be a SEC reporting company and the trading market for our Common Stock would terminate.

At the effective time of the Merger, our outstanding capital stock (other than shares owned by Vintage or Merger Sub, treasury shares or shares for which stockholders have duly exercised their statutory appraisal rights) would be exchanged whereby each share of our Common Stock, and each share of our Series E Convertible Preferred Stock and Series F Convertible Preferred Stock on an "as-converted" basis into Common Stock, will automatically be cancelled and converted into the right to receive $0.065 per share, in cash, and without interest and subject to applicable withholding taxes. Stock options and warrants to purchase shares of our Common Stock will terminate immediately prior to the effective time of the Merger. In addition, the accrued dividend on the Series E Preferred and the Series F Preferred will be cancelled.

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The Merger Agreement sets forth several conditions to the closing of the Merger, including approval by our stockholders at a special meeting to be called at a future date after clearance of proxy material. We plan to file a preliminary proxy statement and other materials with the SEC that will describe in detail the background of the Merger, the terms and conditions of the Merger Agreement, the proposals to be adopted at the special meeting and other related information. You are advised to read the proxy statement and other materials when they become available. They can be obtained from the SEC web site www.sec.gov or our web site www.caprius.com. The Merger Agreement also provides that in certain situations either party may terminate that Agreement in the event the Merger is not consummated by June 30, 2011.

Pursuant to loan arrangements with Vintage initially entered into in September 2009, at September 30, 2010, we were indebted to Vintage in the amount of $4.5 million ($3.6 million in cash and $0.9 million in payments in kind) repayable with interest accruing at the rate of 14% per annum, and subject to a default rate of 17% per annum, secured by a first priority position on all our assets and the assets of our subsidiaries, and guaranteed by our subsidiaries. Between September 30, 2010 and December 13, 2010, Vintage has advanced an additional $1.4 million in cash to us. The Vintage indebtedness was initially due on December 16, 2010, and the maturity has been extended to the earlier of (i) February 1, 2011 or (ii) the termination of the Merger Agreement. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted.

As part of the original loan arrangements, we entered into an Investment Monitoring Agreement with Vintage which provided 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.

On September 8, 2010, the Company entered into Amendment No. 1 (“the Amendment”) to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $4.0 million in cash.

On November 4, 2010, the Company entered into Amendment No. 2 (“the Amendment”) to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $4.5 million in cash.

On November 18, 2010, the Company entered into Amendment No. 3 (“the Amendment”) to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.0 million in cash.

On December 16, 2010, the Company entered into Amendment No. 4 (“the Amendment”) to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.5 million in cash.

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, on a fully diluted basis at an exercise price of $0.01 per share for a term of seven years. Based upon our capitalization, at the time of issuance the Vintage Warrant would have been exercisable into 25,602,333 shares of Common Stock. Based upon our present capitalization, the Vintage Warrant would be exercisable into 16,769,561 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.

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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.

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. We have established an interim manufacturing relationship with a contract assembly partner in Israel, Yizrael Tamuz Ltd. Under the terms of the Loan Facility, the Company is obligated to 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.

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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.

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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.

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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.

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. These costs were approximately $25,000 in fiscal 2009 and were approximately $30,000 in fiscal 2010.

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.
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).

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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.

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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, 2010, two customers accounted for $834,950 of the consolidated total revenue, which represented approximately 53% and 18.5% respectively of the total revenue. For the year ended September 30, 2009, two customers accounted for approximately 54% and 10% respectively of the consolidated total revenue. 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 by the U.S. Navy as a solution that achieved their 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 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.

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Sales to Domestic and International Distributors

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 Columbia, Mexico, Australia & New Zealand, Hungary, Japan, and Russia.

Employees

As of September 30, 2010, we had eight 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 partner 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.

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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 approximately $40,000 in fiscal 2010 from approximately $84,000 in fiscal 2009 resulting primarily from the reduction of available funds and need for such projects within the Company. Given the Company's current level of operations, we do not anticipate any significant research and development expense in fiscal 2011 unless a specific customer requirement is received that will fund the expense.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a high degree of risk. Prospective and existing 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.

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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.

The maturity date of the Vintage Loan Facility is February 1, 2011 and there is no assurance that the Company will be able to repay the note or that the maturity date will be extended..

As we have not located a source to refinance the Vintage loan, we entered into the Merger Agreement with Vintage, whereby we would become a wholly-owned subsidiary of Vintage. Vintage recently agreed to extend the maturity date of the loan to the earlier of (i) February 1, 2011 or (ii) the termination of the Merger Agreement. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted. The Merger Agreement sets forth several conditions to the closing of the Merger, including approval by our stockholders at a special meeting to be called at a future date after clearance of proxy material. It is anticipated that the closing will be in the second quarter of calendar 2011. There can be no assurance that the Merger will close and if it does not close, the Vintage loan will become due. If the Merger does not close and we are unable to locate a source to refinance the loan and obtain further funding we may have no alternative but to cease operations.

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 $2.9 million and $0.8 million for the years ended September 30, 2010 and 2009, respectively and as of September 30, 2010 we had a working capital deficiency of approximately $5.0 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.

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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.

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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. 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.

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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, Raymond Jackshies, 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. Morgan, Mr. Aaron, nor Mr. Jackshies 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, Mr. Morgan and Mr. Jackshies have Employment Agreements in place.

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.

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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 November 26, 2010, the closing price for our common stock was $0.05 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 and the relocation of manufacturing. 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

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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 $4,500.

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. Accordingly, we have not recorded any accrual for this litigation as of the date of this filing. On July 16, 2010, the Plaintiffs filed an opposition motion against the Company's motion for summary judgment. In response the Company filed opposition to the plaintiff's motion to dismiss our motion to dismiss the case by way of summary judgment. On August 11, 2010, the plaintiff filed papers in support of its Sur-Reply in furtherance of its opposition to the Company's motion for summary judgment. As of October 2010, the motion for summary judgment was denied for issues of fact and these proceedings are now in the discovery stage with depositions scheduled to take place during early 2011.

ITEM 4. REMOVED AND RESERVED

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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, 2010		
Fourth Quarter	$ 0.04	$ 0.01
Third Quarter	0.05	0.01
Second Quarter	0.10	0.02
First Quarter	0.05	0.01
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

On November 26, 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 November 26, 2010, the closing price for our common stock was $0.05 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.

Securities Authorized for Issuance Under Incentive Stock Plan

As of November 30, 2010, securities issued and securities available for future issuance under our 2002 Incentive Stock Plan (“ISP”) were as follows:

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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

Repurchase of Bonanza Master Fund, Ltd. Preferred Stock and Warrants

(1) On August 17, 2010, an agreement was reached between the Company and Bonanza Master Fund, Ltd. (“Bonanza”), regarding the sale by Bonanza of all of their Preferred Stock and Warrant interests in the Company (the “Company Securities”) to the Company.

Under the terms of the agreement, Bonanza sold 65,290 shares of Series D Preferred Stock, together with 447,764 warrants to purchase an aggregate of 1,715,696 shares (1,267,932 shares underlying the preferred stock and 447,764 shares underlying the warrants) of the Company’s Common Stock to the Company, and the Company purchased such shares of Preferred Stock and Warrants from Bonanza for an aggregate purchase price of $5,000. Included in the terms of the aforementioned agreement, upon closing Bonanza have waived all previously accrued and unpaid dividends totaling approximately $149,000 on the Preferred Shares from the original issuance date to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material.

Repurchase of SSF Preferred Stock and Warrants

(2) On June 30, 2010, an agreement was reached between the Company and Special Situations Fund III QP, L.P. (“SSFQP”), Special Situations Private Equity Fund, L.P.(“SSFPE”) and Special Situations Fund III, L.P. (“SSFIII” and together with SSFQP and SSFPE, sometimes collectively, the “SSF Funds”), regarding the sale or other disposition by the SSF Funds of all of their equity interests in the Company (the “Company Securities”) to the Company.

Under the terms of the agreement, the SSF Funds sold 79,031 shares of Series D Preferred Stock, 4,900 shares of Series E Preferred Stock and 17,966 shares of Series F Preferred Stock (collectively, the “Preferred Shares”) together with warrants (the “Warrants” and collectively with the Preferred Shares, the “Sale Securities) to purchase an aggregate of 8,863,218 shares (6,393,924 shares underlying the preferred stock and 2,469,294 shares underlying the warrants) of the Company’s Common Stock to the Company, and the Company hereby purchases the Securities from the SSF Funds for an aggregate purchase price of $10,000. As additional consideration in connection with the sale and purchase of the Sale Securities, upon closing the SSF Funds have waived all dividends accrued totaling approximately $484,000 on the Preferred Shares from the respective original issuance dates to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material.

(3) 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”).

(4) 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.

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(5) 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.

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, 2010 and 2009 and (ii) the unaudited consolidated financial statements of the Company and the related notes thereto for the fiscal quarters ended June 30, 2010, March 31, 2010 and December 31, 2009.

We are engaged in the infectious medical waste disposal business, through our wholly-owned subsidiary M.C.M. Environmental Technologies, Inc., which developed, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and chemically disinfect regulated medical waste, utilizing our proprietary, EPA registered, bio-degradable chemical known as Ster-Cid. The SteriMed Systems are sold in both the domestic and international markets.

On November 10, 2010, we entered into an Agreement and Plan of Merger with Vintage and its newly-formed wholly-owned subsidiary Capac Co., for Vintage to acquire us whereby Merger Sub would merge with and into us, and we would become a wholly-owned subsidiary of Vintage. Vintage is our primary lender, as described below, and holds warrants exercisable into 40% of our common stock $0.01 par value on a fully-diluted basis. The Merger is a “going-private” transaction whereby after the Merger is completed, we would cease to be a SEC reporting company and the trading market for our Common Stock would terminate.

The maturity date of the Vintage Loan Facility was December 16, 2010. Vintage recently has agreed to extend the maturity date of the loan to the earlier of (i) February 1, 2011 or (ii) the termination of the Merger Agreement. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted. If the Merger Agreement does not close and the Company continues to be unable to locate a source to refinance the loan, the Company may have no alternative but to cease operations.

Results of Operations

Fiscal Year Ended September 30, 2010 Compared to Fiscal Year Ended September 30, 2009

Revenues generated for fiscal year ended September 30, 2010 (“Fiscal 2010”) were primarily generated by MCM product sales which totaled $1,167,289 as compared with $1,239,865 for fiscal year ended September 30, 2009 (“Fiscal 2009”). For Fiscal 2010, two customers accounted for approximately 53% (customer A) and 18.5% (customer B) respectively of the consolidated revenue. For Fiscal 2009, two customers accounted for approximately 54% (customer A) and 10% (customer C) respectively of the consolidated total revenue. The Company’s ability to obtain and deliver units to its customers was hampered by the closure of its third party manufacturer. The Company has affected a program to restore deliveries of units on a limited basis, and is pursuing additional avenues for production.

Cost of product sales aggregated $767,778 or 70% of total revenue and $1,051,858 or 85% of total revenue during Fiscal 2010 and Fiscal 2009, respectively. We have not advanced to a level of sales for us to fully absorb the fixed

costs related to our revenues. The decreased percentage costs correlate to the sales product mix and to write offs of obsolete inventory relating to the cessation in production during Fiscal 2009.

Research and development costs amounted to $40,260 and $83,918 for Fiscal 2010 and Fiscal 2009, respectively. This decrease is due primarily from the reduction of customer specific requirements and the available funds for such projects within the company. Given the Company's current level of operations, we do not anticipate any significant research and development expense in the coming fiscal year unless a specific customer requirement is received that will fund the expense.

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Selling, general and administrative expenses totaled $2,844,299 for Fiscal 2010 versus $2,990,388 for Fiscal 2009. This decrease is principally due to the reduction in stock based compensation and the Company's continuing efforts to reduce costs. The Company does not anticipate any significant increase in operating expenses until production and sales volumes increase substantially from their current levels

Other income totaled $209,379 for the year ended September 30, 2010 as compared to $70,443 for the year ended September 30, 2009. The majority of other income during Fiscal 2010 resulted from the favorable settlement of certain outstanding liabilities, while other income during Fiscal 2009 resulted from an insurance claim.

Interest expense totaled $1,841,991 for the year ended September 30, 2010 versus $75,969 for the year ended September 30, 2009. This increase was due to interest accrued on short term loans and notes payable, as well as the amortization expense of deferred finance costs and debt discount on notes payable which were not present during the year ended September 30, 2009.

Increase in fair value of derivative liabilities totaled $472,449 for the year ended September 30, 2010 versus $0 for the year ended September 30, 2009. This gain resulted from the adoption of ASC 815 during fiscal 2010 and the subsequent revaluation of derivative liabilities.

The net loss totaled $3,645,211 for Fiscal 2010 versus $2,891,825 for Fiscal 2009. This increase resulted from expenses related to the Loan Facility (interest expense, amortization of deferred financing costs and amortization of debt discount) which were not present until the last two weeks of Fiscal 2009.

Liquidity and Capital Resources

At September 30, 2010, our cash position approximated $208,000. Our working capital deficiency as of September 30, 2010 was approximately $4,970,000. Net cash used in operations for fiscal year 2010 amounted to approximately $2,918,000 as compared to approximately $784,000 for fiscal year 2009. This variance occurred due to the Company's increased net loss and the reduction of advances from customers during fiscal 2010. Net cash provided by (used in) investing activities amounted to approximately $17,000 and approximately $(4,700) for fiscal years 2010 and 2009 respectively. Net cash provided by financing activities for Fiscal 2010 amounted to approximately $3,023,000 as compared to approximately $621,000 for fiscal 2009, both of which resulted primarily from the issuance of the secured notes payable.

As of September 30, 2010, accounts receivable, net of allowance for doubtful accounts totaled $45,001 and was 3% of total assets. The normal collection period is between 45 and 90 days. At of September 30, 2009, accounts receivable, net of allowance for doubtful accounts totaled $30,725 and was 1% of total assets. The Company has been able to keep accounts receivables balances low by adopting polices which require a deposit upon purchase order, and requesting payment on delivery of the Company's products. However, the Company does offer net terms on products and services, but in most cases has required the deposit at time of purchase order, to prevent excessive collection delays of accounts receivable balances.

Inventory turnover rates which are determined by computing the Cost of Goods sold divided by average inventory are 0.67 for the year ended September 30, 2010 and 0.68 for the year ended September 30, 2009.

In September 2009, we entered into a Securities Purchase and Sale Agreement (together with all collateral documents and promissory notes there under, the "Loan Facility") with Vintage Capital Group, LLC ("Vintage"), whereby Vintage extended a loan facility to the Company. The Loan Facility provides that, Vintage will advance to us up to an aggregate of $3.0 million in cash. Interest on advances under the Loan Facility accrues at a rate of 14% per annum, subject to a default rate of 17% per annum. Advances 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 our assets and the assets of our active subsidiaries. On September 8, 2010, the Company entered into Amendment No. 1 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $4.0 million in cash. As of September 30, 2010, under the Loan facility and the Amendment, Vintage advanced approximately $3.6 million in cash. The original maturity date of this note was December 16, 2010, which Vintage has extended to February 1, 2011. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted.

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On November 4, 2010, the Company entered into Amendment No. 2 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $4.5 million in cash.

On November 18, 2010, the Company entered into Amendment No. 3 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.0 million in cash.

On December 16, 2010, the Company entered into Amendment No. 4 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.5 million in cash

On August 17, 2010, an agreement was reached between the Company and Bonanza Master Fund, Ltd. ("Bonanza"), regarding the sale by Bonanza of all of their Preferred Stock and Warrant interests in the Company (the "Company Securities") to the Company.

Under the terms of the agreement, Bonanza sold 65,290 shares of Series D Preferred Stock, together with 447,764 warrants to purchase an aggregate of 1,715,696 shares (1,267,932 shares underlying the preferred stock and 447,764 shares underlying the warrants) of the Company's Common Stock to the Company, and the Company purchased such shares of Preferred Stock and Warrants from Bonanza for an aggregate purchase price of $5,000. As part of the agreement, Bonanza waived all previously accrued and unpaid dividends totaling approximately $149,000 on the Preferred Shares from the original issuance date to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material.

On June 30, 2010, an agreement was reached between the Company and Special Situations Fund III QP, L.P. ("SSFQP"), Special Situations Private Equity Fund, L.P.("SSFPE") and Special Situations Fund III, L.P. ("SSFIII" and together with SSFQP and SSFPE, sometimes collectively, the "SSF Funds"), regarding the sale or other disposition by the SSF Funds of all of their equity interests in the Company (the "Company Securities") to the Company.

Under the terms of the agreement, the SSF Funds sold 79,031 shares of Series D Preferred Stock, 4,900 shares of Series E Preferred Stock and 17,966 shares of Series F Preferred Stock (collectively, the "Preferred Shares") together with warrants (the "Warrants" and collectively with the Preferred Shares, the "Sale Securities) to purchase an aggregate of 8,863,218 shares (6,393,924 shares underlying the preferred stock and 2,469,294 shares underlying the warrants) of the Company's Common Stock to the Company, and the Company hereby purchases the Securities from the SSF Funds for an aggregate purchase price of $10,000. As additional consideration upon closing the SSF Funds waived all dividends accrued totaling approximately $484,000 on the Preferred Shares from the respective original issuance dates to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material.

In June 2009, we 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%. During June and August 2009, we received an aggregate of $100,000 as bridge loans. We issued to these lenders warrants to purchase an aggregate of 3,000,000 shares of Common Stock at an exercise price of $0.10 per share for a period of five years. These Notes remain outstanding. Warrants issued in connection with these short term bridge loans are valued used the Black Scholes valuation model and the relative fair value of these warrants has been recorded as a debt discount to the loans.

In February 2009, the Company entered into a short term bridge loan for a sum of $50,000 subject to 12% interest. This loan together with accrued interest was repaid on September 16, 2009 upon the closing of the Vintage Loan Facility.

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The Series D Preferred Stock provides for a cumulative dividend of $0.67 per share commencing October 1, 2007, the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007, and the Series F Preferred Stock provides for a cumulative dividend of $3.24 per share commencing December 6, 2007. The dividends are payable pari passu on the series of preferred stock. At September 30, 2010, the accrued dividends aggregated $722,802. These dividends accrue at a rate of approximately $63,000 per quarter. Upon closing of the Merger with Vintage, these accrued dividends will be cancelled.

Liquidity and Going Concern

The Company has incurred substantial recurring losses. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has available cash of approximately $208,000 at September 30, 2010. During the year ended September 30, 2010, the Company used cash flows from operating activities of approximately $2,918,000. The Company's working capital deficiency was approximately $4,970,000 as of September 30, 2010. The Company's accumulated deficit was approximately $91,121,000 as of September 30, 2010. In addition the Company has a stockholders' deficit of approximately $5,751,000 at September 30, 2010. As of December 13, 2010, the Company has available cash of approximately $500,000 and has received advances under the Vintage Loan Facility of $5.0 million in cash and $0.9 million in payments in kind. Vintage fees, costs and expenses were to be accrued in addition to these amounts and not deemed a part of the cash advances. Under the Vintage Loan Facility the funds to be advanced to the Company in cash comprised an initial term maximum amount of $1 million and a subsequent term maximum amount of $2 million. The maturity date of the loan facility is December 16, 2010, which has recently been extended to February 1, 2011. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted. Under the amendment to this agreement in September 2010, the maximum amount under this Loan Facility has been increased by $1 million, to a total of $4 million in cash. Subsequent to the fiscal year ended September 30, 2010, the Company has entered into further amendments which have increased the Loan Facility by an additional $1 million, to a total of $5.5 million in cash. In order to fund our current and future cash requirements, we were dependent solely upon Vintage for one year from the closing date of September 16, 2009 under the terms of their Loan Facility. Thereafter, we were permitted to seek alternative funding provided no event of default has occurred and is continuing under the Vintage Loan Facility. Presently, the Company has been unable to locate any alternative funding sources. The Company has pledged all of its assets including its intellectual property to Vintage as security for the Vintage Loan Facility and is subject to negative and affirmative covenants thereunder. Currently, the Company is in default under the terms and covenants of the Vintage Loan Facility for the initial and subsequent funding as 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 has not waived these defaults, we are endeavoring to cure them. The Company is working on a parallel track to relocate our manufacturing to ensure the supply of finished units. In the interim, we are endeavoring to convert our existing inventory into units for sale while we identify a suitable manufacturing location to ramp up production at a manufacturer acceptable to both the Company and Vintage under the terms of their Loan Facility. There can be no assurance that Vintage will continue to fund our operations or that any of our alternative funding initiatives as permitted will be successful.

On November 10, 2010, we entered into an Agreement and Plan of Merger with Vintage and its newly-formed wholly-owned subsidiary Capac Co., for Vintage to acquire us whereby Merger Sub would merge with and into us, and we would become a wholly-owned subsidiary of Vintage. The Merger is a "going-private" transaction whereby after the Merger is completed, we would cease to be a SEC reporting company and the trading market for our Common Stock would terminate. At the effective time of the Merger, our outstanding capital stock (other than shares owned by Vintage or Merger Sub, treasury shares or shares for which stockholders have duly exercised their statutory appraisal

rights) would be exchanged whereby each share of our Common Stock, and each share of our Series E Convertible Preferred Stock and Series F Convertible Preferred Stock on an “as-converted” basis into Common Stock, will automatically be cancelled and converted into the right to receive $0.065 per share, in cash, and without interest and subject to applicable withholding taxes. Stock options and warrants to purchase shares of our Common Stock will terminate immediately prior to the effective time of the Merger. In addition, the accrued dividend on the Series E Preferred and the Series F Preferred will be cancelled. The Merger Agreement sets forth several conditions to the closing of the Merger, including approval by our stockholders at a special meeting to be called at a future date after clearance of proxy material.

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If the Company runs out of available capital, it might be required to pursue highly dilutive equity or debt issuances to finance its business in a difficult and hostile market, including possible equity financings at a price per share that might be much lower than the per share price invested by current shareholders. No assurance can be given that any source of additional cash would be available to the Company. If no source of additional cash is available to the Company, then the Company would be forced to significantly reduce the scope of its operations.

There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplate the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Contractual Obligations

Not required as we are a Smaller Reporting Company.

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 stock-based compensation, the useful life of fixed assets, depreciation and amortization, goodwill impairment, warrants, income taxes, foreign currency and other contingencies. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

1. Revenue recognition

Revenues from the MCM medical waste business are recognized at the time when the SteriMed units are shipped to the customer. Occasionally, the Company may sell its product directly to equipment leasing companies. The Company is not a lessor in these type of transactions since the leasing company has no right to return the equipment after the lease with a third party has ended, nor does the Company have any obligations to repurchase the equipment at the end of the lease. The leasing company is the end user as title and risk of ownership passes as products are shipped. The Company is not a party to any leasing arrangements between the leasing company and its ultimate customer. Revenues for royalty fees are recognized as earned. The Company recognizes revenue for extended warranty contracts over the period that the extended warranty covers. The length of these extended warranty contracts are anywhere from one to four years. The Company applies the revenue recognition principles set forth under SEC Staff Accounting Bulletin 104, ("SAB 104") which provides for revenue to be recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery or installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is reasonably assured.

2. Foreign currency

We follow the provisions of ASC 830, "Foreign Currency Translation." The functional currency of our foreign subsidiary is the U.S. dollar. All foreign currency asset and liability amounts are re-measured into U.S. dollars at end-of-period exchange rates. Foreign currency income and expense are re-measured at average exchange rates in

effect during the year. Exchange gains and losses arising from foreign currency transactions are included in operations in the period in which they occur. Foreign currency translations are included in other comprehensive income. Foreign currency transactions and translations were not material during the fiscal periods ending September 2010 and 2009. A determination that our functional currency is the U.S. Dollar is based on the following facts:

1- For product sales, payment is required in equivalent US prices on the date of payment.

2- All cost of goods sold are denominated in US Dollar. All other expenses are generally local currency; however, payroll is administered to the extent possible on an equivalent US Dollar basis to allow for the moving of assets from one country to another.

3- All financing is done by the parent company via sale of equity security in the US. There is no financing done in Israel.

4- The foreign subsidiary is run as a country unit; however, the main management functions are performed by the U.S. management.

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Recent Accounting Pronouncements

In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13) (formerly EITF 08-1, Revenue Arrangements with Multiple Deliverables) which amends ASC Topic 605, Revenue Recognition. This accounting update establishes a hierarchy for determining the value of each element within a multiple deliverable arrangement. ASU 2009-13 is effective for the Company beginning October 1, 2010 and applies to arrangements entered into on or after this date. The Company is currently evaluating the impact that ASU 2009-13 may have on its financial position and results of operations, and does not expect the impact, if any, to be material.

The FASB has issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 amends Codification Subtopic 820-10 and now requires a reporting entity to use judgment in determining the appropriate classes of assets and liabilities and to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, As this standard relates specifically to disclosures, the adoption did not have an impact on the Company’s consolidated financial position and results of operations.

In February 2010, the Financial Accounting Standards Board (“FASB”) issued an accounting standard that amended certain recognition and disclosure requirements related to subsequent events. The accounting standard requires an entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance. The adoption of this standard had no effect on the Company’s condensed consolidated financial position or results of operations.

In March 2010, the FASB issued Accounting Standards Update (“ASU”) No. 2010-11, which is included in the Codification under ASC 815, “Derivatives and Hedging” (“ASC 815”). This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only an embedded credit derivative that is related to the subordination of one financial instrument to another qualifies for the exemption. This guidance is effective for interim and annual reporting periods beginning January 1, 2010. The adoption of this standard did not expected to have a material impact on the Company’s consolidated financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required as we are a Smaller Reporting Company.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Caprius Inc

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the
Board of Directors and Shareholders
of Caprius, Inc.

We have audited the accompanying consolidated balance sheets of Caprius, Inc. and Subsidiaries (the "Company") as of September 30, 2010 and 2009 and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Caprius, Inc. and Subsidiaries as of September 30, 2010 and 2009 and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company's working capital deficiency and substantial recurring losses from operations raise substantial doubt about its ability to continue as a going concern. Management's plans concerning these matters are also discussed in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Marcum LLP

New York, New York
December 17, 2010

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CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

ASSETS	As of September 30, 2010	2009
Current Assets:		
Cash	$208,376	$87,174
Accounts receivable, net of allowance for doubtful accounts	45,001	30,725
Inventories	1,153,845	1,151,460
Other current assets	17,508	111,326
Total current assets	1,424,730	1,380,685
Property and Equipment:		
Property and equipment, net	59,023	82,297
Other Assets:		
Deferred financing cost, net	273,949	593,840
Other	5,200	23,186
Total other assets	279,149	617,026
Total Assets	$1,762,902	$2,080,008
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Short Term Loans Payable, net of debt discount	$100,000	$99,466
Notes payable , net of deferred debt discount	4,269,263	1,111,132
Accounts payable	455,083	965,301
Advances from customers	200,798	414,539
Accrued expenses	224,765	447,765
Accrued interest	546,978	9,507
Accrued compensation	597,947	568,678
Total current liabilities	6,394,834	3,616,388
Long-term Liabilities		
Derivative Liabilities	396,144	-
Dividends Payable	722,802	933,248
Total long-term liaibilites	1,118,946	933,248
Total Liabilities	7,513,780	4,549,636
Stockholders' Deficiency:		
Preferred stock, $.01 par value		
Authorized - 1,000,000 shares		
Issued and outstanding - Series A, none; Series B, none, Series C, none Series D, stated value $12.40, convertible, zero shares at September 30, 2010, 144,321 at Septembe 30, 2009	-	1,443
Series E, stated value $250, convertible, 4,200 shares at September 30, 2010, 9,100 at September 30, 2009	42	91

Series F, stated value $60, convertible, 60,000 shares at September 30, 2010 and 77,966 at September 30, 2009	600	780
Common stock, $.01 par value		
Authorized - 250,000,000 shares, issued 5,432,990 shares and outstanding 5,431,865 shares at September 30, 2010 and at September 30, 2009	54,330	54,330
Additional paid-in capital	85,317,648	87,389,310
Accumulated deficit	(91,121,248)	(89,913,332)
Treasury stock (1,125 common shares, at cost)	(2,250)	(2,250)
Total stockholders' deficiency	(5,750,878)	(2,469,628)
Total Liabilities and Stockholders' Deficiency	$1,762,902	$2,080,008

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

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CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended	
	September 30, 2010	September 30, 2009
Revenues:		
Product sales	$1,167,289	$ 1,239,865
Operating Expenses:		
Cost of product sales	767,778	1,051,858
Research and development	40,260	83,918
Selling, general and administrative	2,844,299	2,990,388
Total operating expenses	3,652,337	4,126,164
Operating loss	(2,485,048)	(2,886,299)
Other income (expense):		
Other income	209,379	70,443
Interest expense	(1,841,991)	(75,969)
Change in fair value of derivative liaibilities	472,449	-
Total other income (expense)	(1,160,163)	(5,526)
Net loss	(3,645,211)	(2,891,825)
Dividend - Convertible Preferred Stock	(422,536)	(476,458)
Reversal of previously accrued and unpaid dividends	632,982	-
Net loss attributable to common stockholders	$(3,434,765)	$ (3,368,283)
Net loss per basic and diluted common share	$(0.17)	$ (0.64)
Weighted average number of common shares outstanding, basic and diluted	20,347,112	5,284,714

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

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

	Series D Convertible Preferred Stock		Series E Convertible Preferred Stock		Series F Convertible Preferred Stock		Common Stock			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accumulated Deficit
Balance October 1, 2008	172,933	1,729	9,200	92	78,334	783	4,778,027	47,780	87,057,367	(86,530,653)
Conversion of Series D Preferred Stock to common shares	(28,612)	(286)					555,663	5,557	(5,271)	
Conversion of Series E Preferred Stock to common shares			(100)	(1)			62,500	625	(624)	
Conversion of Series F Preferred Stock to common shares					(368)	(3)	36,800	368	(365)	
Debt discount on short term notes payable									48,729	
Dividend ($0.67 per Series D convertible preferred stock,$13.50 per Series E convertible										(476,458)

preferred stock and $3.24 per Series F convertible preferred stock)										
Adjustment to MCM LTD Share issuance costs										(14,396)
Stock-based Compensation									289,474	
Net loss										(2,891,825)
Balance September 30, 2009	144,321	$1,443	9,100	$91	77,966	$780	5,432,990	$54,330	$87,389,310	$(89,913,332)
Dividend ($0.67 per Series D convertible preferred stock, $13.50 per Series E convertible preferred stock and $3.24 per Series F convertible preferred stock)										(422,536)
Stock-based Compensation									182,222	
Preferred Stock repurchase (See Note 13)	(144,321)	(1,443)	(4,900)	(49)	(17,966)	(180)			(13,329)	632,982
Cumulative effect of change in accounting principle October 1, 2009, Adoption of ASC 815, reclassification										

of equity-linked financial instruments to derivative liabiliites									(2,240,555)	2,226,849
Net loss										(3,645,211)
Balance September 30, 2010	-	$(0)	4,200	$42	60,000	$600	5,432,990	$54,330	$85,317,648	$(91,121,248)

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

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CAPRIUS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended	
	September 30, 2010	September 30, 2009
Cash Flows from Operating Activities:		
Net loss	$(3,645,211)	$ (2,891,825)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	24,431	29,841
Stock-based compensation	182,222	289,474
Amortization of debt discount	626,370	44,095
Amortization of deferred financing costs	669,434	-
Change in fair value of derivative liabilities	(472,449)	-
Share issuance adjustment	-	(14,396)
Provison for doubtful accounts	-	32,219
Changes in operating assets and liabilities:		
Accounts receivable	(14,276)	793,430
Inventories	(2,385)	769,965
Other assets	93,818	(98,149)
Accounts payable	(510,219)	(470,829)
Advances from customers	(213,741)	225,393
Accrued expenses and compensation	343,740	506,914
Net cash used in operating activities	(2,918,266)	(783,868)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(1,157)	-
Decrease/(Increase) in security deposit	17,986	(4,700)
Net cash provided by (used in) investing activities	16,829	(4,700)
Cash Flows from Financing Activities:		
Proceeds from issuance of notes payable	3,391,282	1,111,132
Deferred financing costs	(349,543)	(593,840)
Proceeds from short term loans	-	162,100
Repayment of short term loans	(4,100)	(58,000)
Repurchase of preferred stock and warrants	(15,000)	-
Net cash provided by financing activities	3,022,639	621,392
Net increase (decrease) in cash	121,202	(167,176)
Cash, beginning of year	87,174	254,350
Cash, end of year	$208,376	$ 87,174
Supplemental Disclosures of Cash Flow Information:		

Cash paid for interest	$-	$ 3,517
Cash paid for income taxes	$4,809	$ 2,187
Non Cash-Flow Items:		
Issuance of warrants attached with short term loans	$-	$ 48,729
Conversion of 28,612 shares of Series D Preferred Stock to common shares	$-	$ 5,271
Conversion of 100 shares of Series E Preferred Stock to common shares	$-	$ 624
Conversion of 368 shares of Series F Preferred Stock to common shares	$-	$ 365

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

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CAPRIUS, INC. AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 1. Organization and Nature of Business

Caprius, Inc. through its wholly-owned subsidiary M.C.M. Environmental Technologies, Inc. ("MCM"), is engaged in the infectious medical waste disposal business. 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 its proprietary, EPA registered, bio-degradable chemical known as Ster-Cid. The SteriMed Systems are sold in both the domestic and international markets.

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

Note 2. Liquidity and Going Concern

The Company has incurred substantial recurring losses. The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has available cash of approximately $208,000 at September 30, 2010. During the year ended September 30, 2010, the Company used cash flows from operating activities of approximately $2,918,000. The Company's working capital deficiency was approximately $4,970,000 as of September 30, 2010. The Company's accumulated deficit was approximately $91,121,000 as of September 30, 2010. In addition the Company has a stockholders' deficit of approximately $5,751,000 at September 30, 2010. As of December 13, 2010, the Company has available cash of approximately $500,000 and has received advances under the Vintage Loan Facility of $5.0 million in cash and $0.9 million in payments in kind. Vintage fees, costs and expenses were to be accrued in addition to these amounts and not deemed a part of the cash advances. Under the Vintage Loan Facility the funds to be advanced to the Company in cash comprised an initial term maximum amount of $1 million and a subsequent term maximum amount of $2 million. The maturity date of the loan facility is December 16, 2010, which has been extended to February 1, 2011. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted. Under the amendment to this agreement in September 2010, the maximum amount under this Loan Facility has been increased by $1 million, to a total of $4 million in cash. Subsequent to the fiscal year ended September 30, 2010, the Company has entered into further amendments which have increased the Loan Facility by an additional $1 million, to a total of $5.5 million in cash. In order to fund the Company's current and future cash requirements, the Company was dependent solely upon Vintage for one year from the closing date of September 16, 2009 under the terms of their Loan Facility. Thereafter, the Company was permitted to seek alternative funding provided no event of default has occurred and is continuing under the Vintage Loan Facility. Presently, the Company has been unable to locate any alternative funding sources. The Company has pledged all of its assets including its intellectual property to Vintage as security for the Vintage Loan Facility and is subject to negative and affirmative covenants thereunder. Currently, the Company is in default under the terms and covenants of the Vintage Loan Facility for the initial and subsequent funding as the Company was 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 the Company has been put on notice by Vintage of these defaults. Notwithstanding, while Vintage has not waived these defaults, the Company is endeavoring to cure them. The Company is working on a parallel track to relocate the Company's manufacturing to ensure the supply of finished units. In the interim, the Company is endeavoring to convert the Company's existing inventory into units for sale while the Company identifies a suitable manufacturing location to ramp up production at a manufacturer acceptable to both the Company and Vintage under the terms of their Loan Facility. There can be no assurance that Vintage will continue to fund the Company's operations or that any of the

Company’s alternative funding initiatives as permitted will be successful.

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On November 10, 2010, the Company entered into an Agreement and Plan of Merger with Vintage and its newly-formed wholly-owned subsidiary Capac Co., for Vintage to acquire the Company whereby Merger Sub would merge with and into the Company, and the Company would become a wholly-owned subsidiary of Vintage. The Merger is a "going-private" transaction whereby after the Merger is completed, the Company would cease to be a SEC reporting company and the trading market for the Company's Common Stock would terminate. At the effective time of the Merger, the Company's outstanding capital stock (other than shares owned by Vintage or Merger Sub, treasury shares or shares for which stockholders have duly exercised their statutory appraisal rights) would be exchanged whereby each share of the Company's Common Stock, and each share of the Company's Series E Convertible Preferred Stock and Series F Convertible Preferred Stock on an "as-converted" basis into Common Stock, will automatically be cancelled and converted into the right to receive $0.065 per share, in cash, and without interest and subject to applicable withholding taxes. Stock options and warrants to purchase shares of the Company's Common Stock will terminate immediately prior to the effective time of the Merger. In addition, the accrued dividend on the Series E Preferred and the Series F Preferred will be cancelled. The Merger Agreement sets forth several conditions to the closing of the Merger, including approval by the Company's stockholders at a special meeting to be called at a future date after clearance of proxy material.

If the Company runs out of available capital, it might be required to pursue highly dilutive equity or debt issuances to finance its business in a difficult and hostile market, including possible equity financings at a price per share that might be much lower than the per share price invested by current shareholders. No assurance can be given that any source of additional cash would be available to the Company. If no source of additional cash is available to the Company, then the Company would be forced to significantly reduce the scope of its operations.

There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplate the realization of assets and satisfaction of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for annual financial statements and with Form 10-K and Article 8 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition. Revenues from the MCM medical waste business are recognized at the time when the SteriMed units are shipped to the customer. Occasionally, the Company may sell its product directly to equipment leasing companies. The Company is not a lessor in these type of transactions since the leasing company has no right to return the equipment after the lease with a third party has ended, nor does the Company have any obligations to repurchase the equipment at the end of the lease. The leasing company is the end user as title and risk of ownership passes as products are shipped. The Company is not a party to any leasing arrangements between the leasing company and its ultimate customer. The Company recognizes revenue for extended warranty contracts over the period that the extended warranty covers. The length of these extended warranty contracts are anywhere from one to four years. The Company applies the revenue recognition principles set forth under SEC Staff Accounting Bulletin 104, ("SAB 104") which provides for revenue to be recognized when (i) persuasive evidence of an arrangement exists, (ii) delivery or installation has been completed, (iii) the customer accepts and verifies receipt, and (iv) collectability is

reasonably assured.

Accounts Receivable and Allowance for Doubtful Accounts. The Company recognizes an allowance for doubtful accounts to ensure that accounts receivable are not overstated due to uncollectibility. Allowances for doubtful accounts are maintained for all customers based on a variety of factors, including the length of time the receivables are past due, significant one-time events and historical experience. An additional reserve for individual accounts is recorded when the Company becomes aware of a customer's inability to meet its financial obligation, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position. If the circumstances related to customers change, estimates of the recoverability of receivables would be further adjusted. As of September 30, 2010 and 2009, the Company's allowance for doubtful accounts was $20,686 and $32,219 respectively.

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Deferred Financing Costs. Deferred financing costs represent costs incurred in connection with obtaining the debt financing. These costs are amortized to interest expense over the term of the related debt using the interest rate method. The amortization for the year ending September 30, 2010 was approximately $670,000. Since the financing which gave rise to these costs was obtained on September 16, 2009, the amortization for the year ending September 30, 2009 was not material.

Foreign Currency Translation. The Company follows the provisions of ASC 830, "Foreign Currency Translation." The functional currency of the Company's foreign subsidiary is the U.S. dollar. All foreign currency asset and liability amounts are re-measured into U.S. dollars at end-of-period exchange rates. Foreign currency income and expense are re-measured at average exchange rates in effect during the year. Exchange gains and losses arising from foreign currency transactions are included in operations in the period in which they occur. Foreign currency translations are included in other comprehensive income. Foreign currency transactions and translations were not material during the fiscal periods ending September 2010 and 2009. A determination that the Company's functional currency is the U.S. Dollar is based on the following facts:

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

Product Warranties. The estimated future warranty obligations related to the product sales are provided by charges to operations in the period in which the related revenue is recognized. The basic warranty covers parts and labor for one year, thereafter extended warranties are available. These charges were immaterial in each of the years ended September 30, 2010 and 2009. Deferred revenue for any extended warranties is recorded in the period that the warranty covers. Revenue received for extended warranties and the warranty expense historically has not been material.

Inventories. Inventories are accounted for at the lower of cost or market using the first-in, first-out ("FIFO") method. The Company's policy is to reserve or write-off surplus or obsolete inventory. Inventory is comprised of materials, labor and manufacturing overhead costs.

Property and Equipment. Office furniture and equipment, and leasehold improvements are recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated lives of the applicable assets, or term of the lease, whichever is shorter, if applicable. Expenditures for maintenance and repairs that do not improve or extend the life of the expected assets are expensed to operations, while expenditures for major upgrades to existing items are capitalized. Furniture, fixtures and office equipment are depreciated over estimated useful lives ranging from 3 to 5 years, computer equipment from 3 to 5 years and leasehold improvements over the initial term of the lease or estimated useful life whichever is shorter.

Impairment of Long-Lived Assets. In accordance with ASC 360, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company and its subsidiaries review the carrying values of their long-lived assets (other than goodwill) for possible impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair values less costs to sell.

Reclassifications. Certain accounts in the prior year consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current year consolidated financial statements. These reclassifications have no effect on the previously reported net loss.

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Derivative Financial Instruments. The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the consolidated statement of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period.

Basic and Diluted Net Loss Per Share. Basic and diluted net loss per share has been calculated by dividing net loss by the weighted average number of common shares outstanding during the period. All potentially dilutive common shares have been excluded since their inclusion would be anti-dilutive.

Diluted loss per share reflects the potential dilution that could occur through the effect of common shares issuable upon the exercise of stock options, warrants and convertible securities. For the year ended September 30, 2010, potential common shares amount to 19,722,476 shares, as compared to 32,992,634 for the year ended September 30, 2009 as such, have not been included in the computation of diluted loss per share since the effect would be anti-dilutive. Potential common shares are summarized as follows:

	Year Ended September 30, 2010	Year Ended September 30, 2009
Options	3,322,924	3,354,424
Warrants	7,774,552	13,351,314
Underlying Preferred Stock	8,625,000	16,286,896
Totals	19,722,476	32,992,634

The weighted average number of common shares outstanding for the year ended September 30, 2010 includes the underlying shares exercisable with respect to the issuance and subsequent adjustments of warrants exercisable at $0.01 per share. In accordance with ASC 260, Earnings per Share, the Company has given effect to the issuance of these warrants in computing basic net loss per share. The number of warrants exercisable at $0.01 per share on September 30, 2010 was 16,769,561.

Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period enacted. A valuation allowance is provided when it is more likely than not that a portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible. The benefit of tax positions taken or expected to be taken in the Company’s income tax returns are recognized in the consolidated financial statements if such positions are more likely than not of being sustained.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates and assumptions of the Company are stock-based compensation, the useful life of fixed assets, depreciation and amortization, fair value of derivative liabilities, warrants, income taxes and foreign currency.

Fair Value of Financial Instruments. The carrying amounts of cash, accounts receivable, accounts payable accrued expenses, notes payable and short-term notes payable whose carrying value is net of unamortized debt discount are reasonable estimates of their fair values because of the short-term nature of those instruments.

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Research and Development Costs. All research and development costs are charged to operations as incurred.

Concentration of Credit Risk and Significant Customers. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and trade accounts receivable.

Management believes its credit policies are prudent and reflect normal industry terms and business risk. The Company does not anticipate non-performance by the counter parties and, accordingly, does not require collateral. The Company maintains reserves for potential credit losses and historically such losses, in the aggregate, have not exceeded management's expectations. For the year ended September 30, 2010, two customers accounted for $834,950 of the consolidated total revenue, individually they accounted for approximately 53% (customer A) and 18.5% (customer B) respectively of the total revenue. There was no accounts receivable from these two major customers at September 30, 2010. For the year ended September 30, 2009, two customers accounted for approximately 54% (customer A) and 10% (customer C) respectively of the consolidated total revenue There was no accounts receivable from these two major customers at September 30, 2009.

The Company purchases a substantial amount of its inventory products from a limited number of suppliers. If in the future these suppliers were to cease to supply these inventory products, management believes there are alternative vendors available to meet its needs.

The Company maintains cash accounts at financial institutions, which are insured by the Federal Deposit Insurance Corporation ("FDIC"). At times, cash balances may exceed Federally insured limits. Periodically, the Company evaluates the credit worthiness of the financial institutions and has determined the credit exposure to be negligible.

Stock-Based Compensation. The Company accounts for stock-based awards issued to employees in accordance with FASB guidance. Such awards primarily consist of options to purchase shares of common stock. The fair value of stock-based awards is determined on the grant date using a valuation model. The fair value is recognized as compensation expense, net of estimated forfeitures, on a straight line basis over the service period, which is normally the vesting period.

Recent Accounting Pronouncements In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13) (formerly EITF 08-1, Revenue Arrangements with Multiple Deliverables) which amends ASC Topic 605, Revenue Recognition. This accounting update establishes a hierarchy for determining the value of each element within a multiple deliverable arrangement. ASU 2009-13 is effective for the Company beginning October 1, 2010 and applies to arrangements entered into on or after this date. The Company is currently evaluating the impact that ASU 2009-13 may have on its financial position and results of operations, and does not expect the impact, if any, to be material.

The FASB has issued Accounting Standards Update (ASU) No. 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This ASU requires some new disclosures and clarifies some existing disclosure requirements about fair value measurement as set forth in Codification Subtopic 820-10. ASU 2010-06 amends Codification Subtopic 820-10 and now requires a reporting entity to use judgment in determining the appropriate classes of assets and liabilities and to provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, As this standard relates specifically to disclosures, the adoption did not have an impact on the Company's consolidated financial position and results of operations.

In February 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standard that amended certain recognition and disclosure requirements related to subsequent events. The accounting standard requires an

entity that is an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that an SEC filer disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance. The adoption of this standard had no effect on the Company's consolidated financial position or results of operations.

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In March 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-11, which is included in the Codification under ASC 815, "Derivatives and Hedging" ("ASC 815"). This update clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. Only an embedded credit derivative that is related to the subordination of one financial instrument to another qualifies for the exemption. This guidance is effective for interim and annual reporting periods beginning January 1, 2010. The adoption of this standard did not expected to have a material impact on the Company's consolidated financial position and results of operations.

Note 4. Inventories

Inventories consist of the following as of September 30,

	2010	2009
Raw materials	$ 1,055,030	$ 1,032,988
Finished goods	98,815	118,472
	$ 1,153,845	$ 1,151,460

Note 5. Property and Equipment

As of September 30,

	2010	2009
Furniture, Fixtures and Equipment	$ 312,802	$ 311,645
Leasehold Improvements	-	-
	312,802	311,645
Less: accumulated depreciation	253,779	229,348
	$ 59,023	$ 82,297

The depreciation expense recorded was $24,431 and $29,841 for the years ended September 30, 2010 and 2009.

Note 6. Derivative Liabilities

In June 2008, the FASB finalized ASC 815, "Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock." Under ASC 815, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company has determined that it needs to account for those warrants issued to investors in 2005 and 2007 for its Series C, E and F Convertible Preferred Stock, as derivative liabilities, and apply the provisions of ASC 815. The instruments have a ratchet provision (the Series C, E and F warrants each have provisions that adjust either the exercise price and/or quantity of the warrants in the event of a subsequent offer of equity at a lower effective price than the then applicable exercise price of the warrants). Also, the warrants issued on January 22, 2010 ("2010 Warrants") to Vintage Capital Group LLC in connection with the Loan Facility do not contain fixed settlement provisions. (See note 14). As a result, the instruments needed to be accounted for as derivative liabilities. In accordance with ASC 815, these warrants have been re-characterized as derivative liabilities. ASC 815, "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815") requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in fair value reported in the consolidated statement of operations. As of February 2010 the Series C warrants have expired.

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The fair value of the warrants were measured using the Black-Scholes option pricing model which approximates the fair value measured using the Binomial Lattice Model and the following assumptions:

	September 30, 2010		October 1, 2009		Date of issuance	
2005 Series C Warrants:						
Risk-free rate	-		2.32	%	3.875	%
Annual rate of dividends	-		-		0	
Volatility	-		95.89	%	27.01	%
Weighted Average life (years)	-		.42		5	
2007 Series E Warrants:						
Risk-free rate	0.45	%	2.32	%	4.50	%
Annual rate of dividends	0		0		0	
Volatility	191.46	%	95.89	%	78.25	%
Weighted Average life (years)	1.42		2.5		5	
2007 Series F Warrants:						
Risk-free rate	0.45	%	2.32	%	3.35	%
Annual rate of dividends	0		0		0	
Volatility	159.41	%	95.89	%	59.15	%
Weighted Average life (years)	2.25		3.25		5	
2010 Warrants:						
Risk-free rate	0.16	%	-		0.30	%
Annual rate of dividends	0		-		0	
Volatility	219.72	%	-		173.90	%
Weighted Average life (years)	0.25		-		1	
Fair Value	$396,144		$13,706		$3,095,442	

The risk-free interest rate was based on rates established by the Federal Reserve. The Company based expected volatility on the historical volatility for its common stock. The expected life of the warrants was based on their full term. The expected dividend yield was based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the future.

ASC 815 was implemented in the first quarter of Fiscal 2010 and is reported as the cumulative effect of a change in accounting principles. At October 1, 2009, the cumulative effect on the accounting for the warrants was recorded as decrease in accumulated deficit by $2,226,849. The difference of $13,706 was recorded as derivative liability. As of September 30, 2010, derivative liability associated with the 2005 Series C warrants, the 2007 Series E warrants and the 2007 Series F warrants were revalued, the $22,829 increase in the derivative liability is included as a reduction of the gain on change in fair value of derivative liabilities in the Company’s consolidated statement of operations for the year ended September 30, 2010.

On the date of issuance the derivative liability associated with the 2010 warrants was $854,887. At September 30, 2010, the derivative liability associated with the 2010 warrants was revalued to $359,609. The $495,278 decrease in the derivative liability at September 30 2010 is included as a change in fair value of derivative liabilities in the Company’s consolidated statement of operations for the year ended September 30, 2010.

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Note 7. Fair Value Measurement

Valuation Hierarchy

ASC 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of September 30, 2010:

		Fair Value Measurements at September 30, 2010		
	Total Carrying Value at September 30, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative liabilities	$ 396,144	$-	$ -	$ 396,144

The derivative liabilities are measured at fair value using quoted market prices and estimated volatility factors based on historical quoted market prices for the Company's common stock, and are classified within Level 3 of the valuation hierarchy.

The following table sets forth a summary of the changes in the fair value of the Company's Level 3 financial liabilities that are measured at fair value on a recurring basis:

	Year Ended September 30,	
	2010	2009
Beginning balance	$ (13,706)	$ -
Net unrealized gain on change in fair value of derivative liabilities	472,449	-
Derivative liabilities recorded	(854,887)	-
Ending balance	$ (396,144)	$ -

Note 8. Debt Financing

On September 16, 2009, the Company entered into a Securities Purchase and Sale Agreement with Vintage Capital Group, LLC, whereby Vintage extended a loan facility to the Company maturing on December 16, 2010. Vintage has agreed to extend the maturity date of the loan to February 1, 2011. The Company will seek further extensions until the close of the Merger, but there can be no assurance that further extensions will be granted.

Under the Loan Facility which contains certain operational covenants, Vintage will advance to the Company up to an aggregate of $3.0 million in cash. Interest on advances under the Loan Facility accrues at a rate of 14% per annum

(subject to a default rate of 17% per annum). Advances under the Loan Facility, including any subsequent fundings are secured by the grant to Vintage of a first priority lien, pledge and security interest in substantially all of the Company's assets. As discussed in Note 2 the Company is in violation of certain covenants. Warrants were issued in connection with this Loan facility on January 22, 2010 as more fully described in Note 14

On September 8, 2010, the Company entered into Amendment No. 1 to the Securities Purchase and Sale Agreement as described above with Vintage, whereby the maximum availability thereunder was increased to $4.0 million in cash.

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On November 4, 2010, the Company entered into Amendment No. 2 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $4.5 million in cash.

On November 10, 2010, the Company entered into an Agreement and Plan of Merger with Vintage and its newly-formed wholly-owned subsidiary Capac Co., for Vintage to acquire the Company whereby Merger Sub would merge with and into the Company, and the Company would become a wholly-owned subsidiary of Vintage. The Merger is a "going-private" transaction whereby after the Merger is completed, the Company would cease to be a SEC reporting company and the trading market for the Company's Common Stock would terminate. At the effective time of the Merger, the Company's outstanding capital stock (other than shares owned by Vintage or Merger Sub, treasury shares or shares for which stockholders have duly exercised their statutory appraisal rights) would be exchanged whereby each share of the Company's Common Stock, and each share of the Company's Series E Convertible Preferred Stock and Series F Convertible Preferred Stock on an "as-converted" basis into Common Stock, will automatically be cancelled and converted into the right to receive $0.065 per share, in cash, and without interest and subject to applicable withholding taxes. Stock options and warrants to purchase shares of the Company's Common Stock will terminate immediately prior to the effective time of the Merger. In addition, the accrued dividend on the Series E Preferred and the Series F Preferred will be cancelled. The Merger Agreement sets forth several conditions to the closing of the Merger, including approval by the Company's stockholders at a special meeting to be called at a future date after clearance of proxy material.

On November 18, 2010, the Company entered into Amendment No. 3 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.0 million in cash.

On December 16, 2010, the Company entered into Amendment No. 4 ("the Amendment") to the Loan Facility from Vintage Capital Group, whereby the maximum availability thereunder was increased to an aggregate of $5.5 million in cash.

In connection with the Loan facility, the Company entered into an Investment Monitoring Agreement with Vintage providing for an Operating Committee initially composed of its 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 the Company's Board of Directors.

As of September 30, 2010, under the Loan facility and Amendment Vintage has advanced to the Company approximately $4.5 million ($3.6 million in cash and $0.9 million in payments in kind) which the Company has used to satisfy certain liabilities, working capital and related fees and expenses associated with this agreement.

During August 2009, the Company received $25,000 subject to the short-term Bridge Loan agreement outlined below. The Company issued to a short term investor, warrants to purchase an aggregate of 750,000 shares of common stock at an exercise price of $0.10 per share for a period of five years. Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.04 per share, exercise price of $0.10 per share, zero dividends, expected volatility of 93.85%, risk free interest rate of 2.69% and an expected life of 5 years, the Company has determined that the fair value of these warrants is $0.02 per share. The relative fair value of these warrants was $10,271. This relative fair value was recorded as a debt discount and is to be amortized over the life of the loan. The maturity date of these loans is 90 days from issuance and as such the Company has amortized the full amount of $10,271 as of December 31, 2009. The balance of this short-term loan as of September 30, 2010 net of debt discount is $25,000. These notes will continue to accrue interest at 14% per annum until the Company can repay the note and accrued interest.

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In June 2009, the Company 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 holders of the Notes were granted Thirty (30) warrants for each One Dollar ($1.00) invested to purchase an aggregate of up to 4,500,000 shares of Common Stock at an exercise price of Ten Cents ($0.10) per share for a period of five years pursuant to Stock Purchase Warrant Agreement. During June 2009, the Company received $75,000 subject to this agreement. The Company issued to this group of short term investors, warrants to purchase an aggregate of 2,250,000 shares of common stock at an exercise price of $0.10 per share for a period of five years. Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.06 per share, exercise price of $0.10 per share, zero dividends, expected volatility of 83.82%, risk free interest rate of 2.85% and an expected life of 5 years, the Company has determined that the fair value of these warrants is $0.04 per share. The relative fair value of these warrants was $38,458. This relative fair value was recorded as a debt discount and is to be amortized over the life of the loan. The maturity date of these loans is 90 days from issuance and as such the Company had amortized the full amount of $38,458 as of September 30, 2009. The balance of this short-term loan as of September 30, 2010 net of debt discount is $75,000. These notes will continue to accrue interest at 14% per annum until the Company can repay the note and accrued interest.

In February 2009, the Company 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 on September 16, 2009.

Note 9. Related Party Transactions

In February 2009, the Company received a short term loan for a sum of $12,100 from an officer of the Company. This loan was fully repaid in two installments, in September 2009 and October 2009.

Note 10. Share Based Compensation (also refer to Note 15)

The Company uses the Black-Scholes valuation model to value options granted to employees, directors and consultants. Compensation expense, including the effect of forfeitures, is recognized over the period of service, generally the vesting period. The Company recorded total stock-based compensation of $182,222 for the fiscal year ended September 30, 2010 and $289,473 for the year ended September 30, 2009 for options granted and vested. Stock-based compensation is included in selling, general and administrative expense in the accompanying consolidated statements of operations. During the year ended September 30, 2010, no options were granted by the Company.

As of September 30, 2010 the fair value of the unvested stock options amounted to $78,722 which is expected to be recognized over a weighted average period of approximately 2.25 years.

The fair values of stock option grants were calculated on the dates of grant using the Black-Scholes option valuation model and the following weighted average assumption:

	Year Ended Sept 30, 2010	Year Ended Sept 30, 2009
Risk-Free Interest Rate	-	2.31% - 2.36%
Expected volatility	-	76% - 117%
	-	4

Expected life (in years)		
Expected dividend yield	-	0%

The risk-free interest rate is based on rates established by the Federal Reserve. The Company's expected volatility was based upon the historical volatility for its common stock. The expected life of the Company's options was determined using the simplified method as a result of its historical data. The dividend yield is based upon the fact that the Company has not historically paid dividends, and does not expect to pay dividends in the future.

Transactions under the various stock option plans during the fiscal year ended September 30, 2010 and 2009 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at October 1, 2008	2,023,175	$0.84
Granted	1,500,000	$0.15
Forfeited / Expired	(168,751)	$0.65
Outstanding at September 30, 2009	3,354,424	$0.54
Granted	-	-
Forfeited / Expired	(31,500)	$3.48
Outstanding at September 30, 2010	3,322,924	$0.51
Exercisable at September 30, 2010	2,182,093	$0.69

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Note 11. Employee Benefits

The Company sponsors a Qualified Retirement Plan under section 401(k) of the Internal Revenue Code. Caprius employees become eligible for participation after completing 3 months of service and attaining the age of twenty-one. For the years ended September 30, 2010 and 2009, the Company has not adopted a matching option to the plan. The Company is in the process of closing this plan, and has provided all participants with withdrawal/rollover documentation.

Note 12. Income Taxes

The provision (benefit) for income taxes differs from the amounts computed by applying the applicable Federal statutory rates due to the following, as of September 30,

	2010	2009
	(in thousands)	
Provision (benefit) for Federal income taxes	$(1,239)	$(983)
State and local income taxes, net of Federal Benefit	(211)	(162)
Foreign Subsidiary Tax holiday	46	66
Permanent Differences:		
Gain on Derivatives	(189)	-
Change in valuation allowance	1,593	1,079
Provision(benefit) for income taxes	$0	$0

Significant components of the Company's deferred tax assets and liabilities are as follows:

	2010	2009
Deferred tax assets		
Allowance for doubtful accounts	$8	$13
Stock Compensation	437	364
Temporary Differences:		
Amortization of debt discount	251	-
Net Operating loss carryforward	7,145	5,870
Total deferred tax assets	7,840	6,247
Deferred tax liabilities	-	-
Valuation Allowance	(7,840)	(6,247)
Net	$0	$0

The Company files income tax returns for Caprius, Inc. and its subsidiaries in the United States with the Internal Revenue Service and with various state jurisdictions, most notably New Jersey. As of September 30, 2010, the tax returns for Caprius, Inc for the years 2007 through 2010 remain open to examination by the Internal Revenue Service and various state authorities.

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Accounting for Uncertainty in Income Taxes

The Company has adopted the FASB's guidance on accounting for uncertainty in income taxes. In accordance with this guidance, interest costs and related penalties related to unrecognized tax benefits are required to be calculated, if applicable. No interest and penalties were recorded during the years ended September 30, 2010 and 2009 respectively. As of September 30, 2010 and 2009, no liability for unrecognized tax benefits was required to be recorded. The Company will record interest and penalties as interest expense in general and administrative expenses.

NOL Limitations

The Company's utilization of Net Operating Loss ("NOL") carryforwards is subject to an annual limitation due to ownership changes that have occurred previously or that could occur in the future as provided in Section 382 of the Internal Revenue Code of 1986, as well as similar state and foreign provisions. In general, an ownership change, as defined by Section 382, results from transactions increasing the ownership of certain stockholders or public group in the stock of a corporation by more than fifty percentage points over a three-year period. Since its formation, the Company has raised capital through the issuance of capital stock and various convertible instruments which, combined with the purchasing shareholders' subsequent disposition of these shares, has resulted in an ownership change as defined by Section 382, and also could result in an ownership change in the future upon subsequent disposition.

The annual NOL limitation is determined by first multiplying the value of the Company's stock at the time of ownership change by the applicable long-term tax exempt rate, and could then be subject to additional adjustments, as required. Any limitation may result in expiration of a portion of the NOL carryforwards before utilization.

During 2008, the Company completed a Section 382 study and determined that approximately $32.6 million of its NOL carryforward would be subjected to such limitation. After giving effect to such changes, the Company estimates that its NOLS available to offset future taxable income, if any, amount to approximately $17.9 million and $14.7 million at September 30, 2010 and 2009, respectively.

Valuation Allowance

A full valuation allowance is being maintained resulting in a net deferred tax asset of zero until sufficient positive evidence exists to support the reversal of any portion or all of the valuation allowance net of appropriate reserves. Should the Company become profitable in future periods with supportable trends, the valuation allowance will be reduced accordingly

Note 13. Capital Stock

Repurchase of Bonanza Master Fund, Ltd. Preferred Stock and Warrants

On August 17, 2010, an agreement was reached between the Company and Bonanza Master Fund, Ltd. ("Bonanza"), regarding the sale by Bonanza of all of their Preferred Stock and Warrant interests in the Company (the "Company Securities") to the Company.

Under the terms of the agreement, Bonanza sold 65,290 shares of Series D Preferred Stock, together with 447,764 warrants to purchase an aggregate of 1,715,696 shares of the Company's Common Stock to the Company, and the Company purchased such shares of Preferred Stock and Warrants from Bonanza for an aggregate purchase price of $5,000. Included in the terms of the aforementioned agreement, upon closing Bonanza have waived all previously accrued and unpaid dividends totaling approximately $149,000 on the Preferred Shares from the original issuance date

to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material

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Repurchase of SSF Preferred Stock and Warrants

On June 30, 2010, an agreement was reached between the Company and Special Situations Fund III QP, L.P. ("SSFQP"), Special Situations Private Equity Fund, L.P. ("SSFPE") and Special Situations Fund III, L.P. ("SSFIII" and together with SSFQP and SSFPE, sometimes collectively, the "SSF Funds"), regarding the sale or other disposition by the SSF Funds of all of their equity interests in the Company (the "Company Securities") to the Company.

Under the terms of the agreement, the SSF Funds sold 79,031 shares of Series D Preferred Stock, 4,900 shares of Series E Preferred Stock and 17,966 shares of Series F Preferred Stock (collectively, the "Preferred Shares") together with warrants (the "Warrants" and collectively with the Preferred Shares, the "Sale Securities) to purchase an aggregate of 8,863,218 shares (6,393,924 shares underlying the preferred stock and 2,469,294 shares underlying the warrants) of the Company's Common Stock to the Company, and the Company purchased the Securities from the SSF Funds for an aggregate purchase price of $10,000. As additional consideration in connection with the sale and purchase of the Sale Securities, upon closing the SSF Funds have waived all dividends accrued totaling approximately $484,000 on the Preferred Shares from the respective original issuance dates to the closing hereof. At the time of repurchase the value of the outstanding warrants was not material.

Preferred Stock Conversions to Common

On October 14, 2008, a holder of Series D Preferred Stock converted 27,000 such shares into 524,340 shares of Common Stock and on September 30, 2009 an additional holder of Series D Preferred Stock converted 1,612 such shares into 31,323 shares of Common Stock. On September 30, 2009, a holder of Series E Preferred Stock converted 100 such shares into 62,500 shares of Common Stock. On September 30, 2009 a holder of Series F Preferred Stock converted 368 such shares into 36,800 shares of Common Stock. During the year ended September 30, 2010 no preferred shares were converted into shares of common stock of the Company.

Dividends

The Company has never declared dividends or paid cash dividends on the Company's common stock. The Series D Preferred Stock provides for a cumulative dividend of $0.67 per share commencing October 1, 2007, the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007, and the Series F Preferred Stock provides for a cumulative dividend of $3.24 per share commencing December 6, 2007. The dividends are payable pari passu on the series of preferred stock. During Fiscal 2010 as referenced above accrued dividends totaling approximately $633,000 ($484,000 by SSF and $149,000 by Bonanza) were waived in connection with the repurchase of the preferred stock and warrants by the Company. At September 30, 2010 and September 30, 2009, the accrued dividends aggregated $722,802 and $933,248. In the event that the Merger agreement as described within the document is successful, any accrued dividends will be cancelled.

Note 14. Stock Warrants

On January 22, 2010, as a post-closing obligation under the September 2009 Loan Facility, the Company issued a warrant to Vintage (the "Vintage Warrant") to purchase 40% of its 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 the Company's capitalization at the time of the grant, the Vintage Warrant would be exercisable into 25,602,333 shares of Common Stock (this number of shares may change based upon the capitalization representing 40% of the Company's common stock at the time of exercise). Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.04 per share, exercise price of $0.01 per share, zero dividends, expected volatility of 173.90%, risk free interest rate of 0.30% and an expected life of 1 year, the Company has determined that the fair value of these warrants is $0.033 per share or $854,887. This fair value was recorded as a debt discount and is

to be amortized over the life of the loan. As of September 30, 2010 the Company has recorded amortization of approximately $621,736 on this debt discount. 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, the Company granted Vintage certain preemptive rights and observer rights for meetings of the Companies Board of Directors pursuant to an Equity Rights Agreement. The expiration of certain warrants and the repurchase of the SSF preferred stock and warrants reduced the Company's capitalization, which reduced the number of shares exercisable on the Vintage Warrant. On September 30, 2010 the number of shares exercisable on the Vintage Warrant was 16,769,561.

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On August 11, 2009, the Company issued to a short term investor, warrants to purchase an aggregate of 750,000 shares of common stock at an exercise price of $0.10 per share for a period of five years. Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.04 per share, exercise price of $0.10 per share, zero dividends, expected volatility of 93.85%, risk free interest rate of 2.69% and an expected life of 5 years, the Company has determined that the fair value of these warrants is $0.02 per share. The relative fair value of these warrants was $10,271. This relative fair value was recorded as a debt discount and has been fully amortized. As of September 30, 2009 the Company had amortized $5,637 of the relative fair value of the debt discount.

On June 5, 2009, the Company issued to a group of short term investors, warrants to purchase an aggregate of 2,250,000 shares of common stock at an exercise price of $0.10 per share for a period of five years. Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.06 per share, exercise price of $0.10 per share, zero dividends, expected volatility of 83.82%, risk free interest rate of 2.85% and an expected life of 5 years, the Company has determined that the fair value of these warrants is $0.04 per share. The relative fair value of these warrants was $38,458. This relative fair value was recorded as a debt discount and has been fully amortized as of September 30, 2009.

Warrants issued are as follows:

	Number of Shares	Warrant Price Per Share	Weighted Average Exercise Price Per Share
Balance, October 1, 2008	10,539,226	$0.50–$5.60	$0.92
Granted in 2009	3,000,000	$0.10	$0.10
Expired in 2009	(187,912)	$0.50 - $5.00	$2.83
Balance, September 30, 2009	13,351,314	$0.10 – $5.60	$0.71
Granted in 2010	25,602,333	$0.01	$0.01
Expired in 2010	(2,659,704)	$0.93 - $5.60	$1.33
Adjusted in 2010	(8,832,772)	$0.01	$0.01
Cancelled in 2010	(2,917,058)	$0.50 - $1.40	$0.74
Balance, September 30, 2010	24,544,113	$0.01 - $2.00	$0.16

Note 15. Stock Option Plans

In May 2002, the Company’s Board of Directors adopted the 2002 Stock Option Plan (“2002 Plan”) which was ratified at the Company’s stockholder meeting of June 26, 2002. At September 30, 2006, 700,000 shar