

Edgar Filing: CAPRIUS INC - Form 10KSB

CAPRIUS INC  
Form 10KSB  
December 21, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-KSB

(Mark one)

X Annual Report Pursuant to Section 13 or 15 (d) of the  
----- Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

----- Transition Report Pursuant to Section 13 or 15 (d) of the  
----- Securities Exchange Act of 1934

Commission File Number: 0-11914

CAPRIUS, INC.

(Name of Small Business Issuer in its charter)

Delaware  
-----

22-2457487  
-----

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

One Parker Plaza, Fort Lee, NJ 07024  
-----

(Address of principal executive offices) (Zip Code)

Issuer's telephone number: (201) 592-8838  
-----

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

Securities to be registered under Section 12 (g) of the Exchange Act:  
Common Stock, par value \$ .01 per share  
-----

(Title of Class)

Check whether the issuer (1) filed all reports required to be filed under  
Section 13 or 15 (d) of the Exchange Act during the past 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 X No  
----

Check if there is no disclosure of delinquent filers in response to Item  
405 of Regulation S-B contained in this form, and no disclosure will be  
contained, to the best of the Registrant's knowledge, in definitive proxy or  
information statements incorporated by reference in Part III of this Form 10-KSB  
or any amendment to this Form 10-KSB [X].

Revenues for the fiscal year ended September 30, 2005: \$848,802

The aggregate market value of the voting stock held by non-affiliates of  
the Registrant computed by reference to the price at which the stock was sold,  
or the average bid and ask prices of such stock as of December 9, 2005:  
\$2,710,272

The number of shares outstanding of Registrant's Common Stock, \$ .01 par  
value, outstanding on December 9, 2005: 3,321,673 shares

Edgar Filing: CAPRIUS INC - Form 10KSB

Documents Incorporated by Reference: None  
Transitional Small Business Disclosure Format: Yes      No    X  
-----

INDEX

	Page No.
	-----
PART I	
Item 1. Description of Business	3
Item 2. Description of Property	11
Item 3. Legal Proceedings	11
Item 4. Submission of Matters to a Vote of Security Holders	11
PART II	
Item 5. Market for Common Equity, Related Stockholder Matters, and Small Business Issuer of Equity Securities	11
Item 6. Management's Discussion and Analysis or Plan of Operations	12
Item 7. Financial Statements	19
Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	19
Item 8A. Controls and Procedures	19
Item 8B. Other Information	20
PART III	
Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16 (a) of the Exchange Act.	20
Item 10. Executive Compensation	22
Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	24
Item 12. Certain Relationships and Related Transactions	26
Item 13. Exhibits	26
Item 14. Principal Accountant Fees and Services	31
SIGNATURES	32

PART I  
-----

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL

## Edgar Filing: CAPRIUS INC - Form 10KSB

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

In December 2002, we closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. Pursuant to our Letter of Intent with MCM, we had provided MCM with loans totaling \$565,000, which loans were repaid upon closing by a reduction in the cash portion of the purchase price. As part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, our ownership interest increased by 5% in the fiscal year 2004 and by an additional 5% in the fiscal year 2005. Furthermore, our equity ownership increased with the conversion of various loans made to MCM and cash calls made by MCM during Fiscal 2005. As of September 30, 2005, our interest in MCM increased to 96.66%.

During the first quarter of fiscal year 2005, an agreement was reached between the Company and the 20% minority ownership of an MCM subsidiary which had been dormant since inception. The minority shareholders shall be repaid their initial investment, by way of a credit towards the site installation expense of SteriMed units that they are purchasing for their dialysis centers. The subsidiary was dissolved on February 9, 2005.

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

### DESCRIPTION OF MCM ENVIRONMENTAL TECHNOLOGIES INC. BUSINESS

### BACKGROUND OF THE REGULATED MEDICAL WASTE INDUSTRY IN THE UNITED STATES

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

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

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

Most generators of RMW use waste management firms to transport, treat and dispose of their waste. Due to the 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 reimbursement payments from Medicare and other third party providers. Additionally, the added liability of RMW generators as a result of the "cradle to grave" manifest requirement has made it more attractive to use medical waste management methods that do not require tracking systems. The combination of these pressures is forcing medical waste generators to seek innovative methods for their waste disposal. MCM believes these factors create a demand for an onsite RMW treatment option. MCM has identified and is working with specific segments and niches within the RMW market on which it feels it might capitalize. The specifics of these will be discussed in the Marketing section.

#### BACKGROUND OF THE REGULATED MEDICAL WASTE INDUSTRY OUTSIDE OF THE UNITED STATES

The industrialized countries of the European Union and Japan are implementing medical waste laws that are or will be similar to US 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 be packed, marked, labeled and documented according to defined specifications. Regulations and cost factors have prompted European RMW generators to seek alternative medical waste disposal options. MCM recognizes an excellent opportunity for SteriMed sales in Europe, and is working with regulators, potential joint venture partners and distributors.

Throughout the less industrialized and third world countries, the disposal of hospital waste is coming under increasing scrutiny and regulations. Many countries are in the process of updating and enforcing regulations regarding the disposal of RMW. MCM is attempting to establish relationships worldwide directly or through distributors, in many of these countries.

#### THE MCM STERIMED SYSTEMS

The SteriMed Systems are patented, environmentally friendly, on-site disinfecting, shredding and disposal systems that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 15 minute cycle. The units, comparable in size to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid(R) solution. After treatment, the material may be discarded as unrecognizable conventional solid waste, in accordance with appropriate regulatory requirements. The resultant treated waste is as low as 10% of the original volume.

The SteriMed Systems are comprised of two different sized units, and the

## Edgar Filing: CAPRIUS INC - Form 10KSB

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

We have the worldwide exclusive rights for the manufacture, use and sale of the Ster-Cid(R) proprietary disinfectant used in the SteriMed System. The Ster-Cid(R) is currently manufactured solely for us by the licensor. In the event that the licensor is unable to manufacture the Ster-Cid(R), we have the right to have Ster-Cid(R) manufactured by an alternative manufacturer. Ster-Cid(R) is approximately 90% biodegradable. Ster-Cid(R) is considered a pesticide by the U.S. EPA and, in compliance with Federal Insecticide, Fungicide, Rodenticide Act of 1972 ("FIFRA"), it is registered with the U.S. EPA. The process of registering a pesticide under FIFRA involves submission of an application package to the U.S. EPA. The EPA's review of this application includes assessment of the hazards to human health and the environment that may be posed by the pesticide. This process can take up to a year or more to complete. MCM had assigned an agent experienced with the FIFRA registration

4

process to carry out this process for Ster-Cid(R). This process was completed in September 1999 at which time the Ster-Cid(R) was assigned a FIFRA Registration number.

During the SteriMed disinfecting cycle, the concentration of Ster-Cid(R) is approximately 0.5% of the total volume of liquids. The Ster-Cid(R) disinfectant has been tested in independent laboratories and shown to meet U.S. EPA guidelines for disinfection. Furthermore, it is accepted by the Publicly Owned Treatment Works ("POTW") allowing for its discharge into the sewer system.

Both the SteriMed and SteriMed Junior are safe and easy to operate, involving 1/2 day of training provided by our technical support staff to operators as designated by the end-user. The operator is trained to handle the daily and weekly responsibilities for the routine preparation, maintenance, and minor troubleshooting of the SteriMed Systems. Daily maintenance includes filling the system with the Ster-Cid(R), removal and replacement of the filter bags, and disposing of the filter bag as black bag waste.

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

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

## Edgar Filing: CAPRIUS INC - Form 10KSB

### REGULATIONS AND REGULATORY COMPLIANCE FOR ALTERNATIVE MEDICAL WASTE TREATMENT TECHNOLOGIES IN THE UNITED STATES

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

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

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

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

5

These approvals allow the SteriMed Systems effluent to be discharged to a municipal sewer and the treated disinfected solid 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 14001:1996. In order to meet the specific regulatory requirements of the individual members of the EU, MCM has undertaken further efficacy testing where necessary in order to demonstrate that the SteriMed conforms 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

## Edgar Filing: CAPRIUS INC - Form 10KSB

may impose. In countries where we have distributors, they are required to obtain the necessary regulatory approvals on our behalf at their expense.

### COMPETITION

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

**Autoclave (steam under pressure):** Autoclaves and retort systems are the most common alternative method to incineration used to treat medical waste. Autoclaves are widely accepted because they have historically been used to sterilize medical instruments. However, there are drawbacks as autoclaves may have limitations on the type of waste they can treat, the ability to achieve volume reduction, and odor problems.

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

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

**High Heat Thermal Processes:** High heat thermal processes operate at or above incineration temperatures, from 1,000oF to 15,000oF. Pyrolysis, which does not include combustion or burning, contains chemical reactions that create gaseous and residual waste products. The emissions are lower than that created by incineration, but the pyrolysis demands heat generation by resistance heating such as with bio-oxidation, induction heating, natural gas or a combination of plasma, resistance hearing and superheated steam.

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

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

## Edgar Filing: CAPRIUS INC - Form 10KSB

alkaline hydrolysis technology used for tissue and animal waste.

Among the competitors are Stericycle, Inc., Steris Corporation, Sanitec, Inc. Positive Impact Waste Solutions, Inc., Waste Processing Solutions Company, Global Environmental Technologies, LLC, and Waste Reduction, Inc.

### COMPETITIVE FEATURES OF THE MCM STERIMED SYSTEMS

Seizing the opportunity afforded by the regulatory changes and pricing pressures in the healthcare industry, we are positioning our products as viable alternatives to the traditional medical waste disposal methods. The SteriMed System seeks 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 with medical waste
- b) Reduces the need to transport infectious waste through facilities with patients
- c) No need to ship infectious medical waste on public roads
- d) Environmentally sound approach for disinfection - uses biodegradable chemicals; does not release smoke, odor, steam or other emissions to the air; removes the need for incineration
- e) Noise level during cycle is approx. 70.1dB(A), regarded below levels of noise safety concerns by most government regulations

#### Labor

-----

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

#### Convenience

-----

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

#### Cost Saving

-----

- a) Low cost of operation
- b) No transportation costs to incineration site
- c) Our preferred business model is to lease the SteriMed Systems to U.S. facilities generating the infectious clinical waste. This model obviates the need for capital investment by users, and should also reduce previous operating expenses in disposing of medical waste.
- d) Ability to fix costs for a given period of time, avoiding future price increases and surcharges

#### Compliant with Federal and States regulations

-----

Enable infectious medical waste generating facilities to replace existing systems while meeting federal, state and local



## Edgar Filing: CAPRIUS INC - Form 10KSB

environmental as well as health regulations.

7

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

### MARKETING STRATEGY

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

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

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

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

To maximize and augment our sales efforts in the U.S., we have been actively recruiting distributors. Ideally, we are seeking local, regional and national 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

## Edgar Filing: CAPRIUS INC - Form 10KSB

regulatory approvals set up and maintained by us.

Internationally, we have distribution agreements in the following countries: Argentina, Australia, Brazil, Columbia, Costa Rica, Cyprus, Greece, Japan, Mexico, Paraguay, Poland, Scandinavia (Norway, Sweden, Finland and Iceland), Singapore, Taiwan, Tunisia and Uruguay. In each of the countries, it is the distributors' responsibility to obtain, at their own expense, all regulatory approvals which will be registered in the name of MCM.

### MANUFACTURING

The Company recognizes that to be successful, we need to manufacture units that are:

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

8

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

Approximately half of the SteriMed Systems' components are commercially available from third party suppliers. The remaining components are either generic with modification or customized specifically for the SteriMed. We presently have depots for parts and supplies located in Ridgefield, NJ and Moledet, Israel.

### MAINTENANCE AND CUSTOMER SERVICE MODEL

Critical to the successful use of the SteriMed Systems is the proper training of the personnel carrying out the installation, operation and service of the equipment. The Company provides our customers with a warranty covering parts and labor for one year. Thereafter, we offer an extended warranty program. Our technical service staff assists clients in the installation of units and the training of their staff and on-site operators. This training program is strongly geared to safety and maintenance to assure ongoing safe and smooth operation of the unit. After installation and training, operation of the unit is monitored by our technical staff to assure proper performance. Our technical staff is on call to assist in fixing problems or perform repairs. Our goal is to minimize problems through ongoing training and strict adherence to maintenance schedules. Our Customer Service staff is available to help with any questions or issues our customers might have.

### PROPRIETARY RIGHTS

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

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

## Edgar Filing: CAPRIUS INC - Form 10KSB

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

MCM STERIMED - INTERNATIONAL CLASS 10 TRADEMARK:

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

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

9

MCM STER-CID(R) INTERNATIONAL CLASS 5 TRADEMARK:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	TRADEMARK NO.	RENEWAL DATE
99200	Israel	131893	11/01/1999	131893	11/01/2006
99201	U.S.A.	75/904,150	01/29/2000	2,713,884	05/06/2013
99202	Canada	1035658	11/12/1999	TMA 596,329	12/03/2018
99203	CTM(European)	1380195	11/11/1999	1380195	11/11/2009

Edgar Filing: CAPRIUS INC - Form 10KSB

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

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

MCM STERIMED PATENTS:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	PATENT NO.	PATENT DATE	VALID UNTIL
9346	Israel	108,311	01/10/1994	108,311	12/23/1999	01/10/2014
9452	Australia	10096/95	01/09/1995	684,323	04/2/1998	01/09/2015
9453	Japan	7-011844	01/23/1995	3058401	04/21/2000	01/27/2015
9454	U.S.A.	08/369,533	01/05/1995	5,620,654	04/15/1997	04/15/2014
9456	Canada	2,139,689	01/06/1995	2,139,689	10/5/1999	01/06/2015
9455	Europe	95630001.6	01/05/1995	EP0662346	03/28/2001	01/05/2015

MCM STERIMED PCT INTERNATIONAL PHASE PATENTS:

FILE NO.	COUNTRY	APPLICATION NO.	APPLICATION DATE	PATENT NO.	PATENT DATE	VALID UNTIL
	PCT	PCT/IL02/00093	02/04/2002	WO2002/062479 A1	N/A	N/A
2337	Australia	2002230065	02/04/2002	Pending*	Pending	02/04/2012
2338	Brazil	200300398	07/31/2003	Pending*	Pending	02/04/2012
2339	Mexico	PA/a/2003/006946	08/04/2003	Pending*	Pending	02/04/2012
2340	Russia	2003127023	09/04/2003	Pending*	Pending	02/04/2012
2341	So. Africa	2003/5602	07/21/2003	2003/5602	09/23/2003	02/04/2012

Edgar Filing: CAPRIUS INC - Form 10KSB

2342	Canada	2437219	08/01/2003	Pending*	Pending	02/0
2343	China	02806986.2	09/22/2003	Pending*	Pending	02/0
2712	Hong Kong	4106248.3	08/20/2004	Pending*	Pending	N
2344	India	01389/chenp/03	09/02/2003	Pending*	Pending	02/0
2373	USA	09/824,685	04/04/2001	6494391	12/17/2002	04/0
2313/354	Europe	02711185.5	09/05/2003	P210477PCT/EP	Pending	02/0

10

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

EMPLOYEES

As of December 9, 2005, we employed fifteen full time employees, including three senior managers, of which five employees are located at our facility in Israel.

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

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

ITEM 2. DESCRIPTION OF PROPERTY

We lease 2,758 square feet of office space in Fort Lee, New Jersey for executive and administrative personnel pursuant to a lease that expires on January 31, 2006, at a base monthly rental of approximately \$7,400, plus escalation. We also lease approximately 1,500 square feet of space in Ridgefield, NJ for warehousing and assembly at a monthly cost of \$2,040. This lease expires on January 31, 2006. We are currently looking for an alternative location that will allow us to demonstrate the SteriMed Systems to prospective customers.

In Israel, we lease 2,300 square feet of industrial space at a monthly cost of approximately \$865 and the lease expires on March 31, 2006.

ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

-----

## Edgar Filing: CAPRIUS INC - Form 10KSB

### ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) The Common Stock has traded on the OTC Bulletin Board since June 8, 1999, upon the delisting of the Company's Common Stock from the NASDAQ Small Cap Market. Our trading symbol is CAPS. As of September 30, 2005, the publicly traded warrants had expired and the market terminated upon their expiration.

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. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commission, and may not necessarily represent actual transactions. These tables give retroactive effect to the Company's 1-for-20 reverse common stock split on April 5, 2005.

Common Stock	High	Low
	----	---
2005 (year ended September 30, 2005)		
Fourth Quarter	\$ 2.97	\$ 2.30
Third Quarter	4.99	2.75
Second Quarter	5.40	2.60
First Quarter	3.80	2.20

11

2004 (year ended September 30, 2004)		
Fourth Quarter	\$ 5.00	\$ 2.20
Third Quarter	4.40	1.00
Second Quarter	5.00	1.00
First Quarter	5.00	2.20

(a) 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.

On September 30, 2005, there were approximately 1,100 holders of record of the Common Stock. Since a large number of shares of Common Stock are held in street or nominee name, it is believed that there are a substantial number of additional beneficial owners of the Company's Common Stock.

(b) Not applicable

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION OR PLAN OF OPERATIONS

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

The following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended September 30, 2005 and 2004.

#### RESULTS OF OPERATIONS

## Edgar Filing: CAPRIUS INC - Form 10KSB

Fiscal Year Ended September 30, 2005 Compared to Fiscal Year Ended September 30, 2004

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

Consulting and royalty income from the TDM Business which was sold in 2002 to Seradyn, Inc. totaled approximately \$108,000 as compared to \$50,000 for fiscal years ended September 30, 2005 and 2004 respectively. The increase of approximately \$58,000 was attributable to royalty income earned of approximately \$100,000 in fiscal year 2005 (none in fiscal year 2004) under the provisions of a Royalty Agreement between Seradyn, Inc. and the Company. Pursuant to the terms of the sale of the TDM business, the Company received consulting fees of approximately \$5,000 in fiscal year 2005 versus \$50,000 in fiscal year 2004. The consulting fee agreement expired in October 2004.

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

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

12

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

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

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

## Edgar Filing: CAPRIUS INC - Form 10KSB

million) which occurred in the fiscal year ended September 30, 2004.

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

### LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2005 our cash and cash equivalents position approximated \$1,257,000 versus \$28,000 at September 30, 2004. As further discussed below, on February 15, 2005 we received net proceeds of approximately \$4 million from the sale of Series C Preferred Stock and warrants, and approximately \$2.1 million of indebtedness was converted into or exchanged for Series C Preferred Stock.

During the first two quarters of fiscal 2005, the Company was advanced the principal amount of \$145,923 through short-term related party loans until additional equity funding was secured. The terms of the loans were identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note outlined below. These funds were utilized for general working capital purposes. These loans were repaid on February 15, 2005 as part of the Preferred Stock Equity Financing arrangement.

On February 2, 2005 we raised \$100,000 through the issuance of an 8% Senior Secured Convertible Promissory Note, due April 3, 2005, subject to repayment in the event of an equity financing in excess of \$2 million or conversion by the investors to shares of our common stock at \$3.00 per share. This loan was repaid on February 17, 2005 as part of the Preferred Stock Equity Financing arrangement.

On February 15, 2005, we closed on a \$4.5 million preferred stock equity financing before financing related fees and expenses of approximately \$435,000. In connection with this financing, we issued 45,000 shares of Series C Mandatory Convertible Preferred Stock ("Series C Preferred Stock") at a stated value of \$100 per share, together with Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of \$5.60 per share for a period of five years, and Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of \$2.90 per share for a period of five years exercisable after nine months, subject to a termination condition as defined in the warrant. Simultaneously, the outstanding short-term secured debt in the aggregate of approximately \$2.1 million inclusive of interest, together with \$72,962 of unsecured indebtedness, were converted into 21,681 shares of Series C Preferred Stock. Under the terms of the Series C Preferred Stock, upon the 1-for-20 reverse stock split, effective April 5, 2005, the outstanding Series C Preferred Stock was converted into 2,299,345 shares of common stock at a conversion price of \$2.90 per share (see Note E of the accompanying Financial Notes).

Net cash used in operations for fiscal year 2005 amounted to \$2,938,040. Net cash provided by investing activities amounted to \$29,781. Net cash flows provided by financing activities for Fiscal 2005 amounted to \$4,137,834 which primarily resulted from the \$4.5 million preferred stock equity financing before financing related fees and expenses.

The net cash proceeds from the equity financing provided the funds necessary to satisfy specific outstanding obligations and accrued expenses outstanding at the time of the financing and to meet our needs for the business through March 31, 2006, based upon our present business plan. Specifically, the funds are being used to increase our marketing effort both in the US and



## Edgar Filing: CAPRIUS INC - Form 10KSB

overseas markets. The availability of this working capital has enabled us to build inventory to fulfill current needs arising from our increased marketing efforts. In addition, as we start to increase our penetration in the US market, we will need to expand our customer service and technical support capabilities to meet the needs of our clients. Similarly, in overseas markets, resources will be required to obtain regulatory approvals in markets where we believe there exists great opportunities for our business.

In light of the cash requirement needed to develop the MCM business, the Company is actively seeking funding. The Company will continue its efforts to seek additional funds through funding options, including private and public equity offerings, banking facilities, equipment financing, and government-funded grants. There can be no assurance that such funding initiatives will be successful due to the difficulty in raising equity from third parties given the Company's low stock price and current revenue base, and if successful, will be dilutive to existing stockholders. These funds are required to permit the Company to expand its marketing efforts and for the manufacture of its SteriMed System as well as for general working capital requirements. Accordingly, the auditors' report on the 2005 financial statements contains an explanatory paragraph expressing a substantial doubt about the Company's ability to continue as a going concern.

### CONTINGENT OBLIGATIONS

Our principal contractual commitments include payments under operating leases.

### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates our estimates and assumptions, including but not limited to those related to revenue recognition and the impairment of long-lived assets, goodwill and other intangible assets. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

#### 1. Revenue recognition

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

#### 2. Goodwill and other intangibles

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

#### 3. Off-balance sheet arrangements

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

### RECENT ACCOUNTING PRONOUNCEMENTS

## Edgar Filing: CAPRIUS INC - Form 10KSB

In September 2005, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF") Issue No. 05-7. "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related

14

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

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

In December 2004, FASB issued its final standard on accounting for share-based payments ("SBP"), FASB Statement No. 123(R) (revised 2004) "Share-Based Payment." This statement requires companies to expense the value of employee stock options and similar awards. Under FASB No. 123(R), SBP awards result in a cost that will be measured at fair value of the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. Public entities that are small business issuers will be required to apply Statement No. 123(R) as of the first annual reporting period that begins after December 15, 2005. Although the adoption of FASB No. 123(R)

## Edgar Filing: CAPRIUS INC - Form 10KSB

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

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

15

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

### FORWARD LOOKING STATEMENTS

The Company is including the following cautionary statement in this Annual Report of Form 10-KSB 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, the Company. 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 result or 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, capital needs to fund any delays or extensions of development programs, delays in the manufacture of new and existing products by us or third party contractors, the loss of any key employees, the outcome of existing litigations, delays in obtaining federal, state or local regulatory clearance for new installations and operations, changes in governmental regulations, the location of the MCM business in Israel, and availability of capital on terms satisfactory to us. We are also subject to numerous Risk Factors relating to

## Edgar Filing: CAPRIUS INC - Form 10KSB

manufacturing, regulatory, financial resources and personnel as described in the Company's Form SB-2 (File No. 333-124096) dated April 15, 2005 as filed with the Securities and Exchange Commission. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date hereof.

### RISK FACTORS

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. Other risks that we face are more specifically defined as follows:

#### MANUFACTURING

-----

Presently, we manufacture the SteriMed at our facility in Moshav Moledet, Israel. The SteriMed Junior is currently manufactured by a third party manufacturer in Israel. The Company continues to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as alternative locations in North America for the manufacture of our SteriMed Junior. If we fail to effectively manufacture or fail to develop a market for our SteriMed Systems, we will likely be unable to recover the losses we will have incurred in attempting to produce and market these products and technologies and may be unable to make sales or become profitable.

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

16

#### REGULATORY

-----

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(R) disinfectant in the SteriMed Systems is registered with the U.S. EPA under FIFRA, however, the SteriMed Systems are not subject to U.S. EPA registration. Our business requires us to comply with these extensive laws and regulations and also to obtain permits, authorizations, approvals, certificates or other types of governmental permission from all states and some local jurisdictions where we sell or lease the SteriMed Systems. The SteriMed has been cleared for marketing in 47 states and the SteriMed Junior in 42 states. It is our objective to obtain approvals from the remaining states. The Ster-Cid(R) has been registered in 49 states. Our ability to obtain such approvals in the remaining states and the timing and cost to do so, if successful, cannot be easily determined nor can the receipt of ultimate approval be assumed.

In markets outside the U.S., our ability to market the SteriMed Systems is governed by the regulations of the specific country. In foreign countries where

## Edgar Filing: CAPRIUS INC - Form 10KSB

we market through distributors, we rely on them to obtain the necessary regulatory approvals to permit the SteriMed System to be marketed in that country. We are therefore dependent on the distributor to process these applications where required. In many of these countries we have no direct control or involvement in the approval process, and therefore we cannot estimate when our product will be available in that market.

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

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

### INTELLECTUAL PROPERTY

-----

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 System. 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(R) relate to an exclusive worldwide license that we had obtained from a third party manufacturer in Europe to purchase the Ster-Cid(R) 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 that we apply for will be issued, or that any existing patents issued will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide any competitive advantage, or that third parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties, the expenditure of which we might not be able to afford. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or require us to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we

could develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business and profitability.

## Edgar Filing: CAPRIUS INC - Form 10KSB

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 assertions by such parties will not result in costly litigation, or that they will not prevail in any such litigation. In addition, we cannot assure you that we will be able to license any valid and infringed patents from third parties on commercially reasonable terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement.

### MARKETING

-----

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

### COMPETITION

-----

There are numerous methods of handling and disposing of RMW, of which our technology is one of the available systems. We are not aware of any competitive product that is similar to the SteriMed Systems with respect to its design and compactness. We believe that our SteriMed Systems, due to its ability to be used on site, the cost basis and ease of use, offers 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.

### FINANCIAL

-----

The malfunction or misuse of our SteriMed Systems may result in damage to property or persons, as well as violation of various health and safety regulations, thereby subjecting us to possible liability. Although our insurance coverage is in amounts and deductibles customary in the industry, there can be no assurance that such insurance will be sufficient to cover any potential liability. The Company currently retains a claims made worldwide product liability insurance policy. Further, in the event of either adverse claim experience or insurance industry trends, we may in the future have difficulty in obtaining product liability insurance or be forced to pay very high premiums, and there can be no assurance that insurance coverage will continue to be available on commercially reasonable terms or at all. In addition, there can be no assurance that insurance will adequately cover any product liability claim against us. A successful product liability, environmental or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our business, financial condition and operations. To date, no claims have been made against us. We believe that our insurance

## Edgar Filing: CAPRIUS INC - Form 10KSB

coverage is adequate to cover any claims made, and we review our insurance requirement with our insurance broker on an annual basis.

The Company raised gross proceeds of \$1.5 million in a placement of convertible secured notes in the third quarter of fiscal 2004 and gross proceeds of \$4.5 million in a placement of Series C Preferred Stock and warrants in the second quarter of fiscal 2005. The net proceeds from these placements should fulfill our capital needs through March 31, 2006 based upon our present business plan. We will expect to require additional working capital or other funds in the

18

near future should we need to modify our business plan. These funds are required to support our marketing efforts, obtaining additional regulatory approvals both domestically and overseas as well as for manufacturing purposes. In the event we are unable to achieve any market penetration in the near term, secure regulatory approvals or build inventory available for immediate delivery, our ability to secure additional funding could be severely jeopardized. No assurance can be given that we will be successful in obtaining additional funds, whether publicly or privately or through equity or debt. Any such financing could be highly dilutive to stockholders.

In the past, we have experienced significant losses and negative cash flows from operations. If these trends continue in the future, it could adversely effect our financial condition. For the years ended September 30, 2005 and September 30, 2004, we experienced net losses of approximately \$2.5 and \$3.2 million from continuing operations respectively. Further, the Company has incurred negative cash flows from operations of approximately \$2.9 million and \$2.8 million for the years ended September 30, 2005 and 2004 respectively. These results have had a negative impact on our financial condition. There can be no assurance that our business will become profitable in the future and that additional losses and negative cash flows from operations will not be incurred. If these trends continue in the future, it could have a material adverse effect on our financial condition

Although the Company's working capital balance increased to \$1,705,187 at September 30, 2005 as compared to a deficit of (\$2,330,190) as of September 30, 2004, this balance is still lower than the Company's optimal requirements. This low working capital balance while improving may continue to impact the ability of the Company to attract new customers and could have a material adverse effect on our business.

### PERSONNEL -----

Our success is highly dependent on the continued efforts of a small management team. Should operations expand, we will need to hire persons with a variety of skills. Competition for these skilled individuals could be intense, and there can be no assurance that we will be successful in attracting and retaining key personnel in the future. Our failure to do so could adversely affect our business and financial condition. We do not have employment agreements with or carry any "key-man" insurance on the lives of any of our officers or employees.

### ITEM 7. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
-----

PAGE  
NUMBER  
-----

Edgar Filing: CAPRIUS INC - Form 10KSB

Report of Independent Registered Public Accounting Firm F-2

Consolidated Balance Sheet as of September 30, 2005 F-3

Consolidated Statements of Operations for the years ended September 30, 2005 and 2004 F-4

Consolidated Statements of Stockholders' (Deficiency) Equity for the years ended September 30, 2005 and 2004 F-5

Consolidated Statements of Cash Flows for the years ended September 30, 2005 and 2004 F-6

Notes to Consolidated Financial Statements F-7 to F-19

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

19

ITEM 8A. CONTROLS & PROCEDURES

The Company's principal executive officer and principal financial officer, based on their evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-14 (c) and 15d-14 (c) of the Securities Exchange Act of 1934) as of September 30, 2005 have concluded that the Company's disclosure controls and procedures are effective to ensure that material information relating to the Company and its consolidated subsidiaries are recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms, particularly during the period in which this annual report has been prepared.

The Company's principal executive officer and principal financial officer have concluded that there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls during the fourth quarter ended September 30, 2005.

ITEM 8B. OTHER INFORMATION

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

-----

As of December 9, 2005, the directors and executive officers of the Company were:

Name	Age	Position
----	---	-----



## Edgar Filing: CAPRIUS INC - Form 10KSB

George Aaron	53	Chairman of the Board, President and Chief Executive Officer
Jonathan Joels	49	Chief Financial Officer, Treasurer, Secretary and Director
Elliott Koppel	61	VP Sales and Marketing
Sol Triebwasser, Ph.D. (1) (2)	84	Director
Jeffrey L. Hymes, M.D. (1) (2)	53	Director

-----

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

The principal occupations and brief summary of the background of each Director and executive officer of Caprius during the past five years is as follows:

GEORGE AARON. Mr. Aaron has been Chairman of the Board, President and CEO of the Company since June 1999. He also served as a Director on the Board of the Company from 1992 until 1996. From 1992 to 1998, Mr. Aaron was the co-Founder and CEO of Portman Pharmaceuticals, Inc. and in 1994 co-founded CBD Technologies, Inc. of which he remains a Director. Mr. Aaron also serves on the Board of Directors of DeveloGen AG, who recently merged with Peptor Ltd. (the company that had acquired Portman Pharmaceuticals). From 1983 to 1988, Mr. Aaron was the Founder and CEO of Technogenetics Inc. (a diagnostic company). Prior to 1983, Mr. Aaron was Founder and Partner in the Portman Group, Inc. and headed international business development at Schering Plough. Mr. Aaron is a graduate of the University of Maryland.

20

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

ELLIOTT KOPPEL. Mr. Koppel has been VP of Marketing and Sales of the Company since June 1999. From 1996 to June 1999 he served as CEO of ELK Enterprises, a consulting and advertising company for the Medical Device industry. From 1993 to 1996, he was VP Sales and Marketing for Clark Laboratories Inc. From 1992 to 1993, Mr. Koppel was Director of the Immunology Business Unit at Schiapparelli BioSystems. From 1990 to 1992, he was VP of Sales and Marketing at Enzo BioChem. From 1986 to 1990, Mr. Koppel was VP of Clinical Sciences, Inc. Between 1974 and 1986 he held the positions of Sales Representative, Regional Manager, and International Marketing Manager at Warner Lambert Diagnostics. Prior to 1974 Mr. Koppel was Sales Representative and Product Manager with Ortho Diagnostics. Mr. Koppel has BS in Commerce from Rider University.

JEFFREY L. HYMES, M.D. Dr. Hymes has been a Director of the Company since May 2004. In 1998 Dr. Hymes co-founded National Nephrology Associates (NNA), a

## Edgar Filing: CAPRIUS INC - Form 10KSB

privately held dialysis company, and until its acquisition by Renal Care Group in April 2004 he had served as NNA's President and Chief Medical Officer. Prior to that time, Dr. Hymes was a co-founder of REN Corporation, a publicly traded dialysis company that was sold to GAMBRO in 1995. Dr. Hymes is currently the President of Nephrology Associates, P.C., Nashville, TN, a 19-physician nephrology practice. Dr. Hymes is a graduate of Yale College and received his MD degree from the Albert Einstein College of Medicine of Yeshiva University.

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

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

The Board of Directors met either in person or telephonically 5 times in fiscal 2005. Each of the Directors attended at least 75% of the meetings.

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

The Audit Committee reviews with the Company's independent public accountants the scope and timing of the accountants' audit services and any other services they are asked to perform, their report on the Company's financial statements following completion of their audit and the Company's policies and procedures with respect to internal accounting and financial controls. In addition, the Audit Committee reviews the independence of the independent public accountants and makes annual recommendations to the Board of Directors for the appointment of independent public accountants for the ensuing year. The Audit Committee was involved in the selection of new auditors for Fiscal 2004. The Audit Committee met 5 times during Fiscal 2004.

The Compensation/Option Committee reviews and recommends to the Board of Directors the compensation and benefits of all officers of the Company, reviews general policy matters relating to compensation and benefits of employees of the Company and administers the Company's Stock Option Plans.

### COMPENSATION OF DIRECTORS

Directors who are also employees are not paid any fees or additional compensation for services as members of our Board of Directors or any committee thereof. In October 2002, Dr. Triebwasser was granted options under our 2002 Stock Option Plan to purchase 5,000 shares of common stock at a price of \$3.00 per share vesting over two years. Additionally, the board approved that effective October 2002, the non-employee director's fee would be \$20,000 per annum. In May 2004, the Board resolved that any new non-employee Board members would be entitled to an annual fee of \$5,000 and 3,750 options under our 2002 Stock Option plan. Upon his appointment to the Board, Dr. Jeffrey Hymes received the non-employees director fee of \$5,000, payable quarterly, and was granted options to purchase 3,750 shares of common stock exercisable at \$4.00 per share, vesting one third on the grant date and the balance vesting over a two year period in equal installments.

## Edgar Filing: CAPRIUS INC - Form 10KSB

### COMPLIANCE WITH SECTION 16(a)

Based solely in its review of copies of Forms 3 and 4 received by it or representations from certain reporting persons, the Company believes that, during the fiscal year ended September 30, 2005, there was compliance with Section 16 (a) filing requirements applicable to its officers, directors and 10% stockholders.

### ITEM 10. EXECUTIVE COMPENSATION

The following table sets forth the aggregate cash compensation paid by the Company to (i) its Chief Executive Officer and (ii) its most highly compensated officers whose cash compensation exceeded \$100,000 for services performed during the year ended September 30, 2004.

Name and Principal Position	Year	ANNUAL COMPENSATION			LONG TERM COMPENSATION		
		Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Awards ----- Securities Underlying Options SARs (#)	Payouts ----- LTIP Payouts (\$)
George Aaron President/CEO	2005	240,000	-0-	-0-	-0-	-0-	-0-
	2004	240,000	-0-	-0-	-0-	-0-	-0-
	2003	240,000	160,000	-0-	-0-	-0-	-0-
Jonathan Joels CFO	2005	176,000	-0-	-0-	-0-	-0-	-0-
	2004	176,000	-0-	-0-	-0-	-0-	-0-
	2003	176,000	112,000	-0-	-0-	-0-	-0-
Elliott Koppel, VP Sales & Marketing	2005	92,000	-0-	-0-	-0-	-0-	-0-
	2004	92,000	-0-	-0-	-0-	-0-	-0-
	2003	92,000	28,000	-0-	-0-	-0-	-0-

We do not have any written employment agreements with any of our executive officers. Mr. Aaron, Mr. Joels and Mr. Koppel have been paid annual base salaries of \$240,000, \$176,000, and \$92,000 respectively and we lease automobiles for Messrs. Aaron and Joels in amounts not to exceed \$1,000 and \$750 per month, respectively, and also pays their automobile operating expenses. Mr. Koppel is reimbursed \$700 per month for automobile expenses excluding insurance. Messrs. Aaron, Joels and Koppel are reimbursed for other expenses incurred by them on behalf of the Company in accordance with Company policies. In October 2002, Messrs. Aaron, Joels and Koppel were paid performance related bonuses of \$160,000, \$112,000 and \$28,000.

The Company does not have any annuity, retirement, pension or deferred compensation plan or other arrangements under which any executive officers are entitled to participate without similar participation by other employees. As of September 30, 2005, under the Company's 401(k) plan there was no matching contribution by the Company.

Edgar Filing: CAPRIUS INC - Form 10KSB

Individual Grants				
(a)	(b)	(c)	(d)	(e)
Name	Number of Securities Underlying Options/SARs Granted (#)	% of Total Options/SARs Granted to Employee(s) in Fiscal Year	Exercise on Base Price (\$/Sh)	Expiration Date
George Aaron	-0-	-0-	-0-	-0-
Jonathan Joels	-0-	-0-	-0-	-0-
Elliott Koppel	-0-	-0-	-0-	-0-

FISCAL YEAR END OPTION VALUE

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT SEPT. 30, 2005 EXERCISABLE/UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT SEPT. 30, 2005 EXERCISABLE (\$)
George Aaron	20,000/0	\$-0-
Jonathan Joels	20,000/0	\$-0-
Elliott Koppel	20,000/0	\$-0-

STOCK OPTION PLAN

Due to the pending expiration of both the 1993 Employee Stock Option Plan and 1993 Non-Employee Stock Option Plan, in May 2002 our Board of Directors adopted the 2002 Stock Option Plan ("2002 Plan") which was ratified at our stockholder meeting of June 26, 2002. As of December 28, 2005, the 2002 Plan will consist of 700,000 shares, having been increased from 75,000 shares of Common Stock reserved for issuance pursuant to the exercise of options granted thereunder. Under the 2002 Plan, options may be awarded to both employees and directors. These options may be qualified or not qualified pursuant to the regulations of the Internal Revenue Code.

During October 2002, we granted a total of 48,050 options to our officers, directors, and employees under the 2002 Plan for an aggregate of 48,050 shares of Common Stock. Of these, 15,000 options each were granted to Messrs. Aaron and Joels, 5,000 to Mr. Koppel and 5,000 to Dr. Triebwasser. All of these options

## Edgar Filing: CAPRIUS INC - Form 10KSB

were priced at \$3.00 per share, vested one third on the grant date and the balance vests over a two year period in equal installments. During May 2004, 3,750 options priced at \$4.00 were granted to Dr. Jeffrey Hymes. These options vested one third on the grant date with the balance vesting over a two year period in equal installments. All of these options expire 10 years after the date of grant and were granted at fair market value or higher at time of grant.

During 1993, we adopted a employee stock option plan and a stock option plan for non-employee directors. The employee stock option plan provides for the granting of options to purchase not more than 50,000 shares of common stock. The

23

options issued under the plan may be incentive or nonqualified options. The exercise price for any incentive options cannot be less than the fair market value of the stock on the date of the grant, while the exercise price for nonqualified options will be determined by the option committee. The Directors' stock option plan provides for the granting of options to purchase not more than 10,000 shares of common stock. The exercise price for shares granted under the Directors' plan cannot be less than the fair market value of the stock on the date of the grant. Both plans expired May 25, 2003.

### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During Fiscal 2005 members of the Company's Compensation/Option Committee were Sol Triebwasser, Ph.D. and Jeffrey Hymes, M.D., neither is an executive officer or employee of the Company or its subsidiaries.

### ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of December 9, 2005, certain information regarding the beneficial ownership of Common Stock by (i) each person who is known by the Company to own beneficially more than five percent of the outstanding Common Stock, (ii) each director and executive officer of the Company, and (iii) all directors and executive officers as a group:

Name of Beneficial Owner*	Position with Company	Amount and Nature of Beneficial Ownership (1) of Common Stock	Amount of Nature and Beneficial Ownership (1) of Preferred Stock	Per Secu
Special Situations Private Equity Fund, L.P. 153 E. 53rd Street 55th Floor New York, NY 10022	Holder of over five percent	1,448,274 (2)	-	
Special Situations Fund III, L.P. 153 E. 53rd Street 55th Floor New York, NY 10022	Holder of over five percent	482,757 (3)	-	
General Electric Company	None	57,989 (4)	27,000	

## Edgar Filing: CAPRIUS INC - Form 10KSB

Medical Services Division  
3000 No. Grandview Blvd.  
Waukesha WI 53188

Shrikant Mehta Combine International 354 Indusco Court Troy, Michigan 48083	Holder of over five percent	245,894 (5)	-
--	-----------------------------	-------------	---

George Aaron	Chairman of the Board; Chief Executive Officer; President	260,887 (6)	-
--------------	--	-------------	---

24

Jonathan Joels	Director; Chief Financial Officer; Vice President; Treasurer; Secretary	255,226 (7)	-
----------------	--	-------------	---

Elliott Koppel	VP Sales & Marketing	25,194 (8)	-
----------------	----------------------	------------	---

Sol Triebwasser, Ph.D.	Director	5,545 (9)	-
------------------------	----------	-----------	---

Jeffrey L. Hymes, M.D.	Director	2,500 (10)	-
------------------------	----------	------------	---

All executive officers and Directors as a group (5 persons)		549,352 (11)	-
---	--	--------------	---

-----

### ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

During the first two quarters of fiscal 2005, the Company was advanced the principal amount of \$145,923 through short term loans until additional equity funding was secured. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note outlined above. The lenders also received warrants to purchase 7,295 shares of the Company's common stock exercisable at \$5.60 per share for a period of five years. The allocated fair value of the warrants associated with this advance are deemed to be immaterial. These short-term loans were provided by executive officers, Messrs. Aaron, Joels and Koppel who advanced \$64,000, \$62,357 and \$19,566, respectively. As a condition of this financing the holders of the Notes exchanged 50% of the Company's indebtedness for 728 shares of Series C Mandatory Convertible Preferred Stock and on February 15, 2005 were paid the balance of their notes inclusive of interest.

During the second quarter of fiscal 2004, we authorized a short-term bridge loans for an aggregate of \$500,000 through the issuance of loan notes due on July 31, 2005. The funds were utilized primarily for working capital. These funds were provided by Mr. Aaron (\$150,000), Mr. Joels (\$150,000), Mr. Koppel (\$65,000), Mr. Joels' brother (\$85,000) and others. The loan notes bore interest at a rate of 11% per annum and were secured by a first lien on the royalties due to Opus from Seradyn, in accordance with their Royalty Agreement. For every

## Edgar Filing: CAPRIUS INC - Form 10KSB

sixty dollars (\$60.00) loaned, the lender received two warrants to purchase one share of our common stock, exercisable at \$5.00 per share for a period of five years. The exercise price was in excess of the then market price. Pursuant to the preferred stock placement, these notes were exchanged for 5,000 shares of Series C Preferred Stock, and the security interest was released. Upon the Reverse Split, these shares of Series C Preferred Stock converted into 172,414 shares of our common stock.

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

### ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

All references to Registrant's Forms 8-K, 10-K, 10-QSB and 10-KSB include reference to File No. 0-11914.

- 2.1 Agreement and Plan of Merger, dated January 20, 1997, by and among Registrant, Medial Diagnostics, Inc. ("Strax"), Strax Acquisition Corporation and US Diagnostic Inc. (incorporated by reference to Exhibit 1 to Registrant's Form 8-K filed January 23, 1997).
- 2.2 Agreement and Plan of Merger dated as of June 28, 1999 among Registrant, Caprius Merger Sub, Opus Diagnostics Inc. ("Opus"), George Aaron and Jonathan Joels (incorporated by reference to Exhibit 2.1 to Registrant's Form 8-K, filed July 1, 1999 (the "July 1999 Form 8-K")).
- 3.1 Certificate of Incorporation of Registrant. (incorporated by reference to Exhibit 3 filed with Registrant's Registration Statement on Form S-2, and amendments thereto, declared effective August 18, 1993 (File No. 033-40201) ("Registrant's Form S-2")).
- 3.2 Amendment to Certificate of Incorporation of Registrant filed November 5, 1993 (incorporated by reference to Exhibit 3.2 to Registrant's Form S-4, filed October 9, 1997 (File No. 333-37481)).
- 3.3 Amendment to Certificate of Incorporation of Registrant, filed August 31, 1995, (incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K for an event of August 31, 1995 (the "August 1995 Form 8-K")).
- 3.4 Amendment to Certificate of Incorporation of Registrant, filed September 21, 1995 (incorporated by reference to Exhibit 3.1 to Registrant's Annual Report on Form 10-K for the nine months ended September 30, 1995 (the "ANMR 1995 Form 10-K")).
- 3.5 Certificate of Designation of Series A Preferred Stock of the Registrant (incorporated by reference to the Registrant's Form 8-K, filed on March 31, 1996).
- 3.6 Certificate of Designation of Series B Convertible Redeemable Preferred Stock of Registrant (incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K, filed September 2, 1997).
- 3.7 Certificate of Designations, Preferences and Rights of Series C

## Edgar Filing: CAPRIUS INC - Form 10KSB

- Mandatory Convertible Preferred Stock (incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K, filed for an event of February 145, 2005 (the "February 2005 Form 8-K")).
- 3.8 Certificate of Merger, filed on June 28, 1999 with the Secretary of State of the State of Delaware (incorporated by reference to Exhibit 3.1 of Form 8-K dated June 28, 1999).
  - 3.9 Certificate of Amendment to Certificate of Incorporation, Filed April 1, 2005 (incorporated by reference to Exhibit 3.1 to Registrant's Form 8-K, filed April 5, 2005 (the "April 2005 Form 8-K"))
  - 3.10 Amended and Restated By-laws of Registrant (incorporated by reference to Exhibit 3.4 to Registrant's Form S-4).
  - 4.1 Form of Warrant issued to certain employees in connection with Registrant's Bridge Financing in March 2000 (incorporated by reference to Exhibit 4.7 to Registrant's July 2000 Form SB-2, filed July 26, 2000 (File No. 333-42222)).
  - 4.2 Form of Series A Warrant from Registrant's April 2000 private placement of Units (the "April Private Placement") (incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K, filed April 28, 2000 (the "April 2000 Form 8-K")).
  - 4.3 Form of Series B Warrant from the April Private Placement (incorporated by reference to Exhibit 10.3 to Registrant's April 2000 Form 8-K).
  - 4.4 Form of Common Stock Purchase Warrants for up to 300,000 shares of Common Stock, expiring February 28, 2006 (incorporated by Reference to Exhibit 10.3 to the Registrant's Form 10-QSB for the fiscal quarter ended March 31, 2001).
  - 4.5 Form of 2005 Series A Warrant (granted February 15, 2005) (incorporated by reference to Exhibit 4.1 to Registrant's February 2005 Form 8-K).
  - 4.6 Form of 2005 Series B Warrant (granted February 15, 2005) (incorporated by reference to Exhibit 4.2 to Registrant's February 2005 Form 8-K).
  - 4.7 Form of Dealer Warrant (granted February 15, 2005) (incorporated by reference to Exhibit 4.3 to Registrant's February 2005 Form 8-K).
  - 4.8 Form of Lock-Up Agreement with George Aaron and Jonathan Joels (incorporated by reference to Exhibit 4.4 to Registrant's February 2005 Form 8-K).
- 27
- 5 Opinion of Thelen Reid & Priest LLP (incorporated by reference to Exhibit 5 to Registrant's April 15, 2005 Form SB-2 (File No. 333-124096)).
  - 10.1.1 Registration Rights Agreement, dated August 18, 1997, between Registrant and General Electric Company ("GE") (incorporated by reference to Exhibit 10.2 to Registrant's Form 8-K, filed September 2, 1997 (the "September 1997 Form 8-K")).
  - 10.1.2 Stockholders Agreement, dated August 18, 1997, between Registrant and GE (incorporated by reference to Exhibit 10.3 to Registrant's September



## Edgar Filing: CAPRIUS INC - Form 10KSB

- 1997 Form 8-K).
- 10.1.3 Settlement and Release Agreement, dated August 18, 1997, between the Registrant and GE (incorporated by reference to Exhibit 10.4 to Registrant's September 1997 Form 8-K).
  - 10.1.4 License Agreement, dated August 18, 1997, between Registrant and GE (incorporated by reference to Exhibit 10.4 to Registrant's September 1997 Form 8-K).
  - 10.2.1 Form of Stock Purchase Agreement regarding the April Private Placement (incorporated by reference to Exhibit 10.1 to Registrant's April 2000 Form 8-K).
  - 10.2.2 Letter Agreement, dated March 27, 2000, between the Company and certain purchasers (incorporated by reference to Exhibit 10.4 to Registrant's April 2000 Form 8-K).
  - 10.2.3 Letter Agreement, dated March 29, 2000, between the Company and certain purchasers (incorporated by reference to Exhibit 10.5 to Registrant's April 2000 Form 8-K).
  - 10.2.4 Form of Option Agreement granted to Shrikant Mehta with respect to the April Private Placement (incorporated by reference to Exhibit 10.17 to Registrant's 2000 Form SB-2).
  - 10.3.1 Purchase and Sale Agreement, dated as of October 9, 2002, Among Registrant, Opus and Seradyn, Inc. ("Seradyn") (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K for an event of October 9, 2002 (the "October 2002 Form 8-K")).
  - 10.3.2 Royalty Agreement, dated as of October 9, 2002, between Opus and Seradyn (incorporated by reference to Exhibit 10.2 to Registrant's October 2002 Form 8-K).
  - 10.3.3 Non-compete Agreement, dated as of October 9, 2002, between Opus and (incorporated by reference to Exhibit 10.3 to Registrant's October 2002 Form 8-K).
  - 10.3.4 Consulting Agreement, dated as of October 9, 2002, between Opus and Seradyn (incorporated by reference to Exhibit 10.4 to Registrant's October 2002 Form 8-K).
  - 10.4.1 Stock Purchase Agreement, dated December 17, 2002, among Registrant, M.C.M. Technologies, Ltd. and M.C.M. Environmental Technologies, Inc. (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K for an event of December 17, 2002 (the "December 2002 Form 8-K")).
  - 10.4.2 Stockholders Agreement, dated December 17, 2002, among M.C.M. Technologies, Inc. and the holders of its outstanding capital stock (incorporated by reference to Exhibit 10.2 to Registrant's December 2002 Form 8-K).
  - 10.4.3 Form of Unsecured Promissory Notes, issued for the short-term Loan (incorporated by reference to Exhibit 10.13.3 to Registrant's September 2002 Form 10-KSB.)
  - 10.4.4 Form of Subscription Agreement relating to the short-term Loan (incorporated by reference to Exhibit 10.13.4 to Registrant's September 2002 Form 10-KSB).

## Edgar Filing: CAPRIUS INC - Form 10KSB

28

- 10.4.5 Form of Common Stock Purchase Warrant relating to the short-term Loan (incorporated by reference to Exhibit 10.13.5 to Registrant's September 2002 Form 10-KSB).
- 10.5 Form of Common Stock Warrant relating to Line of Credit (incorporated by reference to Exhibit 10.14 to Registrant's September 2002 Form 10-KSB).
- 10.6.1 Stock Purchase Agreement, among Registrant, Strax Institute Inc. and Eastern Medical Technologies, Inc. dated as of September 30, 2003 (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K for an event of October 9, 2003 (the "October 2003 Form 8-K")).
- 10.6.2 Non-negotiable Promissory Note of Eastern Medical Technologies, Inc. to Registrant, dated September 30, 2003 (incorporated by reference to Exhibit 10.2 to Registrant's October 2003 Form 8-K).
- 10.6.3 Security Agreement among Eastern Medical Technologies, Inc., Strax Institute, Inc., and Registrant, dated as of September 30, 2003 (incorporated by reference to Exhibit 10.3 to Registrant's October 2003 Form 8-K).
- 10.6.4 Management Services Agreement between Registrant and Strax Institute Inc., dated as of September 30, 2003 (incorporated by reference to Exhibit 10.4 to Registrant's October 2003 Form 8-K).
- 10.6.5 Settlement Letter among BDC Corp. d/b/a/ BDC Consulting Corp, Registrant and George Aaron, dated as of September 30, 2003 (incorporated by reference to Exhibit 10.5 to Registrant's October 2003 Form 8-K).
- 10.7.1 Securities Purchase Agreement, among Registrant and investors dated as of April 26, 2004 (incorporated by reference to Exhibit 10.1 to Registrant's Form 8-K for an event of April 27, 2004 (the "April 2004 Form 8-K"))).
- 10.7.2 Form of 8% Senior Secured Convertible Promissory Note (incorporated by reference to Exhibit 10.2 to Registrant's April 2004 Form 8-K).
- 10.7.3 Security and Pledge Agreement by the Registrant in favor of CAP Agent Associates, LLC, dated April 26, 2004 (incorporated by reference to Exhibit 10.3 to Registrant's April 2004 Form 8-K).
- 10.7.4 Registration Rights Agreement, dated April 26, 2004, between Registrant and the purchasers of the Notes, and Sands Brothers International Ltd. ("SBIL") (incorporated by reference to Exhibit 10.4 to Registrant's April 2004 Form 8-K).
- 10.7.5 Dealer Agreement, dated April 12, 2004, between Registrant and SBIL (incorporated by reference to Exhibit 10.5 to Registrant's April 2004 Form 8-K).
- 10.7.6 Common Stock Purchase Warrant Agreement, dated April 26, 2004, between Registrant and SBIL (incorporated by reference to Exhibit 10.6 to Registrant's April 2004 Form 8-K).
- 10.8.1 Form of Secured Promissory Note issued for the short-term Bridge Loans (incorporated by reference to Exhibit 10.11.1 Registrant's Form 10-KSB for fiscal year ended September 30, 2003 (the "2003 Form 10-KSB")).

## Edgar Filing: CAPRIUS INC - Form 10KSB

- 10.8.2 Form of Common Stock Purchase Warrant relating to the short-term Bridge Loans (incorporated by reference to Exhibit 10.11.2 to Registrant's 2003 Form 10-KSB).
- 10.8.3 Form of Guaranty and Security Agreement relating to the short-term Bridge Loans (incorporated by reference to Exhibit 10.11.3 to Registrant's 2003 Form 10-KSB).

29

- 10.9 License and Manufacturing Agreement between M.C.M. Environmental Technologies Inc. and CID Lines, dated November 26, 2002 (incorporated by reference to Exhibit 10.14 to Amendment No. 1 to Registrant's September 2004 Form SB-2, filed November 5, 2004 (File No. 333-118869) ("November 2004 Form SB-2/A-1")).
- 10.10 Distribution Agreement between M.C.M. Environmental Technologies, LTD and Euromedic Group, dated November 1, 2002 (incorporated by reference to Exhibit 10.15 to Registrant's November 2004 Form SB-2/A-1).
- 10.11 Distribution Agreement between M.C.M. Environmental Technologies, LTD and Lysmed, L.L.C., dated January 12, 2001 (incorporated by reference to Exhibit 10.16 to Registrant's November 2004 Form SB-2/A-1).
- 10.12.1 Purchase Agreement for the sale of 45,000 shares of Series C Mandatory Convertible Preferred Stock and Series A and Series B warrants (incorporated by reference to Exhibit 10.1 to Registrant's February 2005 Form 8-K).
- 10.12.2 Registration Rights Agreement, dated February 15, 2005, by and among the Registrant and investors (incorporated by reference to Exhibit 10.2 to Registrant's February 2005 Form 8-K).
- 10.12.3 Amendment and Conversion Agreement, dated February 15, 2005, by and among the Registrant and note holders (incorporated by reference to Exhibit 10.3 to Registrant's February 2005 Form 8-K).
- 10.12.4 Exchange Agreement, dated February 15, 2005, by and among the Registrant and certain lenders (incorporated by reference to Exhibit 10.4 to Registrant's February 2005 Form 8-K).
- 10.12.5 Registration Rights Agreement, dated February 15, 2005, by and among the Registrant and note holders (incorporated by reference to Exhibit 10.5 to Registrant's February 2005 Form 8-K).
- 10.13.1 Financial Advisory Agreement, dated January 11, 2005, between the Registrant and Laidlaw & Company (UK) Ltd. (incorporated by reference to Exhibit 10.6.1 to Registrant's February 2005 Form 8-K).
- 10.13.2 Amendment to Financial Advisory Agreement, dated February 9, 2005 (incorporated by reference to Exhibit 10.6.2 to Registrant's February 2005 Form 8-K).
- 10.14 Settlement Agreement and Policies Release by and among Admiral Insurance Company and Registrant and certain Caprius directors and officers including George Aaron, Jonathan Joels, Shrikant Mehta and Sanjay Mody (incorporated by reference to Exhibit 10.1 to Registrant's June 30, 2005 Form 10-QSB).

Edgar Filing: CAPRIUS INC - Form 10KSB

- 14 Letter on change in certifying accountant from BDO Seidman, LLP, addressed to the Securities and Exchange Commission, dated March 19, 2004 (incorporated by reference to Exhibit 16.1 to Registrant's Form 8-K filed for an event of March 15, 2004).
- 21\* List of Company's subsidiaries
- 31.1\* Rule 13a-14(a)/15d-14(a) Certification
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification
- 32.1\* Section 1350 - Certification
- 32.2\* Section 1350 - Certification

-----  
 \* Filed herewith

(b) Reports on Form 8-K:  
 None

30

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

	September 30,	
	2005	2004
	----	----
AUDIT FEES	\$ 103,560	\$ 116,518
TAX FEES	-0-	-0-
AUDIT RELATED FEES	-0-	-0-
	-----	-----
TOTAL FEES	\$ 103,560	\$ 116,518
	=====	=====

The Audit Fees as stated above represent professional services rendered in regards to the Company's Form10-KSB, Form 10-QSB filings and the SB-2 Registration Statement.

31

SIGNATURES  
 -----

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on the 19th day of December 2005.

CAPRIUS, INC.

By: /s/ Jonathan Joels  
 -----  
 Jonathan Joels, CFO and

Edgar Filing: CAPRIUS INC - Form 10KSB

Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934 this report has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
/s/ George Aaron ----- George Aaron	Chairman of the Board, President and CEO	December 21, 2005
/s/ Jonathan Joels ----- Jonathan Joels	Director, CFO and Treasurer	December 21, 2005
/s/ Jeffrey L. Hymes ----- Jeffrey L. Hymes, M.D.	Director	December 21, 2005
/s/ Sol Triebwasser ----- Sol Triebwasser, Ph.D.	Director	December 21, 2005

32

CAPRIUS, INC. AND SUBSIDIARIES

I N D E X

-----	PAGE
Report of Independent Registered Public Accounting Firm	F-2
-----	
Consolidated Balance Sheet as of September 30, 2005	F-3
-----	
Consolidated Statements of Operations for the years ended September 30, 2005 and 2004.	F-4
-----	
Consolidated Statements of Stockholders' (Deficiency) Equity for the years ended September 30, 2005 and 2004.	F-5
-----	
Consolidated Statements of Cash Flows for the years ended	F-6

# Edgar Filing: CAPRIUS INC - Form 10KSB

September 30, 2005 and 2004.

-----  
-----  
Notes to the Consolidated Financial Statements.

F-7 - F19  
-----

F-1

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheet of Caprius, Inc. and Subsidiaries (the "Company") as of September 30, 2005, and the related consolidated statements of operations, stockholders' (deficiency) equity, and cash flows for the year then ended September 30, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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, 2005, and the consolidated results of their operations and their cash flows for the year then ended September 30, 2005 and 2004 in conformity with accounting principles generally accepted in the United States of America.

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

Edgar Filing: CAPRIUS INC - Form 10KSB

Marcum & Kleigman LLP  
 New York, New York  
 November 18, 2005

F-2

CAPRIUS, INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEET  
 September 30, 2005

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 1,257,158
Accounts receivable, net of reserve for bad debts of \$ 7,841	127,252
Inventories, net	668,616
Other current assets	29,758
	-----
Total current assets	2,082,784
	-----

PROPERTY AND EQUIPMENT:

Office furniture and equipment	197,924
Equipment for lease	23,500
Leasehold improvements	19,536
	-----
	240,960
Less: accumulated depreciation	168,944
	-----
Property and equipment, net	72,016
	-----

OTHER ASSETS:

Goodwill	737,010
Intangible assets, net	263,917
Other	17,410
	-----
Total other assets	1,018,337
	-----

TOTAL ASSETS

\$ 3,173,137  
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Accounts payable	\$ 209,152
Accrued expenses	63,663
Accrued compensation	104,782
	-----
Total current liabilities	377,597
	-----

## Edgar Filing: CAPRIUS INC - Form 10KSB

COMMITMENTS AND CONTINGENCIES

-

STOCKHOLDERS' EQUITY

Preferred stock, \$.01 par value		
Authorized - 1,000,000 shares		
Issued and outstanding - Series A, none; Series B, convertible, 27,000 shares. Liquidation preference \$2,700,000	2,700,000	
Common stock, \$.01 par value		
Authorized - 50,000,000 shares, issued 3,322,798 shares and outstanding 3,321,673 shares	33,228	
Additional paid-in capital	74,241,755	
Accumulated deficit	(74,177,193)	
Treasury stock (1,125 common shares, at cost)	(2,250)	
	-----	
Total stockholders' equity	2,795,540	
	-----	
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,173,137	
	=====	

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

F-3

### CAPRIUS, INC. AND SUBSIDIARIES

#### CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended	
	September 30, 2005	September 30, 2004
REVENUES:		
Product sales	\$ 727,491	\$ 727,491
Equipment rental income	13,305	13,305
Consulting & royalty fees	108,006	108,006
	-----	-----
Total revenues	848,802	848,802
	-----	-----
OPERATING EXPENSES:		
Cost of product sales and equipment rental income	490,827	490,827
Research and development	325,486	325,486
Selling, general and administrative	2,730,071	3,000,000
	-----	-----
Total operating expenses	3,546,384	3,816,313
	-----	-----
Operating loss	(2,697,582)	(3,000,000)
Other income	482,200	482,200
Interest expense, net	(323,026)	(323,026)
	-----	-----



Edgar Filing: CAPRIUS INC - Form 10KSB

Loss from continuing operations	(2,538,408)	(3,
Loss from operations of discontinued Strax Business	-	(
	-----	-----
Net loss	\$ (2,538,408)	\$ (3,
Beneficial Conversion feature - Series C Mandatory Convertible Preferred Stock	\$ (124,528)	\$
	-----	-----
Net loss attributable to common stockholders	\$ (2,662,936)	\$ (3,
	=====	=====
Net loss per basic and diluted common share		
Continuing operations	\$ (1.16)	\$
Discontinued operations	-	
	-----	-----
Net loss per basic and diluted common share	\$ (1.16)	\$
	=====	=====
Weighted average number of common shares outstanding, basic and diluted	2,288,543	1,
	=====	=====

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

F-4

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

	Series B Convertible Preferred Stock		Series C Mandatory Convertible Preferred Stock		Common Stock	
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount
	-----		-----		-----	
BALANCE, SEPTEMBER 30, 2003	27,000	\$ 2,700,000	-	\$ -	1,023,453	\$
Fair value of warrants issued in connection with bridge financing - related parties						
Fair value of warrants issued in connection with secured convertible notes						
Beneficial conversion feature in connection with secured convertible notes						

Edgar Filing: CAPRIUS INC - Form 10KSB

Net loss

BALANCE, SEPTEMBER 30, 2004	27,000	2,700,000	-	\$ -	1,023,453	\$
Issuance Series C Mandatory Convertible Preferred Stock			45,000	4,500,000		
Conversion of secured convertible notes and bridge financing into Series C Mandatory Convertible Preferred Stock			21,681	2,168,100		
Conversion of Series C Preferred into common stock			(66,681)	(6,668,100)	2,299,345	
NET LOSS						

BALANCE, SEPTEMBER 30, 2005	27,000	\$ 2,700,000	-	\$ -	3,322,798	\$
-----------------------------	--------	--------------	---	------	-----------	----

[TABLE CONTINUED]

	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock		Total Stockholders' Equity (Deficiency)
			Number of Shares	Amount	
BALANCE, SEPTEMBER 30, 2003	\$ 67,775,714	\$ (68,283,016)	1,125	\$ (2,250)	\$ 2,200,000
Fair value of warrants issued in connection with bridge financing - related parties	27,400				27,400
Fair value of warrants issued in connection with secured convertible notes	28,500				28,500
Beneficial conversion feature in connection with secured convertible notes	200,000				200,000
Net loss		(3,355,769)			(3,355,769)
BALANCE, SEPTEMBER 30, 2004	\$ 68,031,614	\$ (71,638,785)	1,125	\$ (2,250)	\$ (899,420)
Issuance Series C Mandatory Convertible Preferred Stock	(434,966)				4,065,000
Conversion of secured convertible notes and bridge financing into Series C Mandatory Convertible Preferred Stock					2,168,100

Edgar Filing: CAPRIUS INC - Form 10KSB

Conversion of Series C Preferred into common stock	6,645,107				
NET LOSS		(2,538,408)			(2,538,408)
BALANCE, SEPTEMBER 30, 2005	\$ 74,241,755	\$ (74,177,193)	1,125	\$ (2,250)	\$ 2,795,437

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

F-5

CAPRIUS, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended September 2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (2,538,408)	\$ (2,538,408)
Adjustments to reconcile net loss to net cash used in operating activities:		
Bad debt expense	-	-
Amortization of debt discount	165,220	165,220
Amortization of deferred financing cost	89,542	89,542
Depreciation and amortization	310,693	310,693
Write-off of other receivable	-	-
Interest on secured convertible notes	95,300	95,300
Changes in operating assets and liabilities:		
Accounts receivable, net	(53,769)	(53,769)
Inventories	108,079	108,079
Other assets	(14,536)	(14,536)
Accounts payable and accrued expenses	(1,100,161)	(1,100,161)
Net cash used in operating activities	(2,938,040)	(2,938,040)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of Strax business	66,000	66,000
Increase of security deposits	(4,080)	(4,080)
Acquisition of property and equipment	(32,139)	(32,139)
Net cash provided by investing activities	29,781	29,781
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of notes payable - related party	-	-
Proceeds from issuance of secured convertible notes	-	-
Financing fees in connection with secured convertible notes	-	-

Edgar Filing: CAPRIUS INC - Form 10KSB

Proceeds from short term loan	100,000	
Repayment of short term loan	(100,000)	
Proceeds from short term loans - related party	145,923	
Repayment of short term loans - related party	(73,123)	
Net proceeds from issuance of Series C Mandatory Preferred Stock	4,065,034	
	-----	-----
Net cash provided by financing activities	4,137,834	
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,229,575	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,583	
	-----	-----
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,257,158	\$
	=====	=====
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest	\$ 49,541	\$
	=====	=====
Cash paid for income taxes	\$ 192,672	
	=====	=====
NON CASH TRANSACTIONS:		
Issuance of warrants attached with debt issuance	\$ -	\$
	=====	=====
Beneficial conversion feature in connection with debt issuance	\$ -	\$
	=====	=====
Transfer of net book value of certain equipment for leases to inventory	\$ 66,177	\$
	=====	=====
Conversion of secured convertible notes and interest into equity	\$ 1,595,300	\$
	=====	=====
Conversion of notes payable - related party into equity	\$ 500,000	\$
	=====	=====
Conversion of short-term loans payable - related party into equity	\$ 72,800	\$
	=====	=====

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

F-6

CAPRIUS, INC. AND SUBSIDIARIES  
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(NOTE A) - Business and Basis of Presentation

-----

Caprius, Inc. and Subsidiaries ("Caprius" or the "Company") was founded in 1983 and through June 1999 essentially operated in the business of medical imaging systems as well as healthcare imaging and rehabilitation services. On June 28, 1999, the Company acquired Opus Diagnostics Inc. ("Opus") and began manufacturing and selling medical diagnostic assays constituting the Therapeutic Drug Monitoring ("TDM") Business. After the close of the 2002 fiscal year, the

## Edgar Filing: CAPRIUS INC - Form 10KSB

Company made major changes in its business through the sale of the TDM Business and the purchase of a majority interest in M.C.M. Environmental Technologies, Inc. ("MCM") which developed, markets and sells the SteriMed and SteriMed Junior compact systems that simultaneously shred and disinfect Regulated Medical Waste. Until the end of 2003 fiscal year, the Company continued to own and operate a comprehensive imaging center located in Lauderhill, Florida. On September 30, 2003, the Company completed the sale of the Strax Institute ("Strax") to Eastern Medical Technologies. The sale consisted of the business of the Strax Institute comprehensive breast imaging center located in Lauderhill, Florida. During the fiscal year ended September 30, 2005, and September 30, 2004 the Company's operations were in the infectious medical waste disposal business.

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

During the fiscal year ended September 30, 2005, an agreement was reached between the Company and the 20% minority ownership of an MCM subsidiary which had been dormant since inception. The minority shareholders shall be repaid their initial investment, by the use of a credit towards the site installation expense of SteriMed units that they are purchasing for their dialysis centers. This subsidiary was dissolved on February 9, 2005.

This annual report gives retroactive effect to the Company's 1 for 20 reverse common stock split of April 5, 2005.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred substantial recurring losses, which raises substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. The Company has available cash and cash equivalents of \$1,257,158 at September 30, 2005. The Company intends to utilize these funds for working capital purposes to continue developing the business of MCM. Based upon the Company's present business plan, management anticipates that the Company should have sufficient cash reserves through March 31, 2006. In order to fund the cash requirements of the Company beyond such date, the Company continues to pursue efforts to identify additional funds through various funding options, including banking facilities and equity offerings. There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders.

### (NOTE B) - Summary of Significant Accounting Policies

-----

#### [1] Principles of Consolidation

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

#### [2] Revenue Recognition

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

## Edgar Filing: CAPRIUS INC - Form 10KSB

### [3] Cash Equivalents

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

F-7

### [4] 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. Bad debt reserves 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.

### [5] 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 deemed to be immaterial in each of the years ended September 30, 2005 and 2004.

### [6] Shipping and Handling Costs

The Company includes shipping and handling costs in the statement of operations as part of cost of sales. These costs were deemed immaterial for the years ended September 30, 2005 and 2004.

### [7] 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.

### [8] Equipment, Furniture and Leasehold Improvements

Equipment, furniture 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, 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 inventory are capitalized.

Asset Classification	Useful Lives
-----	-----
Office furniture and equipment	3-5 years
Leasehold improvements	Term of Lease
Equipment for lease	5 years

### [9] Impairment of Long-Lived Assets

## Edgar Filing: CAPRIUS INC - Form 10KSB

In accordance with SFAS No. 144, "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.

### [10] Goodwill and Other Intangibles

At September 30, 2005, goodwill results from the excess of cost over the fair value of net assets acquired related to the MCM business. SFAS No. 142 provides, among other things, that goodwill and intangible assets with indeterminate lives shall not be amortized. Goodwill shall be assigned to a reporting unit and annually tested for impairment. Intangible assets with determinate lives shall be amortized over their estimated useful lives, with the useful lives reassessed continuously, and shall be assessed for impairment under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". Goodwill is also assessed for impairment on an interim basis when events and circumstances warrant. The Company assesses whether an impairment loss should be recognized and measured by comparing the fair value of the "reporting unit" to the carrying value, including goodwill. If the carrying value exceeds fair value, then the Company will compare the implied fair value of the goodwill (as defined in SFAS No. 142) to the carrying amount of the goodwill. If the carrying amount of the goodwill exceeds the implied fair value, then the goodwill will be adjusted to the implied fair value.

F-8

### [11] Net Loss Per Share

Net loss per share is computed in accordance with Statement of Financial Standards No. 128, "Earning Per Share" ("SFAS No. 128"). SFAS No. 128 requires the presentation of both basic and diluted earnings per share.

Basic net loss per common share was computed using the weighted average common shares outstanding during the period. 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, 2005, potential common shares amount to 1,020,660 shares, as compared to 909,311 for the year ended September 30, 2004 and have not been included in the computation of diluted loss per share since the effect would be antidilutive.

### [12] Income Taxes

The Company provides for federal and state income taxes currently payable, as well as for those deferred because of timing differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recoverable or settled. The effect of a change in tax rates is recognized as income or expense in the period of the change. A valuation allowance is established, when necessary, to reduce deferred income tax assets to the amount that is more likely than not to be realized.

## Edgar Filing: CAPRIUS INC - Form 10KSB

### [13] 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.

### [14] Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair values because of the short-term nature of those instruments.

### [15] Reclassifications

Certain reclassifications have been made to prior period amounts to conform to the current year presentation.

### [16] Foreign Currency

The Company follows the provisions of SFAS No. 52, "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, except for certain assets, which are measured at historical rates. Foreign currency income and expense are re-measured at average exchange rates in effect during the year, except for expenses related to balance sheet amounts re-measured at historical exchange rates. Exchange gains and losses arising from re-measurement of foreign currency-denominated monetary assets and liabilities are included in operations in the period in which they occur. Exchange gains and losses included in the accompanying consolidated statements of operations are deemed immaterial for the years ended September 30, 2005 and 2004.

### [17] Research and Development Costs

All research and development costs are charged to operations as incurred. Research and development expenditures were approximately \$325,000 and \$284,000 for fiscal 2005 and 2004, respectively.

F-9

### [18] Recent Accounting Pronouncements

In September 2005, the Financial Accounting Standards Board ("FASB") ratified the Emerging Issues Task Force's ("EITF") Issue No. 05-7. "Accounting for Modifications to Conversion Options Embedded in Debt Instruments and Related Issues", which addresses whether a modification to a conversion option that changes its fair value affects the recognition of interest expense for the associated debt instrument after the modification, and whether a borrower should recognize a beneficial conversion feature, not a debt extinguishments, if a debt modification increases the intrinsic value of the debt. In September 2005, the FASB ratified the following consensus reached in EITF Issue 05-08 ("Income Tax Consequences of Issuing Convertible Debt with a Beneficial Conversion Feature"): a) the issuance of convertible debt with a beneficial conversion feature results in a basis difference in applying FASB Statement of Financial Accounting



## Edgar Filing: CAPRIUS INC - Form 10KSB

Standards SFAS No. 109, Accounting for Income Taxes. Recognition of such a feature effectively creates a debt instrument and a separate equity instrument for book purposes, whereas the convertible debt is treated entirely as a debt instrument for income tax purposes; b) The resulting basis difference should be deemed a temporary difference because it will result in a taxable amount when the recorded amount of the liability is recovered or settled; and c) Recognition of deferred taxes for the temporary difference should be reported as an adjustment to additional paid-in capital. Both of these issues are effective in the first interim or annual reporting period commencing after December 15, 2005, with early application permitted. The effect of applying the consensus should be accounted for retroactively to all debt instruments containing a beneficial conversion feature that are subject to EITF Issue 00-27, "Application of Issue No. 98-5 to Certain Convertible Debt Instruments" (and thus is applicable to debt instruments converted or extinguished in prior periods but which are still presented in the financial statements). Management does not believe these pronouncements will have a material impact on the Company's consolidated financial statements.

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

In December 2004, the FASB issued its final standard on accounting for share-based payments ("SBP"), FASB Statement No. 123(R) (revised 2004) "Share-Based Payment." This statement requires companies to expense the value of employee stock options and similar awards. Under FASB No. 123(R), SBP awards result in a cost that will be measured at fair value of the awards' grant date, based on the estimated number of awards that are expected to vest. Compensation cost for awards that vest would not be reversed if the awards expire without being exercised. Public entities that are small business issuers will be required to apply Statements 123(R) as of the first annual reporting period that begins after December 15, 2005. Although the adoption of FASB No. 123 (R) will have no adverse impact on the Company's balance sheet or total cash flows, it will affect the Company's net income and earning per share. The actual effects of adopting FASB No. 123 (R) will depend on numerous factors, including the amount of share-based payments granted in the future, the Company's future stock price volatility, estimated forfeiture rates and employee stock option exercise behavior.

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

In October 2004, the FASB ratified the consensus reached in EITF Issue No. 04-8, "The Effect of Contingently Convertible Instruments on Diluted Earnings

## Edgar Filing: CAPRIUS INC - Form 10KSB

Per Share." The EITF reached a consensus that contingently convertible instruments, such as contingently convertible debt, contingently convertible

F-10

preferred stock, and other such securities should be included in diluted earnings per share (if dilutive) regardless of whether the market trigger price has been met. The consensus became effective for reporting periods ending after December 15, 2004. The adoption of this statement did not have a significant impact on the Company's consolidated financial statements.

### [19] Stock-Based Compensation

The Company accounts for stock-based compensation under the intrinsic value method in accordance with the provisions of APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations.

The FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure." SFAS No. 148, which amends SFAS No. 123, requires the measurement of the fair value of stock options or warrants to be included in the statement of operations or disclosed in the notes to financial statements. The Company records its stock-based compensation under the Accounting Principles Board (APB) No. 25 and elected the disclosure-only alternative under SFAS No. 148. The Company has computed the pro forma disclosures under SFAS No. 148 for options and warrants granted using the Black-Scholes option pricing model for the years ended September 30, 2005 and 2004. The assumptions used during the years ended September 30, 2005 and 2004 were as follows:

	SEPTEMBER 30,	
	2005	2004
Risk free interest rate	4.00- 5.00%	4.00 -5.00%
Expected dividend yield	--	--
Expected lives	10 years	10 years
Expected volatility	29- 80%	29 - 80%
Weighted average value of grants per share	\$3.32	\$1.80
Weighted average remaining contractual life of options outstanding (years)	6.35	7.3

The pro forma effect of applying FAS No. 148 is as follows:

FOR THE YEARS ENDED

Edgar Filing: CAPRIUS INC - Form 10KSB

SEPTEMBER 30,

	2005	2004
Net loss attributable to common stockholders as reported	\$ (2,662,936)	\$ (3,355,769)
Add: Stock based employee compensation expense, included in reported loss.	--	--
Less: Stock-based employee compensation as determined under fair value based method for all awards.	(2,991)	(56,371)

F-11

Pro forma net loss	\$ (2,665,927)	\$ (3,412,140)
Net Loss per share:		
Basic and diluted loss attributable to common stockholders - as reported	\$ (1.16)	\$ (3.28)
Basic and diluted loss attributable to common stockholders - pro forma	\$ (1.17)	\$ (3.33)

[20] Concentration of Credit Risk and Significant Customers

Statement of Financial Accounting Standards No. 105, "Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk," requires disclosure of any significant off-balance-sheet and credit risk concentrations. Although collateral is not required, the Company periodically reviews its accounts receivable and provides estimated reserves for potential credit losses.

Financial instruments which potentially expose the Company to concentration of credit risk are mainly comprised of trade accounts receivable. Management believes its credit policies are prudent and reflect normal industry terms and

F-11

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. The Company purchases a substantial amount of its inventory products from one principal supplier. If in the future the supplier were to cease to supply these inventory products, management believes there are alternative vendors available to meet its needs. For the year ended September 30, 2005, three customers accounted for \$231,000, \$108,000 and \$91,000 of the consolidated total revenue, which represented approximately 51% of the total revenue. For the year ended September 30, 2004, two customers, other than those in Fiscal 2005, accounted for approximately 72%

## Edgar Filing: CAPRIUS INC - Form 10KSB

of the consolidated total revenue.

The Company maintains cash deposits with financial institutions, which from time to time may exceed Federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash. At September 30, 2005, the Company has cash balances on deposit in two accounts with a financial institution in excess of the Federally insured limits by a combined total of \$437,235.

### [21] Intangible Assets

Intangible assets consist of technology, customer relationships and permits, and are amortized on a straight-line basis over their estimated useful lives of three to five years. The carrying value of intangible assets will be reviewed annually by the Company to ensure that impairments are recognized when the future operating cash flows expected to be derived from such intangible assets are less than carrying value. Total amortization expense related to the other intangible assets was approximately \$281,000 for each of the years ended September 30, 2005 and 2004. Intangible assets are summarized as follows:

ASSET TYPE	COST	ACCUMULATED AMORTIZATION	SEPT 30, 2005 NET BOOK VALUE
Technology	\$550,000	\$504,166	\$45,834
Permits	290,000	161,917	128,083
Customer Relationships	200,000	110,000	90,000
	\$1,040,000	\$776,084	\$263,917

Expected amortization over the next three years is as follows:

FISCAL PERIOD	AMORTIZATION
2006	\$143,834
2007	98,000
2008	22,083
	-----
	\$263,917
	=====

F-12

### (NOTE C) -Inventories

Inventories consist of the following, net of reserve of approximately \$12,000 as of September 30, 2005:

Raw materials	\$314,850
Finished goods	353,766
	-----

## Edgar Filing: CAPRIUS INC - Form 10KSB

\$668,616

=====

(NOTE D) - Notes Payable  
-----

On February 2, 2005, the Company raised \$100,000 through the issuance of 8% Senior Secured Convertible Promissory Notes, repayable, together with interest to April 3, 2005, subject to prepayment in the event of an equity financing in excess of \$2 million, or conversion by the investors into shares of the Company's common stock at a conversion price of \$3.00 per share. The lenders also received warrants to purchase 5,000 shares of the Company's common stock

F-12

exercisable at \$5.60 per share for a period of five years. The allocated fair value of these warrants are deemed to be immaterial. On February 17, 2005 the Company repaid this loan together with interest.

During the third quarter of fiscal 2004, the Company raised an aggregate of \$1.5 million through the issuance of 8% Senior Secured Convertible Promissory Notes ("the Notes"), prior to underwriting fees and expenses. The Company granted a security interest in substantially all of the assets of the Company. The Notes were to mature in one year and convert into shares of common stock at the election of the investor at any time using a conversion price of \$4.00 per share, subject to reduction if certain conditions were not met as of September 30, 2004. The conditions were not met and the conversion price was reduced to \$3.00 per share. The beneficial conversion feature of the Notes, amounted to \$200,000 and as such the amount was recorded as a debt discount and a corresponding increase to paid-in capital. This amount was being amortized over the life of the loan (which was accelerated to February 15, 2005). Amortization for the year ended September 30, 2005 amounted to \$150,000, and such amount is included in interest expense, net in the statement of operations. The financing was arranged through Sands Brothers International Ltd. ("Sands") which has been retained by the Company to act as selected dealer for the sale and issuance of the Notes. Based upon the funds raised, Sands received a six percent fee and an expense allowance of one percent of the gross proceeds and warrants were valued at \$28,500 using the Black Scholes Model to purchase 71,250 shares of the Company's common stock at an exercise price of \$5.60 per share for a period of five years. The total fees for the offering were \$125,000. The debt issuance costs were being amortized over the term of the loan (which was accelerated to February 15, 2005). Amortization for the year ended September 30, 2005 amounted to \$89,542, and such amount is included in interest expense, net in the statement of operations. On February 15, 2005 the Company closed on a \$4.5 million preferred stock equity financing (see Note E). As a condition of this financing, the holders of the Notes amended and converted their Notes together with accrued interest, into an aggregate of 15,953 shares of Series C Mandatory Convertible Preferred Stock and the security interest was terminated.

### Notes Payable - Related Party

During the first two quarters of fiscal 2005, the Company was advanced the principal amount of \$145,923 through short term loans until additional equity funding was secured. The terms of the loans are identical to the terms of the \$100,000 8% Senior Secured Convertible Promissory Note outlined above. The lenders also received warrants to purchase 7,295 shares of the Company's common stock exercisable at \$5.60 per share for a period of five years. The allocated fair value of the warrants associated with this advance are deemed to be immaterial. These short-term loans were provided by executive officers, Messrs.

## Edgar Filing: CAPRIUS INC - Form 10KSB

Aaron, Joels and Koppel who advanced \$64,000, \$62,357 and \$19,566, respectively. As a condition of this financing the holders of the Notes exchanged 50% of the Company's indebtedness for 728 shares of Series C Mandatory Convertible Preferred Stock and on February 15, 2005 were paid the balance of their notes inclusive of interest.

During the second quarter of fiscal 2004, the Company authorized a short-term bridge loan for an aggregate of \$500,000 through the issuance of loan notes due on July 31, 2005. The funds were utilized primarily for general working capital. The majority of the funds were provided by management of the Company. The loan notes bear interest at a rate of 11% per annum and were secured by a first lien on any royalties received by Opus Diagnostics Inc. from Seradyn, Inc. in accordance with their Royalty Agreement. For every sixty dollars (\$60.00) loaned, the lender received two warrants to purchase one share of Common Stock, exercisable at \$5.00 per share for a period of five years. The warrants were valued at \$27,400 using the Black Scholes Model and such amount was recorded as a debt discount and a corresponding increase to paid in-capital. The discount was being amortized over the life of the loan (which was accelerated to February 15, 2005). For the year ended September 30, 2005, the Company recorded an additional interest expense related to this discount of approximately \$15,200, and that amount is included in interest expense, net in the statement of operations. On February 15, 2005 the Company closed on a \$4.5 million preferred stock equity financing ( see Note E). As a condition of this financing, the holders of the Notes converted their notes into an aggregate of 5,000 shares of Series C Mandatory Convertible Preferred Stock and the security interest was terminated.

### (NOTE E) - Equity Financing

-----

On February 15, 2005 the Company closed on a \$4.5 million preferred stock equity financing transaction before financing fees and expenses of approximately \$435,000. As part of this financing transaction, the Company issued 45,000 shares of Series C Mandatory Convertible Preferred Stock ("Series C Stock") at a stated value of \$100 per share. The Company also issued Series A Warrants to purchase an aggregate of 465,517 shares of common stock at an exercise price of \$5.60 per share for a period of five years. In addition, the Company issued Series B Warrants to purchase an aggregate of 155,172 shares of common stock at an exercise price of \$2.90 per share for a period of five years exercisable after nine months, subject to a termination condition as defined in the warrant agreement. The conversion of the Series C Stock was subject to the effectiveness of a 1:20 reverse split of the Company's common stock. The Company determined

F-13

that the preferred stock was issued with an effective beneficial conversion feature of approximately \$125,000 based upon the relative fair values of the preferred stock and warrants. The Company calculated the fair value of the warrants using the Black Scholes valuation method. Upon conversion of the Series C stock to common shares on April 5, 2005 the Company recorded a deemed preferred stock dividend of approximately \$125,000; which represents the beneficial conversion feature of the Series C Stock (see Note F).

Simultaneously, the Company converted the short-term secured debt outstanding in the aggregate of approximately \$2.1 million inclusive of interest, together with \$72,962 of unsecured indebtedness, into 21,681 shares of Series C Stock. As part of the condition for raising the equity financing, holders of a majority of the outstanding shares irrevocably undertook to effect a 1:20 reverse stock split of any outstanding shares of common stock ("the

## Edgar Filing: CAPRIUS INC - Form 10KSB

Reverse Split"). Upon the effectiveness of the Reverse Split ("the Mandatory Conversion Date"), the new equity investors and the debt holders who converted their debt agreed to automatically convert their Series C Stock into common shares at a conversion price of \$2.90 per share and/or 2,299,345 shares of the Company's common stock (post reverse split), subject to adjustment in certain circumstances, (see Note F). The Company also agreed to increase the number of independent directors by one additional director.

### (NOTE F) - Reverse Split

-----

On April 5, 2005, the Company effected the Reverse Split. On such date, the 66,681 outstanding shares of Series C Stock automatically converted into 2,299,345 shares of the Company's common stock. As a result of the Reverse Split, the Company has outstanding 3,321,673 shares of common stock. The reverse split did not change the number of authorized shares of common and preferred stock. All share and per share information in the accompanying financial statements have been restated to reflect the 1 for 20 reverse stock split.

### (NOTE G) - 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, 2005 and 2004 the Company has not adopted a matching option to the plan.

### (NOTE H) - Income Taxes

-----

At September 30, 2005 the Company had a deferred tax asset totaling approximately \$13,670,000 due primarily to net operating loss carryovers in the United States. A valuation allowance was recorded in 2005 for the full amount of this asset due to uncertainty as to the realization of the benefit. The change in the valuation allowance in 2005 increased by approximately \$570,000.

The Company does not file its tax return on a consolidated basis, United States tax rules prohibit the consolidation of its foreign subsidiary. The Company's Israeli subsidiary had carried forward net operating losses for tax purposes in the amount of approximately \$7,400,000. The Company recorded a full valuation allowance for these carryforward losses.

At September 30, 2005 the Company had available net operating loss carryforwards for United States tax purposes, expiring through 2024 of approximately \$40.0 million. The Internal Revenue Code contains provisions which will limit the net operating loss carry forward available for further use if significant changes in ownership interest of the Company occurs. Due to the significance of the Company's historical losses it has not undertaken an evaluation to determine whether the Company has triggered any limitations on the use of the net operating loss carryforwards.

As a result of the Company's significant operating loss carryforward and the corresponding valuation allowance, no income tax benefit has been recorded at September 30, 2005 and 2004. The provision for income taxes using the statutory Federal tax rate as compared to the Company's effective tax rate is summarized as follows:

	September 30,	
	2005	2004

Edgar Filing: CAPRIUS INC - Form 10KSB

	----	----
Tax benefit at statutory rate	(34.0%)	(34.0%)
Adjustments for change in valuation allowance	34.0%	34.0%
	-----	-----
	-	-
	=====	=====

(NOTE I) - Commitments and Contingencies

[1] Operating leases

The Company leases facilities under non-cancelable operating leases expiring at various dates through fiscal 2006. Facility leases require the Company to pay certain insurance, maintenance and real estate taxes. Lease expense for all facility leases totaled approximately \$126,175 and \$122,843 for the years ended September 30, 2005 and 2004, respectively, and was recorded as part of selling, general and administrative expenses within the statement of operations.

F-14

Future minimum rental commitments under operating leases are as follows:

Fiscal Year	Amount
-----	-----
2006	\$ 43,100
	=====

On April 18, 2005 the Company entered into an agreement, commencing May 1, 2005 for certain services related to investor relations and financial media program for a one year period. The agreement is renewable unless terminated by either party. According to the agreement, the Company agreed to pay fees of \$96,000 per annum in equal monthly installments of \$8,000. Investor relations and financial media expense totaled approximately \$45,000 and \$ 13,000 for the years ended September 30, 2005 and 2004 respectively, and were recorded as part of selling, general and administrative expenses within the statement of operations.

2] Legal proceedings

In June 2002, Jack Nelson, a former Caprius executive officer and director, commenced two legal proceedings against the Company, George Aaron and Jonathan Joels, executive officers, directors and principal stockholders. The two complaints alleged that the individual defendants made misrepresentations to the plaintiff upon their acquisition of a controlling interest in the Company in 1999 and thereafter made other alleged misrepresentations and engaged in mismanagement and other misconduct and took other actions as to the plaintiff to the supposed detriment of the plaintiff and Caprius. One action was brought in Superior Court of New Jersey, Bergen County ("State Court Action"), and the other was brought as a derivative action in Federal District Court in New Jersey ("Federal Derivative Action"). In September 2003, the Company resolved the State Court Action by making an Offer of Judgment which was accepted by the plaintiff. Under the terms of the Offer of Judgment, which was made without any admission or finding of liability on part of the defendants, the Company paid \$125,000 to the plaintiff and the action was discontinued.



## Edgar Filing: CAPRIUS INC - Form 10KSB

On May 3, 2004, the Court in the Federal Derivative Action granted the motion made by the Company and Messrs. Aaron and Joels for judgment on the pleadings based upon the pre-suit demand requirement and dismissed the plaintiff's complaint without prejudice, but denied defendants' motion for judgment on the pleadings based upon the Private Securities Litigation Reform Act. The Court also granted the plaintiff's cross-motion to file an amended complaint to add allegations of insider trading.

In September 2002, the Company was served with a complaint naming the Company and its principal officers and directors in the Federal District Court of New Jersey as a purported class action (the "Class Action"). The allegations in the complaint cover the period between February 14, 2000 and June 20, 2002. The initial plaintiff is a relative of the wife of the plaintiff in the State Court Action and Federal Derivative Action. The allegations in the purported Class Action were substantially similar to those in the other two Actions. The complaint sought an unspecified amount of monetary damages, as well as the removal of the defendant officers as shareholders.

On May 3, 2004, in a decision separate from the decision in the Federal Derivative Action, the Court granted the defendants' motion and dismissed the Class Action. The Federal securities claims asserted by the plaintiffs were dismissed with prejudice, and having dismissed all Federal law claims, the Court declined to exercise jurisdiction over the remaining state law claims and dismissed those claims without prejudice. On May 14, 2004, the plaintiffs filed a motion for reconsideration, which defendants opposed and subsequently this motion for reargument was denied. The plaintiff did not file a notice of appeal during the statutory time period.

In July 2005, the Company entered into a Settlement Agreement and Policies Release with the carrier of the Company's Directors and Company Reimbursement Policies and received a payment of \$350,000 under such Policies as a settlement of the Company's claim for expenses incurred in the litigations described above. The settlement fee received in July 2005 from the insurance company has been recorded as part of other income in the statement of operations. At that time, the independent directors determined that the Company will not seek contribution from Messrs. Aaron and Joels for any portion of our net costs in defending those litigations. The Company did not advance any amounts to such individuals in connection with the litigations.

F-15

(NOTE J) - Capital Transactions  
-----

[1] Preferred Stock - Class B

On August 18, 1997, the Company entered into various agreements with General Electric Company ("GE") including an agreement whereby GE purchased 27,000 shares of newly issued Series B Convertible Redeemable Preferred Stock (the "Series B Preferred Stock") for \$2,700,000.

The Series B Preferred Stock consists of 27,000 shares, ranks senior to any other shares of preferred stock which may be created and the Common Stock. It has a liquidation value of \$100.00 per share, plus accrued and unpaid dividends, is non-voting except if the Company proposes an amendment to its Certificate of Incorporation which would adversely affect the rights of the holders of the Series B Preferred Stock, and is convertible into 57,989 shares of Common Stock, subject to customary anti-dilution provisions. No fixed dividends are payable on

## Edgar Filing: CAPRIUS INC - Form 10KSB

the Series B Preferred Stock, except that if a dividend is paid on the Common Stock, dividends are paid on the shares of Series B Preferred Stock as if they were converted into shares of Common Stock.

### [2] Stock options

During 2002, the Company adopted a stock option plan for both employees and non-employee directors. The employee and non-employee Directors stock option plan provides for the granting of options to purchase not more than 75,000 shares of common stock. The options issued under the plan may be incentive or nonqualified options. The exercise price for any options will be determined by the option committee. The plan expires May 15, 2012. During October 2002, the Company granted a total of 48,050 options to officers, directors, and employees under the 2002 plan. During May 2004, 3,750 options priced at \$4.00 were granted to a director of the Company. These options vested one third on the grant date with the balance vesting over a two year period in equal installments. All of these options expire 10 years after the date of grant and were granted at fair market value or higher at the time of grant. All options are exercisable at \$3.00 per share vesting one third immediately and the balance equally over a two year period. As of September 30, 2005, there were 51,800 options outstanding under the 2002 plan, exercisable at prices from \$3.00 to \$4.00 per share.

During 1993, the Company adopted a employee stock option plan and a stock option plan for non-employee directors. The employee stock option plan provides for the granting of options to purchase not more than 50,000 shares of common stock. The options issued under the plan may be incentive or nonqualified options. The exercise price for any incentive options cannot be less than the fair market value of the stock on the date of the grant, while the exercise price for nonqualified options will be determined by the option committee. The Directors' stock option plan provides for the granting of options to purchase not more than 10,000 shares of common stock. In accordance with the Plan, the exercise price for shares granted under the Directors' plan cannot be less than the fair market value of the stock on the date of the grant.

Stock option transactions under the 2002 plan are as follows:

	Number of Shares -----	Option Price Per Share -----	Weighted Average Exercise Price Per Share -----
Balance, September 30, 2003	48,050	\$3.00	\$3.00
Granted in 2004	3,750 -----	\$4.00 -----	\$4.00 -----
Balance, September 30, 2004	51,800	\$3.00 - \$4.00	\$3.07
Granted in 2005	0	-	-
Balance, September 30, 2005	51,800 =====	\$3.00 - \$4.00 =====	\$3.07 =====

F-16

Stock option transactions not covered under the years 2002 and 1993 option

## Edgar Filing: CAPRIUS INC - Form 10KSB

plans in the fiscal year 2004 and 2005 are as follows:

	Number of Shares -----	Option Price Per Share -----	Weighted Average Exercise Price Per Share -----
Balance, September 30, 2003	102,628	\$2.00-\$402.00	\$10.40
Cancelled in 2004	(50,064)	\$15.00-316.00	\$18.00
	-----	-----	-----
Balance, September 30, 2004	52,654	\$2.00-\$402.00	\$3.40
Cancelled in 2005	(64)	\$402.00	\$402.00
	-----	-----	-----
Balance, September 30, 2005	52,500	\$2.00 - \$3.00	\$2.95
=====	=====	=====	=====

Stock option transactions under the 1993 plan:

	Number of Shares -----	Option Price Per Share -----	Weighted Average Exercise Price Per Share -----
Balance, September 30, 2003	36,475	\$3.00 -\$100.00	\$4.80
Cancelled in 2004	(125)	\$58.60 -\$100.00	\$83.40
	-----	-----	-----
Balance, September 30, 2004	36,350	\$3.00 -\$100.00	\$4.60
Cancelled in 2005	(1,375)	\$3.00 -\$100.00	\$10.32
	-----	-----	-----
Balance, September 30, 2005	34,975	\$3.00 -\$100.00	\$4.27
=====	=====	=====	=====

The following table summarizes information about stock options outstanding at September 30, 2005:

Outstanding Options			
Range of Exercise Prices	Number Outstanding at September 30, 2005	Weighted- Average Remaining Contractual Life (years)	Weighted- Average Exercise Price
\$2.00 - \$5.00	138,800	6.37	3.12
58.60	400	.85	58.60
100.00	75	.70	100.00
-----	-----	-----	-----
\$2.00 - \$100.00	139,275	6.35	3.32
=====	=====	=====	=====

F-17

Exercisable Options			
Range of Exercise Prices	Number Outstanding at September 30, 2005	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price
\$2.00 - \$5.00	137,550	6.35	3.11
58.60	400	.85	58.60
100.00	75	.70	100.00
\$2.00 - \$100.00	138,025	6.33	3.32

  

Total Stock options vested and exercisable at September 30, 2005	Number of Share	Range of Exercise Price Per Share	Weighted Average Exercise Price
Plan shares	85,525	\$3.00-\$100.00	\$3.54
Non-plan shares	52,500	\$2.00- \$3.00	\$2.95
	138,025	\$2.00-\$100.00	\$3.32

(NOTE K) - Acquisition of majority interest in MCM Environmental Technologies, Inc.

In December 2002, the Company closed the acquisition of its initial investment of 57.53% of the capital stock of MCM Environmental Technologies Inc ("MCM") for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, the Company designees were elected to three of the five seats on MCM's Board of Directors, with George Aaron, President and CEO, and Jonathan Joels, CFO, filling two seats. Additionally, as part of the transaction, certain debt of MCM to its existing stockholders and to certain third parties was converted to equity in MCM or restructured. As part of the Stockholders Agreement dated December 17, 2002, there were certain provisions relating to performance adjustments for the twenty four month period post closing. As a consequence, the Company's ownership interest increased by 5% in the fiscal year 2004 and by an additional 5% in the fiscal year 2005. Furthermore, the Company's equity ownership increased with the conversion of various loans made to MCM and cash calls made by MCM during fiscal 2005. As of September 30, 2005, the Company's interest in MCM increased to 96.66%.

## Edgar Filing: CAPRIUS INC - Form 10KSB

### (NOTE L) - Sale of Strax

-----

Effective September 30, 2003, the Company sold its comprehensive breast imaging business, to Eastern Medical Technologies, Inc., a Delaware corporation ("EMT"), pursuant to a Stock Purchase Agreement dated September 30, 2003 (the "Purchase Agreement") among the Company, EMT and the other parties thereto. The purchase price was \$412,000. In addition, the Company was required to provide certain specified transitional services for up to 180 days pursuant to a Management Services Agreement. During the first quarter of fiscal year 2005, the parties agreed to settle the net outstanding balance in a lump sum payment of \$66,000 which was paid in two equal installments in December 2004 and January 2005. The sale of the Strax business has been reflected as discontinued operations in the accompanying consolidated financial statements.

### (NOTE M) -Geographic Information

-----

The Company does not have reportable operating Segments as defined in the Statements of Financial Accounting No.131 "Disclosures about Segments of an Enterprise and related information" The method for attributing revenues to individual customers is based as to the destination to which finished goods are shipped.

F-18

The Company operates facilities in the United States of America and Israel. The following is a summary of information by area for the years ended September 30, 2005 and 2004.

FOR THE YEARS ENDED SEPTEMBER 30,	2005	2004
	----	----
Net Revenues:		
Israel	\$398,215	\$766,119
United States	450,587	119,342
	-----	-----
Revenues as reported in the accompanying financial statements	\$848,802	\$885,461
	=====	=====
Loss from continuing operations:		
Israel	\$ (322,161)	\$ (414,890)
United States	(2,216,247)	(2,835,073)
	-----	-----
Loss from continuing operations as reported in the accompanying financial statements	\$ (2,538,408)	\$ (3,249,963)
	=====	=====
	September 30, 2005	
Identifiable Assets:		
Israel	\$ 471,865	
United States	2,701,272	
	-----	
Total Assets as reported in the accompanying financial statements	\$3,173,137	
	=====	

