CAPRIUS INC
Form 10-Q
August 18, 2010

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

FORM 10-Q

(Mark One)

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission file number 000-11914

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

Delaware (State or other jurisdiction of incorporation or organization)	22-2457487 (I.R.S. Employer Identification No.)
10 Forest Avenue, Suite 220 Paramus, NJ (Address of principal executive offices)	07652 (Zip Code)

Registrant's telephone number: (201) 342-0900

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

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

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

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

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

As of August 12, 2010, there were 5,431,865 shares of the issuer’s common stock outstanding.

CAPRIUS, INC.

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PART 1
FINANCIAL INFORMATION

Item 1. Financial Statements.

CAPRIUS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	As of June 30, 2010 (Unaudited)	As of September 30, 2009
Current Assets:		
Cash	$ 181,011	$ 87,174
Accounts receivable, net	28,966	30,725
Inventories	1,052,160	1,151,460
Other current assets	11,522	111,326
Total current assets	1,273,659	1,380,685
Property and Equipment:		
Property and equipment, net	64,561	82,297
Other Assets:		
Deferred financing cost, net	296,993	593,840
Other	21,686	23,186
Total other assets	318,679	617,026
Total Assets	$ 1,656,899	$ 2,080,008
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Short term loans payable, net of debt discount	$ 100,000	$ 99,466
Notes payable , net of deferred debt discount	3,112,145	1,111,132
Accounts payable	535,694	965,301
Advances from customers	177,646	414,539
Accrued expenses	503,460	457,272
Accrued compensation	499,902	568,678
Total current liabilities	4,928,847	3,616,388
Long-term Liabilities		
Derivative liabilities	140,112	-
Dividends payable	803,374	933,248
Total long-term liabilities	943,486	933,248
Total Liabilities	5,872,333	4,549,636
Stockholders' Deficiency:		
Preferred stock, $.01 par value		
Authorized - 1,000,000 shares		

Issued and outstanding - Series A, none; Series B, none, Series C, none						
Series D, stated value $12.40, convertible, 65,290 at June 30, 2010 and 144,321 at September 30, 2009		653			1,443	
Series E, stated value $250, convertible, 4,200 at June 30, 2010 and 9,100 at September 30, 2009		42			91	
Series F, stated value $60, convertible, 60,000 at June 30, 2010 and 77,966 at September 30, 2009		600			780	
Common stock, $.01 par value						
Authorized - 250,000,000 shares, issued 5,432,990 shares and outstanding 5,431,865 shares at June 30, 2010 and September 30, 2009		54,330			54,330	
Additional paid-in capital		85,290,566			87,389,310	
Accumulated deficit		(89,559,375	)		(89,913,332	)
Treasury stock (1,125 common shares, at cost)		(2,250	)		(2,250	)
Total stockholders' deficiency		(4,215,434	)		(2,469,628	)
Total Liabilities and Stockholders' Deficiency	$	1,656,899		$	2,080,008	

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

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CAPRIUS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended		For the nine months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues:				
Product sales	$152,964	$423,580	$874,435	$1,063,476
Total revenues	152,964	423,580	874,435	1,063,476
Operating Expenses:				
Cost of product sales	78,783	268,705	671,166	694,067
Research and development	8,335	4,281	29,365	119,817
Selling, general and administrative, includes stock-based compensation of $ 31,427 and $68,684 for the three months ended June 30, 2010 and 2009 and $150,792 and $212,999 for the nine months ended June 30, 2010 and 2009	631,111	705,420	1,964,582	2,394,598
Total operating expenses	718,229	978,406	2,665,113	3,208,482
Operating loss	(565,265)	(554,826)	(1,790,678)	(2,145,006)
Other income	2,868	159	177,610	70,376
Interest expense	(494,014)	(6,152)	(1,118,179)	(16,995)
Gain on change in fair value of derivative liabilities	298,486	-	728,481	-
Net loss	(757,925)	(560,819)	(2,002,766)	(2,091,625)
Dividend - Convertible Preferred Stock	(118,038)	(118,945)	(354,116)	(357,514)
Waiver of previosuly accrued and unpaid dividends	483,990	-	483,990	-
Net loss attributable to common stockholders	$(391,973)	$(679,764)	$(1,872,892)	$(2,449,139)
Net loss per basic and diluted common share	$(0.01)	$(0.13)	$(0.10)	$(0.46)
Weighted average number of common shares outstanding, basic and diluted	29,194,130	5,301,242	19,524,432	5,276,273

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

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

	Series D Convertible Preferred Stock		Series E Convertible Preferred Stock		Series F Convertible Preferred Stock		Common Stock			
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-in Capital	Accum Def
Balance October 1, 2009	144,321	$1,443	9,100	$91	77,966	$780	5,432,990	$54,330	$87,389,310	$(89,9
Dividend ($0.51 per Series D convertible preferred stock, $10.14 per Series E convertible preferred stock and $2.43 per Series F convertible preferred stock)										(354,
Stock-based Compensation									150,792	
Preferred stock repurchase (See Note 9)	(79,031)	(790)	(4,900)	(49)	(17,966)	(180)			(8,981)	483,9
Cumulative effect of change in accounting principle Ocotber 1, 2009, Adoption of ASC 815, reclassification of equity-linked financial instruments to derivative liabiliites									(2,240,555)	2,226
Net loss										(2,00
Balance June 30, 2010	65,290	$653	4,200	$42	60,000	$600	5,432,990	$54,330	$85,290,566	$(89,5

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

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CAPRIUS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the nine months ended June 30, 2010	For the nine months ended June 30, 2009
Cash Flows from Operating Activities:		
Net loss	$(2,002,766)	$(2,091,625)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,893	23,126
Stock-based compensation	150,792	212,999
Amortization of debt discount	389,119	-
Amortization of deferred financing costs	407,094	-
Gain on change in fair value of derivative liabilities	(728,481)	
Share issuance adjustment	-	(14,396)
Provision for doubtful accounts	-	32,219
Changes in operating assets and liabilities:		
Accounts receivable	1,759	794,689
Inventories	99,300	529,465
Other assets	99,804	2,570
Accounts payable	(429,607)	(428,798)
Advances from customers	(236,893)	295,766
Accrued expenses and compensation	(22,588)	295,780
Net cash used in operating activities	(2,253,574)	(348,205)
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(1,157)	-
Decrease/(Increase) in security deposit	1,500	(4,700)
Net cash provided by (used in) investing activities	343	(4,700)
Cash Flows from Financing Activities:		
Proceeds from short term loan	-	137,100
Repurchase of preferred stock and warrants	(10,000)	-
Net proceeds from issuance of notes payable	2,357,068	-
Net cash provided by financing activities	2,347,068	137,100
Net increase (decrease) in cash	93,837	(215,805)
Cash, beginning of period	87,174	254,350
Cash, end of period	$181,011	$38,545
Supplemental Disclosures of Cash Flow Information:		

Cash paid for income taxes	$-	$600
Non Cash-Flow Items:		
Conversion of 27,000 shares of Series D Preferred Stock to common shares	$-	$4,974

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

CAPRIUS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Nature of Business

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

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

Note 2. Liquidity and Going Concern

The Company has incurred substantial recurring losses. The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has available cash of approximately $181,000 at June 30, 2010. During the nine months ended June 30, 2010, the Company used cash flows from operating activities of approximately $2,254,000. The Company's working capital deficiency was approximately $3,655,000 as of June 30, 2010. The Company's accumulated deficit was approximately $89,559,000 as of June 30, 2010. In addition the Company has a stockholders' deficiency of approximately $4,215,000 at June 30, 2010. As of August 10, 2010, the Company has available cash of approximately $175,000 and has received advances under the Vintage Loan Facility of $3,076,000 in cash and $719,000 in payments in kind. Vintage fees, costs and expenses were to be accrued in addition to these amounts and not deemed a part of the cash advances. Under the Vintage Loan Facility the funds to be advanced to the Company in cash comprised an initial term maximum amount of $1 million and a subsequent term maximum amount of $2 million. Currently, the cash advances exceed the Loan Facility by $76,000. The Company is in discussions with Vintage to revise the original Loan Facility and there is no assurance that the Company will be successful in this regard. In order to fund the Company's current and future cash requirements, the Company is dependent solely upon Vintage for one year from the closing date of September 16, 2009 under the terms of their Loan Facility. Thereafter, the Company is permitted to seek alternative funding provided no event of default has occurred and is continuing under the Vintage Loan Facility. The Company has pledged all of its assets including its intellectual property to Vintage as security for the Vintage Loan Facility and is subject to negative and affirmative covenants thereunder. Currently, the Company is in default under the terms and covenants of the Vintage Loan Facility for the initial and subsequent funding as the Company was obliged to fulfill certain defined covenants and achieve specific milestones, including those relating to unit sales, relocation of manufacturing and the provision and filing of specific financial information. To date, these aforementioned covenants and milestones have not been met and the Company has been put on notice by Vintage of these defaults. Notwithstanding, while Vintage have not waived these defaults, the Company is endeavoring to cure them, where possible. The Company is working on a parallel track to relocate our manufacturing to ensure the supply of finished units. In the interim, the Company is endeavoring to convert the Company's existing inventory into units for sale while the Company identifies a suitable manufacturing location to ramp up production at a manufacturer acceptable to both the Company and Vintage under the terms of their Loan Facility. There can be no assurance that Vintage will continue to fund the Company's operations or that any of the Company's alternative funding initiatives as permitted will be successful.

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

There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 3. Summary of Significant Accounting Policies

Basis of Presentation. The condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial statements and with Form 10-Q and Article 10 of Regulation S-X of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not contain all information and footnotes required by accounting principles generally accepted in the United States of America for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of the Company's management, the accompanying unaudited condensed consolidated financial statements contain all the adjustments necessary (consisting only of normal recurring accruals) to present the financial position of the Company, as of June 30, 2010 and the results of operations and cash flows for the periods presented. The results of operations for the three and nine months ended June 30, 2010 are not necessarily indicative of the operating results for the full fiscal year or any future period.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2009. The Company's accounting policies are described in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the year ended September 30, 2009, and updated, as necessary, in this Quarterly Report on Form 10-Q.

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

Foreign Currency Translation. The Company follows the provisions of ASC 830, "Foreign Currency Translation." The functional currency of our foreign subsidiary is the U.S. dollar. All foreign currency asset and liability amounts are re-measured into U.S. dollars at end-of-period exchange rates. Foreign currency income and expense are re-measured at average exchange rates in effect during the year. Exchange gains and losses arising from foreign currency transactions are included in operations in the period in which they occur. Foreign currency translations are included in other comprehensive income. Foreign currency transactions and translations were not material during the three and nine months ended June 30, 2010 and 2009. A determination that our functional currency is the U.S. Dollar is based on the following facts:

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

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

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

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

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. Inventory consists of raw materials and work in process of $996,720 and finished goods of $55,440 as of June 30, 2010 as compared to raw materials and work in process of $1,032,988 and finished goods of $118,472 as of September 30, 2009.

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

Diluted loss per share reflects the potential dilution that could occur through the effect of common shares issuable upon the exercise of stock options, warrants and convertible securities. For the period ended June 30, 2010, potential common shares amount to 21,445,714 shares, as compared to 32,023,257 for the period ended June 30, 2009 as such, have not been included in the computation of diluted loss per share since the effect would be anti-dilutive. Potential common shares are summarized as follows:

	June 30, 2010	June 30, 2009
Options	3,330,424	2,954,424
Warrants	8,222,317	12,651,314
Underlying Preferred Stock	9,892,973	16,417,519
Totals	21,445,714	32,023,257

The weighted average number of common shares outstanding for the three and nine months ended June 30, 2010 include the underlying shares exercisable with respect to the issuance and subsequent adjustments of warrants exercisable at $0.01 per share. In accordance with ASC 260, Earnings per Share, the Company has given effect to the issuance of these warrants in computing basic net loss per share.

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

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

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

Management believes its credit policies are prudent and reflect normal industry terms and business risk. The Company does not anticipate non-performance by the counter parties and, accordingly, does not require collateral. The Company maintains reserves for potential credit losses and historically such losses, in the aggregate, have not exceeded management's expectations. For the nine months ended June 30, 2010, two customers accounted for $676,882 of the consolidated total revenue, individually they accounted for approximately 53% (customer A) and 25% (customer B) respectively of the consolidated total revenue. There was no accounts receivable for these two major customers at June 30, 2010. For the nine months ended June 30, 2009, two customers accounted for approximately 48% (customer A), and 12% (customer C) respectively of the consolidated total revenue. There was no accounts receivable for these two major customers at June 30, 2009.

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

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

Recent Accounting Pronouncements.

In February 2010, the FASB issued an accounting standard that amended certain recognition and disclosure requirement related to subsequent events. The accounting standard requires an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that a SEC filer disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance. The adoption of this standard had no effect on the Company's condensed consolidated financial position or results of operations. The Company evaluated subsequent events through the date the accompanying condensed consolidated financial statements were issued.

Note 4. Debt Financing

On September 16, 2009, the Company entered into a Securities Purchase and Sale Agreement (together with all collateral documents and promissory notes there under, the "Loan Facility") with Vintage Capital Group, LLC ("Vintage"), whereby Vintage extended a loan facility to the Company maturing on December 16, 2010.

Under the Loan Facility which contains certain operational covenants, Vintage will advance to the Company up to an aggregate of $3.0 million in cash. Interest on advances under the Loan Facility accrues at a rate of 14% per annum (subject to a default rate of 17% per annum). Advances under the Loan Facility, including any subsequent fundings are secured by the grant to Vintage of a first priority lien, pledge and security interest in substantially all of the Company's assets. As discussed in Note 2 the Company is in violation of certain covenants.

Currently, the cash advances exceed the Loan Facility by $76,000. The Company is in discussions with Vintage to revise the original Loan Faciility. There is no assurance that the Company will be successful in this regard.

In connection with the Loan facility, the Company entered into an Investment Monitoring Agreement with Vintage, providing for an Operating Committee initially composed of its Chief Executive Officer and Chief Financial Officer as well as two persons to be selected by Vintage. The Operating Committee was established to review budgets, strategic planning, financial performance and similar matters and has the right to make recommendations to the

Company's Board of Directors.

As of June 30, 2010, under the Loan facility Vintage has advanced to the Company approximately $3.8 million, which the Company has used to satisfy certain liabilities as well as related fees and expenses associated with this agreement.

On January 22, 2010, as a post-closing obligation under the September 2009 Loan Facility, the Company issued a warrant to Vintage (the "Vintage Warrant") to purchase 40% of its common stock, $.01 par value ("Common Stock"), on a fully diluted basis at an exercise price of $0.01 per share for a term of seven years. Based upon the Company's capitalization at the time of the grant, the Vintage Warrant would be exercisable into 25,602,333 shares of Common Stock (this number of shares may change based upon the capitalization representing 40% of the Company's common stock at the time of exercise). Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.04 per share, exercise price of $0.01 per share, zero dividends, expected volatility of 173.90%, risk free interest rate of 0.30% and an expected life of 1 year, the Company has determined that the fair value of these warrants is $0.033 per share or $854,887. This fair value was recorded as a debt discount and is to be amortized over the life of the loan. As of June 30, 2010 the Company has recorded amortization of approximately $388,585 on this debt discount. In addition, Vintage received certain rights to register under the Securities Act of 1933, as amended, the shares underlying the Vintage Warrant, pursuant to a Registration Rights Agreement. Further, the Company granted Vintage certain preemptive rights and observer rights for meetings of the Companies Board of Directors pursuant to an Equity Rights Agreement. The expiration of certain warrants and the repurchase of the SSF preferred stock and warrants reduced the Company's capitalization, which reduced the number of shares exercisable on the Vintage Warrant. On June 30, 2010 and August 10, 2010 the number of shares exercisable on the Vintage Warrant were 17,918,386.

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

In June 2009, the Company entered into short term Bridge Loans pursuant to Unsecured Promissory Notes (the "Notes") to borrow up to a sum of $150,000 subject to interest at 14%. The holders of the Notes were granted Thirty (30) warrants for each One Dollar ($1.00) invested to purchase an aggregate of up to 4,500,000 shares of Common Stock at an exercise price of Ten Cents ($0.10) per share for a period of five years pursuant to Stock Purchase Warrant Agreement. During June 2009, the Company received $75,000 subject to this agreement. The Company issued to this group of short term investors, warrants to purchase an aggregate of 2,250,000 shares of common stock at an exercise price of $0.10 per share for a period of five years. Using the Black Scholes valuation model with the following assumptions: common stock based on a closing market price of $0.06 per share, exercise price of $0.10 per share, zero dividends, expected volatility of 83.82%, risk free interest rate of 2.85% and an expected life of 5 years, the Company has determined that the fair value of these warrants is $0.04 per share. The relative fair value of these warrants was $38,458. This relative fair value was recorded as a debt discount and is to be amortized over the life of the loan. The maturity date of these loans is 90 days from issuance and as such the Company had amortized the full amount of $38,458 as of September 30, 2009. The balance of this short-term loan as of June 30, 2010 net of debt discount is $75,000. These notes will continue to accrue interest at 14% per annum until the Company can repay the note and accrued interest.

Note 5. Derivative Liabilities

In June 2008, the FASB finalized ASC 815, "Determining Whether an Instrument (or Embedded Feature) is indexed to an Entity's Own Stock." Under ASC 815, instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Company has determined that it needs to account for those warrants issued to investors in 2005 and 2007 for its Series C, E and F Convertible Preferred Stock, as derivative liabilities, and apply the provisions of ASC 815. The instruments have a ratchet provision (the Series C, E and F warrants each have provisions that adjust either the exercise price and/or quantity of the warrants in the event of a subsequent offer of equity at a lower effective price than the then applicable exercise price of the warrants). Also, the warrants issued on January 22, 2010 ("2010 Warrants") to Vintage Capital Group LLC in connection with the Loan Facility do not contain fixed settlement provisions. (See note 4). As a result, the instruments need to be accounted for as derivative liabilities. In accordance with ASC 815, these warrants have been re-characterized as derivative liabilities. ASC 815, "Accounting for Derivative Instruments and Hedging Activities" ("ASC 815") requires that the fair value of these liabilities be re-measured at the end of every reporting period with the change in fair value reported in the consolidated statement of operations. As of February 2010 the 2005 Series C warrants have expired.

The fair value of the warrants were measured using the Black-Scholes option pricing model and the following assumptions:

	June 30, 2010		October 1, 2009		Date of issuance	
2005 Series C Warrants:						
Risk-free rate	-		2.32	%	3.875	%
Annual rate of dividends	-		-		0	
Volatility	-		95.89	%	27.01	%
Weighted Average life (years)	0		.42		5	
2007 Series E Warrants:						
Risk-free rate	0.61	%	2.32	%	4.50	%
Annual rate of dividends	0		0		0	
Volatility	144.62	%	95.89	%	78.25	%
Weighted Average life (years)	1.75		2.5		5	
2007 Series F Warrants:						
Risk-free rate	0.61	%	2.32	%	3.35	%
Annual rate of dividends	0		0		0	
Volatility	129.00	%	95.89	%	59.15	%
Weighted Average life (years)	2.5		3.25		5	
2010 Warrants:						
Risk-free rate	0.32	%	-		0.30	%
Annual rate of dividends	0		-		0	
Volatility	179.61	%	-		173.90	%
Weighted Average life (years)	0.58		-		1	
Fair Value	$140,112		$13,706		$3,095,442	

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

ASC 815 was implemented in the first quarter of Fiscal 2010 and is reported as the cumulative effect of a change in accounting principles. At October 1, 2009, the cumulative effect on the accounting for the warrants was recorded as decrease in accumulated deficit by $2,226,849. The difference of $13,706 was recorded as derivative liability. At June 30, 2010, derivative liability associated with the 2005 Series C warrants, the 2007 Series E warrants and the 2007 Series F warrants were revalued, the $6,459 decrease in the derivative liability at June 30, 2010 is included as gain (loss) on change in fair value of derivative liabilities in the Company's condensed consolidated statement of operations for the nine months ended June 30, 2010.

On the date of issuance the derivative liability associated with the 2010 warrants was $854,887. At June 30, 2010, the derivative liability associated with the 2010 warrants was revalued to $132,865. The $722,022 decrease in the derivative liability at June 30, 2010 is included as gain (loss) on change in fair value of derivative liabilities in the Company's condensed consolidated statement of operations for the nine months ended June 30, 2010.

Note 6. Share Based Compensation

The Company uses the Black-Scholes valuation model to value options granted to employees, directors and consultants. Compensation expense, including the effect of forfeitures, is recognized over the period of service, generally the vesting period. The Company recorded total stock-based compensation of $31,427 and $150,792 for the three and nine months ended June 30, 2010 as compared to $68,684 and $212,999 for the three and nine months ended June 30, 2009 for options granted and vested. Stock-based compensation is included in selling, general and administrative expense in the accompanying condensed consolidated statements of operations. During the three and nine months ended June 30, 2010 the Company did not issue any options.

As of June 30, 2010 the fair value of the unvested stock options amounted to $110,152 which is expected to be recognized over a weighted average period of approximately 1.94 years.

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

	Nine months ended June 30, 2009
Risk-Free Interest Rate	2.31%
Expected volatility	76%
Expected life (in years)	4
Expected dividend yield	0%

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

Transactions under the various stock option plans during the nine months ended June 30, 2010 are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at October 1, 2009	3,354,424	$0.54
Granted	-	-
Expired	(24,000)	$3.00
Outstanding at June 30, 2010	3,330,424	$0.52
Exercisable at June 30, 2010	2,088,434	$0.71

The intrinsic value was $0 for both options outstanding and exercisable. The intrinsic value is calculated as the difference between the market value of the Company's common stock at June 30, 2010, which was $0.013 per share and the exercise price of the options

Note 7. Stock Warrants

Warrants outstanding and exercisable are as follows:

	Number of Shares	Warrant Price Per Share	Weighted Average Exercise Price Per Share
Balance October 1, 2009	13,351,314	$0.10-$5.60	$0.71
Granted	25,602,333	$0.01	$0.01
Cancelled (See Note 9)	(2,469,293)	$0.50 - $1.40	$0.65
Adjusted	(7,683,947)	$0.01	$0.01
Expired	(2,659,704)	$0.93 - $5.60	$1.33
Balance, June 30, 2010	26,140,703	$0.01 – $2.00	$0.16

The weighted average remaining contractual life as of June 30, 2010 was 5.27 years. The warrants granted and adjusted during the nine months ended June 30, 2010 were to Vintage Capital Group LLC. Please refer to Note 4.

Note 8. Fair Value Measurement

Valuation Hierarchy

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

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

		Fair Value Measurements at June 30, 2010		
	Total Carrying Value at June 30, 2010	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Derivative liabilities	$ 140,112	$ -	$ -	$ 140,112

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

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

	Nine Months Ended June 30, 2010	2009
Beginning balance	$ (13,706)	$ -
Net unrealized gain on change in fair value of derivative liabilities	728,481	-
Derivative liabilities recorded	(854,887)	-
Ending balance	$ (140,112)	$ -

Note 9. Capital Stock

Repurchase of SSF Preferred Stock and Warrants

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

Under the terms of the agreement, the SSF Funds sold 79,031 shares of Series D Preferred Stock, 4,900 shares of Series E Preferred Stock and 17,966 shares of Series F Preferred Stock (collectively, the "Preferred Shares") together with warrants (the "Warrants" and collectively with the Preferred Shares, the "Sale Securities) to purchase an aggregate of 8,863,200 shares (6,393,907 shares underlying the preferred stock and 2,469,293 shares underlying the warrants) of the Company's Common Stock to the Company, and the Company hereby purchases the Securities from the SSF Funds for an aggregate purchase price of $10,000. As additional consideration in connection with the sale and purchase of the Sale Securities, upon closing the SSF Funds will be deemed to have waived all dividends accrued totaling approximately $484,000 on the Preferred Shares from the respective original issuance dates to the closing hereof. At the time of repurchase the outstanding warrants and the value prescribed to them were not material. Accordingly no gain or loss on the repurchase of the warrants was recorded and this entire transaction was recorded through additional paid-in capital.

Dividends

The Company has never declared dividends or paid cash dividends on the Company's common stock. The Series D Preferred Stock provides for a cumulative dividend of $0.67 per share commencing October 1, 2007, the Series E Preferred Stock provides for a cumulative dividend of $13.50 per share commencing October 1, 2007, and the Series F Preferred Stock provides for a cumulative dividend of $3.24 per share commencing December 6, 2007. The dividends are payable pari passu on the series of preferred stock. At June 30, 2010 and September 30, 2009, the accrued dividends aggregated $803,374 and $933,248.

Note 10. Commitments and Contingencies

Operating leases

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

Legal proceedings

During Fiscal 2009, the Company settled the litigation which had been instituted by Andre Sassoon and Andre Sassoon International, Inc. (collectively, "Sassoon") against Caprius, its subsidiary, MCM Environmental Technologies, Inc.("MCM-US") and George Aaron an executive officer by agreeing on a settlement of $180,000, of which a portion of this settlement was provided directly by the Company's insurance carrier, and entering into mutual general releases and stipulations of discontinuance with prejudice. On October 19, 2009 the Company, along with its insurance carrier paid the agreed upon settlement between the Company and Andre Sassoon. As part of the settlement, the Company received all previously outstanding common stock of MCM-US owned by third parties, which had been pledged to Sassoon under a previous shareholder agreement. As a result, the Company now owns 100% of MCM-US. Previous to this, our interest in MCM-US had been 96.66%.

In September 2008, Goldstar Medical Corporation, filed a complaint against Caprius Inc. and MCM Environmental Technologies, Inc. , (collectively, the "Defendants") in the Supreme Court of the State of New York, County of Rockland, claiming that the Defendants had breached a letter agreement for commissions due to them on sales of SteriMed Systems to one of the Company's customers. The Plaintiffs are seeking damages in excess of $250,000. Based upon our review of the complaint, we believe the Plaintiffs' claims has no merit and the Company will continue to defend this action. We have filed a motion for summary judgment with the Court requesting that this matter be dismissed, this motion is currently pending. Accordingly, we have not recorded any accrual for this litigation as of the date of this filing. On July 16, 2010, the Plaintiffs filed an opposition motion against the Company's motion for summary judgment. In response the Company filed opposition to the plaintiff's motion to dismiss our motion to dismiss the case by way of summary judgment. On August 11, 2010, the plaintiff filed papers in support of its Sur-Reply in furtherance of its opposition to the Company's motion for summary judgment.

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

Manufacturing

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

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

On November 30, 2009, the Office of the Chief Scientist ("OCS") in Israel approved the request of the Company's Israeli Subsidiary MCM Environmental Technologies LTD to transfer its technology rights to MCM Environmental Technologies Inc, the Company's US subsidiary upon repayment to the OCS of approximately $240,000 representing the balance of an OCS grant. The OCS grant had been to assist MCM Environmental Technologies LTD in the development of certain technology related to the Company's SteriMed System.

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® 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. The Companies business requires the Company 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 the Company sells or leases the SteriMed Systems.

In markets outside the U.S., the Company's ability to market the SteriMed Systems is governed by the regulations of the specific country. In foreign countries, the Company primarily markets through distributors and it relies on them to obtain the necessary regulatory approvals to permit the SteriMed Systems to be marketed in that country. The Company is therefore dependent on the distributors to process these applications where required. In many of these countries, the company has no direct control or involvement in the approval process, and therefore it cannot estimate when its product will be available in that market.

Note 11. Geographic Information

The Company does not have reportable operating Segments as defined in the ASC 280 "Disclosures about Segments of an Enterprise and related information" The method for attributing revenues to individual customers is based on the destination to which finished goods are shipped.

The Company operates facilities in the United States of America and Israel. The following is a summary of information by area for the nine months ended June 30, 2010 and 2009.

	Three months ended June 30, 2010	Three months ended June30, 2009	Nine months ended June 30, 2010	Nine months ended June 30, 2009
Net Revenues:				
Israel	$ 86,464	$ 288,269	$ 781,685	$ 754,563
United States	66,500	135,311	92,750	308,913
Totals	$ 152,964	$ 423,580	$ 874,435	$ 1,063,476

	June 30, 2010	September 30, 2009
Identifiable Assets:		
Israel	$ 1,003,305	$ 1,204,327
United States	653,594	875,681
Totals	$ 1,656,899	$ 2,080,008

Note 12. Subsequent Events

On August 2, 2010, the Company received additional funding under the Vintage Loan Facility of approximately $202,000 in cash and $14,000 in payments in kind.

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis summarizes the significant factors affecting our condensed consolidated results of operations, financial condition and liquidity position for the three and nine months ended June 30, 2010. This discussion and analysis should be read in conjunction with our audited financial statements and notes thereto included in our Annual Report on Form 10-K for our year-ended September 30, 2009 and the condensed consolidated unaudited financial statements and related notes included elsewhere in this filing. The following discussion and analysis contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements.

Forward Looking Statements

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

Overview

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

Results of Operations

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Revenues generated from MCM product sales totaled $152,964 for the three months ended June 30, 2010 as compared to $423,580 for the three months ended June 30, 2009. This decrease is a result of the Company's inability to obtain and deliver units to customers due to the closure of the Company's third party manufacturer. The Company has affected a program to restore deliveries of units on a limited basis.

Cost of product sales amounted to $78,783 or 52% of total related revenues for the three months period ended June 30, 2010 versus $268,705 or 63% of total related revenues for the three month period ended June 30, 2009. The percentage costs correlate to the Company's inability to fully absorb production overhead.

Research and development expense totaled $8,335 for the three month period ended June 30, 2010 versus $4,281 for the three month period ended June 30, 2009.

Selling, general and administrative expenses totaled $631,111 for the three months ended June 30, 2010 versus $705,420 for the three months ended June 30, 2009. This decrease is principally due to the reduction in personnel, personnel related costs and other corporate activity.

Other income totaled $2,868 for the three months ended June 30, 2010 as compared to $159 for the three months ended June 30, 2009.

Interest expense totaled $494,014 for the three months ended June 30, 2010 versus $6,152 for the three months ended June 30, 2009. This variance was due to interest accrued on short term loans and notes payable, as well as the amortization expense of deferred finance costs and debt discount on notes payable which were not present during the three months ended June 30, 2009.

Gain on change in fair value of derivative liabilities totaled $298,486 for the three months ended June 30, 2010 versus $0 for the three months ended June 30, 2009. This gain resulted from the revaluation of derivative liabilities.

The net loss amounted to $757,925 and $560,819 for the three month periods ended June 30, 2010 and 2009, respectively.

Nine Months Ended June 30, 2010 Compared to Nine Months Ended June 30, 2009

Revenues generated from MCM product sales totaled $874,435 for the nine months ended June 30, 2010 as compared to $1,063,476 for the nine months ended June 30, 2009. This increase is a result of the Company's ability to manufacture and deliver units that were previously on backorder. During the first three months of fiscal 2010 the Company was able to satisfy substantially all of the units on backorder from the previous fiscal year. In this quarter the company has affected a program to restore deliveries of units on a limited basis.

Cost of product sales amounted to $671,166 or 77% of total related revenues for the nine months period ended June 30, 2009 versus $694,067 or 65% of total related revenues for the nine month period ended June 30 2009. The increased percentage cost is due to the absorption of the accelerated payment to the Office of the Chief Scientist in Israel, during the three months ended December 31, 2009. Previously, this repayment had been made on a royalty basis, based upon a percentage of sales for the period. With the repayment in full having been made to the Office of the Chief Scientist, the company will no longer be liable for royalty payments in future periods.

Research and development expense decreased to $29,365 for the nine month period ended June 30, 2010 versus $119,817 for the nine month period ended June 30, 2009. This decrease is due primarily from the reduction of customer specific requirements and the available funds for such projects within the Company during the nine months ended June 30, 2010. Given the Company's current level of operations, we do not anticipate any significant research and development expense in the current fiscal year unless a specific customer requirement is received that will fund the expense.

Selling, general and administrative expenses totaled $1,964,582 for the nine months ended June 30, 2010 versus $2,394,598 for the nine months ended June 30, 2009. This decrease is principally due to the reduction in personnel, personnel related costs and other corporate activity. The Company does not anticipate any significant increase in operating expenses until production and sales volumes increase substantially from their current levels.

Other income totaled $177,610 for the nine months ended June 30, 2010 as compared to $70,376 for the nine months ended June 30, 2009. The majority of other income in the nine months ended June 30, 2010 resulted from the favorable settlement of certain outstanding liabilities, while other income during the nine months ended June 30, 2009 resulted from an insurance claim.

Interest expense totaled $1,118,179 for the nine months ended June 30, 2010 versus $16,995 for the nine months ended June 30, 2009. This variance was due to interest accrued on short term loans and notes payable, as well as the amortization expense of deferred finance costs and debt discount on notes payable which were not present during the nine months ended June 30, 2009.

Gain on change in fair value of derivative liabilities totaled $728,481 for the nine months ended June 30, 2010 versus $0 for the nine months ended June 30, 2009. This gain resulted from the adoption of ASC 815 during Fiscal 2010 and subsequent revaluation of derivative liabilities.

The net loss amounted to $2,002,766 and $2,091,625 for the nine month periods ended June 30, 2010 and 2009, respectively.

Liquidity and Capital Resources

At June 30, 2010, our cash position approximated $181,000. Our working capital deficiency as of June 30, 2010 was approximately $3,655,000. Net cash used in operations for the nine months ended June 30, 2010 amounted to approximately $2,254,000 as compared to approximately $ 348,000 for the nine months ended June 30, 2009. The net cash used in operations increased during the nine months ended June 30, 2010 compared to the nine months ended June 30, 2009 as the Company was able to clear a portion of its sales backlog and pay suppliers as a result of the Vintage Loan Facility. Net cash provided by (used in) investing activities amounted to approximately $350 and approximately ($4,700) for the nine months ended June 30, 2010 and 2009 respectively. Net cash provided by financing activities for the nine months ended June 30, 2010 amounted to approximately $2,347,000 which mainly resulted from the issuance of the Secured Notes Payable as compared to $137,100 for the nine months ended June 30, 2009.

As of June 30, 2010, accounts receivable, net of allowance for doubtful accounts totaled $28,966 and was 2% of total assets. The normal collection period is between 45 and 90 days. At June 30, 2009, accounts receivable, net of allowance for doubtful accounts totaled $29,466 and was 2% of total assets. Due to our past history with collections, we are reasonably confident that all of the remaining receivables are collectible.

In September 2009, we entered into a Securities Purchase and Sale Agreement (together with all collateral documents and promissory notes there under, the "Loan Facility") with Vintage Capital Group, LLC ("Vintage"), whereby Vintage extended a loan facility to the Company. The Loan Facility provides that, Vintage will advance to us up to an aggregate of $3.0 million in cash. Currently, the cash advances exceed the Loan Facility by $76,000. The Company is in discussions with Vintage to revise the original Loan Facility and there is no assurance that the Company will be successful in this regard. Interest on advances under the Loan Facility accrues at a rate of 14% per annum, subject to a default rate of 17% per annum. Advances under the Loan Facility, including any subsequent funding, are secured by the grant to Vintage of a first priority lien, pledge and security interest in substantially all our assets and the assets of our active subsidiaries. As of August 10 2010, under the Loan facility, Vintage advanced approximately $3.8 million($3,076,000 in cash and $719,000 in payments in kind), which the Company used to pay off certain liabilities as well as related fees and expenses associated with the Securities Purchase and Sale Agreement.

In June 2009, we entered into short term Bridge Loans pursuant to Unsecured Promissory Notes (the "Notes") to borrow up to a sum of $150,000 subject to interest at 14%. During June and August 2009, we received an aggregate of $100,000 as Bridge Loans. We issued to these lenders warrants to purchase an aggregate of 3,000,000 shares of Common Stock at an exercise price of $0.10 per share for a period of five years. These Notes remain outstanding. Warrants issued in connection with these short term bridge loans are valued used the Black Scholes valuation model and the relative fair value of these warrants has been recorded as a debt discount to the loans.

Liquidity and Going Concern

The Company has incurred substantial recurring losses. The accompanying condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has available cash of approximately $181,000 at June 30, 2010. During the nine months ended June 30, 2010, the Company used cash flows from operating activities of approximately $2,254,000. The Company's working capital deficiency was approximately $3,655,000 as of June 30, 2010. The Company's accumulated deficit was approximately $89,559,000 as of June 30, 2010. In addition the Company has a stockholders' deficiency of approximately $4,215,000 at June 30, 2010. As of August 10, 2010, the Company has available cash of approximately $175,000 and has received advances under the Vintage Loan Facility of $3,076,000 in cash and $719,000 in payments in kind. Vintage fees, costs and expenses were to be accrued in addition to these amounts and not deemed a part of the cash advances. Under the Vintage Loan Facility the funds to be advanced to the Company in cash comprised an initial term maximum amount of $1 million and a subsequent term maximum amount of $2 million. Currently, the cash advances exceed the Loan Facility by $76,000. The Company is in discussions with Vintage to revise the original Loan Facility and there is no assurance that the Company will be successful in this regard. In order to fund our current and future cash requirements, we are dependent solely upon Vintage for one year from the closing date of September 16, 2009 under the terms of their Loan Facility. Thereafter, we are permitted to seek alternative funding provided no event of default has occurred and is continuing under the Vintage Loan Facility. The Company has pledged all of its assets including its intellectual property to Vintage as security for the Vintage Loan Facility and is subject to negative and affirmative covenants thereunder. Currently, the Company is in default under the terms and covenants of the Vintage Loan Facility for the initial and subsequent funding as we were obliged to fulfill certain defined covenants and achieve specific milestones, including those relating to unit sales, relocation of manufacturing and the provision and filing of specific financial information. To date, these aforementioned covenants and milestones have not been met and we have been put on notice by Vintage of these defaults. Notwithstanding, while Vintage have not waived these defaults, we are endeavoring to cure them where possible. The Company is working on a parallel track to relocate our manufacturing to ensure the supply of finished units. In the interim, we are endeavoring to convert our existing inventory into units for sale while we identify a suitable manufacturing location to ramp up production at a manufacturer acceptable to both the Company and Vintage under the terms of their Loan Facility. There can be no assurance that Vintage will continue to fund our operations or that any of our alternative funding initiatives as permitted will be successful.

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

There can be no assurance that such funding initiatives will be successful and any equity placement could result in substantial dilution to current stockholders. The above factors raise substantial doubt about the Company's ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability of the recorded assets or the classification of the liabilities that might be necessary should the Company be unable to continue as a going concern.

Critical Accounting Policies

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, management evaluates our estimates and assumptions, including but not limited to those related to stock-based compensation, the useful life of fixed assets, depreciation and amortization, goodwill impairment, warrants, income taxes, foreign currency and other contingencies. Management bases its estimates on historical experience and various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

1. Revenue recognition

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

2. Derivative Liabilities

The Company does not use derivative instruments to hedge exposures to cash flow, market or foreign currency risks. The Company evaluates all of its financial instruments to determine if such instruments are derivatives or contain features that qualify as embedded derivatives. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported in the condensed consolidated statement of operations. For stock-based derivative financial instruments, the Company uses the Black-Scholes option pricing model to value the derivative instruments at inception and on subsequent valuation dates. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is evaluated at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on the term of the underlying derivative instrument. See Note 5 to our condensed consolidated financial statements.

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Recent Accounting Pronouncements

In February 2010, the FASB issued an accounting standard that amended certain recognition and disclosure requirement related to subsequent events. The accounting standard requires an SEC filer to evaluate subsequent events through the date that the financial statements are issued and removes the requirement that a SEC filer disclose the date through which subsequent events have been evaluated. This guidance was effective upon issuance. The adoption of this standard had no effect on the Company's condensed consolidated financial position or results of operations. The Company evaluated subsequent events through the date the accompanying condensed consolidated financial statements were issued.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not required as we are a Smaller Reporting Company.

Item 4T. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

It is the responsibility of the Company's management to establish and maintain adequate internal control over financial reporting. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) of the Securities Exchange Act of 1934), as of June 30, 2010. Based on that evaluation of the disclosure controls and procedures, such controls were deemed to be ineffective. Due to its limited financial resources, there is only limited segregation of duties within the accounting function, leaving most significant aspects of financial reporting in the hands of the Chief Financial Officer.

A significant deficiency is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of a registrant's financial reporting.

A material weakness is a significant deficiency (or a combination of significant deficiencies) that result in a more-than-remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Company's significant deficiency involves a lack of segregation of duties within its internal control function. Due to the inherent issue of segregation of duties in a small company, we have relied heavily on entity or management review controls to lessen the issue of segregation of duties.

Management is aware that there is a lack of segregation of duties at the Company due to the small number of employees dealing with general, administrative and financial matters. This constitutes a significant deficiency in financial reporting. However, at this time, management has decided that considering the employees involved and the control procedures in place, the risks associated with such lack of segregation of duties are insignificant and the potential benefits of adding additional employees to clearly segregate duties do not justify the expenses associated with such increases. Management will periodically reevaluate this situation. If the volume of the business increases and sufficient capital is secured, it is the Company's intention to further increase staffing to mitigate the current lack of segregation of duties within the general, administrative and financial functions.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls over financial reporting during the nine months ended June 30, 2010, that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 6. Exhibits.

31.1 Section 302 Certification of Principal Executive Officer
31.2 Section 302 Certification of Principal Financial Officer
32.1 Section 906 Certification of Principal Executive Officer
32.2 Section 906 Certification of Principal Financial Officer

SIGNATURES

Pursuant to the requirements 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.

	Caprius, Inc. (Registrant)
Date: August 17, 2010	/s/Dwight Morgan Dwight Morgan President & Chief Executive Officer
Date: August 17, 2010	/s/Jonathan Joels Jonathan Joels Chief Financial Officer