

CAPRIUS INC  
Form POS AM  
August 10, 2007

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As filed with the Securities and Exchange Commission on August 10, 2007

Registration No. 333-132849

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM SB-2**

**POST-EFFECTIVE AMENDMENT NO. 1  
TO  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**CAPRIUS, INC.**

(Name of Small Business Issuer in Its Charter)g

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**3845**  
(Primary Standard Industrial  
Classification Code Number)

**22-2457487**  
(I.R.S. Employer  
Identification Number)

**One University Plaza, Suite 400  
Hackensack, New Jersey 07601  
(201) 342-0900**

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

**Jonathan Joels**  
**Treasurer and Chief Financial Officer**  
**One University Plaza, Suite 400**  
**Hackensack, New Jersey 07601**  
**(201) 342-0900**

(Name, Address and Telephone Number of Agent For Service)

*Copies to:*  
**Bruce A. Rich, Esq.**  
**Thelen Reid Brown Raysman & Steiner LLP**  
**875 Third Avenue**  
**New York, New York 10022**  
**(212) 603-2000**

**Approximate Date of Proposed Sale to the Public:** from time to time after the effective date of this  
Registration Statement.

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If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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PROSPECTUS

3,176,281 shares of Common Stock

**CAPRIUS, INC.**

This prospectus relates to the sale or other disposition by the selling stockholders identified on pages 36 to 38 of this prospectus, or their transferees, of up to 3,176,281 shares of our common stock, which includes (i) 376,200 outstanding shares, (ii) 1,949,330 shares underlying shares of our Series D Convertible Preferred Stock and (iii) 850,751 shares issuable upon exercise of warrants. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

We will receive no proceeds from the sale or other disposition of the shares, or interests therein, by the selling stockholders. However, we will receive proceeds in the amount of \$1,076,723 assuming the cash exercise of all of the warrants held by the selling stockholders, subject to certain of the warrants being exercised under a “cashless exercise” right.

Our common stock is traded on the over-the-counter electronic bulletin board. Our trading symbol is CAPS. On August 3, 2007, the last bid price as reported was \$0.73 per share.

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

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

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

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

August \_\_, 2007

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**PROSPECTUS SUMMARY**

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

**THE COMPANY**

**Background**

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

Our principal business office is located at One University Plaza, Suite 400, Hackensack, New Jersey 07601, and our telephone number at that address is (201) 342-0900. Our internet website is [www.caprius.com](http://www.caprius.com). The information contained on our website is not incorporated by reference in this prospectus and should not be considered a part of this prospectus.

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

**History**

We were founded in 1983 and until June 1999 essentially operated in the business of developing specialized medical imaging systems, as well as operating the Strax Institute (“Strax”), a comprehensive breast imaging center. In June 1999, we acquired Opus Diagnostics, Inc and began manufacturing and selling medical diagnostic assays constituting the therapeutic drug monitoring (“TDM”) Business. In October 2002, we sold the TDM business. The Strax Institute was sold in September 2003.

**Acquisition of M.C.M. Environmental Technologies, Inc.**

In December 2002, we closed the acquisition of our initial investment of 57.53% of the capital stock of MCM for a purchase price of \$2.4 million. MCM wholly-owns MCM Environmental Technologies Ltd., an Israeli corporation, which initially developed the SteriMed Systems. Upon closing, our designees were elected to three of the five seats on MCM’s Board of Directors, with George Aaron, our then chairman, and Jonathan Joels, our CFO, filling two seats. Additionally, as part of the acquisition, 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. Our ownership interest in MCM has increased to 96.66% by reason of conversion of loans we had made to MCM and our meeting cash calls of MCM.

**SteriMed Systems**

We developed and market worldwide the SteriMed and SteriMed Junior compact units. These units simultaneously shred and disinfect RMW, reducing its volume up to 90%, and rendering it harmless for disposal as ordinary

waste. The SteriMed Systems are patented, environmentally-friendly, on-site disinfecting and destruction units that can process regulated clinical waste, including sharps, dialysis filters, pads, bandages, plastic tubing and even glass, in a 15 minute cycle. The units, comparable in size to a washer-dryer, simultaneously shred, grind, mix and disinfect the waste with the proprietary Ster-Cid® solution. After treatment, the material may be discarded as conventional solid waste, in accordance with appropriate regulatory requirements.

The SteriMed Systems enable generators of RMW, such as clinics and hospitals, to significantly reduce cost for treatment and disposal of RMW, eliminate the potential liability associated with the regulated “cradle to

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grave” tracking system involved in the transport of RMW, and treat in-house RMW on-site in an effective, safe and easy manner. As the technology for disinfection is chemical-based, within the definitions used in the industry, it is considered as an alternative treatment technology.

The SteriMed Systems are comprised of two different sized units, and the required Ster-Cid® disinfectant solution can be utilized with both units. The larger SteriMed can treat up to 18.5 gallons (70 liters) of medical waste per cycle. The smaller version, the SteriMed Junior, can treat 4 gallons (15 liters) per cycle.

Ster-Cid® is our proprietary disinfectant solution used in the SteriMed Systems. Ster-Cid® is biodegradable and is registered with the U.S. Environmental Protection Agency (“U.S. EPA”) in accordance with the Federal Insecticide, Fungicide, Rodenticide Act of 1972 (“FIFRA”). During the SteriMed disinfecting cycle, the concentration of Ster-Cid® is approximately 0.5% of the total volume of liquids. The Ster-Cid® disinfectant in conjunction with the SteriMed Systems has been tested in independent laboratories. Results show that disinfection levels specified in the U.S. EPA guidance document, “Report on State and Territorial Association on Alternate Treatment Technologies” (“STAATT”), are met. Furthermore, it is accepted by the waste water treatment authorities to discharge the SteriMed effluent containing a low concentration of the disinfectant into the sewer system. STAATT is a worldwide organization involved in setting criteria for efficacy of alternative medical waste treatment technologies.

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

In the United States, the initial focus of marketing the SteriMed Systems has been to dialysis clinics on a lease or sales basis. We have also begun initial installations in other new sectors such as surgical centers, laboratories, plasmapheresis centers, and hospitals. Other potential markets include blood banks, cruise ships and military medical facilities.

Internationally, we continue to market our SteriMed Systems both directly and indirectly through distributors. Our distributors are trained by us to enable them to take on the responsibility for the installation and maintenance that are required for the SteriMed Systems.

## **RECENT DEVELOPMENTS**

In June 2007, pursuant to an Amendment to Royalty Agreement among us, our subsidiary Opus Diagnostics Inc. and Seradyn, Inc. the parties terminated the Royalty Agreement, dated October 9, 2002, upon Seradyn paying us \$500,000 plus the royalties due for the period from April 1, 2007 to May 15, 2007. We had entered into the Royalty Agreement as part of the October 2002 sale of the TDM business to Seradyn.

## **PRIOR PLACEMENTS**

On March 1, 2007, we closed a private placement of 10,000 shares of Series E Convertible Preferred Stock (“Series E Preferred Stock”) and warrants for net proceeds of approximately \$2,350,000. The Series E Preferred Stock is convertible into 6,250,000 shares of common stock, and the warrants are for the purchase of 3,125,000 shares of common stock at \$0.50 per share, exercisable for five years, subject to anti-dilution provisions therein. The net proceeds of the placement were used to repay a \$100,000 bridge loan and the balance is being used for general working capital purposes, primarily for manufacturing and marketing purposes.

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In February 2006, we received gross proceeds of \$3.0 million upon issuance of Series D Convertible Preferred Stock and warrants for the purchase of 850,751 shares of common stock at exercise prices ranging from \$0.90 to \$2.00 per share. The currently outstanding Series D Convertible Preferred Stock is convertible into 3,370,286 shares of common stock, after giving effect to anti-dilution adjustments thereon and prior conversions into 376,200 shares of common stock.

In February 2005, we received gross proceeds of \$4.5 million upon issuance of Series C Convertible Preferred Stock and warrants for the purchase of 695,682 shares of common stock at exercise prices ranging from

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\$1.11 to \$1.66 per share, after giving effect to anti-dilution adjustments thereon. In April 2005 all of the Series C Preferred Stock was converted into common stock.

**THE OFFERING**

**Securities Covered  
Hereby**

3,176,281 shares, which includes (i) 376,200 shares outstanding, (ii) 1,949,330 shares underlying Series D Convertible Preferred Stock and (iii) 850,751 shares subject to warrants.

In February 2006, we received gross proceeds of \$3.0 million upon issuance of Series D Convertible Preferred Stock and warrants for the purchase of 850,751 shares of common stock at exercise prices ranging from \$0.90 to \$2.00 per share. The currently outstanding Series D Convertible Preferred Stock is convertible into 3,370,286 shares of common stock, after giving effect to anti-dilution adjustments thereon, of which 1,949,330 of such underlying shares are registered herein, and prior conversions of 376,200 shares.

**Common Stock Outstanding prior to the  
Offering**

3,791,673 shares

**Common Stock to be Outstanding after the  
Offering**

6,591,754 shares, assuming the selling stockholders convert the portion of their Series D Convertible Preferred Stock included herein and exercise all their warrants, and no conversion of other series of outstanding preferred stock, including the balance of the Series D Convertible Preferred Stock, nor exercise of the other outstanding warrants and options.

**Use of  
Proceeds**

We will receive no proceeds from the sale or other disposition of the shares of common stock covered hereby by the selling stockholders. However, we will receive \$1,076,723 if all of the warrants for underlying shares included in this prospectus are exercised for cash. We will use these proceeds for general corporate purposes.



**OTC Electronic Bulletin Board Symbol**      “CAPS”

**RISK FACTORS**

Although we have been conducting our current operations for more than four years, our business has not yet produced any positive cash flow or profits. We had net losses of approximately \$3,396,000 (or \$1.02) per share for the fiscal year ended September 30, 2006 and approximately \$1,571,000 or (\$0.43) for the six months ended March 31, 2007. Our accountants' report for the 2006 fiscal year expressed we had “suffered recurring losses from operations which raises substantial doubt about (our) ability to continue as a going concern.” Our ability to maintain and expand our operations depends upon the generation of increased sales with positive cash flow and also the raising of additional capital, as needed.

See “RISK FACTORS” for a discussion of the above factors and certain additional factors that should be considered in evaluating an investment in the common stock

Table of Contents**SUMMARY FINANCIAL AND OPERATING INFORMATION**

The following selected financial information is derived from the Consolidated Financial Statements appearing elsewhere in this prospectus and should be read in conjunction with the Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this prospectus.

Summary of Operations	Year Ended September 30,		Six Months Ended March 31, (Unaudited)	
	2006	2005	2007	2006
Total revenues	\$ 1,235,469	\$ 848,802	\$ 1,148,021	\$ 512,926
Net loss	(3,396,041)	(2,538,408)	(1,570,884)	(1,404,640)
Net loss per common share (basic and diluted)	\$ (1.42)	\$ (1.16)	\$ (1.08)	\$ (0.82)
Weighted average common shares outstanding, basic and diluted	3,321,673	2,288,543	3,626,398	3,321,673

Statement of Financial Position	As of September 30, 2006	As of March 31, 2007 (Unaudited)
	Cash and cash equivalents	\$ 1,068,954
Total assets	2,777,020	3,970,169
Working capital	1,653,302	2,626,861
Long-term debt	-	-
Stockholders' equity	2,159,491	3,087,157

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**RISK FACTORS**

The shares of our common stock being offered for resale by the selling stockholders are highly speculative in nature, involve a high degree of risk and should be purchased only by persons who can afford to lose the entire amount invested in the common stock. Before purchasing any of the shares of common stock, you should carefully consider the following factors relating to our business and prospects. If any of the following risks actually occurs, our business, financial condition or operating results could be materially adversely affected. In such case, the trading price of our common stock could decline and you may lose all or part of your investment. The risks and uncertainties described below are not the only risks facing us.

**Business Risks**

**We Have a History of Losses**

To date, we have been unable to generate revenue sufficient to be profitable. We had a net loss of approximately \$3,396,000, or \$(1.02) per share, for the fiscal year ended September 30, 2006, compared to a net loss of approximately \$2,538,000, or \$(1.11) per share, for the fiscal year ended September 30, 2005, and a net loss of approximately \$1,571,000 or \$(0.43) per share, for the six month period ended March 31, 2007. We can expect to incur losses for the immediate foreseeable future. There can be no assurance that we will achieve the level of revenues needed to be profitable in the future or, if profitability is achieved, that it will be sustained. Due to these losses, we have a continuing need for additional capital.

**Risk of Need for Additional Financing**

We raised gross proceeds of \$2.5 million in a placement of Series E Convertible Preferred Stock in the second quarter of fiscal 2007, gross proceeds of \$3.0 million in a placement of Series D Convertible Preferred Stock in the second quarter of fiscal 2006, and gross proceeds of \$4.5 million in a placement of Series C Preferred Stock in the second quarter of 2005. The net proceeds from these placements should fulfill our capital needs through March 31, 2008 based upon our present business plan. However, we expect to require additional working capital or other funds in the near future should we need to modify our business plan. These funds are required to support our marketing efforts, obtain additional regulatory approvals both domestically and overseas as well as to provide working capital for our manufacturing purposes. In the event we are unable to achieve any market penetration in the near term, secure regulatory approvals or build inventory available for immediate delivery, our ability to secure future additional funding could be severely jeopardized. No assurance can be given that we will be successful in obtaining additional funds, whether publicly or privately or through equity or debt. Any such financing could be highly dilutive to stockholders.

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

The MCM business, our primary business, has yet to realize the acceptance in the market place that we had anticipated, so there is no meaningful historical financial or other information available upon which you can base your evaluation of this business and its prospects. We acquired the MCM business in December 2002 and have generated insubstantial revenues to date from it.

We have so far been unable to attract and convince customers to switch from their current method of dealing with the disposal of their medical waste to a new technology and to adjust their current in-house system to adapt to our SteriMed Systems. As a consequence, the revenue and income potential of our business is unproven. Further, we cannot estimate the expenses for operating the business. If we are incorrect in our estimates, it could be detrimental to our business.

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

At present, the SteriMed is manufactured at our own facility in Israel. The SteriMed Junior is currently manufactured by a third-party manufacturer in Israel. While we expect our manufacturing and product development work to continue in Israel, due to the limited capacity as well as the high costs of transportation from Israel, we continue to seek sub-assembly manufacturers to enable us to reduce the cost of the SteriMed Junior as well as

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alternative locations for the manufacture of our SteriMed Junior. As we receive interest from these manufacturers, we will then undertake a detailed analysis to ensure that they are sufficiently qualified to manufacture our unit and that their costs are acceptable to us. If we fail to effectively manufacture or cause the manufacture of or fail to develop a market to increase the manufacturing needs for our SteriMed Systems, we will likely be unable to recover the losses we will have incurred in attempting to produce and market these products and technologies and may be unable to make sales or ever become profitable.

### **Dependence on Our Third-Party Component Suppliers**

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

### **We Are Subject to Extensive Governmental Regulation with which it is Frequently Difficult, Expensive And Time-Consuming to Comply.**

The medical waste management industry is subject to extensive U.S. EPA, state and local laws and regulations relating to the collection, packaging, labeling, handling, documentation, reporting, treatment and disposal of regulated medical waste. The use of the Ster-Cid® disinfectant in the SteriMed Systems is registered with the U.S. EPA under FIFRA; however, the SteriMed Systems are not subject to U.S. EPA registration. Our business requires us to comply with these extensive laws and regulations and also to obtain permits, authorizations, approvals, certificates or other types of governmental permission from all states and some local jurisdictions where we sell or lease the SteriMed Systems. The SteriMed has been approved for marketing in 46 states and the SteriMed Junior in 42 states. It is our objective to obtain approvals for marketing in the remaining states. The Ster-Cid® has been registered in 50 states. Our ability to obtain such approvals in the remaining states and the timing and cost to do so, if successful, cannot be easily determined nor can the receipt of ultimate approval be assumed.

In markets outside the U.S., our ability to market the SteriMed Systems is governed by the regulations of the specific country. In foreign countries, we primarily market through distributors and we rely on them to obtain the necessary regulatory approvals to permit the SteriMed Systems to be marketed in that country. We are therefore dependent on the distributors to process these applications where required. In many of these countries, we have no direct control or involvement in the approval process, and therefore we cannot estimate when our product will be available in that market.

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

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

**We May Not Be Able to Effectively Protect Our Intellectual Property Rights and Proprietary Technology, Which Could Have a Material Effect on Our Business and Make It Easier For Our Competitors to Duplicate Our Products.**

We regard certain aspects of our products, processes, services and technology as proprietary, and we have trademarks and patents for certain aspects of the SteriMed Systems. Our ability to compete successfully will depend in part on our ability to protect our proprietary rights and to operate without infringing on the proprietary right of others, both in the United States and abroad. Our proprietary rights to Ster-Cid® relate to an exclusive worldwide license that we had obtained from a third party manufacturer in Europe to purchase the Ster-Cid® disinfectant. The

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patent positions of medical waste technology companies generally involve complex legal and factual questions. While patents are important to our business, the regulatory approvals are more critical in permitting us to market our products. We may also apply in the future for patent protection for uses, processes, products and systems that we develop. There can be no assurance that any future patent for which we apply will be issued, that any existing patents issued will not be challenged, invalidated or circumvented, that the rights granted thereunder will provide any competitive advantage, that third-parties will not infringe or misappropriate our proprietary rights or that third parties will not independently develop similar products, services and technology. We may incur substantial costs in defending any patent or license infringement suits or in asserting any patent or license rights, including those granted by third parties, the expenditure of which we might not be able to afford. An adverse determination could subject us to significant liabilities to third parties, require us to seek licenses from or pay royalties to third parties or require us to develop appropriate alternative technology. There can be no assurance that any such licenses would be available on acceptable terms or at all, or that we could develop alternate technology at an acceptable price or at all. Any of these events could have a material adverse effect on our business and profitability.

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

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

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

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

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

### **Other Parties May Assert That Our Technology Infringes On Their Intellectual Property Rights, Which Could Divert Management Time and Resources and Possibly Force Us To Redesign Our Products.**

Developing products based upon new technologies can result in litigation based on allegations of patent and other intellectual property infringement. While no infringement claims have been made or threatened against us, we cannot assure you that third parties will not assert infringement claims against us in the future, that assertions by such parties will not result in costly litigation, or that they will not prevail in any such litigation. In addition, we cannot assure you

that we will be able to license any valid and infringed patents from third parties on commercially reasonable terms or, alternatively, be able to redesign products on a cost-effective basis to avoid infringement.

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

Our success is highly dependent on the continued efforts of Dwight Morgan, Chairman, President and Chief Executive Officer, George Aaron, Executive Vice President – International and Business Development, and Jonathan Joels, Chief Financial Officer, Treasurer and Secretary, who are our key management persons. Should

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operations expand, we will need to hire persons with a variety of skills and competition for these skilled individuals could be intense. Neither Mr. Morgan, Mr. Aaron, nor Mr. Joels plan to retire or leave us in the near future. However, there can be no assurance that we will be successful in attracting and/or retaining key personnel in the future. Our failure to do so could adversely affect our business and financial condition. We do not have employment agreements with or carry any “key-man” insurance on the lives of any of our officers or employees.