FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2007-12-10** | Period of Report: **2007-10-31**
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FILER

CANTEL MEDICAL CORP

CIK:**19446**| IRS No.: **221760285** | State of Incorp.:**DE** | Fiscal Year End: **0731**
Type: **10-Q** | Act: **34** | File No.: **001-31337** | Film No.: **071295987**
SIC: **3841** Surgical & medical instruments & apparatus

Mailing Address
OVERLOOK AT GREAT NOTCH
150 CLOVE ROAD
LITTLE FALLS NJ 07424

Business Address
OVERLOOK AT GREAT NOTCH
150 CLOVE ROAD
LITTLE FALLS NJ 07424
9734708700

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

☒ **Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended October 31, 2007.

or

☐ **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: 001-31337

CANTEL MEDICAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**22-1760285**
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification no.)
150 Clove Road, Little Falls, New Jersey	**07424**
(Address of principal executive offices)	(Zip code)

Registrant' s telephone number, including area code
(973) 890-7220

Indicate by check mark whether 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 the filing requirements for the past 90 days. Yes ☒ No ☐

-
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

-
Number of shares of Common Stock outstanding as of November 30, 2007: 16,265,081.

PART I - FINANCIAL INFORMATION

ITEM 1. - FINANCIAL STATEMENTS

CANTEL MEDICAL CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollar Amounts in Thousands, Except Share Data)

(Unaudited)

	October 31, 2007	July 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 17,625	$ 15,860
Accounts receivable, net of allowance for doubtful accounts of $1,099 at October 31 and $927 at July 31	32,633	30,441
Inventories:		
Raw materials	11,804	11,773
Work-in-process	4,277	3,691
Finished goods	14,479	11,856
Total inventories	30,560	27,320
Deferred income taxes	1,610	1,531
Prepaid expenses and other current assets	2,137	1,579
Total current assets	84,565	76,731
Property and equipment, net	39,016	38,577
Intangible assets, net	46,836	44,615
Goodwill	110,369	102,073
Other assets	1,713	1,675
	$ 282,499	$ 263,671
Liabilities and stockholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 6,500	$ 6,000
Accounts payable	9,609	9,630
Compensation payable	4,501	5,946
Earnout payable	–	3,667
Accrued expenses	9,748	8,925
Deferred revenue	2,398	1,706
Income taxes payable	287	–
Liabilities of discontinued operations	88	97
Total current liabilities	33,131	35,971
Long-term debt	64,050	51,000
Deferred income taxes	20,765	19,732
Other long-term liabilities	1,980	1,898
Stockholders' equity:		
Preferred Stock, par value $1.00 per share; authorized 1,000,000 shares; none issued	–	–
Common Stock, par value $.10 per share; authorized 30,000,000 shares; October 31 - 17,297,524 shares issued and 16,262,519 shares outstanding; July 31 - 17,129,199 shares issued and 16,116,487 shares outstanding	1,730	1,713
Additional capital	78,917	76,843

Retained earnings	79,780	77,841
Accumulated other comprehensive income	12,329	8,494
Treasury Stock, at cost; October 31 - 1,035,005 shares; July 31 - 1,012,712 shares	(10,183)	(9,821)
Total stockholders' equity	162,573	155,070
	$ 282,499	$ 263,671

See accompanying notes.

CANTEL MEDICAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Dollar Amounts in Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended October 31,	
	2007	2006
Net sales	$ 60,005	$ 50,484
Cost of sales	38,799	32,315
Gross profit	21,206	18,169
Expenses:		
Selling	6,789	5,710
General and administrative	8,957	7,538
Research and development	990	1,166
Total operating expenses	16,736	14,414
Income from continuing operations before interest and income taxes	4,470	3,755
Interest expense	1,222	763
Interest income	(147)	(290)
Income from continuing operations before income taxes	3,395	3,282
Income taxes	1,456	1,559
Income from continuing operations	1,939	1,723
Income from discontinued operations, net of tax	–	245
Net income	$ 1,939	$ 1,968
Earnings per common share:		
Basic:		
Continuing operations	$ 0.12	$ 0.11

Discontinued operations	–	0.02
Net income	$ 0.12	$ 0.13
Diluted:		
Continuing operations	$ 0.12	$ 0.11
Discontinued operations	–	0.01
Net income	$ 0.12	$ 0.12

See accompanying notes.

CANTEL MEDICAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar Amounts in Thousands)
(Unaudited)

	Three Months Ended October 31,	
	2007	**2006**
Cash flows from operating activities		
Net income	$ 1,939	$ 1,968
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,844	2,431
Stock-based compensation expense	532	198
Amortization of debt issuance costs	93	85
Deferred income taxes	(246)	7
Excess tax benefits from stock-based compensation	(548)	(398)
Changes in assets and liabilities:		
Accounts receivable	(1,089)	(576)
Inventories	(2,098)	(1,021)
Prepaid expenses and other current assets	(604)	(592)
Assets of discontinued operations	–	1,746
Accounts payable, deferred revenue and accrued expenses	(969)	192
Income taxes payable	1,139	(1,022)
Liabilities of discontinued operations	(1)	(6,539)
Net cash provided by (used in) operating activities	992	(3,521)
Cash flows from investing activities		
Capital expenditures	(1,352)	(1,768)
Proceeds from disposal of fixed assets	4	3
Earnout paid to Crosstex sellers	(3,667)	(3,667)
Acquisition of DSI	(1,250)	–
Acquisition of Verimetrix	(4,906)	–
Acquisition of Strong Dental, net of cash acquired	(3,682)	–
Other, net	(48)	(36)
Net cash used in investing activities	(14,901)	(5,468)

Cash flows from financing activities		
Borrowings under revolving credit facility	15,050	–
Repayments under term loan facility	(1,500)	(1,000)
Proceeds from exercises of stock options	515	1,317
Excess tax benefits from stock-based compensation	548	398
Purchases of treasury stock	–	(1,249)
Net cash provided by (used in) financing activities	14,613	(534)
Effect of exchange rate changes on cash and cash equivalents	1,061	105
Increase (decrease) in cash and cash equivalents	1,765	(9,418)
Cash and cash equivalents at beginning of period	15,860	29,898
Cash and cash equivalents at end of period	$ 17,625	$ 20,480

See accompanying notes.

CANTEL MEDICAL CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. **Basis of Presentation**

The unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and the requirements of Form 10-Q and Rule 10.01 of Regulation S-X. Accordingly, they do not include certain information and note disclosures required by generally accepted accounting principles for annual financial reporting and should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Annual Report of Cantel Medical Corp. ("Cantel") on Form 10-K for the fiscal year ended July 31, 2007 (the "2007 Form 10-K"), and Management' s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein.

The unaudited interim financial statements reflect all adjustments (of a normal and recurring nature) which management considers necessary for a fair presentation of the results of operations for these periods. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

The Condensed Consolidated Balance Sheet at July 31, 2007 was derived from the audited Consolidated Balance Sheet of Cantel at that date.

Cantel had five principal operating companies at each of October 31, 2007 and July 31, 2007. Crosstex International, Inc. ("Crosstex"), Minntech Corporation ("Minntech"), Mar Cor Purification, Inc. ("Mar Cor"), Biolab Equipment Ltd. ("Biolab") and Saf-T-Pak, Inc. ("Saf-T-Pak"), all of which are wholly-owned operating subsidiaries. In addition, Minntech has three foreign subsidiaries, Minntech B.V., Minntech Asia/Pacific Ltd. and Minntech Japan K.K., which serve as Minntech' s bases in Europe, Asia/Pacific and Japan, respectively.

We currently operate our business through six operating segments: Healthcare Disposables (through Crosstex), Dialysis (through Minntech), Water Purification and Filtration (through Mar Cor, Biolab and Minntech), Endoscope Reprocessing (through Minntech), Specialty Packaging (through Saf-T-Pak) and Therapeutic Filtration (through Minntech). The Specialty Packaging and Therapeutic Filtration operating segments are combined in the All Other reporting segment for financial reporting purposes.

On March 30, 2007, we purchased certain net assets of GE Water & Process Technologies' water dialysis business (the "GE Water Acquisition" or "GE Water"), as more fully described in Note 3 to the Condensed Consolidated Financial Statements. Since the GE Water

Acquisition was completed on March 30, 2007, its results of operations are included in our results of operations for the three months ended October 31, 2007 and are excluded from our results of operations for the three months ended October 31, 2006. The GE Water Acquisition is included in our Water Purification and Filtration operating segment.

On July 9, 2007, we acquired the net assets of Twist 2 It Inc. (“Twist”), as more fully described in Note 3 to the Condensed Consolidated Financial Statements. The Twist acquisition had an insignificant affect on our results of operations for the three months ended October 31, 2007 due to the small size of this business, and its results of operations are excluded for the three

months ended October 31, 2006. Twist is included in our Healthcare Disposables operating segment.

We acquired certain net assets of Dialysis Services, Inc. (“DSI”) on August 1, 2007, and Verimetrix, LLC (“Verimetrix”) on September 17, 2007, and all of the issued and outstanding stock of Strong Dental Products, Inc. (“Strong Dental”) on September 26, 2007, as more fully described in Note 3 to the Condensed Consolidated Financial Statements. The acquisitions of DSI, Verimetrix and Strong Dental had an insignificant affect on our results of operations for the three months ended October 31, 2007 due to the small size of these businesses and the inclusion of their results of operations for only the portion of the three months ended October 31, 2007 subsequent to their respective acquisition dates. Their results of operations are excluded for the three months ended October 31, 2006. DSI, Verimetrix and Strong Dental are included in the Water Purification and Filtration, Endoscope Reprocessing and Healthcare Disposables segments, respectively.

Throughout this document, references to “Cantel,” “us,” “we,” “our,” and the “Company” are references to Cantel Medical Corp. and its subsidiaries, except where the context makes it clear the reference is to Cantel itself and not its subsidiaries.

Note 2. **Stock-Based Compensation**

The following table shows the income statement components of stock-based compensation expense relating to continuing operations recognized in the Condensed Consolidated Statements of Income for the three months ended October 31, 2007 and 2006:

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006
Cost of sales	$ 13,000	$ (1,000)
Operating expenses:		
Selling	29,000	26,000
General and administrative	485,000	169,000
Research and development	5,000	4,000
Total operating expenses	519,000	199,000
Stock-based compensation before income taxes	532,000	198,000
Income tax benefits	(204,000)	(105,000)
Total stock-based compensation expense, net of tax	$ 328,000	$ 93,000

For the three months ended October 31, 2007 and 2006, the above stock-based compensation expense before income taxes was recorded in the Condensed Consolidated Financial Statements as stock-based compensation expense (which decreased both basic and diluted earnings per share from net income by $0.02 and $0.01 for the three months ended October 31, 2007 and 2006, respectively) and an increase to additional capital. The related income tax benefits (which pertain only to stock awards and options that do not qualify as incentive stock options) were recorded as an increase to long-term deferred income tax assets (which are netted with long-term deferred income tax liabilities) or a reduction to income taxes payable, depending on the timing of the deduction, and a reduction to income tax expense.

Most of our stock option and nonvested stock awards are subject to graded vesting in which portions of the award vest at different times during the vesting period, as opposed to awards that vest at the end of the vesting period. We recognize compensation expense for awards subject to graded vesting using the straight-line basis, reduced by estimated forfeitures. At October 31, 2007, total unrecognized stock-based compensation expense, net of tax, related to total nonvested stock options and stock awards was $2,436,000 with a remaining weighted average period of 28 months over which such expense is expected to be recognized.

We determine the fair value of each nonvested stock award using the closing market price of our Common Stock on the date of grant. In fiscal 2007, 175,000 nonvested stock awards were granted with a weighted average fair value of $16.57. Such stock awards remain nonvested and outstanding at October 31, 2007. Prior to February 1, 2007, the Company only granted stock options and not stock awards. Such nonvested stock awards are deductible for tax purposes and were tax-effected using the Company' s estimated U.S. effective tax rate at the time of grant.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option valuation model with the following weighted average assumptions for options granted during the three months ended October 31, 2007 and 2006:

Weighted-Average Black-Scholes Option Valuation Assumptions	**Three Months Ended October 31, 2007**	**Three Months Ended October 31, 2006**
Dividend yield	0.0%	0.0%
Expected volatility (1)	0.353	0.489
Risk-free interest rate (2)	4.21%	4.67%
Expected lives (in years) (3)	4.50	4.17

(1) Volatility was based on historical closing prices of our Common Stock.
(2) The U.S. Treasury rate on the expected life at the date of grant.
(3) Based on historical exercise behavior.

With respect to stock options granted subsequent to October 31, 2006, we reassessed both the expected option life and stock price volatility assumptions by evaluating more recent historical exercise behavior and stock price activity; such reevaluation resulted in reductions in the expected volatility and for certain options, the expected lives.

Additionally, all options granted during the three months ended October 31, 2007 and 2006 were considered to be deductible for tax purposes in the valuation model. Such non-qualified options were tax-effected using the Company' s estimated U.S. effective tax rate at the time of grant. For the three months ended October 31, 2007 and 2006, the weighted average fair value of all options granted was approximately $5.98 and $6.26, respectively. The aggregate intrinsic value (i.e. the excess market price over the exercise price) of all options exercised during the three months ended October 31, 2007 and 2006 was approximately $1,874,000 and $2,092,000, respectively.

A summary of stock option activity follows:

	Number of	**Weighted Average**

	Shares		Exercise Price
Outstanding at July 31, 2007	1,848,846	$	14.55
Granted	31,500		16.63
Canceled	(16,126)		18.66
Exercised	(168,325)		5.21
Outstanding at October 31, 2007	1,695,895	$	15.48
Exercisable at July 31, 2007	1,252,427	$	14.46
Exercisable at October 31, 2007	1,141,020	$	15.53

Upon exercise of stock options or grant of nonvested shares, we typically issue new shares of our Common Stock (as opposed to using treasury shares).

If certain criteria are met when options are exercised or the underlying shares are sold, the Company is allowed a deduction on its income tax return. Accordingly, we account for the income tax effect on such income tax deductions as additional capital (assuming deferred tax assets do not exist pertaining to the exercised stock options) and as a reduction of income taxes payable. For the three months ended October 31, 2007 and 2006, options exercised resulted in income tax deductions that reduced income taxes payable by $690,000 and $566,000, respectively.

We classify the cash flows resulting from excess tax benefits as financing cash flows on our Condensed Consolidated Statements of Cash Flows. Excess tax benefits arise when the ultimate tax effect of the deduction for tax purposes is greater than the tax benefit on stock compensation expense (including tax benefits on stock compensation expense that has only been reflected in past pro forma disclosures relating to fiscal years prior to August 1, 2005) which was determined based upon the award' s fair value.

Note 3. Acquisitions

Three Months ended October 31, 2007

Strong Dental Products, Inc.

On September 26, 2007, we expanded our product offerings in our Healthcare Disposables segment by purchasing all of the issued and outstanding stock of Strong Dental, a private company with pre-acquisition annual revenues of approximately $1,000,000 that designs, markets and sells comfort cushioning and infection control covers for x-ray film and digital x-ray sensors. The total consideration for the transaction, including transactions costs and assumption of debt, was approximately $4,017,000 (transaction costs aggregating $29,000 were paid subsequent to October 31, 2007). Of this purchase price, $75,000 is being held in escrow for a period of twelve months from the closing date as security for the seller' s indemnification obligations under the purchase agreement. Under the terms of the purchase agreement, we agreed to pay additional purchase price up to $700,000 contingent upon the achievement of a specified revenue target over a three year period.

The purchase price was preliminarily allocated to the assets acquired and assumed liabilities based on estimated fair values as follows:

Net Assets		Preliminary Allocation
Cash and cash equilavents	$	306,000
Other current assets		140,000

Amortizable intangible assets:		
Patents (17-year life)		1,556,000
Customer relationships (10-year life)		650,000
Branded products (5-year life)		69,000
Non-compete agreements (6-year life)		30,000
Current liabilities		(147,000)
Noncurrent deferred income tax liabilities		(893,000)
Net assets acquired	$	1,711,000

There were no in-process research and development projects acquired in connection with the acquisition. The excess purchase price of $2,306,000 was assigned to goodwill. Such goodwill, all of which is non-deductible for income tax purposes, has been included in our Healthcare Disposables reporting segment.

The principal reasons for the acquisition were to (i) leverage the sales and marketing infrastructure of Crosstex by adding a branded, technologically differentiated, and patent-protected product line, (ii) expand into the rapidly growing area of digital radiography as dentists convert from film to digital x-rays, and (iii) add a new product line that focuses on the dental hygienist community, which product will aid in cross-selling the recently launched Patient' s Choice™ line of Crosstex products.

Verimetrix, LLC

On September 17, 2007, we expanded our product offerings in our Endoscope Reprocessing (Medivators) segment by purchasing certain net assets from Verimetrix, a private company with pre-acquisition annual revenues of $2,000,000 that designs, markets and sells the Veriscan™ System, an endoscope leak and fluid detection device. The total consideration for the transaction, including transaction costs, was approximately $4,956,000 (transaction costs aggregating $50,000 were paid subsequent to October 31, 2007). Of this purchase price, $150,000 is being held in escrow for a period of thirteen months from the closing date as security for the seller' s indemnification obligations under the purchase agreement. Under the terms of the purchase agreement, we agreed to pay additional purchase price up to $4,025,000 contingent upon the achievement of a specified cumulative revenue target over a six year period.

The purchase price was preliminarily allocated to the assets acquired and assumed liabilities based on estimated fair values as follows:

Net Assets		**Preliminary Allocation**
Current assets	$	1,083,000
Property and equipment		146,000
Amortizable intangible assets:		
Customer relationships (1-year life)		165,000
Branded products (3-year life)		281,000
Patents (10-year life)		54,000
Other assets		166,000
Current liabilities		(380,000)
Noncurrent liabilities		(100,000)
Net assets acquired	$	1,415,000

There were no in-process research and development projects acquired in connection with the acquisition. The excess purchase price of $3,541,000 was assigned to goodwill. Such goodwill, all of which is deductible for income tax purposes, has been included in our Endoscope Reprocessing reporting segment.

The principal reasons for the acquisition were to (i) add a technologically advanced product that fits squarely in our existing customer call pattern for Medivators products; (ii) leverage our national, direct hospital field sales force and their in-depth knowledge of the endoscopy market; and (iii) equip our sales force with a broad and comprehensive product line ranging from pre-cleaning detergents, flushing aids and leak testing equipment, to automated disinfection equipment and chemistries.

Dialysis Services, Inc.

On August 1, 2007, we purchased the water-related assets of DSI, a company with pre-acquisition annual revenues of approximately $1,200,000 based in Springfield, Tennessee that designs, installs and services high quality water and bicarbonate systems for use in dialysis clinics, hospitals and university settings. The total consideration for the transaction, including transaction costs, was approximately $1,250,000. Of this purchase price, $75,000 is being held in escrow for a period of twelve months from the closing date as security for the seller' s indemnification obligations under the purchase agreement.

The purchase price was preliminarily allocated to the assets acquired and assumed liabilities based on estimated fair values as follows:

Net Assets		**Preliminary Allocation**
Current assets	$	122,000
Amortizable intangible assets:		
Customer relationships (4-year life)		182,000
Non-compete agreements (5-year life)		34,000
Property and equipment		73,000
Current liabilities		(18,000)
Net assets acquired	$	393,000

There were no in-process research and development projects acquired in connection with the acquisition. The excess purchase price of $857,000 was assigned to goodwill. Such goodwill, all of which is deductible for income tax purposes, has been included in our Water Purification and Filtration reporting segment.

The principal reason for the acquisition was the strengthening of our sales and service presence and base of business in a region with a significant concentration of dialysis clinics and healthcare institutions.

The acquisitions of DSI, Verimetrix and Strong Dental had an insignificant effect on our results of operations for the three months ended October 31, 2007 due to the small size of these businesses and the inclusion of their results of operations for only the portion of the three months ended October 31, 2007 subsequent to their acquisition dates. Their results of operations are excluded for the three months ended October 31, 2006. Pro forma consolidated statements of income data for the three months ended October 31, 2007 and 2006 have not been presented due to the insignificant impact of these acquisitions individually and in the aggregate.

<u>Fiscal 2007</u>

Twist 2 It Inc.

On July 9, 2007, we expanded our product offerings in our Healthcare Disposables segment by purchasing certain assets of Twist, the owner of a unique, patented, disposable prophy angle for the cleaning and polishing of teeth that eliminates the splatter of saliva, blood and other potential infectious matter. The acquired business had pre-acquisition annual revenues of approximately $1,300,000 and was purchased for approximately $1,915,000, including transaction costs. Under the terms of the purchase agreement, we agreed to pay additional purchase price up to $2,043,000 contingent upon the achievement of specified revenue targets over a two year period. Due to the small size of this acquisition, it had an insignificant impact on our results of operations for the three months ended October 31, 2007 and is not included in our results of operations for the three months ended October 31, 2006. Pro forma consolidated statement of income data for the three months ended October 31, 2006 has not been presented due to the insignificant impact of this acquisition.

The purchase price was preliminarily allocated to the assets acquired and assumed liabilities based on estimated fair values as follows:

Net Assets		**Preliminary Allocation**
Inventories	$	32,000
Amortizable intangible assets:		
Patents (12-year life)		627,000
Customer relationships (1-year life)		25,000
Branded products (12-year life)		97,000
Net assets acquired	$	781,000

There were no in-process research and development projects acquired in connection with the acquisition. The excess purchase price of $1,134,000 was assigned to goodwill. Such goodwill, all of which is deductible for income tax purposes, has been included in our Healthcare

Disposables reporting segment.

The principal reasons for the acquisition were to (i) enter into a sizeable dental disposable niche with a branded, technologically differentiated, and patent-protected product, (ii) expand Crosstex' recently launched Patient' s Choice™ product line, and (iii) leverage Crosstex' sophisticated sales and marketing infrastructure in the dental arena.

GE Water & Process Technologies' Dialysis Water Business

On March 30, 2007, Mar Cor purchased certain net assets from GE Water & Process Technologies, a unit of General Electric Company, relating to water dialysis. With an installed base of approximately 1,800 water equipment installations in North America and annual pre-acquisition revenues of approximately $20,000,000 (approximately 70% of such revenues are from one customer, Fresenius Medical Care), the GE Water Acquisition expands our Water Purification and Filtration' s annual business by approximately 50% in terms of sales. Total consideration for the transaction, including transaction costs, was $30,506,000. Of this purchase price, $1,000,000 is being held in escrow for a period of twelve months from the closing date as security for the seller' s indemnification obligations under the purchase agreement.

The purchase price was allocated to the assets acquired and assumed liabilities based on estimated fair values as follows:

Net Assets		**Final Allocation**
Current assets	$	2,030,000
Property and equipment		150,000
Amortizable intangible assets:		
Customer relationships (9-year life)		4,700,000
Branded products (9-year life)		400,000
Current liabilities		(900,000)

Net assets acquired	$ 6,380,000

There were no in-process research and development projects acquired in connection with the acquisition. The excess purchase price of $24,126,000 was assigned to goodwill. Such goodwill, all of which is deductible for income tax purposes, has been included in our Water Purification and Filtration reporting segment.

The reasons for the acquisition were as follows: (i) the opportunity to add an installed equipment base of business into which we can (a) increase service revenue while improving the density and efficiency of the Mar Cor service network and (b) increase consumable sales per clinic; (ii) the potential revenue and cost savings synergies and efficiencies that could be realized through optimizing and combining the acquired assets (including GE Water employees) into Mar Cor; and (iii) the expectation that the acquisition will be accretive to our future earnings per share.

For the three months ended October 31, 2007, GE Water contributed approximately $5,817,000 to our net sales and $1,480,000 to our gross profit before incremental operating expenses, interest expense associated with the borrowings related to the acquisition and income taxes and may not necessarily be indicative of future operating performance. Since the acquisition was completed on March 30, 2007, the results of operations of the GE Water Acquisition are included in our results of operations for the three months ended October 31, 2007 and are excluded

from our results of operations for the three months ended October 31, 2006. Pro forma consolidated statement of income data for the three months ended October 31, 2006 has not been presented due to the unavailability of pre-acquisition GE Water financial statements, since GE did not maintain separate financial statements related to these purchased assets.

Note 4. Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement of Financial Accounting Standards (“SFAS”) No. 157, *“Fair Value Measurements”* (“SFAS 157”), which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 establishes a definition of fair value, provides a framework for measuring fair value and expands the disclosure requirements about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and therefore is effective for our fiscal year 2009. We are currently in the process of evaluating the effect of SFAS 157.

In July 2006, the FASB issued Interpretation No. 48, *“Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109”* (“FIN No. 48”). FIN No. 48 clarifies the accounting and reporting for uncertainties in income tax law. FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and therefore was adopted on August 1, 2007. The adoption of FIN No. 48 did not have a material effect on our financial position or results of operations, as more fully described in Note 11 to the Condensed Consolidated Financial Statements.

Note 5. Accumulated Other Comprehensive Income

Our accumulated other comprehensive income consists solely of the accumulated translation adjustment, net of tax. For purposes of translating the balance sheet at October 31, 2007 compared with July 31, 2007, the value of the Canadian dollar increased by approximately 13.1% and the value of the euro increased by approximately 5.8% compared with the value of the United States dollar. The total of these currency movements increased the accumulated translation adjustment, net of tax, by $3,835,000 during the three months ended October 31, 2007 to $12,329,000 at October 31, 2007. Total comprehensive income, which consists of net income and the accumulated translation adjustment, net of tax, was $5,774,000 and $2,027,000 for the three months ended October 31, 2007 and 2006, respectively.

Note 6. Financial Instruments

We account for derivative instruments and hedging activities in accordance with SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"), as amended. SFAS 133 requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not designated as hedges must be adjusted to fair value through earnings. If the derivative is designated as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the change in the fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the change in fair value of a derivative that is designated as a hedge will be immediately recognized in earnings.

Changes in the value of the euro against the United States dollar affect our results of operations because a portion of the net assets of our Netherlands subsidiary (which are reported

in our Dialysis, Endoscope Reprocessing and Water Purification and Filtration segments) are denominated and ultimately settled in United States dollars but must be converted into its functional euro currency. In order to hedge against the impact of fluctuations in the value of the euro relative to the United States dollar, we enter into short-term contracts to purchase euros forward, which contracts are generally one month in duration. These short-term contracts are designated as fair value hedge instruments. There was one foreign currency forward contract amounting to 1,366,000 at October 31, 2007 which covered certain assets and liabilities of Minntech' s Netherlands subsidiary which are denominated in United States dollars. Such contract expired on November 30, 2007. Under our credit facilities, such contracts to purchase euros may not exceed $12,000,000 in an aggregate notional amount at any time. For the three months ended October 31, 2007, such forward contracts were effective in offsetting the impact on operations of the strengthening of the euro. Gains and losses related to the hedging contracts to buy euros forward are immediately realized within general and administrative expenses due to the short-term nature of such contracts. We do not hold any derivative financial instruments for speculative or trading purposes.

As of October 31, 2007, the carrying amounts for cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to the short maturity of these instruments. We believe that as of October 31, 2007, the fair value of our outstanding borrowings under our credit facilities approximates the carrying value of those obligations based on the borrowing rates which are comparable to market interest rates.

Note 7. **Intangibles and Goodwill**

Our intangible assets with definite lives consist primarily of customer relationships, technology, brand names, non-compete agreements and patents. These intangible assets are being amortized using the straight-line method over the estimated useful lives of the assets ranging from 1-20 years and have a weighted average amortization period of 10 years. Amortization expense related to intangible assets was $1,399,000 and $1,153,000 for the three months ended October 31, 2007 and 2006, respectively. Our intangible assets that have indefinite useful lives and therefore are not amortized consist of trademarks and tradenames. The increase in gross intangible assets at October 31, 2007, compared with July 31, 2007, is primarily due to the acquisitions of DSI, Verimetrix and Strong Dental as further described in Note 3 to the Condensed Consolidated Financial Statements.

The Company' s intangible assets consist of the following:

	October 31, 2007		
	Gross	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$ 29,578,000	$ (8,686,000)	$ 20,892,000
Technology	9,663,000	(4,310,000)	5,353,000

Brand names	9,546,000	(1,988,000)	7,558,000
Non-compete agreements	2,032,000	(846,000)	1,186,000
Patents and other registrations	2,596,000	(104,000)	2,492,000
	53,415,000	(15,934,000)	37,481,000
Trademarks and tradenames	9,355,000	–	9,355,000
Total intangible assets	$ 62,770,000	$ (15,934,000)	$ 46,836,000

	July 31, 2007		
	Gross	Accumulated Amortization	Net
Intangible assets with finite lives:			
Customer relationships	$ 28,273,000	$ (7,677,000)	$ 20,596,000
Technology	9,263,000	(3,914,000)	5,349,000
Brand names	9,197,000	(1,755,000)	7,442,000
Non-compete agreements	1,969,000	(769,000)	1,200,000
Patents and other registrations	986,000	(71,000)	915,000
	49,688,000	(14,186,000)	35,502,000
Trademarks and tradenames	9,113,000	–	9,113,000
Total intangible assets	$ 58,801,000	$ (14,186,000)	$ 44,615,000

Estimated amortization expense of our intangible assets for the remainder of fiscal 2008 and the next five years is as follows:

Nine month period ending July 31, 2008	$ 4,353,000
Fiscal 2009	5,339,000
Fiscal 2010	5,054,000
Fiscal 2011	4,733,000
Fiscal 2012	4,267,000
Fiscal 2013	4,194,000

Goodwill changed during fiscal 2007 and the three months ended October 31, 2007 as follows:

	Dialysis	Healthcare Disposables	Endoscope Reprocessing	Water Purification and Filtration	All Other	Total Goodwill
Balance, July 31, 2006	$ 8,262,000	$ 38,210,000	$ 6,352,000	$ 12,349,000	$ 7,398,000	$ 72,571,000
Acquisitions	–	1,134,000	–	24,126,000	–	25,260,000
Earnout on acquisition	–	3,667,000	–	–	–	3,667,000
Adjustments primarily relating to income tax exposure of acquired businesses	(107,000)	–	–	(152,000)	(14,000)	(273,000)
Foreign currency translation	–	–	148,000	318,000	382,000	848,000
Balance, July 31, 2007	8,155,000	43,011,000	6,500,000	36,641,000	7,766,000	102,073,000
Acquisitions	–	2,306,000	3,541,000	857,000	–	6,704,000
Foreign currency translation	–	–	–	712,000	880,000	1,592,000
Balance, October 31, 2007	$ 8,155,000	$ 45,317,000	$ 10,041,000	$ 38,210,000	$ 8,646,000	$ 110,369,000

On July 31, 2007, we performed impairment studies of the Company' s goodwill and trademarks and tradenames and concluded that such assets were not impaired.

Note 8. **Warranty**

A summary of activity in the Company' s warranty reserves follows:

	Three Months Ended October 31,	
	2007	**2006**
Beginning balance	$ 1,033,000	$ 619,000
Acquisitions	28,000	–
Provisions	281,000	185,000
Charges	(308,000)	(211,000)
Foreign currency translation	24,000	–
Ending balance	$ 1,058,000	$ 593,000

The warranty provisions and charges during the three months ended October 31, 2007 and 2006 relate principally to the Company' s endoscope reprocessing and water purification products. The increase in the warranty reserve at October 31, 2007, compared with October 31, 2006, is due to additional equipment sales primarily as a result of the acquisitions.

Note 9. **Financing Arrangements**

In conjunction with the acquisition of Crosstex, we entered into amended and restated credit facilities dated as of August 1, 2005 (the "2005 U.S. Credit Facilities") with a consortium of lenders to fund the cash consideration paid in the acquisition and costs associated with the acquisition, as well as to modify our existing United States credit facilities. The 2005 U.S. Credit Facilities, as amended, include (i) a six-year $40.0 million senior secured amortizing term loan facility and (ii) a five-year $50.0 million senior secured revolving credit facility. Amounts we repay under the term loan facility may not be re-borrowed. Debt issuance costs relating to the 2005 U.S. Credit Facilities have been recorded in other assets and are being amortized over the life of the credit facilities. Such unamortized debt issuance costs amounted to approximately $1,227,000 at October 31, 2007.

At October 31, 2007, borrowings under the 2005 U.S. Credit Facilities bear interest at rates ranging from 0% to 0.50% above the lender' s base rate, or at rates ranging from 0.625% to 1.75% above the London Interbank Offered Rate ("LIBOR"), depending upon our consolidated ratio of debt to earnings before interest, taxes, depreciation and amortization, and as further adjusted under the terms of the 2005 U.S. Credit Facilities ("EBITDA"). At October 31, 2007, the lender' s base rate was 7.50% and the LIBOR rates ranged from 4.88% to 5.46%. The margins applicable to our outstanding borrowings at October 31, 2007 were 0.25% above the lender' s base rate and 1.50% above LIBOR. All of our outstanding borrowings were under LIBOR contracts at October 31, 2007. The 2005 U.S. Credit Facilities also provide for fees on the unused portion of our facilities at rates ranging from 0.15% to 0.30%, depending upon our consolidated ratio of debt to EBITDA; such rate was 0.30% at October 31, 2007.

The 2005 U.S. Credit Facilities require us to meet certain financial covenants and are secured by (i) substantially all of our U.S.-based assets (including assets of Cantel, Minntech, Mar Cor and Crosstex) and (ii) our pledge of all of the outstanding shares of Minntech, Mar Cor

and Crosstex and 65% of the outstanding shares of our foreign-based subsidiaries. Additionally, we are not permitted to pay cash dividends on our Common Stock without the consent of our United States lenders. As of October 31, 2007, we are in compliance with all financial and other covenants under the 2005 U.S. Credit Facilities.

On October 31, 2007, we had $70,550,000 of outstanding borrowings under the 2005 U.S. Credit Facilities, which consisted of $32,500,000 and $38,050,000 under the term loan facility and the revolving credit facility, respectively. The maturities of our credit facilities are described in Note 12 to the Condensed Consolidated Financial Statements.

Note 10. **Earnings Per Common Share**

Basic earnings per common share are computed based upon the weighted average number of common shares outstanding during the period.

Diluted earnings per common share are computed based upon the weighted average number of common shares outstanding during the period plus the dilutive effect of common stock equivalents using the treasury stock method and the average market price of our Common Stock for the period.

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006
Numerator for basic and diluted earnings per share:		
Income from continuing operations	$ 1,939,000	$ 1,723,000
Income from discontinued operations	–	245,000
Net income	$ 1,939,000	$ 1,968,000
Denominator for basic and diluted earnings per share:		
Denominator for basic earnings per share - weighted average number of shares outstanding	15,982,184	15,470,017
Dilutive effect of options using the treasury stock method and the average market price for the year	349,202	573,339
Denominator for diluted earnings per share - weighted average number of shares and common stock equivalents	16,331,386	16,043,356
Basic earnings per share:		
Continuing operations	$ 0.12	$ 0.11
Discontinued operations	–	0.02
Net income	$ 0.12	$ 0.13
Diluted earnings per share:		
Continuing operations	$ 0.12	$ 0.11
Discontinued operations	–	0.01
Net income	$ 0.12	$ 0.12

Note 11. **Income Taxes**

The consolidated effective tax rate was 42.9% and 47.5% for the three months ended October 31, 2007 and 2006, respectively.

Our results of continuing operations for the three months ended October 31, 2007 and 2006 reflect income tax expense for our United States operations at its combined federal and state statutory tax rate, which resulted in an overall United States effective tax rate for the three months ended October 31, 2007 of 38.7%. A tax benefit was not recorded on the losses from operations at our Netherlands subsidiary for the three months ended October 31, 2007 and 2006, thereby causing our overall effective tax rate to exceed the statutory rate. The results of continuing operations for our subsidiaries in Canada, Japan, and Singapore did not have a significant impact on our overall effective tax rate for the three months ended October 31, 2007 due to the size of those operations relative to our United States and Netherlands operations.

The decrease in the overall effective tax rate for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, was principally due to the geographic mix of pretax income including the decrease in losses related to our Netherlands operations for which no income tax benefit was recorded.

In July 2006, the FASB issued FIN No. 48, which clarifies the accounting and reporting for uncertainties in income tax law. FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and therefore was adopted on August 1, 2007. The adoption of FIN No. 48 did not have a material effect on our financial position or results of operations since, after our completion of our evaluation, we did not record an increase or decrease to our income taxes payable or deferred tax liabilities related to unrecognized income tax benefits for uncertain tax positions.

We record liabilities for an unrecognized tax benefit when a tax benefit for an uncertain tax position is taken or expected to be taken on a tax return, but is not recognized in our Condensed Consolidated Financial Statements because it does not meet the more-likely-than-not recognition threshold that the uncertain tax position would be sustained upon examination by the applicable taxing authority. At October 31, 2007 and July 31, 2007, we had liabilities relating to approximately $700,000 of unrecognized tax benefits recorded in our Condensed Consolidated Financial statements. The majority of such unrecognized tax benefits originated from acquisitions. Accordingly, any adjustments upon resolution of income tax uncertainties that predate or result from acquisitions are recorded as an increase or decrease to goodwill. Therefore, if the unrecognized tax benefits are recognized in our financial statements in future periods, there would not be a significant impact to our effective tax rate on continuing operations. We do not expect such unrecognized tax benefits to significantly decrease or increase in the next twelve months. Generally, the Company is no longer subject to federal, state or foreign income tax examinations for fiscal years ended prior to July 31, 2002.

Our policy is to record potential interest and penalties related to income tax positions in interest expense and general and administrative expense, respectively, in our Condensed Consolidated Financial Statements. However, such amounts have been insignificant due to the amount of our unrecognized tax benefits relating to uncertain tax positions.

12. <u>Commitments and Contingencies</u>

Long-term contractual obligations

Aggregate annual required payments at October 31, 2007 over the next five years and thereafter under our contractual obligations that have long-term components are as follows:

	Nine Months Ending July 31, 2008	**Year Ending July 31, 2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**
	(Amounts in thousands)						
Maturities of the credit facilities	$ 4,500	$ 8,000	$ 10,000	$ 48,050	$ –	$ –	$ 70,550

Expected interest payments under the credit facilities (1)	3,220	3,896	3,321	356	–	–	10,793
Minimum commitments under noncancelable operating leases	2,537	2,991	2,347	1,443	772	1,668	11,758
Minimum commitments under noncancelable capital leases	24	32	32	13	–	–	101
Minimum commitments under license agreement	44	82	123	183	212	3,056	3,700
Deferred compensation and other	119	153	34	406	406	606	1,724
Employment agreements	3,407	1,505	256	145	135	–	5,448
Total contractual obligations	$ 13,851	$ 16,659	$ 16,113	$ 50,596	$ 1,525	$ 5,330	$ 104,074

(1) The expected interest payments under the term and revolving credit facilities reflect interest rates of 6.45% and 6.12%, respectively, which were our interest rates on outstanding borrowings at November 1, 2007.

Operating leases

Minimum commitments under operating leases include minimum rental commitments for our leased manufacturing facilities, warehouses, office space and equipment.

License agreement

On January 1, 2007, we entered into a license agreement with a third-party which allows us to manufacture, use, import, sell and distribute certain thermal control products relating to our Specialty Packaging segment. In consideration, we agreed to pay a minimum annual royalty payable in Canadian dollars each calendar year over the license agreement term of 20 years. At October 31, 2007, we had minimum future royalty obligations related to this license agreement of approximately $3,700,000 using the exchange rate on October 31, 2007.

Deferred Compensation

Included in other long-term liabilities are deferred compensation arrangements for certain former Minntech directors and officers.

Note 13. **Operating Segments**

We are a leading provider of infection prevention and control products in the healthcare market. Our products include specialized medical device reprocessing systems for renal dialysis and endoscopy, dialysate concentrates and other dialysis supplies, water purification equipment, sterilants, disinfectants and cleaners, hollow fiber membrane filtration and separation products for medical and non-medical applications, and specialty packaging for infectious and biological specimens. We also provide technical maintenance for our products and offer compliance training services for the transport of infectious and biological specimens.

In accordance with SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*" ("SFAS 131"), we have determined our reportable business segments based upon an assessment of product types, organizational structure, customers and internally prepared financial statements. The primary factors used by us in analyzing segment performance are net sales and operating income.

Since the GE Water Acquisition was completed on March 30, 2007, the results of operations of GE Water are included in the accompanying Water Purification and Filtration segment information for the three months ended October 31, 2007 and are excluded from the accompanying segment information for the three months ended October 31, 2006.

The Company' s segments are as follows:

Water Purification and Filtration, which includes water purification equipment design and manufacturing, project management, installation, maintenance, deionization and mixing systems, as well as hollow fiber filter devices and ancillary products for high-purity fluid and separation applications for healthcare (with a large concentration in dialysis), pharmaceutical, biotechnology, research, beverage, semiconductor and other commercial industries. Additionally, this segment includes cold sterilant products used to disinfect high-purity water systems.

Dialysis, which includes disinfection/sterilization reprocessing equipment, sterilants, supplies and concentrates related to hemodialysis treatment of patients with acute kidney failure or chronic kidney failure associated with end-stage renal disease. Additionally, this segment includes technical maintenance service on its products.

Healthcare Disposables, which includes single-use infection control products used principally in the dental market such as face masks, patient towels and bibs, self-sealing sterilization pouches, tray covers, sterilization packaging accessories, surface barriers including eyewear, aprons and gowns, disinfectants and deodorizers, germicidal wipes, hand care products, gloves, sponges, cotton products, cups, needles and syringes, scalpels and blades, and saliva evacuators and ejectors.

Our Healthcare Disposables segment is reliant on five customers who collectively accounted for 69% of our Healthcare Disposables segment net sales and 16% of our consolidated net sales from continuing operations during the three months ended October 31, 2007.

Endoscope Reprocessing, which includes endoscope disinfection equipment and related accessories and supplies that are sold to hospitals, clinics and physicians. Additionally, this segment includes technical maintenance service on its products.

All Other

In accordance with quantitative thresholds established by SFAS 131, we have combined the Therapeutic Filtration and Specialty Packaging operating segments into the All Other reporting segment.

Therapeutic Filtration, which includes hollow fiber filter devices and ancillary products for use in medical applications that are sold to biotech manufacturers and third-party distributors.

Specialty Packaging, which includes specialty packaging and thermal control products, as well as related compliance training, for the safe transport of infectious and biological specimens and thermally sensitive pharmaceutical, medical and other products.

The operating segments follow the same accounting policies used for our Condensed Consolidated Financial Statements as described in Note 2 to the 2007 Form 10-K.

Information as to operating segments is summarized below:

	Three Months Ended October 31,	
	2007	**2006**
Net sales:		
Water Purification and Filtration	$ 15,953,000	$ 9,971,000
Dialysis	15,455,000	13,538,000
Healthcare Disposables	13,966,000	15,407,000
Endoscope Reprocessing	11,145,000	8,511,000
All Other	3,486,000	3,057,000
Total	$ 60,005,000	$ 50,484,000
Operating Income:		

Water Purification and Filtration	$ 1,289,000	$ 415,000
Dialysis	2,272,000	1,753,000
Healthcare Disposables	1,835,000	3,021,000
Endoscope Reprocessing	349,000	(559,000)
All Other	600,000	631,000
	6,345,000	5,261,000
General corporate expenses	(1,875,000)	(1,506,000)
Interest expense, net	(1,075,000)	(473,000)
Income before income taxes	$ 3,395,000	$ 3,282,000

Note 14. **Legal Proceedings**

In the normal course of business, we are subject to pending and threatened legal actions. It is our policy to accrue for amounts related to these legal matters if it is probable that a liability has been incurred and an amount of anticipated exposure can be reasonably estimated. We do not believe that any of these pending claims or legal actions will have a material effect on our business, financial condition, results of operations or cash flows.

Note 15. **Discontinued Operations**

On July 31, 2006, our wholly-owned subsidiary, Carsen Group Inc. (“Carsen”), closed the sale of substantially all of its assets to Olympus under an Asset Purchase Agreement dated as of May 16, 2006 among Carsen, Cantel and Olympus. Olympus purchased substantially all of Carsen’ s assets other than those related to Carsen’ s Medivators business and certain other smaller product lines. Following the closing, Olympus hired substantially all of Carsen’ s employees and took over Carsen’ s Olympus-related operations (as well as the operations related to the other acquired product lines). The transaction resulted in an after-tax gain of $6,776,000 and was recorded separately on the Consolidated Statements of Income for the year ended July 31, 2006 as gain on disposal of discontinued operations, net of tax. In connection with the transaction, Carsen’ s Medivators-related assets as well as certain of its other assets that were not acquired by Olympus were sold to our new Canadian distributor of Medivators products.

The purchase price for the net assets sold to Olympus was approximately $31,200,000, comprised of a fixed sum of $10,000,000 plus an additional formula-based sum of $21,200,000. In addition, Olympus paid Carsen 20% of Olympus’ revenues attributable to Carsen’ s unfilled customer orders (“backlog”) as of July 31, 2006 that were assumed by Olympus at the closing. Such payments to Carsen were made following Olympus’ receipt of customer payments for such orders and totaled $368,000. For the three months ended October 31, 2006, approximately $174,000 related to such backlog was recorded as income and reported in income from discontinued operations, net of tax, in the Condensed Consolidated Statements of Income.

Net proceeds from Carsen’ s sale of net assets and the termination of Carsen’ s operations were approximately $21,100,000 (excluding the backlog payments) after satisfaction of remaining liabilities and taxes.

As a result of the foregoing transaction, which coincided with the expiration of Carsen’ s exclusive distribution agreements with Olympus on July 31, 2006, Carsen no longer has any remaining product lines or active business operations.

The net sales and operating income attributable to Carsen’ s business (inclusive of both Olympus and non-Olympus business, but exclusive of the sale of Medivators reprocessors) constituted the entire Endoscopy and Surgical reporting segment and Scientific operating segment, which historically was included within the All Other reporting segment; as such, we no longer have any operations in these two segments.

Operating results attributable to Carsen' s business are summarized below:

	Three Months Ended October 31, 2006
Net sales	$ 1,234,000
Operating income	$ 380,000
Interest expense	–
Income before income taxes	380,000
Income taxes	135,000
Income from discontinued operations, net of tax	$ 245,000

Included in net sales for the three months ended October 31, 2006 are sales that did not meet the Company' s revenue recognition policy as of July 31, 2006 and $174,000 of backlog payments.

Cash flows attributable to discontinued operations comprise the following:

	Three Months ended October 31, 2007	Three Months ended October 31, 2006
Net cash used in operating activities	$ (1,000)	$ (4,548,000)

Investing and financing activities of our discontinued operations did not result in any net cash for the three months ended October 31, 2007 and 2006.

At October 31, 2007 and July 31, 2007, remaining liabilities of our discontinued operations were $88,000 and $97,000, respectively, and principally related to various taxes expected to be paid in fiscal 2008.

ITEM 2. MANAGEMENT' S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management' s Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help you understand Cantel Medical Corp. ("Cantel"). The MD&A is provided as a supplement to and should be read in conjunction with our financial statements and the accompanying notes. Our MD&A includes the following sections:

Overview provides a brief description of our business and a summary of significant activity that has affected or may affect our results of operations and financial condition.

Results of Operations provides a discussion of the consolidated results of continuing operations for the three months ended October 31, 2007 compared with the three months ended October 31, 2006.

Liquidity and Capital Resources provides an overview of our working capital, cash flows, and financing and foreign currency activities.

Critical Accounting Policies provides a discussion of our accounting policies that require critical judgments, assumptions and estimates.

Forward-Looking Statements provides a discussion of cautionary factors that may affect future results.

Overview

Cantel is a leading provider of infection prevention and control products in the healthcare market, specializing in the following operating segments:

Water Purification and Filtration: Water purification equipment and services, filtration and separation products, and disinfectants for the medical, pharmaceutical, biotech, beverage and commercial industrial markets.

Dialysis: Medical device reprocessing systems, sterilants/disinfectants, dialysate concentrates and other supplies for renal dialysis.

Healthcare Disposables: Single-use, infection control products used principally in the dental market including face masks, towels and bibs, tray covers, saliva ejectors, germicidal wipes, plastic cups, sterilization pouches and disinfectants.

Endoscope Reprocessing: Medical device reprocessing systems and sterilants/disinfectants for endoscopy.

Therapeutic Filtration: Hollow fiber membrane filtration and separation technologies for medical applications. (Included in All Other reporting segment)

Specialty Packaging: Specialty packaging and thermal control products, as well as related compliance training, for the transport of infectious and biological specimens and thermally sensitive pharmaceutical, medical and other products. (Included in All Other reporting segment)

Most of our equipment, consumables and supplies are used to help prevent the occurrence or spread of infections.

See our Annual Report on Form 10-K for the fiscal year ended July 31, 2007 (the "2007 Form 10-K") and our Condensed Consolidated Financial Statements for additional financial information regarding our reporting segments.

Significant Activity

(i) Distributors of our dental products have undergone consolidation during fiscal 2007, which adversely impacted sales of our Healthcare Disposables segment in our first quarter of fiscal 2008 and our fourth quarter of fiscal 2007 due to rationalization of duplicate inventories in the consolidated companies and, to a lesser extent, the loss of some private label business. We cannot predict what impact consolidation in this industry will have on future sales of our healthcare disposable products.

(ii) Fiscal 2007 acquisitions: We acquired GE Water & Process Technologies' water dialysis business (the "GE Water Acquisition" or "GE Water") on March 30, 2007 and Twist 2 It Inc. ("Twist") on July 9, 2007, as more fully described in Note 3 to the Condensed Consolidated Financial Statements.

(iii) Acquisitions during the three months ended October 31, 2007: We acquired Dialysis Services, Inc. ("DSI") on August 1, 2007, Verimetrix, LLC ("Verimetrix") on September 17, 2007, and Strong Dental Products, Inc. ("Strong Dental") on September 26, 2007, as more fully described in Note 3 to the Condensed Consolidated Financial Statements.

(iv) A stronger Canadian dollar and Euro against the United States dollar impacted our results of operations for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, as more fully described elsewhere in this MD&A. The increase in values of the Canadian dollar and Euro were approximately 9.9% and 9.5%, respectively, for the three months ended October 31, 2007 compared with the three months ended October 31, 2006, based upon average exchange rates reported by banking institutions.

Results of Operations

The results of operations described below reflect the continuing operating results of Cantel and its wholly-owned subsidiaries, except where otherwise indicated.

Since the GE Water and Twist acquisitions were completed on March 30, 2007 and July 9, 2007, respectively, their results of operations are included in our results of operations for the three months ended October 31, 2007 and are excluded from our results of operations for the three months ended October 31, 2006. Additionally, the acquisitions of DSI, Verimetrix and Strong Dental had an insignificant effect on our results of operations for the three months ended October 31, 2007 due to the small size of these businesses and the inclusion of their results of operations for only the portion of the three months ended October 31, 2007 subsequent to their acquisition dates. Their results of operations are excluded for the three months ended October 31, 2006.

The Olympus distribution agreements with our wholly-owned subsidiary, Carsen Group Inc. ("Carsen"), as well as Carsen' s active business operations, terminated on July 31, 2006, as

more fully described elsewhere in this MD&A and Note 15 to the Condensed Consolidated Financial Statements. Accordingly, Carsen is reported as a discontinued operation for the three months ended October 31, 2007 and 2006.

For the three months ended October 31, 2007 compared with the three months ended October 31, 2006, discussion herein of our pre-existing business refers to all of our reporting segments with the exception of the operating results of the GE Water Acquisition included in our Water Purification and Filtration reporting segment, as well as the discontinued operations of Carsen.

The following discussion should also be read in conjunction with our 2007 Form 10-K.

The following table gives information as to the net sales from continuing operations and the percentage to the total net sales from continuing operations for each of our reporting segments:

	Three Months Ended October 31,			
	2007		2006	
	(Dollar amounts in thousands)			
	$	%	$	%

Water Purification and Filtration	$	15,953	26.5	$	9,971	19.8
Dialysis		15,455	25.8		13,538	26.8
Healthcare Disposables		13,966	23.3		15,407	30.5
Endoscope Reprocessing		11,145	18.6		8,511	16.9
All Other		3,486	5.8		3,057	6.0
	$	60,005	100.0	$	50,484	100.0

Net Sales

Net sales increased by $9,521,000, or 18.9%, to $60,005,000 for the three months ended October 31, 2007 from $50,484,000 for the three months ended October 31, 2006. Net sales of our pre-existing business increased by $3,704,000, or 7.3%, to $54,188,000 for the three months ended October 31, 2007 compared with the three months ended October 31, 2006. Net sales contributed by the GE Water Acquisition for the three months ended October 31, 2007 were $5,817,000.

Net sales were positively impacted for the three months ended October 31, 2007 compared with the three months ended October 31, 2006 by approximately $192,000 due to the translation of Euro net sales primarily of our Endoscope Reprocessing and Dialysis operating segments using a stronger euro against the United States dollar.

In addition, net sales were positively impacted for the three months ended October 31, 2007 compared with the three months ended October 31, 2006 by approximately $147,000 due to the translation of Canadian dollar net sales primarily of our Water Purification and Filtration operating segment using a stronger Canadian dollar against the United States dollar.

The increase in net sales of our pre-existing business for the three months ended October 31, 2007 was principally attributable to increases in sales of endoscope reprocessing products and services, dialysis products and therapeutic filtration products, partially offset by a decrease in sales of healthcare disposables products.

Net sales of endoscope reprocessing products and services increased by $2,634,000, or 30.9%, for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, primarily due to (i) an increase in demand for our endoscope disinfection equipment internationally and disinfectants and product service both in the United States and internationally, (ii) an increase in selling prices of our Medivators endoscope reprocessing equipment and related products and service in the United States as a result of selling directly to our customers and not through a distributor as was done during a significant portion of the three months ended October 31, 2006, and (iii) approximately $356,000 in incremental net sales due to the acquisition of Verimetrix on September 17, 2007. The increase in demand for our disinfectants and product service is attributable to the increased field population of equipment and our ability to convert users of competitive disinfectants to our products. The increase in customer prices as a result of the direct sales effort increased sales by approximately $640,000 for the three months ended October 31, 2007 compared with the three months ended October 31, 2006.

Net sales of dialysis products and services increased by $1,917,000, or 14.2%, for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, due to an increase in demand from customers, both in the United States and internationally, for dialysate concentrate (a concentrated acid or bicarbonate used to prepare dialysate, a chemical solution that draws waste products from a patient' s blood through a dialyzer membrane during hemodialysis treatment), as well as an increase of approximately $640,000 in net sales as a result of shipping and handling fees, such as freight, invoiced to customers during the three months ended October 31, 2007 (related costs of a similar amount are included within cost of sales). The majority of this amount related to three of our larger customers who were responsible for transportation related to the products they purchased from us during the three months ended October 31, 2006; subsequently, we became responsible for the transportation and invoiced them for such costs.

Net sales contributed by the Therapeutic Filtration operating segment were $1,934,000, an increase of 31.5%, for the three months ended October 31, 2007 compared with the three months ended October 31, 2006. The increase in sales during the three months ended

October 31, 2007 was primarily due to the recommencement in February 2007 of sales of filters manufactured by us on an OEM basis for a single customer' s hydration system. This customer had previously experienced a voluntary recall of the system (unrelated to our product) and was not purchasing filters until their sales of hydration systems recommenced. There can be no assurance that future sales of such filters will continue at current levels.

Net sales of water purification and filtration products and services from our pre-existing business increased by 1.7% for the three months ended October 31, 2007 compared with the three months ended October 31, 2006, primarily due to an increase in service revenue from the improved density and efficiency of our pre-existing service delivery network partially due to recent acquisitions. This increase was partially offset by a decrease in commercial and industrial (large capital) sales as a result of our decision made in early fiscal 2007 to refocus that portion of the water purification and filtration equipment business by eliminating contracts with low profitability; as such, revenue growth in the pre-existing business of this segment was moderated by this activity during the three months ended October 31, 2007. With respect to GE Water, which is excluded from the above discussion of our pre-existing business, sales of water purification and filtration products and services increased by 16.5% for the three months ended October 31, 2007, compared with the three months ended July 31, 2007, due to improved sales

opportunities within the installed equipment base of business as a result of combining GE Water with our pre-existing water purification and filtration business.

Net sales of healthcare disposable products decreased by 9.4% for the three months ended October 31, 2007 compared with the three months ended October 31, 2006, primarily due to a high level of demand during the three months ended October 31, 2006 for face mask products due to a heightened awareness of avian flu prevention. Additionally, distributors of our dental products have undergone consolidation during 2007, which adversely impacted sales of our Healthcare Disposables segment for the three months ended October 31, 2007 compared with the three months ended October 31, 2006 due to rationalization of duplicate inventories in the consolidated companies and, to a lesser extent, the loss of some private label business.

Increases in selling prices of our products did not have a significant effect on net sales for the three months ended October 31, 2007, except as explained above regarding our Endoscope Reprocessing segment as well as the invoicing of shipping and handling fees in our Dialysis segment.

Gross profit

Gross profit increased by $3,037,000, or 16.7%, to $21,206,000 for the three months ended October 31, 2007 from $18,169,000 for the three months ended October 31, 2006. Gross profit of our pre-existing business increased by approximately $1,557,000, or 8.6%, to $19,726,000 for the three months ended October 31, 2007 compared with the three months ended October 31, 2006. Gross profit contributed by the GE Water Acquisition for the three months ended October 31, 2007 was approximately $1,480,000.

Gross profit as a percentage of net sales for the three months ended October 31, 2007 and 2006 was 35.3% and 36.0%, respectively. Gross profit as a percentage of net sales of our pre-existing business for the three months ended October 31, 2007 was 36.4%. Gross profit as a percentage of net sales for the GE Water Acquisition for the three months ended October 31, 2007 was approximately 25.4%.

The gross profit percentage of our pre-existing business for the three months ended October 31, 2007 increased compared with the three months ended October 31, 2006 primarily due to an increase in gross profit percentage in our Endoscope Reprocessing segment as a result of selling our Medivators brand endoscope reprocessing equipment, high-level disinfectants, cleaners, consumables and product service directly to customers through our own United States field sales and service organization instead of through a distributor as was done during a significant portion of the three months ended October 31, 2006. Partially offsetting this increase was a decrease in gross profit percentage attributable to sales mix, including a decrease in sales of higher margin healthcare disposables products such as face masks and increases in sales of lower margin dialysate concentrate and water purification services.

With respect to the increase in the amount of gross profit (as opposed to the discussion of gross profit percentage), increases in net sales as explained above constitute the most significant factor in the increase in gross profit.

Operating Expenses

Selling expenses increased by $1,079,000, or 18.9%, to $6,789,000 for the three months ended October 31, 2007, from $5,710,000 for the three months ended October 31, 2006, primarily due to higher compensation expense of approximately $790,000 primarily relating to commissions on increased sales by our endoscope reprocessing direct sales network and the increased headcount due to the GE Water Acquisition, as well as an increase of approximately $110,000 in advertising and marketing expense primarily related to our Healthcare Disposables and Endoscope Reprocessing segments.

Selling expenses as a percentage of net sales were 11.3% for both the three months ended October 31, 2007 and 2006.

General and administrative expenses increased by $1,419,000, or 18.8%, to $8,957,000 for the three months ended October 31, 2007, from $7,538,000 for the three months ended October 31, 2006, principally due to an increase in stock-based compensation expense of $316,000; foreign exchange losses of approximately $260,000 associated with translating certain foreign denominated assets into functional currencies as well as the translation of expenses of our international subsidiaries using a significantly stronger Canadian dollar and Euro against the United States dollar; an increase of $246,000 in amortization expense of intangible assets primarily relating to our acquisitions of GE Water, Twist, DSI, Verimetrix and Strong Dental; an increase of approximately $460,000 in compensation expense including approximately $100,000 directly relating to the inclusion of the DSI, Verimetrix and Strong Dental acquisitions for the three months ended October 31, 2007; and severance expense related to the relocation of our Medivators' manufacturing operations from the Netherlands to the United States.

General and administrative expenses as a percentage of net sales were 14.9% for both the three months ended October 31, 2007 and 2006.

Research and development expenses (which include continuing engineering costs) decreased by $176,000 to $990,000 for the three months ended October 31, 2007, from $1,166,000 for the three months ended October 31, 2006, primarily due to less development work on the European version of our MDS endoscope reprocessor.

Interest

Interest expense increased by $459,000 to $1,222,000 for the three months ended October 31, 2007, from $763,000 for the three months ended October 31, 2006, primarily due to the increase in average outstanding borrowings as a result of financing the purchase prices of the acquisitions of GE Water, DSI, Verimetrix and Strong Dental.

Interest income decreased by $143,000 to $147,000 for the three months ended October 31, 2007, from $290,000 for the three months ended October 31, 2006, primarily due to a decrease in average cash and cash equivalents.

Income from continuing operations before income taxes

Income from continuing operations before income taxes increased by $113,000 to $3,395,000 for the three months ended October 31, 2007, from $3,282,000 for the three months ended October 31, 2006.

Income taxes

The consolidated effective tax rate was 42.9% and 47.5% for the three months ended October 31, 2007 and 2006, respectively.

Our results of continuing operations for the three months ended October 31, 2007 and 2006 reflect income tax expense for our United States operations at its combined federal and state statutory tax rate, which resulted in an overall United States effective tax rate for the three months ended October 31, 2007 of 38.7%. A tax benefit was not recorded on the losses from operations at our Netherlands subsidiary for the three months ended October 31, 2007 and 2006, thereby causing our overall effective tax rate to exceed the statutory rate. The results of continuing operations for our subsidiaries in Canada, Japan, and Singapore did not have a significant impact on our overall effective tax rate for the three months ended October 31, 2007 due to the size of those operations relative to our United States and Netherlands operations.

The decrease in the overall effective tax rate for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, was principally due to the geographic mix of pretax income including the decrease in losses related to our Netherlands operations for which no income tax benefit was recorded.

In July 2006, the FASB issued FIN No. 48, which clarifies the accounting and reporting for uncertainties in income tax law. FIN No. 48 prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. FIN No. 48 is effective for fiscal years beginning after December 15, 2006 and therefore was adopted on August 1, 2007. The adoption of FIN No. 48 did not have a material effect on our financial position or results of operations since, after our completion of our evaluation, we did not record an increase or decrease to our income taxes payable or deferred tax liabilities related to unrecognized income tax benefits for uncertain tax positions.

We record liabilities for an unrecognized tax benefit when a tax benefit for an uncertain tax position is taken or expected to be taken on a tax return, but is not recognized in our Condensed Consolidated Financial Statements because it does not meet the more-likely-than-not recognition threshold that the uncertain tax position would be sustained upon examination by the applicable taxing authority. At October 31, 2007 and July 31, 2007, we had liabilities relating to approximately $700,000 of unrecognized tax benefits recorded in our Condensed Consolidated Financial statements. The majority of such unrecognized tax benefits originated from acquisitions. Accordingly, any adjustments upon resolution of income tax uncertainties that predate or result from acquisitions are recorded as an increase or decrease to goodwill. Therefore, if the unrecognized tax benefits are recognized in our financial statements in future periods, there would not be a significant impact to our effective tax rate on continuing operations. We do not expect such unrecognized tax benefits to significantly decrease or increase in the next twelve months. Generally, the Company is no longer subject to federal, state or foreign income tax examinations for fiscal years ended prior to July 31, 2002.

Our policy is to record potential interest and penalties related to income tax positions in interest expense and general and administrative expense, respectively, in our Condensed Consolidated Financial Statements. However, such amounts have been insignificant due to the amount of our unrecognized tax benefits relating to uncertain tax positions.

Stock-Based Compensation

The following table shows the income statement components of stock-based compensation expense relating to continuing operations recognized in the Condensed Consolidated Statements of Income for the three months ended October 31, 2007 and 2006:

	Three Months Ended October 31, 2007	Three Months Ended October 31, 2006
Cost of sales	$ 13,000	$ (1,000)
Operating expenses:		
Selling	29,000	26,000

General and administrative	485,000	169,000
Research and development	5,000	4,000
Total operating expenses	519,000	199,000
Stock-based compensation before income taxes	532,000	198,000
Income tax benefits	(204,000)	(105,000)
Total stock-based compensation expense, net of tax	$ 328,000	$ 93,000

For the three months ended October 31, 2007 and 2006, the above stock-based compensation expense before income taxes was recorded in the Condensed Consolidated Financial Statements as stock-based compensation expense (which decreased both basic and diluted earnings per share from income from continuing operations by $0.02 and $0.01 for the three months ended October 31, 2007 and 2006, respectively) and an increase to additional capital. The related income tax benefits (which pertain only to stock awards and options that do not qualify as incentive stock options) were recorded as an increase to long-term deferred income tax assets (which are netted with long-term deferred income tax liabilities) or a reduction to income taxes payable, depending on the timing of the deduction, and a reduction to income tax expense.

Most of our stock option and nonvested stock awards are subject to graded vesting in which portions of the award vest at different times during the vesting period, as opposed to awards that vest at the end of the vesting period. We recognize compensation expense for awards subject to graded vesting using the straight-line basis, reduced by estimated forfeitures. At October 31, 2007, total unrecognized stock-based compensation expense, net of tax, related to total nonvested stock options and stock awards was $2,436,000 with a remaining weighted average period of 28 months over which such expense is expected to be recognized.

We determine the fair value of each nonvested stock award using the closing market price of our Common Stock on the date of grant. In fiscal 2007, 175,000 nonvested stock awards were granted with a weighted average fair value of $16.57. Such stock awards remain nonvested and outstanding at October 31, 2007. Prior to February 1, 2007, the Company only granted stock options and not stock awards. Such nonvested stock awards are deductible for tax purposes and were tax-effected using the Company' s estimated U.S. effective tax rate at the time of grant.

Additionally, we estimate the fair value of each option award on the date of grant using the Black-Scholes option valuation model. All options granted during the three months ended October 31, 2007 and 2006 are deductible for tax purposes and were tax-effected using the Company' s estimated U.S. effective tax rate at the time of grant. For the three months ended October 31, 2007 and 2006, the weighted average fair value of all options granted was

approximately $5.98 and $6.26, respectively. The aggregate intrinsic value (i.e. the excess market price over the exercise price) of all options exercised during the three months ended October 31, 2007 and 2006 was approximately $1,874,000 and $2,092,000, respectively.

Upon exercise of stock options or grant of nonvested shares, we typically issue new shares of our Common Stock (as opposed to using treasury shares).

If certain criteria are met when options are exercised or the underlying shares are sold, the Company is allowed a deduction on its income tax return. Accordingly, we account for the income tax effect on such income tax deductions as additional capital (assuming deferred tax assets do not exist pertaining to the exercised stock options) and as a reduction of income taxes payable. For the three months ended October 31, 2007 and 2006, options exercised resulted in income tax deductions that reduced income taxes payable by $690,000 and $566,000, respectively.

We classify the cash flows resulting from excess tax benefits as financing cash flows on our Condensed Consolidated Statements of Cash Flows. Excess tax benefits arise when the ultimate tax effect of the deduction for tax purposes is greater than the tax benefit on stock compensation expense (including tax benefits on stock compensation expense that has only been reflected in past pro forma disclosures relating to fiscal years prior to August 1, 2005) which was determined based upon the award' s fair value.

Liquidity and Capital Resources

Working capital

At October 31, 2007, the Company' s working capital was $51,434,000, compared with $40,760,000 at July 31, 2007. This increase in working capital was principally due to increases in cash, as described below, accounts receivable due to an increase in sales, and inventories due to planned increases in stock levels of certain products primarily in our Endoscope Reprocessing segment.

Cash flows from operating activities

Net cash provided by operating activities was $992,000 for the three months ended October 31, 2007, compared with net cash used in operating activities of $3,521,000 for the three months ended October 31, 2006. For the three months ended October 31, 2007, the net cash provided by operating activities was primarily due to net income after adjusting for depreciation and amortization and stock-based compensation expense, and an increase in income taxes payable (due to the timing associated with tax payments). These items were partially offset by increases in accounts receivable (due to an increase in sales) and inventories (due to planned increases in stock levels of certain products primarily in our Endoscope Reprocessing segment).

For the three months ended October 31, 2006, the net cash used in operating activities was primarily due to an increase in inventories (due to planned increases in stock levels of certain products) and decreases in liabilities of discontinued operations (due to the wind-down of Carsen' s operations) and income taxes payable (due to the timing associated with payments), partially offset by net income (after adjusting for depreciation and amortization, and stock-based compensation expense) and a decrease in assets of discontinued operations (due to the wind-down of Carsen' s operations).

Net cash provided by operating activities related only to continuing operations was $993,000 and $1,027,000 for the three months ended October 31, 2007 and 2006.

Cash flows from investing activities

Net cash used in investing activities was $14,901,000 and $5,468,000 for the three months ended October 31, 2007 and 2006, respectively. For the three months ended October 31, 2007, the net cash used in investing activities was primarily for the acquisitions of DSI, Verimetrix and Strong Dental, a payment for an acquisition earnout to the former owners of Crosstex and capital expenditures. For the three months ended October 31, 2006, the net cash used in investing activities was primarily for an acquisition earnout payment to the former owners of Crosstex and capital expenditures.

Cash flows from financing activities

Net cash provided by financing activities was $14,613,000 for the three months ended October 31, 2007, compared with net cash used in operating activities of $534,000 for the three months ended October 31, 2006. For the three months ended October 31, 2007, the net cash provided by financing activities was primarily attributable to borrowings under our revolving credit facility primarily related to the acquisitions of DSI, Verimetrix and Strong Dental and the payment of the acquisition earnout to the former owners of Crosstex, partially offset by a repayment under the term loan facility. For the three months ended October 31, 2006, the net cash used in financing activities was primarily attributable to a repayment under the term loan facility and the purchases of treasury stock, partially offset by exercises of stock options.

Discontinued Operations -Termination of Carsen' s Operations

On July 31, 2006, Carsen closed the sale of substantially all of its assets to Olympus under an Asset Purchase Agreement dated as of May 16, 2006 among Carsen, Cantel and Olympus. Olympus purchased substantially all of Carsen' s assets other than those related to Carsen' s Medivators business and certain other smaller product lines. Following the closing, Olympus hired substantially all of Carsen' s employees and took over Carsen' s Olympus-related operations (as well as the operations related to the other acquired product lines). The transaction resulted in an after-tax gain of $6,776,000 and was recorded separately on the Consolidated Statements of Income for the year ended July 31, 2006 as gain on disposal of discontinued operations, net of tax. In connection with the transaction, Carsen' s Medivators-related assets as well as certain of its other assets that were not acquired by Olympus were sold to our new Canadian distributor of Medivators products.

The purchase price for the net assets sold to Olympus was approximately $31,200,000, comprised of a fixed sum of $10,000,000 plus an additional formula-based sum of $21,200,000. In addition, Olympus paid Carsen 20% of Olympus' revenues attributable to Carsen' s unfilled customer orders ("backlog") as of July 31, 2006 that were assumed by Olympus at the closing. Such payments to Carsen were made following Olympus' receipt of customer payments for such orders and totaled $368,000. For the three months ended October 31, 2006, approximately $174,000 related to such backlog was recorded as income and reported in income from discontinued operations, net of tax, in the Condensed Consolidated Statements of Income.

Net proceeds from Carsen' s sale of net assets and the termination of Carsen' s operations were approximately $21,100,000 (excluding the backlog payments) after satisfaction of

remaining liabilities and taxes.

As a result of the foregoing transaction, which coincided with the expiration of Carsen' s exclusive distribution agreements with Olympus on July 31, 2006, Carsen no longer has any remaining product lines or active business operations.

Cash flows attributable to discontinued operations comprise the following:

	Three Months ended October 31, 2007	Three Months ended October 31, 2006
Net cash used in operating activities	$ (1,000)	$ (4,548,000)

Investing and financing activities of our discontinued operations did not result in any net cash for the three months ended October 31, 2007 and 2006.

At October 31, 2007 and July 31, 2007, remaining liabilities of our discontinued operations were $88,000 and $97,000, respectively, and principally related to various taxes expected to be paid in fiscal 2008.

Direct Sale of Medivators Systems in the United States

On August 2, 2006, we commenced the sale and service of our Medivators brand endoscope reprocessing equipment, high-level disinfectants, cleaners and consumables through our own United States field sales and service organization. Our direct sale of these products is the result of our decision that it is in our best long-term interests to control and develop our own direct-hospital based United States distribution network and, as such, not to renew Olympus' exclusive United States distribution agreement when it expired on August 1, 2006.

Throughout the former distribution arrangement with Olympus, we employed our own personnel to provide clinical sales support activities as well as an internal technical and customer service function, depot maintenance and service and all logistics and distribution services for the Medivators/Olympus customer base. This existing and fully developed infrastructure will continue to be a critical factor in our new direct sales and service strategy.

During the seven-year period following the expiration of the distribution agreement with Olympus on August 1, 2006, Olympus will have the option to provide certain ongoing support functions to its existing customer base of Medivators products, subject to the terms and conditions of the agreement. In addition, Olympus may continue to purchase from Minntech for resale in connection with such support functions, Medivators accessories, consumables, and replacement and repair parts, as well as Rapicide® disinfectant. During the three months ended October 31, 2007 and 2006, Olympus continued to purchase such items from us, although we have been gradually converting the sale of such items over to our direct sales and service force.

Long-term contractual obligations

Aggregate annual required payments at October 31, 2007 over the next five years and thereafter under our contractual obligations that have long-term components are as follows:

	Nine Months Ending July 31,	Year Ending July 31,					
	2008	2009	2010	2011	2012	Thereafter	Total
	(Amounts in thousands)						
Maturities of the credit facilities	$ 4,500	$ 8,000	$ 10,000	$ 48,050	$ –	$ –	$ 70,550
Expected interest payments under the credit facilities (1)	3,220	3,896	3,321	356	–	–	10,793
Minimum commitments under noncancelable operating leases	2,537	2,991	2,347	1,443	772	1,668	11,758
Minimum commitments under noncancelable capital leases	24	32	32	13	–	–	101
Minimum commitments under license agreement	44	82	123	183	212	3,056	3,700
Deferred compensation and other	119	153	34	406	406	606	1,724
Employment agreements	3,407	1,505	256	145	135	–	5,448
Total contractual obligations	$ 13,851	$ 16,659	$ 16,113	$ 50,596	$ 1,525	$ 5,330	$ 104,074

(1) The expected interest payments under the term and revolving credit facilities reflect interest rates of 6.45% and 6.12%, respectively, which were our interest rates on outstanding borrowings at November 1, 2007.

Credit facilities

In conjunction with the acquisition of Crosstex, we entered into amended and restated credit facilities dated as of August 1, 2005 (the "2005 U.S. Credit Facilities") with a consortium of lenders to fund the cash consideration paid in the acquisition and costs associated with the acquisition, as well as to modify our existing United States credit facilities. The 2005 U.S. Credit Facilities, as amended, include (i) a six-year $40.0 million senior secured amortizing term loan facility and (ii) a five-year $50.0 million senior secured revolving credit facility. Amounts we repay under the term loan facility may not be re-borrowed. Debt issuance costs relating to the 2005 U.S. Credit Facilities have been recorded in other assets and are being amortized over the life of the credit facilities. Such unamortized debt issuance costs amounted to approximately $1,227,000 at October 31, 2007.

At November 30, 2007, borrowings under the 2005 U.S. Credit Facilities bear interest at rates ranging from 0% to 0.50% above the lender' s base rate, or at rates ranging from 0.625% to 1.75% above the London Interbank Offered Rate ("LIBOR"), depending upon our consolidated ratio of debt to earnings before interest, taxes, depreciation and amortization, and as further adjusted under the terms of the 2005 U.S. Credit Facilities ("EBITDA"). At November 30, 2007, the lender' s base rate was 7.50% and the LIBOR rates ranged from 4.69% to 5.46%. The margins applicable to our outstanding borrowings at November 30, 2007 were 0.00% above the lender' s base rate and 1.00%

above LIBOR. All of our outstanding borrowings were under LIBOR contracts at November 30, 2007. The 2005 U.S. Credit Facilities also provide for fees on the unused portion of our facilities at rates ranging from 0.15% to 0.30%, depending upon our consolidated ratio of debt to EBITDA; such rate was 0.25% at November 30, 2007.

The 2005 U.S. Credit Facilities require us to meet certain financial covenants and are secured by (i) substantially all of our U.S.-based assets (including assets of Cantel, Minntech, Mar Cor and Crosstex) and (ii) our pledge of all of the outstanding shares of Minntech, Mar Cor and Crosstex and 65% of the outstanding shares of our foreign-based subsidiaries. Additionally, we are not permitted to pay cash dividends on our Common Stock without the consent of our United States lenders. As of October 31, 2007, we are in compliance with all financial and other covenants under the 2005 U.S. Credit Facilities.

On October 31, 2007 and November 30, 2007, we had $70,550,000 of outstanding borrowings under the 2005 U.S. Credit Facilities, which consisted of $32,500,000 and $38,050,000 under the term loan facility and the revolving credit facility, respectively.

Operating leases

Minimum commitments under operating leases include minimum rental commitments for our leased manufacturing facilities, warehouses, office space and equipment.

License agreement

On January 1, 2007, we entered into a license agreement with a third-party which allows us to manufacture, use, import, sell and distribute certain thermal control products relating to our Specialty Packaging segment. In consideration, we agreed to pay a minimum annual royalty payable in Canadian dollars each calendar year over the license agreement term of 20 years. At October 31, 2007, we had minimum future royalty obligations relating to this license agreement of approximately $3,700,000 using the exchange rate at October 31, 2007.

Deferred Compensation

Included in other long-term liabilities are deferred compensation arrangements for certain former Minntech directors and officers.

Financing needs

At October 31, 2007, we had a cash balance of $17,625,000, of which $10,506,000 was held by foreign subsidiaries. We believe that our current cash position, anticipated cash flows from operations, and the funds available under our revolving credit facility will be sufficient to satisfy our cash operating requirements for the foreseeable future based upon our existing operations. At November 30, 2007, $11,950,000 was available under our United States revolving credit facility, as amended.

Foreign currency

During the three months ended October 31, 2007, compared with the three months ended October 31, 2006, the average value of the Canadian dollar increased by approximately 9.9% relative to the value of the United States dollar. Changes in the value of the Canadian dollar against the United States dollar affect our results of operations because a portion of our Canadian subsidiaries' inventories and operating costs (which are reported in the Water Purification and Filtration and Specialty Packaging segments) are purchased in the United States and a significant amount of their sales are to customers in the United States. Additionally, the financial statements of our Canadian subsidiaries are translated using the accounting policies described in Note 2 to 2007 Form 10-K. Fluctuations in the rates of currency exchange between the United States and Canada had an overall adverse impact for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, upon our continuing results of operations of approximately $198,000, net of tax.

For the three months ended October 31, 2007, compared with the three months ended October 31, 2006, the value of the euro increased by approximately 9.5% relative to the value of the United States dollar. Changes in the value of the euro against the United States dollar affect our results of operations because a portion of the net assets of our Netherlands subsidiary (which are reported in our Dialysis, Endoscope Reprocessing and Water Purification and Filtration segments) are denominated and ultimately settled in United States dollars but must be converted into its functional euro currency. Additionally, financial statements of our Netherlands subsidiary are translated using the accounting policies described in Note 2 to the 2007 Form 10-K. Fluctuations in the rates of currency exchange between the Euro and the United States dollar had an overall adverse impact for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, upon our results of operations of approximately $32,000, net of tax.

In order to hedge against the impact of fluctuations in the value of the euro relative to the United States dollar on the conversion of such dollar denominated net assets into functional currency, we enter into short-term contracts to purchase euros forward, which contracts are generally one month in duration. These short-term contracts are designated as fair value hedges. There was one foreign currency forward contract amounting to 1,357,000 at November 30, 2007 which covers certain assets and liabilities of Minntech's Netherlands subsidiary which are denominated in United States dollars. Such contract expires on December 31, 2007. Under our credit facilities, such contracts to purchase euros may not exceed $12,000,000 in an aggregate notional amount at any time. During the three months ended October 31, 2007, such forward contracts were effective in offsetting the impact of the strengthening of the euro on certain assets and liabilities of Minntech's Netherlands subsidiary that are denominated in United States dollars. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, as amended, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS 133"), such foreign currency forward contracts are designated as hedges. Gains and losses related to these hedging contracts to buy euros forward are immediately realized within general and administrative expenses due to the short-term nature of such contracts.

For purposes of translating the balance sheet at October 31, 2007 compared with July 31, 2007, the value of the Canadian dollar increased by approximately 13.1% and the value of the euro increased by approximately 5.8% compared with the value of the United States dollar. The total of these currency movements resulted in a foreign currency translation gain of $3,835,000 during the three months ended October 31, 2007, thereby increasing stockholders' equity.

Changes in the value of the Japanese yen relative to the United States dollar during the three months ended October 31, 2007, compared with the three months ended October 31, 2006, did not have a significant impact upon either our results of operations or the translation of our balance sheet, primarily due to the fact that our Japanese subsidiary accounts for a relatively small portion of consolidated net sales, net income and net assets.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we continually evaluate our estimates. We base our estimates on historical experience and on various other assumptions that are believed 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.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Condensed Consolidated Financial Statements.

Revenue Recognition

Revenue on product sales is recognized as products are shipped to customers and title passes. The passing of title is determined based upon the FOB terms specified for each shipment. With respect to dialysis, therapeutic, specialty packaging and endoscope reprocessing products, shipment terms are generally FOB origin for common carrier and FOB destination when our distribution fleet is utilized (except for one large customer in dialysis whereby all products are shipped FOB destination). With respect to water purification and filtration and healthcare disposable products, shipment terms may be either FOB origin or destination. Customer acceptance for the majority of our product sales occurs at the time of delivery. In certain instances, primarily with respect to some of our water purification and filtration equipment, endoscope reprocessing equipment and an insignificant amount of our sales of dialysis equipment, post-delivery obligations such as installation, in-servicing or training are contractually specified; in such instances, revenue recognition is deferred until all of such conditions have been substantially fulfilled such that the products are deemed functional by the end-user. With respect to a portion of water purification and filtration product sales, equipment is sold as part of a system for which the equipment is functionally interdependent or the customer' s purchase order specifies "ship-complete" as a condition of delivery; revenue recognition on such sales is deferred until all equipment has been delivered.

A portion of our water purification and filtration sales relating to our acquisition of GE Water are recognized as multiple element arrangements, whereby revenue is allocated to the equipment and installation components based upon vendor specific objective evidence which principally includes comparable historical transactions of similar equipment and installation sold as stand alone components, as well as an evaluation of unrelated third party competitor pricing of similar installation.

Revenue on service sales is recognized when repairs are completed at the customer' s location or when repairs are completed at our facilities and the products are shipped to customers. All shipping and handling fees invoiced to customers, such as freight, are recorded as revenue (and related costs are included within cost of sales) at the time the sale is recognized. With respect to certain service contracts in our Endoscope Reprocessing and Water Purification and Filtration operating segments, service revenue is recognized on a straight-line basis over the

contractual term of the arrangement.

None of our sales contain right-of-return provisions except certain sales of a small portion of our endoscope reprocessing equipment which contain a 15 day right-of-return trial period. Such sales are not recognized as revenue until the 15 day trial period has elapsed. Customer claims for credit or return due to damage, defect, shortage or other reason must be pre-approved by us before credit is issued or such product is accepted for return. No cash discounts for early payment are offered except with respect to a portion of our sales of dialysis and healthcare disposable products and certain prepaid packaging products. We do not offer price protection, although advance pricing contracts or required notice periods prior to implementation of price increases exist for certain customers with respect to many of our products. With respect to certain of our dialysis, dental and water purification and filtration customers, volume rebates are provided; such volume rebates are provided for as a reduction of sales at the time of revenue recognition and amounted to $259,000 and $779,000 for the three months ended October 31, 2007 and 2006, respectively. The decrease in volume rebates for the three months ended October 31, 2007 compared with October 31, 2006 is primarily due to lower sales in our Healthcare Disposables segment as more fully described elsewhere in this MD&A. Such allowances are determined based on estimated projections of sales volume for the entire rebate agreement periods. If it becomes known that sales volume to customers will deviate from original projections, the volume rebate provisions originally established would be adjusted accordingly.

The majority of our dialysis products are sold to end-users; the majority of therapeutic filtration products and healthcare disposable products are sold to third party distributors; water purification and filtration products and services are sold directly and through third-party distributors to hospitals, dialysis clinics, pharmaceutical and biotechnology companies and other end-users; the majority of our endoscope reprocessing products and services are sold directly to hospitals and other end-users; and specialty packaging products are sold to third-party distributors, medical research companies, laboratories, pharmaceutical companies, hospitals, government agencies and other end-users. Sales to all of these customers follow our revenue recognition policies.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable consist of amounts due to us from normal business activities. Allowances for doubtful accounts are reserves for the estimated loss from the inability of customers to make required payments. We use historical experience as well as current market information in determining the estimate. While actual losses have historically been within management' s expectations and provisions established, if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Alternatively, if certain customers paid their delinquent receivables, reductions in allowances may be required.

Inventories

Inventories consist of products which are sold in the ordinary course of our business and are stated at the lower of cost (first-in, first-out) or market. In assessing the value of inventories, we must make estimates and judgments regarding reserves required for product obsolescence, aging of inventories and other issues potentially affecting the saleable condition of products. In performing such evaluations, we use historical experience as well as current market information. With few exceptions, the saleable value of our inventories has historically been within

management' s expectation and provisions established, however, rapid changes in the market due to competition, technology and various other factors could have an adverse effect on the saleable value of our inventories, resulting in the need for additional reserves.

Goodwill and Intangible Assets

Certain of our identifiable intangible assets, including customer relationships, technology, brand names, non-compete agreements and patents, are amortized using the straight-line method over their estimated useful lives which range from 1 to 20 years. Additionally, we have recorded goodwill and trademarks and trade names, all of which have indefinite useful lives and are therefore not amortized. All of our intangible assets and goodwill are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, and goodwill and intangible assets with indefinite lives are reviewed for impairment at least annually. Our management is primarily responsible for determining if impairment exists and considers a number of factors, including third-party valuations, when making these determinations. In performing a review for goodwill impairment, management uses a two-step process that begins with an estimation of the fair value of the related operating segments. The first step is a review for potential impairment, and the second step measures the amount of impairment, if any. In performing our annual review for indefinite lived intangibles, management compares the current fair value of such assets to their carrying values. With respect to amortizable intangible assets when impairment indicators are present, management would determine whether non-discounted cash flows would be sufficient to recover the carrying value of the assets; if not, the carrying value of the assets would be adjusted to their fair value. On July 31, 2007, management concluded that none of our intangible assets or goodwill was impaired and no impairment indicators are present as of October 31, 2007. While the results of these annual reviews have historically not indicated impairment, impairment reviews are highly dependent on management' s projections of our future operating results which management believes to be reasonable.

Long-lived assets

We evaluate the carrying value of long-lived assets including property, equipment and other assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An assessment is made to determine if the sum of the expected future non-discounted cash flows from the use of the assets and eventual disposition is less than the carrying value. If the sum of the expected non-discounted cash flows is less than the carrying value, an impairment loss is recognized based on fair value. With few exceptions, our historical assessments of our long-lived assets have not differed significantly from the actual amounts realized. However, the determination of fair value requires us to make certain assumptions and estimates and is highly subjective, and accordingly, actual amounts realized may differ significantly from our estimates.

Warranties

We provide for estimated costs that may be incurred to remedy deficiencies of quality or performance of our products at the time of revenue recognition. Most of our products have a one year warranty, although a majority of our endoscope reprocessing equipment in the United States carry a warranty period of up to fifteen months. We record provisions for product warranties as a component of cost of sales based upon an estimate of the amounts necessary to settle existing and future claims on products sold. The historical relationship of warranty costs to products sold is the

primary basis for the estimate. A significant increase in third party service repair rates, the cost and availability of parts or the frequency of claims could have a material adverse impact on our results for the period or periods in which such claims or additional costs materialize. Management reviews its warranty exposure periodically and believes that the warranty reserves are adequate; however, actual claims incurred could differ from original estimates, requiring adjustments to the reserves.

Stock-Based Compensation

On August 1, 2005, we adopted SFAS No. 123R, *"Share-Based Payment (Revised 2004)"* ("SFAS 123R") using the modified prospective method for the transition. Under the modified prospective method, stock compensation expense is recognized for any option grant or stock award granted on or after August 1, 2005, as well as the unvested portion of stock options granted prior to August 1, 2005, based upon the award' s fair value. For fiscal 2005 and earlier periods, we accounted for stock options using the intrinsic value method under which stock compensation expense is not recognized because we granted stock options with exercise prices equal to the market value of the shares at the date of grant.

Most of our stock option and nonvested stock awards are subject to graded vesting in which portions of the award vest at different times during the vesting period, as opposed to awards that vest at the end of the vesting period. We recognize compensation expense for awards subject to graded vesting using the straight-line basis, reduced by estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Forfeitures are estimated based on historical experience.

The stock-based compensation expense recorded in our Condensed Consolidated Financial Statements may not be representative of the effect of stock-based compensation expense in future periods due to the level of awards issued in past years (which level may not be similar in the future), assumptions used in determining fair value, and estimated forfeitures. We determine the fair value of each unvested stock award using the closing market price of our Common Stock on the date of grant. We estimate the fair value of each option grant on the date of grant using the Black-Scholes option valuation model. The determination of fair value using an option-pricing model is affected by our stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected stock price volatility over the term of the expected option life (which is determined by using the historical closing prices of our Common Stock), the expected dividend yield (which is expected to be 0%), and the expected option life (which is based on historical exercise behavior). If factors change and we employ different assumptions in the application of SFAS 123R in future periods, the compensation expense that we would record under SFAS 123R may differ significantly from what we have recorded in the current period. With respect to stock options granted subsequent to October 31, 2006, we reassessed both the expected option life and stock price volatility assumptions by evaluating more recent historical exercise behavior and stock price activity; such reevaluation resulted in reductions in both the volatility, and for certain options, the expected option lives.

Legal Proceedings

In the normal course of business, we are subject to pending and threatened legal actions. We record legal fees and other expenses related to litigation as incurred. Additionally, we assess, in consultation with our counsel, the need to record a liability for litigation and contingencies on

a case by case basis. Amounts are accrued when we, in consultation with counsel, determine that it is probable that a liability has been incurred and an amount of anticipated exposure can be reasonably estimated.

Income Taxes

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Deferred tax assets and liabilities also include items recorded in conjunction with the purchase accounting for business acquisitions. We regularly review our deferred tax assets for recoverability and establish a valuation allowance, if necessary, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. Although realization is not assured, management believes it is more likely than not that the recorded deferred tax assets, as adjusted for valuation allowances, will be realized. Additionally, deferred tax liabilities are regularly reviewed to confirm that such amounts are appropriately stated. Such a review considers known future changes in various effective tax rates, principally in the United States. If the effective tax rate were to change in the future, particularly in the United States, our items of deferred tax could be materially affected. All of such evaluations require significant management judgments.

We record liabilities for an unrecognized tax benefit when a tax benefit for an uncertain tax position is taken or expected to be taken on a tax return, but is not recognized in our Condensed Consolidated Financial Statements because it does not meet the more-likely-than-not recognition threshold that the uncertain tax position would be sustained upon examination by the applicable taxing authority. The majority of such unrecognized tax benefits originated from acquisitions and are based primarily upon management' s assessment of exposure associated with acquired companies. Accordingly, any adjustments upon resolution of income tax uncertainties that predate or result from acquisitions are recorded as an increase or decrease to goodwill. Unrecognized tax benefits are analyzed periodically and adjustments are made, as events occur to warrant adjustment to the related liability.

Business Combinations

Acquisitions require significant estimates and judgments related to the fair value of assets acquired and liabilities assumed.

Certain liabilities and reserves are subjective in nature. We reflect such liabilities and reserves based upon the most recent information available. In conjunction with our acquisitions, such subjective liabilities and reserves principally include certain income tax and sales and use tax exposures, including tax liabilities related to our foreign subsidiaries, as well as reserves for accounts receivable, inventories and warranties. The ultimate settlement of such liabilities may be for amounts which are different from the amounts recorded.

Other Matters

We do not have any off balance sheet financial arrangements, other than future commitments under operating leases and employment and license agreements.

Forward Looking Statements

This quarterly report on Form 10-Q contains “forward-looking statements” as that term is defined under the Private Securities Litigation Reform Act of 1995 and releases issued by the Securities and Exchange Commission (the “SEC”) and within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). These statements are based on current expectations, estimates, or forecasts about our businesses, the industries in which we operate, and the beliefs and assumptions of management; they do not relate strictly to historical or current facts. We have tried, wherever possible, to identify such statements by using words such as “expect,” “anticipate,” “goal,” “project,” “intend,” “plan,” “believe,” “seek,” “may,” “could,” and variations of such words and similar expressions. In addition, any statements that refer to predictions or projections of our future financial performance, anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. Readers are cautioned that these forward-looking statements are only predictions about future events, activities or developments and are subject to numerous risks, uncertainties, and assumptions that are difficult to predict including, among other things, the following:

- the increasing market share of single-use dialyzers relative to reuse dialyzers in the United States
- the adverse impact of consolidation of dialysis providers and our dependence on a single dialysis customer
- the adverse impact of consolidation of dental product distributors and our dependence on a concentrated number of such distributors
- uncertainties related to our Endoscope Reprocessing segment, particularly those relating to the assumption of direct sales and service of Medivators endoscope reprocessing products in the United States on August 2, 2006 and the performance of the MDS product line
- our dependence on acquiring new businesses and successfully integrating and operating such businesses
- foreign currency exchange rate and interest rate fluctuations
- the impact of significant government regulation on our businesses

You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider the foregoing items to be a complete list of all potential risks or uncertainties. See “Risk Factors” in our 2007 Form 10-K for a discussion of the above risk factors and certain additional risk factors that you should consider before investing in the shares of our common stock.

All forward-looking statements herein speak only as of the date of this Report. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in Section 27A of the Securities Act and Section 21E of the Exchange Act.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign Currency Market Risk

A portion of our products are imported from the Far East and Western Europe. All of our operating segments sell a portion of their products outside of the United States and our Netherlands subsidiary sells a portion of its products outside of the European Union. Consequently, our business could be materially affected by the imposition of trade barriers, fluctuations in the rates of exchange of various currencies, tariff increases and import and export restrictions, affecting the United States, Canada and the Netherlands.

A portion of our Canadian subsidiaries' inventories and operating costs (which are reported in the Water Purification and Filtration and Specialty Packaging segments) are purchased in the United States and a significant amount of their sales are to customers in the United States. The businesses of our Canadian subsidiaries could be materially and adversely affected by the imposition of trade barriers, fluctuations in the rate of currency exchange, tariff increases and import and export restrictions between the United States and Canada. Additionally, the financial statements of our Canadian subsidiaries are translated using the accounting policies described in Note 2 to the 2007 Form 10-K. Fluctuations in the rates of currency exchange between the United States and Canada had an overall adverse impact for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, upon our continuing results of operations and a positive impact on stockholders' equity, as described in our MD&A.

Changes in the value of the euro against the United States dollar affect our results of operations because a portion of the net assets of Our Netherlands subsidiary (which are reported in our Dialysis, Endoscope Reprocessing and Water Purification and Filtration segments) are denominated and ultimately settled in United States dollars but must be converted into its functional euro currency. Additionally, the financial statements of our Netherlands subsidiary are translated using the accounting policies described in Note 2 to the 2007 Form 10-K. Fluctuations in the rates of currency exchange between the Euro and the United States dollar had an overall adverse impact for the three months ended October 31, 2007, compared with the three months ended October 31, 2006, upon our continuing results of operations, and had a positive impact upon stockholders' equity, as described in our MD&A.

In order to hedge against the impact of fluctuations in the value of the euro relative to the United States dollar on the conversion of such dollar denominated net assets into functional currency, we enter into short-term contracts to purchase euros forward, which contracts are generally one month in duration. These short-term contracts are designated as fair value hedges. There was one foreign currency forward contract amounting to 1,366,000 at October 31, 2007 which covered certain assets and liabilities of Minntech's Netherlands subsidiary which are denominated in United States dollars. Such contract expired on November 30, 2007. Under our credit facilities, such contracts to purchase euros may not exceed $12,000,000 in an aggregate notional amount at any time. For the three months ended October 31, 2007, such forward contracts were effective in offsetting the impact on operations of the strengthening of the euro.

The functional currency of Minntech's Japan subsidiary is the Japanese yen. Changes in the value of the Japanese yen relative to the United States dollar for the three months ended

October 31, 2007 and 2006 did not have a significant impact upon either our results of operations or the translation of the balance sheet, primarily due to the fact that our Japanese subsidiary accounts for a relatively small portion of consolidated net sales, net income and net assets.

Interest Rate Market Risk

We have a United States credit facility for which the interest rate on outstanding borrowings is variable. Therefore, interest expense is principally affected by the general level of interest rates in the United States.

Market Risk Sensitive Transactions

Additional information related to market risk sensitive transactions is contained in Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our 2007 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

We, under the supervision and with the participation of our Chief Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer each concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in reports that we file under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the rules and forms of the SEC.

We have evaluated our internal controls over financial reporting and determined that no changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting, except as described below.

Changes in Internal Control

On August 1, 2005, which was the first day of fiscal 2006, we acquired Crosstex. For the three months ended October 31, 2007 and 2006, Crosstex represented a material portion of our sales, net income and net assets. As more fully described in our 2007 Form 10-K, we have remedied the significant internal control weaknesses at Crosstex that were identified by us in connection with the due diligence for this acquisition, including the replacement of the existing management information system. The implementation process of this new system commenced during fiscal 2007 and is expected to be completed during the second quarter of fiscal 2008. During fiscal 2007 and the three months ended October 31, 2007, numerous temporary control improvements have been made to the existing management information system for the interim period before the new system is fully implemented.

On March 30, 2007, we acquired GE Water as more fully described in Note 3 to the Condensed Consolidated Financial Statements. During the initial transition period following this acquisition, we have enhanced our internal control process at our Mar Cor Purification subsidiary to ensure that all financial information related to this acquisition is properly reflected in our Consolidated Financial Statements. During the three months ended October 31, 2007, substantially all aspects of this acquisition has been fully integrated into Mar Cor' s existing internal control structure.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A to our 2007 Form 10-K. The risk factors disclosed in Part I, Item 1A to our 2007 Form 10-K, in addition to the other information set forth in this report, could materially affect our business, financial condition, or results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

31.1 - Certification of Principal Executive Officer.

31.2 - Certification of Principal Financial Officer.

32 - Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

CANTEL MEDICAL CORP.

Date: December 10, 2007

By: /s/ R. Scott Jones
R. Scott Jones, President
and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Craig A. Sheldon
Craig A. Sheldon,
Senior Vice President and

Chief Financial Officer (Principal
Financial and Accounting Officer)

By: /s/ Steven C. Anaya
Steven C. Anaya,
Vice President and Controller

EXHIBIT 31.1

CERTIFICATIONS

I, R. Scott Jones, President and Chief Executive Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cantel Medical Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls over financial reporting.

Date: December 10, 2007

By: /s/ R. Scott Jones
R. Scott Jones, President and Chief
Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATIONS

I, Craig A. Sheldon, Senior Vice President and Chief Financial Officer, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cantel Medical Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant' s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant' s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any changes in the registrant' s internal control over financial reporting that occurred during the registrant' s most recent fiscal quarter (the registrant' s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant' s internal control over financial reporting; and

5. The registrant' s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant' s auditors and the audit committee of registrant' s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant' s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant' s internal controls over financial reporting.

Date: December 10, 2007

By: /s/ Craig A. Sheldon
Craig A. Sheldon, Senior Vice President and
Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 32

CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (a) AND (b) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of Title 18, United States Code), the undersigned officers of Cantel Medical Corp. (the "Company"), do hereby certify with respect to the Quarterly Report of the Company on Form 10-Q for the quarter ended October 31, 2007 as filed with the Securities and Exchange Commission (the "Form 10-Q") that, to the best of their knowledge:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 10, 2007

/s/ R. Scott Jones
R. Scott Jones
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Craig A. Sheldon
Craig A. Sheldon
Senior Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)