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Encision Inc

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended March 31, 2009

OR

☐ **TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No.: 0-28604

ENCISION INC.

(Exact name of registrant as specified in its charter)

Colorado	**84-1162056**
(State of incorporation)	(I.R.S. Employer Identification No.)
6797 Winchester Circle, Boulder, Colorado	**80301**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(303) 444-2600**

Securities registered under Section 12(b) of the Act: **Common Stock, no par value**

Securities registered under Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. ☐

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Smaller reporting company ☑

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

As of September 30, 2008, the aggregate market value of the shares of common stock held by non-affiliates of the issuer on such date was $3,637,616. This figure is based on the closing sales price of $1.05 per share of the issuer's common stock on

September 30, 2008.

The number of shares outstanding of each of the issuer's classes of common equity, as of the last practicable date.

Common Stock, no par value	**6,455,100**
(Class)	(Outstanding at May 29, 2009)

Documents Incorporated by Reference: Definitive Proxy Statement for the 2009 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission and incorporated by reference as described in Part III. The 2009 Proxy Statement will be filed within 120 days after the end of the fiscal year ended March 31, 2009.

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Statements contained in this Annual Report on Form 10-K include forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve substantial risks and uncertainties that may cause actual results to differ materially from those indicated by the forward looking statements. All forward looking statements in this Annual Report on Form 10-K, including statements about our strategies, expectations about new and existing products, market demand, acceptance of new and existing products, technologies and opportunities, market size and growth, and return on investments in products and market, are based on information available to us on the date of this document, and we assume no obligation to update such forward looking statements. In some cases, you can identify forward looking statements by terminology such as "may", "will", "should", "could", "expects", "plans", "intends", "anticipates", "believes", "estimates", "predicts", "potential", or "continue" or the negative of such terms or other comparable terminology. Readers of this Annual Report on Form 10-K are strongly encouraged to review the section entitled *"Risk Factors"*.

PART I

Item 1. Business.

Company Overview

Encision Inc. ("Encision", "we", "us", "our" or the "Company"), a medical device company based in Boulder, Colorado, has developed and launched innovative technology that is emerging as a standard of care in minimally-invasive surgery. We believe that our patented Active Electrode Monitoring® ("AEM") Surgical Instruments are changing the marketplace for electrosurgical devices and laparoscopic instruments by providing a solution to a well-documented patient safety risk in laparoscopic surgery.

We were founded to address market opportunities created by the increase in minimally-invasive surgery ("MIS") and surgeons' use of electrosurgery devices in these procedures. The product opportunity was created by surgeons' widespread demand to use monopolar electrosurgery instruments, which, when used in laparoscopic surgery, are susceptible to causing inadvertent collateral tissue damage outside the surgeon's field of view. The risk of unintended electrosurgical burn injury to the patient in laparoscopic surgery has been well documented. This risk poses a threat to patient safety and creates liability exposure for surgeons and hospitals.

Our patented AEM technology provides surgeons with the desired tissue effects, while preventing stray electrosurgical energy that can cause unintended and unseen tissue injury. AEM Surgical Instruments are equivalent to conventional instruments in size, shape, ergonomics and functionality, but they incorporate "active electrode monitoring" technology to dynamically and continuously monitor the flow of electrosurgical current, thereby helping to prevent patient injury. With our "shielded and monitored" instruments, surgeons are able to perform electrosurgical procedures more safely and effectively than is possible using conventional instruments. In addition, AEM instruments are cost competitive with conventional "non-shielded, non-monitored" instruments. The result is advanced patient safety at comparable cost and with no change in surgeon technique.

AEM technology has been recommended and endorsed by sources from many groups involved in MIS. Surgeons, nurses, biomedical engineers, the medicolegal community, malpractice insurance carriers and electrosurgical device manufacturers advocate the use of AEM technology. The breadth of endorsements continues to expand with the recognition of AEM technology as an *AORN Recommended Practice for Electrosurgery* and *AORN Recommended Practice for Minimally-Invasive Surgery* by the Association of periOperative Registered Nurses (AORN). Additionally, a recommendation was made by a hospital malpractice insurance carrier that hospitals use surgical instruments which incorporate shielding and monitoring technology.

Business Highlights

Proprietary, Patented Technology

We have developed and launched patented AEM Surgical Instruments that enhance patient safety and patient outcome in laparoscopic surgical procedures. We have been issued seven patents relating to AEM technology from the United States Patent and Trademark Office, each encompassing multiple claims, and which have between two years two months and fifteen years four months remaining. We also have patents relating to AEM technology issued in Europe, Japan, Canada and Australia.

Technology Solves a Well-Documented Risk in Minimally Invasive Surgery

MIS offers significant benefits for patients by reducing trauma, hospital stays, recovery times and medical costs. However, these benefits have not been achieved without the emergence of new risks. The risk of unintended tissue damage from stray electrosurgical energy has been well documented. Such injuries can be especially troubling given the fact that they can go unrecognized and can lead to a cascade of adverse events, including death. Our patented AEM technology helps to eliminate the risk of stray electrosurgical burns in MIS while providing surgeons with the tissue effects they desire.

Product Line has been Developed and Launched

Our AEM Surgical Instruments have been engineered to provide a seamless transition for surgeons switching from conventional laparoscopic instruments. AEM technology has been integrated into instruments that have the same look, feel and functionality as conventional instruments that surgeons have been using for years. The AEM product line encompasses the full range of instrument sizes, types and styles favored by surgeons. Thus, hospitals can make a complete and smooth conversion to our product line, thereby advancing patient safety in MIS.

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Emerging as a Standard of Care

We believe that AEM technology is following a similar path as previous technological developments in surgery. Throughout the history of electrosurgery, companies that have developed significant technological breakthroughs in patient safety have seen their technologies become widely used. As with “Isolated” electrosurgical generators in the 1970s and with “REM” technology in the 1980s, AEM technology is receiving the broad endorsements that drove these previous new technologies to becoming a standard of care. Our proprietary AEM technology enhances patient safety in MIS, and clinicians are now widely advocating its use.

Developing Distribution Network is Advancing Utilization of AEM Technology

Our AEM technology, in the hands of a sales network with broad access to the surgery marketplace, will help to increase utilization and market share. Historically, our sales and marketing efforts have been hindered by our small size and limited distribution channels. While these limitations continue, we have improved our sales network, which provided new hospital accounts with AEM technology in fiscal year 2009. Our supplier agreements with Novation and Premier, the two largest Group Purchasing Organizations (“GPOs”) for hospitals in the U.S., are beginning to expose more hospitals to the benefits of our AEM technology.

Market Overview

We believe that our sole possession of patented AEM technology provides us with marketing leverage toward gaining an increased share of the large market for surgical instruments in MIS.

In the 1990s, surgeons began widespread use of minimally-invasive surgical techniques. The benefits of MIS are substantial and include reduced trauma for the patient, reduced hospital stay, shorter recovery time and lower medical costs. With improvements in the micro-camera and in the variety of available instruments, laparoscopic surgery became popular among general and gynecologic surgeons. Laparoscopy now accounts for a large percentage of all surgical procedures performed in the United States. Approximately 85% of surgeons employ monopolar electrosurgery for laparoscopy according to INTERactive SURVeys. There are over 4.4 million laparoscopic procedures performed annually in the United States, and this number is increasing annually (Note: except as otherwise stated, market estimates in this section are as reported by Patient Safety & Quality Healthcare).

A component of the endoscopic surgery products market includes laparoscopic hand instruments, including scissors, graspers, dissectors, forceps, suction/irrigation devices, clip appliers and other surgical instruments of various designs, which provide a variety of tissue effects. Among the laparoscopic hand instruments, approximately $400 million in sales annually are instruments designed for “monopolar” electrosurgical utility. This market for laparoscopic monopolar electrosurgical instruments is the market we are targeting with our innovative AEM Surgical Instruments. Our proprietary AEM product line supplants the conventional “non-shielded, non-monitored” electrosurgical instruments commonly used in laparoscopic surgery.

When a hospital decides to use our AEM technology, we make recurring sales to such hospital for replacement instruments. Sales from replacement reusable and disposable AEM products in hospitals represented over 90% of our sales in the fiscal year ended

March 31, 2009, and we expect this sales stream to grow as new hospitals increasingly adopt AEM technology. AEM Instruments are competitively priced to conventional laparoscopic instruments.

We aim to further develop the market by continuing to educate healthcare professionals about the benefits of AEM technology to advance patient safety. We are working to improve our sales network to reach the decision makers who purchase laparoscopic instruments and electrosurgical devices. We are also pursuing relationships with GPOs to assist in promoting the benefits of AEM technology. GPOs have significant influence on the market for surgical instruments. Supplier agreements with Novation and Premier are helping to expose AEM technology to new hospitals. Together, Novation and Premier represent over 3,000 hospitals which perform approximately 50% of all surgery in the United States.

The Technology

Stray Electrosurgical Burn Injury to the Patient

Electrosurgical technology is a valuable and popular resource for surgeons. Since its introduction in the 1930s, electrosurgical technology has continually evolved and is estimated to be used by over 75% of all general surgeons.

The primary form of electrosurgery, monopolar electrosurgery, is a standard tool for general surgeons throughout the world. In monopolar electrosurgery, the surgeon uses an instrument (typically scissors, grasper/dissectors, spatula blades or suction-irrigation electrodes) to deliver electrical current to patient tissue. This “active electrode” provides the surgeon with the ability to cut, coagulate or ablate tissue as needed during the surgery. With the advent of MIS procedures, surgeons have continued using monopolar electrosurgery as a primary tool for hemostatic incision, excision and ablation. Unfortunately, conventional laparoscopic electrosurgical instruments from competing manufacturers are susceptible to emitting stray electrical currents during the procedure. This risk is exacerbated by the fact that the micro-camera system used in laparoscopy limits the surgical field-of-view. Ninety percent of the instrument may be outside the surgeon’s field-of-view at any given time during the surgery.

Because stray electrical current can occur at any point along the shaft of the instrument, the potential for burns occurring to tissue outside the surgeon’s field-of-view is of great concern. Such burns to non-targeted tissue are dangerous as they are likely to go unnoticed and may lead to complications, such as perforation and infection in adjacent tissues or organs, and this can cause numerous adverse consequences. In many cases, the surgeon cannot detect stray electrosurgical burns at the time of the procedure. The resulting complication usually presents itself days later in the form of a severe infection, which often results in a return to the hospital and a difficult course of recovery for the patient. This situation has even resulted in fatalities.

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Stray electrosurgical burn injury can result from two causes — instrument insulation failure and capacitive coupling. Instrument insulation failure can be a common occurrence with laparoscopic instruments. Conventional active electrodes for laparoscopic surgery are designed with the same basic construction — a single conductive element and an outer insulation coating. Unfortunately, this insulation can fail during the natural course of normal use during surgery. It is also possible for instrument insulation to become flawed during the cleaning and sterilization process. This common insulation failure can allow electrical currents to “leak” from the instrument to unintended and unseen tissue with potentially serious ramifications for the patient. Capacitive coupling is another way stray electrosurgical energy can cause unintended burns during laparoscopy. Capacitive coupling is an electrical phenomenon that occurs when current is induced from the instrument to nearby tissue despite intact insulation. This potential for capacitive coupling is present in all laparoscopic surgeries that utilize monopolar electrosurgery devices and can likely occur outside the surgeon’s field-of-view.

Conventional, “non-shielded, non-monitored” laparoscopic instruments are susceptible to causing unintended, unseen burn injury to the patient in MIS. Instrument insulation failure and capacitive coupling are the primary causes of stray electrosurgical burns in laparoscopy and are the two events over which the surgical team has traditionally had little, if any, control.

Encision’s AEM Surgical Instruments

Active electrode monitoring technology can eliminate the risk of stray electrical energy caused by instrument insulation failure and capacitive coupling, and thus helps to prevent unintended burn injury to the patient.

AEM Surgical Instruments are an innovative solution to stray electrosurgical burns in laparoscopic surgery and are designed with the same look, feel and functionality as conventional instruments. They direct electrosurgical energy where the surgeon desires, while continuously monitoring the current flow to prevent stray electrosurgical energy from instrument insulation failure or capacitive coupling.

Whereas conventional instruments are simply a conductive element with a layer of insulation coating, AEM Surgical Instruments have

a patented, multi-layered design with a built-in “shield,” a concept much like the third-wire ground in standard electrical cords. The shield in these instruments is referenced back to a monitor at the electrosurgical generator. In the event of a harmful level of stray electrical energy, the monitor shuts down the power at the source, advancing patient safety. For instance, if instrument insulation failure should occur, the AEM system, while continually monitoring the instrument, immediately shuts down the electrosurgical generator, turning off the electrical current and alerting the surgical staff. The AEM system protects against capacitive coupling by providing a neutral return path for “capacitively coupled” electrical current. Capacitively coupled energy is continually drained away from the instrument and away from the patient through the protective shield built into all AEM instruments.

The AEM system consists of shielded 5mm AEM Instruments and an AEM monitor. The AEM Instruments are designed to function identically to the conventional 5mm instruments that surgeons are familiar with, but with the added benefit of enhanced patient safety. Our entire line of laparoscopic instruments has the integrated AEM design and includes the full range of instruments that are common in laparoscopic surgery today. The AEM monitor is compatible with most electrosurgical generators. AEM Surgical Instruments provide enhanced patient safety, require no change in surgeon technique and are cost competitive. Thus, conversion to AEM Surgical Instruments can be easy and economical.

Technology Precedents

We believe that gaining broad independent endorsements in the surgical community is a demonstrated and successful method for new surgical technology to advance in the marketplace. From a concern or problem in surgery, the medical device industry develops a technological solution, and this solution evolves to garner credibility and endorsements. Once this occurs, the technology is then widely employed by hospitals to benefit patients, surgeons and the operating room staff. We believe that AEM technology is following the same path as previous developments in electrosurgery. As with other safety advances (i.e. “Isolated” electrosurgical generators in the 1970s and “REM” technology in the 1980s), AEM technology has received the breadth of independent endorsements that drove previous new technology to broad market acceptance. (“REM” is a registered trademark of Covidien Ltd. “AEM” is a registered trademark of Encision Inc.).

Time Period	Problem	Solution	Results
1970s	All electrosurgical units had a “grounded” design		
	Alternate paths for the current were possible, causing patient burns	“Isolated” Electrosurgery	Patient safety is improved; New standard of care
1980s	All electrosurgical patient return electrodes were “not monitored”		
	Patient burns at return electrode site were possible	REM - Return Electrode Monitoring	Patient safety is improved; New standard of care
1990s & 2000s	Introduction of Minimally Invasive Surgery (MIS)		
	MIS instruments are susceptible to causing stray electrosurgical burns to unintended, unseen tissue	AEM Surgical Instruments—Shielded and monitored instruments and the active electrode monitoring system.	Patient safety is improved; Emerging standard of care

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Historical Perspective

We were organized as a Colorado corporation in 1991 and spent several years developing the AEM monitoring system and protective sheaths to adapt to conventional electrosurgical instruments. During this period, we conducted product trials and applied for patents with the United States Patent and Trademark Office and with International patent agencies. Patents were issued to us by the United States Patent and Trademark Office in 1994, 1997, 1998, 2002 and 2008.

As we evolved, it was clear to us that our ‘active electrode monitoring’ technology needed to be integrated into the standard laparoscopic instrument design. As the development program proceeded, it also became apparent that the merging of electrical and mechanical engineering skills in the instrument development process for our patented, integrated electrosurgical instruments was a

complex and difficult task. As a result, instruments with integrated AEM technology were not completed for several years. Prior to offering a full range of laparoscopic electrosurgical instrumentation, it was difficult for hospitals to commit to the AEM solution, as we did not have adequate comparable surgical instrument options to match surgeon demand.

With the broad array of AEM instruments now available, the surgeon has a wide choice of instrument options and does not have to change surgical technique to use our AEM products. Since conversion to AEM technology is transparent to the surgeon, hospitals can now universally convert to AEM technology, thus providing all of their laparoscopic surgery patients a higher level of safety. This development coincides with the continued expansion of independent endorsements for AEM technology. Recommendations from the malpractice insurance and medicolegal communities complement the broad clinical endorsements that AEM technology has garnered over the past few years, leading to market gains for the technology.

Products

We produce and market a full line of AEM Instruments, which are 'shielded and monitored' to prevent stray electrosurgical burns from insulation failure and capacitive coupling. Our product line includes a broad range of articulating instruments (scissors, graspers and dissectors), fixed-tip electrodes and suction-irrigation electrodes. These AEM Instruments are available in a wide array of reusable and disposable options. Our new line of disposable hand-switching fixed tip electrodes offers disposable and reusable alternatives for each of our major product groups. In 2006, we introduced a new line of handles that are used for advanced laparoscopic procedures that incorporate stiffer shafts and ergonomic features. In addition, we market an AEM monitor product line that is used in conjunction with AEM Instruments.

Sales and Marketing Overview

We believe that AEM technology will become the standard of care in laparoscopic surgery worldwide. Our marketing efforts are focused toward capitalizing on substantial independent endorsements for AEM technology. These third-party endorsements advocate utilizing active electrode monitoring for advancing patient safety in laparoscopic surgery. Substantial visibility has been achieved as a result of the technology's recognition as an *AORN Recommended Practice*.

In addition, there is increasing public interest in the reduction of medical errors and the advancement of patient safety. This interest and focus is reflected in the Joint Commission on Accreditation of Healthcare Organizations ("the JCAHO") Standards enacted in July 2001 requiring hospitals to show proactive initiatives for advancing patient safety in order to renew their accreditation. Some recent new hospital accounts changing to AEM technology have been motivated in part by these JCAHO patient safety standards. We believe that the credibility and importance of our technology is complemented by this expanding public interest in advancing patient safety.

To cost-effectively expand market coverage, we focus on optimizing our distribution network comprised of direct and independent sales representatives who are managed and directed by our regional sales managers throughout the United States. In some instances, customers have recognized the patient safety risks inherent in monopolar electrosurgery and have accepted AEM technology as the way to eliminate those risks. In other instances, we have found selling the concept behind AEM technology more difficult. This difficulty is due to several factors, including the necessity to make surgeons, nurses and hospital risk managers aware of the potential for unintended electrosurgical burns (which exists when conventional instruments are used during laparoscopic monopolar electrosurgery) and the resulting increased medicolegal liability exposure. Additionally, we must contend with the overall lack of single purchasing points in the industry (surgeons and hospital staff have to be in substantial agreement as to the benefits of new technology), and the resulting need to make multiple sales calls on personnel with the authority to commit to hospital expenditures. Other challenges include the fact that many hospitals have exclusive contractual agreements with manufacturers of competing surgical instruments.

Our goal is to optimize a network that has experience selling into the hospital operating room environment. We believe that improvement in this network offers us the best opportunity to cost effectively broaden acceptance of our product line and generate increased and recurring sales. Additionally, we are pursuing supplier agreements with the major GPOs. GPOs have significant influence on the market for surgical devices and instruments. We have GPO agreements with Novation and Premier, which together represent over 3,000 hospitals in the United States. We have negotiated a three year extension with Novation through January 31, 2012 and a new three year agreement with Premier effective as of June 1, 2008. While these agreements do not involve purchase commitments, these relationships with Novation and Premier expand the market visibility of AEM technology and smooth the procurement and conversion process for new hospital customers. In fiscal year 2009, approximately twenty percent of our new hospital account sales were sales to members of Novation and Premier.

On March 20, 2009, we and Caldera Medical, Inc. entered into a Representation Agreement, whereby we will use our sales employees to sell certain of Caldera's products to physicians and hospitals. Caldera will pay us commissions on such sales pursuant to the terms of the Agreement.

In addition to the efforts to broaden market acceptance in the United States, we have contracted with independent distributors in Canada, Australia and New Zealand to market our products internationally. We have achieved Conformite Europeene ("CE"), marking for our products so that we may sell into the European marketplace. The CE marking indicates that a manufacturer has conformed to all of the obligations imposed by European health, safety and environmental legislation. While CE certification opens up incremental markets in Europe, our distribution options in the European marketplace are yet to be developed, and sales in international markets are negligible.

We believe that the expanding independent endorsements for AEM technology and the improved sales network of independent representatives will provide the basis for increased sales and continuing profitable operations. However, these measures, or any others that we may adopt, may not result in increased sales or profitable operations.

Research and Development

We aim to continually expand our AEM Instrument product line to satisfy the evolving needs of surgeons. For AEM technology to fully become a standard of care, we must satisfy surgeons' preferred instrument shapes, sizes, styles and functionality with integrated AEM Instruments. This commitment includes expanding the styles of electrosurgical instruments available for MIS applications so that the conversion to AEM technology is transparent to surgeons and does not require significant change in their current surgical techniques. We employ full-time engineers and use independent contractors from time to time in our research and product development efforts. This group continuously explores ways to broaden and enhance the product line. Current research and development efforts are focused primarily on line-extension projects to further expand our AEM Instrument product offering to increase surgeons' choices and options in laparoscopic surgery. Our research and development expenses were $1,138,677 in fiscal year 2009 and $1,267,834 in fiscal year 2008. We expense research and development costs for products and processes as incurred. Costs that are included in research and development expenses include direct salaries, contractor fees, materials, facility costs and administrative expenses that relate to research and development.

Manufacturing, Regulatory Affairs and Quality Assurance

We engage in various manufacturing and assembly activities at our leased facility in Boulder, Colorado. These operations include disposable scissor inserts manufacturing and assembly of our AEM Instrument system as well as fabrication, assembly and test operations for instruments and accessories. We also have relationships with a number of outside suppliers, including New Deantronics, Inc., who accounted for approximately 13% of our purchases in fiscal year 2009, who provide primary sub-assemblies, various electronic and sheet metal components, and molded parts used in our products.

We believe that the use of both internal and external manufacturing capabilities allows for increased flexibility in meeting our customer delivery requirements and significantly reduces the need for investment in specialized capital equipment. We have developed multiple sources of supply where possible. Our relationship with our suppliers is generally limited to individual purchase order agreements supplemented, as appropriate, by contractual relationships to help ensure the availability and low cost of certain products. All components, materials and sub-assemblies used in our products, whether produced in-house or obtained from others, are inspected to ensure compliance with our specifications. All finished products are subject to our quality assurance and performance testing procedures.

As discussed in the section on Government Regulation, we are subject to the rules and regulations of the United States Food and Drug Administration ("FDA"). Our leased facility of 28,696 square feet contains approximately 15,100 square feet of manufacturing, regulatory affairs and quality assurance space. The facility is designed to comply with the Quality System Regulation ("QSR"), as specified in published FDA regulations. Our latest inspection by the FDA occurred in August 2007.

We achieved CE marking in August 2000, which required prior certification of our quality system and product documentation. Maintenance of the CE marking status requires periodic audits of the quality system and technical documentation by our European Notified Body, LGA InterCert. The most recent audit was completed in February 2009.

Patents, Patent Applications and Intellectual Proprietary Rights

We have invested heavily in an effort to protect our valuable technology, and, as a result of this effort, we have been issued eight relevant patents that together form a significant intellectual property position. We were issued a United States patent having 42 claims on May 17, 1994. This patent relates to the basic shielding and monitoring technologies that we incorporate into our AEM products. Six additional United States patents were issued to us in 1997, 1998, 2002 and 2008 relating to specific implementations of shielding and monitoring in instruments. Foreign patents relating to the core AEM shielding and monitoring technologies have been issued to us in Europe, Japan, Canada and Australia. There are between two years two months and fifteen years four months remaining on our AEM patents.

Our technical progress depends to a significant degree on our ability to maintain patent protection for products and processes, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. Our policy is to attempt to protect our technology by, among other things, filing patent applications for technology that we consider important to the development of our business. The validity and breadth of claims covered in medical technology patents involve complex legal and factual questions and, therefore, may be highly uncertain. Even though we hold patented technology, others might copy our technology or otherwise

incorporate our technology into their products.

We require our employees to execute non-disclosure agreements upon commencement of employment. These agreements generally provide that all confidential information developed or made known to the individual by us during the course of the individual's employment is our property and is to be kept confidential and not disclosed to third parties.

Competition

The electrosurgical device market is intensely competitive and tends to be dominated by a relatively small group of large and well-financed companies. We compete directly for customers with those companies that currently make conventional electrosurgical instruments. Larger

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competitors include U.S. Surgical Corporation (a division of Covidien Ltd.) and Ethicon Endo-Surgery (a division of Johnson & Johnson). While we know of no competitor (including those referenced above) that can provide a continuous solution to stray electrosurgical burns, the manufacturers of conventional (non-monitored, non-shielded) instruments will resist any loss of market share resulting from the presence of our products in the marketplace.

We also believe that manufacturers of products based on alternative technology to monopolar electrosurgery are our competitors. These alternative technologies include other "energy" technologies such as bipolar electrosurgery, laser surgery and the harmonic scalpel. Leading manufacturers in these areas include Gyrus/ACMI (a division of Olympus Corporation and a leader in bi-polar electrosurgery), Lumenis (laser surgery) and Ethicon Endo-Surgery (a division of Johnson and Johnson, manufacturers of the harmonic scalpel). We believe that monopolar electrosurgery offers substantial competitive, functional and financial advantages over these alternative energy technologies and will remain the primary tool for the surgeon, as it has been for decades. However, the risk exists that these alternative technologies may gain greater market share and that new competitive techniques may be developed and introduced.

As mentioned in the Sales and Marketing discussion, the competitive issues involved in selling our AEM product line do not primarily revolve around a comparison of cost or features, but rather involve generating an awareness of the inherent hazards of electrosurgery and the potential for injury to the patient. This involves selling concepts, rather than just a product, which results in a longer sales cycle and generally higher sales costs. Independent endorsements of AEM technology have greatly enhanced the credibility of AEM Instruments. However, our efforts to increase market awareness of this technology may not be successful, and our competitors may develop alternative strategies and/or products to counter our marketing efforts.

Many of our competitors and potential competitors have widely-used products and significantly greater financial, technical, product development, marketing and other resources. We utilize a network of independent distributor representatives. In some cases, our options for independent distribution have conflicting and competing product interests which compromise our ability to make market advances in certain areas. We may not be able to compete successfully against current and future competitors, and competitive pressures faced by us may have a material adverse impact on our business, operating results and financial condition.

Government Regulation

Government regulation in the United States and other countries is a significant factor in the development and marketing of our products and in our ongoing manufacturing, research and development activities. The FDA regulates us and our products under a number of statutes, including the Federal Food, Drug and Cosmetics Act (the "FDC Act"). Under the FDC Act, medical devices are classified as Class I, II or III on the basis of the controls deemed necessary to reasonably ensure their safety and effectiveness. Class I devices are subject to the least extensive controls, as their safety and effectiveness can be reasonably assured through general controls (e.g., labeling, pre-market notification and adherence to QSR). For Class II devices, safety and effectiveness can be assured through the use of special controls (e.g., performance standards, post-market surveillance, patient registries and FDA guidelines). Class III devices (e.g., life-sustaining or life-supporting implantable devices or new devices which have been found not to be substantially equivalent to legally marketed devices) require the highest level of control, generally requiring pre-market approval by the FDA to ensure their safety and effectiveness.

If a manufacturer or distributor of medical devices can establish that a proposed device is "substantially equivalent" to a legally marketed Class I or Class II medical device or to a Class III medical device for which the FDA has not required a pre-market approval application, the manufacturer or distributor may seek FDA marketing clearance for the device by filing a 510(k) pre-market notification. Following submission of the 510(k) notification, the manufacturer or distributor may not place the device into commercial distribution in the United States until an order has been issued by the FDA. The FDA's target for issuing such orders is within 90 days of submission, but the process can take significantly longer. The order may declare the FDA's determination that the device is "substantially equivalent" to another legally marketed device and allow the proposed device to be marketed in the United States. The FDA may, however, determine that the proposed device is not substantially equivalent or may require further information, such as additional test data, before making a determination regarding substantial equivalence. Any adverse determination or request for

additional information could delay market introduction and have a material adverse effect on our continued operations. We have received a favorable 510(k) notification for our AEM monitors and AEM Instruments, all of which are designated as Class II medical devices.

Labeling and promotional activities are subject to scrutiny by the FDA and, in certain instances, by the Federal Trade Commission. The FDA also imposes post-marketing controls on us and our products, and registration, listing, medical device reporting, post-market surveillance, device tracking and other requirements on medical devices. Failure to meet these pervasive FDA requirements or adverse FDA determinations regarding our clinical and preclinical trials could subject us and/or our employees to injunction, prosecution, civil fines, seizure or recall of products, prohibition of sales or suspension or withdrawal of any previously granted approvals, which could lead to a material adverse impact on our financial position and results of operations.

The FDA regulates our quality control and manufacturing procedures by requiring us and our contract manufacturers to demonstrate compliance with the QSR as specified in published FDA regulations. The FDA requires manufacturers to register with the FDA, which subjects them to periodic FDA inspections of manufacturing facilities. If violations of applicable regulations are noted during FDA inspections of our manufacturing facilities or the facilities of our contract manufacturers, the continued marketing of our products may be adversely affected. Such regulations are subject to change and depend heavily on administrative interpretations. In August 2007, the FDA conducted a QSR inspection of our facilities. We believe that we have the internal resources and processes in place to be reasonably assured that we are in compliance with all applicable United States regulations regarding the manufacture and sale of medical devices. However, if we were found not to be in compliance with the QSR, in the future, such findings could result in a material adverse impact on our financial condition, results of operations and cash flows.

Sales of medical devices outside of the United States are subject to United States export requirements and foreign regulatory requirements. Legal restrictions on the sale of imported medical devices vary from country to country. The time required to obtain approval by a foreign country may be longer or shorter than that required for FDA approval and the requirements may differ. We have obtained a Certificate of Export from the United States Department of Health and Human Services that states that we have been found to be “...in substantial compliance with Current Good

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Manufacturing Practices...” based on the most recent inspection. However, a specific foreign country in which we wish to sell our products may not accept or continue to accept the Certificate of Export. Entry into the European Economic Area market also requires prior certification of our quality system and product documentation. We achieved CE marking in August 2000, allowing a launch into the European marketplace. Maintenance of the CE marking status requires annual audits of the quality system and technical documentation by our European Notified Body, LGA InterCert. The most recent audit was completed in February 2009. In addition to licensing, entry into the Canadian market now requires quality system certification to ISO 13485:2003. Our quality system was audited and a certification was issued by LGA-InterCert, of Nuremberg, Germany, in February 2008.

Environmental Laws and Regulations

From time to time we receive materials returned from customers, sales representatives and other sources which are potentially biologically hazardous. These materials are segregated, and disposed of in accordance with specific procedures that minimize potential exposure to employees. The costs of compliance with these procedures are not significant. Our operations, in general, do not involve the use of environmentally sensitive materials.

Insurance

We are covered under comprehensive general liability insurance policies, which have per occurrence and aggregate limits of $1 million and $2 million, respectively, and a $5 million umbrella policy. We maintain customary property and casualty, workers’ compensation, employer liability and other commercial insurance policies.

Employees

As of March 31, 2009, we employed 54 full-time individuals, of which 13 are engaged directly in research, development and regulatory activities, 13 in manufacturing/operations, 23 in marketing and sales and 5 in administrative positions. None of our employees are covered by a collective bargaining agreement, and we consider our relations with our employees to be good.

Item 2. Properties.

We lease 28,696 square feet of office and manufacturing space under noncancelable lease agreements through August 14, 2009 at 6797 Winchester Circle, Boulder, Colorado. We have renewed our lease under lease agreements through July 31, 2014. We believe that our existing facilities are adequate for our current operations.

Item 3. Legal Proceedings.

We are not involved in any legal proceeding. We may become involved in litigation in the future in the normal course of business.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a shareholder vote during the fourth quarter of the fiscal year ended March 31, 2009.

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PART II

Item 5. Market for Common Equity and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

Our common stock has been traded on the OTCBB under the symbol ECIA since November 13, 2008. Prior to that date, our common stock was quoted on the AMEX under the symbol ECI. The following table lists, for each period indicated, the high and low sales prices quoted on the AMEX or the high and low bid quotation for our common stock on the OTCBB, as applicable. The bid prices listed for the third and fourth quarter of fiscal 2009 reflect inter-dealer prices, without retail mark-up, markdown, or commission and may not necessarily represent actual transactions.

	2009		2008	
Fiscal	High	Low	High	Low
First quarter	$ 2.75	$ 1.80	$ 4.20	$ 3.14
Second quarter	$ 2.00	$ 1.05	$ 3.40	$ 2.40
Third quarter	$ 1.50	$ 0.30	$ 2.75	$ 1.78
Fourth quarter	$ 1.01	$ 0.51	$ 2.30	$ 1.78

We have never paid cash dividends on our common stock and have no present plans to do so. We presently intend to retain any cash generated from operations in the future for use in our business. As of March 31, 2009, there were approximately 115 holders of record of our common stock.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained in this section are not historical facts, including statements about our strategies and expectations about new and existing products, market demand, acceptance of new and existing products, technologies and opportunities, market and industry segment growth, and return on investments in products and markets. These statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve substantial risks and uncertainties that may cause actual results to differ materially from those indicated by the forward looking statements. All forward looking statements in this section are based on information available to us on the date of this document, and we assume no obligation to update such forward looking statements. Readers of this Form 10-K are strongly encouraged to review the section entitled *"Risk Factors"*.

Outlook

Installed Base of AEM Monitoring Equipment We believe that sales of our installed base of our AEM monitors will increase as the inherent risks associated with monopolar laparoscopic electrosurgery become more widely acknowledged and as the network of direct and independent sales representatives becomes more adept at selling AEM products to our customers. We expect that the replacement sales of electrosurgical instruments and accessories will also increase as additional hospitals are converted to AEM technology. We believe that improvement in the quality of sales representatives carrying AEM product line, along with increased marketing efforts and the introduction of new products, may provide the basis for increased sales and continuing profitable operations. However, these measures, or any others that we may adopt, may not result in either increased sales or continuing profitable operations.

Possibility of Continued Operating Losses. We have, except for the fiscal years 2009, 2004 and 2003 when we achieved profitable operations, incurred losses since our inception and have an accumulated deficit of $16,298,789 at March 31, 2009. We have made significant strides toward improving our operating results. However, due to the ongoing need to develop, optimize and train our sales

distribution network and the need to increase sustained sales to a level adequate to cover fixed and variable operating costs, we may operate at a net loss.

Sales Growth. We expect to generate increased sales in the U.S. from sales to new hospital customers as our network of direct and independent sales representatives becomes more proficient and expands the number of new hospital accounts to AEM Surgical Instruments. We believe that the visibility and credibility of the independent clinical endorsements for AEM technology will contribute to new hospital accounts and increased sales in fiscal year 2010. We also expect that supplier agreements with Novation and Premier, which together represent over 3,000 U.S. hospitals, will expose more hospitals to the benefits of AEM technology and may stimulate new hospital accounts. Major progress was achieved in developing our disposable fixed-tip instruments with hand activation. We launched this new family of products at the end of the fourth quarter of fiscal year 2008. Our goal is to offer our customers an AEM disposable counterpart for each AEM reusable instrument. We expect additional sales from the agreements that we signed in fiscal year 2009 with Caldera Medical, Inc. and in fiscal year 2010 with Intuitive Surgical Inc.

Sales and Marketing Expenses. We continue our efforts to expand domestic and international distribution capability, and we believe that sales and marketing expenses will need to be maintained at a healthy level in order to expand our market visibility and optimize the field sales capability of converting new hospital customers to AEM technology. Sales and marketing expenses are expected to increase as we increase our direct sales representatives. In fiscal year 2010, we expect to have 17 direct sales territories and five direct sales managers.

Manufacturing. We believe that we will be able to achieve major cost reductions, and provide better control over quality and consistency, by producing products on our own. During the second half of fiscal year 2008, we began manufacturing our own disposable scissor inserts and are exploring other products that we may manufacture on our own.

Research and Development Expenses. Research and development expenses are expected to increase to support development of refinements to our AEM product line, which will further expand the instrument options for the surgeon. New refinements to AEM product line are planned for introduction in fiscal year 2010.

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Results of Operations

Net sales. Our sales for the fiscal year ended March 31, 2009 (“FY 09”) were $12,789,293, and for the fiscal year ended March 31, 2008 (“FY 08”) our sales were $12,065,659. This represents an increase of 6% in FY 09 from FY 08. This increase is due to the establishment of new accounts in thirty-six hospitals for AEM technology, which increased the installed base of users of reusable and disposable AEM Surgical Instruments. We benefited from a high customer retention rate and a recurring sales stream from the purchases of replacement instruments in existing accounts. Our retention rate of customers is also very strong due to the fact that there is no directly competing technology to supplant AEM products once a hospital has changed to AEM technology. Sales from replacement AEM products in hospitals represented over 90% of our sales in FY 09.

Gross profit. Gross profit in FY 09 increased $364,327, or 5%, to $7,966,521 from $7,602,194 in FY 08, which resulted in a gross margin of 62% of net sales for FY 09 from 63 for FY 08.

Sales and marketing expenses. Sales and marketing expenses were $5,166,573 in FY 09, an increase of $83,052, or 2%, from $5,083,521 in FY 08. The increase resulted from additions to our direct sales force and increased trade show expense. The increase was partially offset by a decrease in commissions for independent representatives and sales sample costs.

General and administrative expenses. General and administrative expenses were $1,453,999 in FY 09, an increase of $48,642, or 3%, from $1,405,357 in FY 08. The increase was primarily the result of compensation, outside services and regulatory fees.

Research and development expenses. Research and development expenses were $1,138,677 in FY 09, a decrease of $129,157, or 10%, from $1,267,834 in FY 08. The decrease was a result of a decrease in compensation expense, inventory usage and outside services.

Net income. Net income in FY 09 of $159,817 represented a net income increase of $339,135 compared to FY 08 net loss of $179,318. The increase is a result of an increase in sales, a nominal increase of total operating expenses and increased interest expense.

Liquidity and Capital Resources

To date, operating funds have been provided primarily by issuances of our common stock and warrants, the exercise of stock options to purchase our common stock and stock-based expense related to stock options, which totaled $19,559,626 from our inception through March 31, 2009, and, to a lesser degree, by sales of our products. Our operations provided $694,837 of cash in FY 09 on sales of $12,789,293 and used $467,213 of cash in FY 08 on sales of $12,065,659. In FY 08 and prior years, the use of cash in our

operations resulted primarily from the funding of our annual net losses. These amounts of cash generated from and used in operations are not indicative of the expected cash to be generated from or used in operations in the fiscal year ending March 31, 2010 ("FY 10"). As of March 31, 2009, we had $84,658 in cash and cash equivalents, and an unused line of credit of $1,800,000, available to fund future operations. Working capital was $2,180,296 at March 31, 2009 compared to $2,483,993 at March 31, 2008. The decrease in working capital was caused principally by a shift in debt from long-term debt to current liability line of credit. Current liabilities were $1,709,252 at March 31, 2009, compared to $1,409,750 at March 31, 2008. The increase in current liabilities at March 31, 2009 was caused principally by a shift in debt from long-term debt to current liability line of credit.

On November 10, 2006, we entered into a credit facility agreement with Silicon Valley Bank. The terms of the credit facility include a line of credit for $2,000,000 for three years at an interest rate calculated at prime rate plus 1.25%. In connection with the credit facility, we issued warrants to Silicon Valley Bank to purchase 28,000 shares of our common stock at a per share price of $2.75. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. At March 31, 2009 and 2008, we had borrowed $190,942 and $606,000, respectively, from the credit facility and, under our eligible receivables and inventory limit, had an additional $1,435,000 available to borrow. The credit facility requires us to meet certain financial covenants. At March 31, 2009, we were in compliance with the financial covenants.

We believe that the unique performance of AEM technology and our breadth of independent endorsements provide an opportunity for continued market share growth. We believe that the market awareness of AEM technology and its endorsements is continually improving and that this will benefit sales efforts in FY 10. We believe that we enter FY 10 having achieved improvements in the clinical credibility of our technology. Our FY 10 operating plan is focused on growing sales, increasing gross profits, increasing research and development costs while increasing profits and positive cash flows. We cannot predict with certainty the expected sales, gross profit, net income or loss and usage of cash and cash equivalents for FY 10. However, we believe that cash resources and borrowing capacity will be sufficient to fund our operations for at least the next twelve months under our current operating plan. If we are unable to manage the business operations in line with our budget expectations, it could have a material adverse effect on business viability, financial position, results of operations and cash flows. Further, if we are not successful in sustaining profitability and remaining at least cash flow break-even, additional capital may be required to maintain ongoing operations.

We have explored and are continuing to explore options to provide additional financing to fund future operations as well as other possible courses of action. Such actions include, but are not limited to, securing a larger credit facility, sales of debt or equity securities (which may result in dilution to existing shareholders), licensing of technology, strategic alliances and other similar actions. There can be no assurance that we will be able to obtain additional funding (if needed) through a sale of our common stock or loans from financial institutions or other third parties or through any of the actions discussed above on terms acceptable to us or at all. If we cannot sustain profitable operations and additional capital is unavailable, lack of liquidity could have a material adverse effect on our business viability, financial position, results of operations and cash flows.

Income Taxes

As of March 31, 2009, net operating loss carryforwards totaling approximately $15.5 million were available to reduce taxable income in the future. The net operating loss carryforwards expire, if not previously utilized, at various dates beginning in FY 10. We have not paid income taxes since our inception. The Tax Reform Act of 1986 and other income tax regulations contain provisions which may limit the net operating loss carryforwards available to be used in any given year if certain events occur, including changes in our ownership. We have established a valuation allowance for the entire amount of our deferred tax asset since inception due to our history of losses. During FY 08, no tax benefit was obtained

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from our loss. As a result, no tax benefit is reflected in the accompanying statements of operations. Should we achieve sufficient, sustained income in the future, we may conclude that some or all of the valuation allowance should be reversed.

Off-Balance Sheet Financing Arrangements

Except as described below, we do not utilize variable interest entities or other off-balance sheet financial arrangements.

We have a commitment under an operating lease for manufacturing equipment with General Electric Capital Corporation. Lease expense under this arrangement for the fiscal years ended March 31, 2009 and 2008was $101,873 and $101,873, respectively.

We have a commitment for our facility at 6797 Winchester Circle, Boulder, Colorado. Rent expense for our facilities for the fiscal years ended March 31, 2009 and 2008 was $249,691 and $179,505, respectively

Contractual Obligations

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through

August 14, 2009. We have renewed our lease under lease agreements through July 31, 2014. The minimum future lease payment by fiscal year as of March 31, 2009 is as follows:

Fiscal Year	Amount
2010	$ 245,925
2011	247,264
2012	254,629
2013	262,281
2014	270,221
2015	90,966
Total	$ 1,371,286

Our minimum future equipment lease payments with General Electric Capital Corporation as of March 31, 2009, by fiscal year, are as follows:

Fiscal Year	Amount
2010	$ 101,873
2011	101,873
2012	101,873
2013	101,873
2014	8,488
Total	$ 415,980

At March 31, 2009, we had borrowed $190,942 under our credit facility agreement with Silicon Valley Bank. We must repay our borrowings by November 10, 2009 unless we renegotiate a commitment with Silicon Valley Bank or another financial institution by then.

As of March 31, 2009, the following table shows our contractual obligations for the periods presented:

	Payment due by period				
Contractual obligations	Totals	Less than 1 year	1-3 years	3-5 years	More than 5 years
Line of credit obligations	$ 190,942	$ 190,942	$ —	$ —	$ —
Operating lease obligations	1,787,266	347,798	705,639	642,863	90,966
Total	$ 1,978,208	$ 538,740	$ 705,639	$ 642,863	$ 90,966

Aside from the operating lease and credit facility commitments, we do not have any material contractual commitments requiring settlement in the future.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our 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, sales and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, sales returns, warranty, contingencies and litigation. 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 under different assumptions or conditions. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required, which would increase our expenses during the periods in which any such allowances were made. The amount recorded as a provision for bad debts in each period is based upon our assessment of the likelihood that we will be paid on our outstanding receivables, based on customer-specific as

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well as general considerations. To the extent that our estimates prove to be too high, and we ultimately collect a receivable previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We provide for the estimated cost of product warranties at the time sales are recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we have experienced some costs related to warranty. The warranty accrual is based upon historical experience and is adjusted based on current experience. Should actual warranty experience differ from our estimates, revisions to the estimated warranty liability would be required.

We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Any write-downs of inventory would reduce our reported net income during the period in which such write-downs were applied. To the extent that our estimates prove to be too high, and we ultimately utilize or sell inventory previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We recognize deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. Should we achieve sufficient, sustained income in the future, we may conclude that all or some of the valuation allowance should be reversed.

We state property and equipment at cost, with depreciation computed over the estimated useful lives of the assets, generally three to seven years. Prior to FY 08, we utilized the double-declining method of depreciation for property and equipment due to the expected usage of the property and equipment over time. This method is expected to continue throughout the life of this equipment. Manufacturing and production equipment acquired, but not placed in service, in FY 07 and manufacturing and production equipment acquired after FY 07 is of a different technology for which the straight-line method is more appropriate. Therefore, we have utilized the straight-line method of depreciation for this and other property and equipment starting April 1, 2007. This difference in depreciation methods utilized for manufacturing and production equipment is based on the technological differences of the equipment and does not constitute a change in accounting principle. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized.

We amortize our patent costs over their estimated useful lives, which is typically the remaining statutory life. From time to time, we may be required to adjust these lives based on advances in technology, competitor actions, and the like. We review the recorded amounts of patents at each period end to determine if their carrying amount is still recoverable based on our expectations regarding sales of related products. Such an assessment, in the future, may result in a conclusion that the assets are impaired, with a corresponding charge against earnings.

Beginning in FY 07, we adopted Statement of Financial Accounting Standards 123 (revised 2004), “Share-Based Payment,” (“SFAS 123(R)”), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values.

Risk Factors:

You should carefully consider the risk factors described below. If any of the following risk factors actually occur, our business, prospects, financial condition or results of operations would likely suffer. In such case, the trading price of our common stock could fall, resulting in the loss of all or part of your investment. You should look at all these risk factors in total. Some risk factors may stand on their own. Some risk factors may affect (or be affected by) other risk factors. You should not assume we have identified these connections. You should not assume that we will always update these and future risk factors in a timely manner. We are not undertaking any obligation to update these risk factors to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Among the factors that could cause future results and financial condition to be materially different from expectations are:

Our products may not be accepted by the market. The success of our products and our financial condition depends on the acceptance of AEM products by the medical community in commercially viable quantities during FY 10 and beyond. We cannot predict how quickly or how broadly AEM products will be accepted by the medical community. We need to continually educate the marketplace about the potential hazards involved in the use of conventional electrosurgical products during MIS procedures and the expected benefits associated with the use of AEM products. If we are unsuccessful in educating the marketplace about our technology and the hazards of conventional instruments, we will not create sufficient demand by hospitals and surgeons for AEM products and our financial condition, results of operations and cash flows could be adversely affected.

We need to continually develop and train our network of direct and independent sales representatives and expand our distribution efforts in order to be successful. Our attempts to develop and train a network of direct and independent sales representatives in the U.S. and to expand our international distribution efforts may take longer than expected and may result in considerable amounts of retraining effort as the direct and independent sales representatives change their product lines, product focus and personnel. We may

not be able to obtain full coverage of the U.S. by direct and independent sales representatives as quickly as anticipated. The independent sales representative network has inherent flaws and inefficiencies, which can include conflicts of interest and competing products. Optimizing the quality of the network and the performance of direct and independent sales representatives in the U.S. is an ongoing challenge. We may also encounter difficulties in developing our international presence due to regulatory issues and our ability to successfully develop international distribution options. Our inability to expand our network of direct and independent sales representatives and optimize their performance could adversely affect our financial results.

*We may need additional funding to support our operations.*We were formed in 1991 and have incurred losses of $16.3 million since that date. We have primarily financed research, development and operational activities with sales of our common stock. At March 31, 2009, we had $84,658 in cash available to fund future operations and, in addition, access to a line of credit for $1,800,000. We may find that investment in sales, marketing, research and development initiatives, merited by market opportunity, may result in our operating at a net loss from quarter to quarter. We may also

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find ourselves at a competitive disadvantage due to our constrained liquidity. On November 10, 2006, we entered into a credit facility agreement with Silicon Valley Bank. The terms of the credit facility include a line of credit for $2,000,000 for three years at an interest rate calculated at prime rate plus 1.25%. The credit facility will expire in November 2009 and may not be extended. In connection with the credit facility, we issued warrants to Silicon Valley Bank to purchase 28,000 shares of our common stock at a per share price of $2.75. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. At March 31, 2009, we had borrowed $190,942 from the credit facility and, under our eligible receivables and inventory limit, had an additional $1,435,000 available to borrow. The credit facility requires us to meet certain financial covenants. If we fail to comply with the restrictions contained in the credit facility and the lender does not waive such noncompliance, the resulting event of default could result in the lender accelerating the repayment of all outstanding amounts due under the credit facility or in our ability to receive additional funds under the credit facility. There can be no assurances that we would be successful in obtaining alternative sources of funding to repay these obligations should this event occur. In addition, should we need additional financing, we may not be able to obtain it on terms acceptable to us or at all.

We may not be able to compete successfully against current manufacturers of conventional ("unshielded, unmonitored") electrosurgical instruments or against competitors who manufacture products that are based on surgical technologies that are alternatives to monopolar electrosurgery. The electrosurgical products market is intensely competitive. We expect that manufacturers of "unshielded, unmonitored" electrosurgical instruments will resist any loss of market share that might result from the presence of our "shielded and monitored" instruments in the marketplace. We also believe that manufacturers of products that are based upon surgical technologies that are alternatives to monopolar electrosurgery are our competitors. These technologies include bipolar electrosurgery, the harmonic scalpel and lasers. The alternative technologies may gain market share and new competitive technologies may be developed and introduced. Most of our competitors and potential competitors have significantly greater financial, technical, product development, marketing and other resources than we do. Most of our competitors also currently have substantial installed customer bases in the medical products market and have significantly greater market recognition than we have. As a result of these factors, our competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the development, promotion and sale of their products. It is possible that new competitors or new alliances among competitors may emerge and rapidly acquire significant market share. The competitive pressures we face may materially adversely affect our financial position, results of operations and cash flows, and this may hinder our ability to respond to competitive threats.

If we do not continually enhance our products and keep pace with rapid technological changes, we may not be able to attract and retain customers. Our future success and financial performance will depend in part on our ability to meet the increasingly sophisticated needs of customers through the timely development and successful introduction of product upgrades, enhancements and new products. These upgrades, enhancements and new products are subject to significant technological risks. The medical device market is subject to rapid technological change, resulting in frequent new product introductions and enhancements of existing products, as well as the risk of product obsolescence. While we are currently developing new products and enhancing our existing product lines, we may not be successful in completing the development of the new products or enhancements. In addition, we must respond effectively to technological changes by continuing to enhance our existing products to incorporate emerging or evolving standards. We may not be successful in developing and marketing product enhancements or new products that respond to technological changes or evolving industry standards. We may experience difficulties that could delay or prevent the successful development, introduction and marketing of those products, and our new products and product enhancements may not adequately meet the requirements of the marketplace and achieve commercially viable levels of market acceptance. If any potential new products, upgrades, or enhancements are delayed, or if any potential new products, upgrades, or enhancements experience quality problems or do not achieve such market acceptance, or if new products make our existing products obsolete, our financial position, results of operations and cash flows would be materially adversely affected.

If government regulations change or if we fail to comply with existing and/or new regulations, we might miss market opportunities and experience increased costs and limited growth. The research, manufacturing, marketing and distribution of our products in the United

States and other countries are subject to extensive regulation by numerous governmental authorities including, but not limited to, the Food and Drug Administration. Under the Federal Food, Drug and Cosmetic Act, medical devices must receive clearance from the Food and Drug Administration through the Section 510(k) pre-market notification process or through the more lengthy pre-market approval process before they can be sold in the United States. The process of obtaining required regulatory approvals is lengthy and has required the expenditure of substantial resources. There can be no assurance that we will be able to continue to obtain the necessary approvals. As part of our strategy, we also intend to pursue commercialization of our products in international markets. Our products are subject to regulations that vary from country to country. The process of obtaining foreign regulatory approvals in certain countries can be lengthy and require the expenditure of substantial resources. We may not be able to obtain necessary regulatory approvals or clearances on a timely basis or at all, and delays in receipt of or failure to receive such approvals or clearances, or failure to comply with existing or future regulatory requirements would have a material adverse effect on our financial position, results of operations and cash flows.

If we fail to comply with the extensive regulatory requirements governing the manufacturing of our products, we could be subject to fines, suspensions or withdrawals of regulatory approvals, product recalls, suspension of manufacturing, operating restrictions and/or criminal prosecution. The manufacturing of our products is subject to extensive regulatory requirements administered by the Food and Drug Administration and other regulatory bodies. Inspection of our manufacturing facilities and processes can be conducted at any time, without prior notice, by such regulatory bodies. In addition, future changes in regulations or interpretations made by the Food and Drug Administration or other regulatory bodies, with possible retroactive effect, could adversely affect us. Changes in existing regulations or adoption of new regulations or policies could prevent us from obtaining, or affect the timing of, future regulatory approvals or clearances. We may not be able to obtain necessary regulatory approvals or clearances on a timely basis in the future, or at all. Delays in receipt of, failure to receive such approvals or clearances and/or failure to comply with existing or future regulatory requirements would have a material adverse effect on our financial position, results of operations and cash flows.

Our current patents, trade secrets and know-how may not provide a competitive advantage, the pending applications may not result in patents being issued, and our competitors may design around any patents issued to us. Our success will continue to depend in part on our ability to maintain patent protection for our products and processes, to preserve our trade secrets and to operate without infringing the proprietary rights of third parties. We have seven issued U.S. patents on several technologies embodied in our AEM Monitoring System, AEM Instruments and related accessories and we have applied for additional U.S. patents. In addition, we have four issued foreign patents. There are between two years two

months and fifteen years four months remaining on our AEM patents. The validity and breadth of claims coverage in medical technology patents involve complex legal and factual questions and may be highly uncertain. Also, patents may not protect our proprietary information and know-how or provide adequate remedies for us in the event of unauthorized use or disclosure of such information, and others may be able to develop competing technology, independent of such information. There has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. Litigation may be necessary to enforce patents issued to us, to protect trade secrets or know-how owned by us, to defend us against claimed infringement of the rights of others or to determine the ownership, scope or validity of our proprietary rights or those of others. Any such claims may require us to incur substantial litigation expenses and to divert substantial time and effort of management personnel and could substantially decrease the amount of capital available for our operations. An adverse determination in litigation involving the proprietary rights of others could subject us to significant liabilities to third parties, could require us to seek licenses from third parties, and could prevent us from manufacturing, selling or using our products. The occurrence of any such actual or threatened litigation or the effect on our business of such litigation may materially adversely affect our financial position, results of operations and cash flows. Additionally, our assessment that a patent is no longer of value could result in a significant charge against our earnings.

We depend on single source suppliers for certain of the key components of our products and sub-contractors to provide much of the materials used in the manufacturing of our products. The loss of a supplier or limitation in supply from existing suppliers could have a material adverse effect on our ability to manufacture our products until a new source of supply is located. Although we believe that there are alternative suppliers, any interruption in the supply of key components could have a material adverse effect on us. A sudden increase in customer demand may create a backorder situation as lead times for some of our critical materials are in excess of 12 weeks. We rely on subcontractors to provide products, either in the form of finished goods or sub-assemblies that we then assemble and test. While these sub-contractors reduce our total cost of manufacturing, they may not be as responsive to increased demand as we would be if we had our manufacturing capacity entirely in-house, which may limit our growth strategy and sales.

*The potential fluctuation in future quarterly results may cause our stock price to fluctuate.*We expect that our operating results could fluctuate significantly from quarter to quarter in the future and will depend upon a number of factors, many of which are outside our control. These factors include the extent to which our AEM technology and related accessories gain market acceptance; our investments in marketing, sales, research and development and administrative personnel necessary to support growth; our ability to expand our market share; actions of competitors; and, general economic conditions. The market value of our common stock has dramatically fluctuated in the past and is likely to fluctuate in the future. Any of these factors, or factors not listed, could have an immediate and significant negative impact on the market price of our stock.

Our common stock is thinly traded, the prices at which it trades are volatile and the buying or selling actions of a few shareholders may adversely affect our stock price. As of May 29, 2009, we had a public float, which is defined as shares outstanding minus shares held by our officers, directors, or holders of greater than 5% of our outstanding common stock, of 3,432,896 shares, or 53% of our outstanding common stock. The average number of shares traded in any given day over the past year has been relatively small compared to the public float. Thus, the actions of a few shareholders either buying or selling shares of our common stock may adversely affect the price of the shares. Historically, thinly traded securities such as our common stock have experienced extreme price and volume fluctuations that do not necessarily relate to operating performance.

*Our insurance coverage for product liability claims is up to $5,000,000.*We face an inherent business risk of exposure to product liability claims in the event that the use of our products is alleged to have resulted in adverse effects to a patient. We maintain a general liability insurance policy up to the amount of $5,000,000 that includes coverage for product liability claims. Liability claims may be excluded from the policy, may exceed the coverage limits of the policy, or the insurance may not continue to be available on commercially reasonable terms or at all. Consequently, a product liability claim or other claim with respect to uninsured liabilities or in excess of insured liabilities could have a material adverse effect on our financial position, results of operations and cash flows.

We depend on certain key personnel. We are highly dependent on a limited number of key management personnel, particularly our President and CEO, John R. Serino, and our Chairman of the Board, Roger C. Odell. Our loss of key personnel to death, disability or termination, or our inability to hire and retain qualified personnel, could have a material adverse effect on our financial position, results of operations and cash flow.

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Item 8. Financial Statements and Supplementary Data.

The following financial statements are included in this Report:

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
Encision Inc.
Boulder, Colorado

We have audited the accompanying balance sheet of Encision Inc. (the "Company") as of March 31, 2009 and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company has determined that it is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a

basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Encision Inc. as of March 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Greenwood Village, Colorado
June 9, 2009

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Report of Independent Registered Public Accounting Firm

To the Board of Directors
Encision Inc.
Boulder, Colorado

We have audited the accompanying balance sheet of Encision Inc. as of March 31, 2008 and the related statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Encision Inc. as of March 31, 2008, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Gordon, Hughes & Banks, LLP

Greenwood Village, Colorado
May 30, 2008

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Encision Inc.
Balance Sheets

	March 31, 2009	March 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 84,658	$ 70,995

Accounts receivable, net of allowance for doubtful account of $9,000 at March 31, 2009 and $15,000 at March 31, 2008	1,263,751	1,452,770
Inventories, net of reserve for obsolescence of $55,000 at March 31, 2009 and $65,000 at March 31, 2008	2,504,598	2,270,953
Prepaid expenses	36,541	99,025
Total current assets	3,889,548	3,893,743
Equipment, at cost:		
Furniture, fixtures and equipment	1,858,547	1,746,583
Customer-site equipment	667,171	644,946
Equipment-in-progress	144,790	30,240
Accumulated depreciation	(1,830,273)	(1,623,432)
Equipment, net	840,235	798,337
Patents, net of accumulated amortization of $128,994 at March 31, 2009 and $116,652 at March 31, 2008	215,801	199,246
Other assets	24,505	53,149
TOTAL ASSETS	$ 4,970,089	$ 4,944,475
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 745,138	$ 536,755
Accrued compensation	405,906	391,889
Other accrued liabilities	367,266	481,106
Line of credit	190,942	—
Total current liabilities	1,709,252	1,409,750
Line of credit	—	606,000
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, no par value: 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock and additional paid-in capital, no par value: 100,000,000 shares authorized; 6,455,100 and 6,447,100 shares issued and outstanding at March 31, 2009 and March 31, 2008, respectively	19,559,626	19,387,331
Accumulated (deficit)	(16,298,789)	(16,458,606)
Total shareholders' equity	3,260,837	2,928,725
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,970,089	$ 4,944,475

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

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Encision Inc.
Statements of Operations

Years Ended	March 31, 2009	March 31, 2008
NET SALES	$ 12,789,293	$ 12,065,659
COST OF SALES	4,822,772	4,463,465
GROSS PROFIT	7,966,521	7,602,194
OPERATING EXPENSES:		
Sales and marketing	5,166,573	5,083,521
General and administrative	1,453,999	1,405,357
Research and development	1,138,677	1,267,834
Total operating expenses	7,759,249	7,756,712
OPERATING INCOME (LOSS)	207,272	(154,518)
Interest expense, net	(62,617)	(35,450)
Other income, net	15,162	10,650
Interest (expense) and other income, net	(47,455)	(24,800)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	159,817	(179,318)
Provision for income taxes	—	—
NET INCOME (LOSS)	$ 159,817	$ (179,318)
Net income (loss) per share—basic and diluted	$ 0.02	$ (0.03)
Weighted average shares—basic and diluted	6,453,338	6,441,410

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

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Encision Inc.
Statements of Shareholders' Equity

	Shares of Common Stock	Common Stock and Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCES AT MARCH 31, 2007	6,430,437	$ 19,202,785	$ (16,279,288)	$ 2,923,497
Net loss	—	—	(179,318)	(179,318)
Exercise of stock options	16,663	45,740	—	45,740
Compensation expense related to stock options	—	138,806	—	138,806
BALANCES AT MARCH 31, 2008	6,447,100	$ 19,387,331	$ (16,458,606)	$ 2,928,725
Net income	—	—	159,817	159,817
Exercise of stock options	8,000	11,520	—	11,520
Compensation expense related to stock options	—	160,775	—	160,775
BALANCES AT MARCH 31, 2009	6,455,100	$ 19,559,626	$ (16,298,789)	$ 3,260,837

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

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Encision Inc.
Statements of Cash Flows

Years Ended	March 31, 2009	March 31, 2008
Cash flows from operating activities:		
Net income (loss)	$ 159,817	$ (179,318)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	219,183	221,932
Stock-based compensation expense related to stock options	160,775	138,806
Stock-based interest expense related to warrants	12,508	12,508
Provision for doubtful accounts, net change	(6,000)	(8,500)
Provision for inventory obsolescence, net change	(10,000)	(15,000)
Change in operating assets and liabilities:		
Accounts receivable	195,019	(249,897)
Inventories	(223,645)	(491,726)
Prepaid expenses and other assets	78,620	158,385
Accounts payable	208,383	(84,059)
Accrued compensation and other accrued liabilities	(99,823)	29,656
Net cash provided by (used in) operating activities	694,837	(467,213)
Cash flows from investing activities:		
Acquisition of property and equipment	(248,739)	(491,599)
Patent costs	(28,897)	(58,336)
Net cash (used in) investing activities	(277,636)	(549,935)
Cash flows from financing activities:		
(Paydowns to) borrowings from credit facility	(415,058)	606,000
Proceeds from the exercise of stock options	11,520	45,740
Net cash (used in) provided by financing activities	(403,538)	651,740
Net increase (decrease) in cash and cash equivalents	13,663	(365,408)
Cash and cash equivalents, beginning of fiscal year	70,995	436,403
Cash and cash equivalents, end of fiscal year	$ 84,658	$ 70,995
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	$ 36,168	$ 22,162

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

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ENCISION INC.

NOTES TO FINANCIAL STATEMENTS

1. Description of Business

Encision Inc. is a medical device company that designs, develops, manufactures and markets patented surgical instruments that provide greater safety to patients undergoing minimally-invasive surgery. We believe that our patented AEM® surgical instrument technology is changing the marketplace for electrosurgical devices and instruments by providing a solution to a well-documented risk in laparoscopic surgery. Our sales to date have been made principally in the United States.

We have, except for the fiscal years 2009, 2004 and 2003 when we achieved profitable operations, incurred losses since our inception and have an accumulated deficit of $16,298,789 at March 31, 2009. Operations have been financed primarily through issuances of our common stock. Our liquidity has substantially diminished because of such continuing operating losses, and we may be required to seek additional capital in the future.

Our strategic marketing and sales plan is designed to expand the use of our products in surgically active hospitals in the United States.

2. Summary of Significant Accounting Policies

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expense during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents. For purposes of reporting cash flows, we consider all cash and highly liquid investments with an original maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments. Our financial instruments consist of cash and cash equivalents and short-term trade receivables and payables. The carrying values of cash and cash equivalents and short-term receivables and payables approximate their fair value due to their short maturities.

Concentration of Credit Risk. Statement of Financial Accounting Standards (“SFAS”) 105, “Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk,” requires disclosure of significant concentrations of credit risk regardless of the degree of such risk. Financial instruments with significant credit risk include cash. The amount of cash on deposit with financial institutions does not exceed the $250,000 federally insured limit at March 31, 2009. However, we believe that in the event that cash on deposit exceeds $250,000, the financial institutions are financially sound and the risk of loss is minimal.

Financial instruments consist of cash and cash equivalents, accounts receivable and accounts payable. The carrying value of all financial instruments approximate fair value.

We have no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. We maintain the majority of our cash balances with one financial institution in the form of demand deposits.

Accounts receivable are typically unsecured and are derived from transactions with and from entities in the healthcare industry primarily located in the United States. Accordingly, we may be exposed to credit risk generally associated with the healthcare industry. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments.

A summary of the activity in our allowance for doubtful accounts is as follows:

Years Ended	March 31, 2009	March 31, 2008
Balance, beginning of year	$ 15,000	$ 23,500
Provision for estimated losses	(5,251)	(2,207)
Write-off of uncollectible accounts	(749)	(6,293)

Balance, end of year	$ 9,000	$ 15,000

The net accounts receivable balance at March 31, 2009 of $1,263,751 included no more than 6% from any one customer. The net accounts receivable balance at March 31, 2008 of $1,452,770 included no more than 4% from any one customer.

Warranty Accrual. We provide for the estimated cost of product warranties at the time sales are recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is based upon historical experience and is also affected by product failure rates and material usage incurred in correcting a product failure. Should actual product failure rates or material usage costs differ from our estimates, revisions to the estimated warranty liability would be required. A summary of our warranty claims activity, included in other accrued liabilities, is as follows:

Years Ended	March 31, 2009	March 31, 2008
Balance, beginning of year	$ 75,000	$ 100,000
Provision for estimated warranty claims	4,419	2,561
Claims made	(29,419)	(27,561)
Balance, end of year	$ 50,000	$ 75,000

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Inventories. Inventories are stated at the lower of cost (first-in, first-out basis) or market. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At March 31, 2009 and 2008, inventory consisted of the following:

	March 31, 2009	March 31, 2008
Raw materials	$ 1,336,376	$ 1,296,761
Finished goods	1,223,222	1,039,192
Total gross inventories	2,559,598	2,335,953
Less reserve for obsolescence	(55,000)	(65,000)
Total net inventories	$ 2,504,598	$ 2,270,953

A summary of the activity in our inventory reserve for obsolescence is as follows:

Years Ended	March 31, 2009	March 31, 2008
Balance, beginning of year	$ 65,000	$ 80,000
Provision for estimated obsolescence	29,254	26,951
Write-off of obsolete inventory	(39,254)	(41,951)
Balance, end of year	$ 55,000	$ 65,000

Property and Equipment. Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally three to seven years. Prior to fiscal year 2008, we utilized the double-declining method of depreciation for property and equipment due to the expected usage of the property and equipment over time. This method is expected to continue throughout the life of this equipment. Manufacturing and production equipment acquired, but not placed in service, in fiscal year 2007 and manufacturing and production equipment acquired after fiscal year 2007 is of a different technology for which the straight-line method is more appropriate. Therefore, we will use the straight-line method of depreciation for this and other property and equipment starting April 1, 2007. This difference in depreciation methods utilized for manufacturing and production equipment is based on the technological differences of the equipment and does not constitute a change in accounting principle. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized. Depreciation expense for the years ended March 31, 2009 and 2008 was $209,776 and $197,146, respectively.

Long-Lived Assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A long-lived asset is considered impaired when estimated future cash flows related to the asset, undiscounted and without interest, are insufficient to recover the carrying amount of the asset. If deemed impaired, the long-lived asset is reduced to its estimated fair value. Long-lived assets to be disposed of are reported at the lower of their carrying amount or estimated fair value less cost to sell.

Patents. The costs of applying for patents are capitalized and amortized on a straight-line basis over the lesser of the patent's economic or legal life (17 years in the United States). Capitalized costs are expensed if patents are not granted. We review the

carrying value of our patents periodically to determine whether the patents have continuing value and such reviews could result in the conclusion that the recorded amounts have been impaired. A summary of our patents at March 31, 2009 and 2008 is as follows:

	March 31, 2009	March 31, 2008
Patents issued	$ 202,918	$ 172,788
Accumulated amortization	(128,995)	(116,652)
Patents issued, net of accumulated amortization	73,923	56,136
Patent applications	141,878	143,110
Total net patents	$ 215,801	$ 199,246

Accrued Liabilities. We have accrued $50,000 related to warranty claims, $63,300 related to sales commissions and $15,202 related to rent normalization and have included these amounts in accrued liabilities in the accompanying balance sheet at March 31, 2009. At March 31, 2008, we had accrued $75,000 related to warranty claims, $107,034 related to sales commissions and $58,890 related to rent normalization and included these amounts in accrued liabilities in the accompanying balance sheet at March 31, 2008.

Income Taxes. We account for income taxes under the provisions of Statement of Financial Accounting Standards ("SFAS") 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. During fiscal years 2009 and 2008, no tax benefit was obtained from our loss. As a result, no tax benefit is reflected in the accompanying statements of operations. Should we achieve sufficient, sustained income in the future, we may conclude that some or all of the valuation allowance should be reversed (Note 5).

Sales Recognition. Sales from product sales are recorded when we ship the product and title has passed to the customer, provided that we have evidence of a customer arrangement and can conclude that collection is probable. Our shipping policy is FOB Shipping Point. We recognize revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims. We have no ongoing obligations related to product sales, except for normal warranty.

Research and Development Expenses. We expense research and development costs for products and processes as incurred.

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Stock-Based Compensation. Beginning in fiscal year 2007, we adopted Statement of Financial Accounting Standards 123 (revised 2004), "Share-Based Payment," ("SFAS 123(R)") which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options based on estimated fair values. SFAS 123(R) supersedes our previous accounting under Accounting Principles Board Opinion 25, "Accounting for Stock Issued to Employees" ("APB 25") for periods beginning in fiscal year 2007. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin 107 ("SAB 107") relating to SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R).

We have adopted SFAS 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of April 1, 2006, the first day of our fiscal year 2007. Our financial statements as of and for fiscal years 2009 and 2008 reflect the impact of SFAS 123(R). In accordance with the modified prospective transition method, our financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). Stock-based compensation expense recognized under SFAS 123(R) for fiscal years 2009 and 2008 was $160,775 and $138,806, respectively, which consisted of stock-based compensation expense related to employee stock options.

SFAS 123(R) requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the accompanying statement of operations. Prior to the adoption of SFAS 123(R), we accounted for stock-based awards to employees and directors using the intrinsic value method in accordance with APB 25 as allowed under Statement of Financial Accounting Standards 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). Under the intrinsic value method, no stock-based compensation expense had been recognized in our statement of operations because the exercise price of our stock options granted to employees and directors equaled the fair market value of the underlying stock at the date of grant.

Stock-based compensation expense recognized during the period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in our statement of operations for fiscal years 2009 and 2008 included compensation expense for share-based payment awards granted prior to, but not yet vested as of March 31, 2009, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS

123 and compensation expense for the share-based payment awards granted subsequent to July 30, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123(R). Compensation expense for all share-based payment is recognized using the straight-line, single-option method. As stock-based compensation expense recognized in the accompanying statement of operations for fiscal years 2009 and 2008 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In our pro forma information required under SFAS 123 for the periods prior to fiscal year 2007, we accounted for forfeitures as they occurred.

Upon adoption of SFAS 123(R), we continued to use the Black-Scholes option-pricing model ("Black-Scholes model") which was previously used for our pro forma information required under SFAS 123. Our determination of fair value of share-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to our expected stock price volatility over the term of the awards, and actual and projected employee stock option exercise behaviors. Although the fair value of employee stock options is determined in accordance with SFAS 123(R) and SAB 107 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position FAS 123(R)-3, "Transition Election Related to Accounting for Tax Effects of Share-Based Payment Awards." We have elected to adopt the alternative transition method provided in the FASB Staff Position for calculating the tax effects of stock-based compensation pursuant to SFAS 123(R). The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC pool") related to the tax effects of employee stock-based compensation, and to determine the subsequent impact on the APIC pool and statements of cash flows of the tax effects of employee stock-based compensation awards that are outstanding upon adoption of SFAS 123(R).

Stock-based compensation expense related to employee stock options under SFAS 123(R) for fiscal years 2009 and 2008 was allocated as follows:

Years Ended	March 31, 2009	March 31, 2008
Cost of sales	$ 1,882	$ —
Sales and marketing	28,667	31,097
General and administrative	110,443	90,135
Research and development	19,783	17,574
Stock-based compensation expense	$ 160,775	$ 138,806

Comprehensive Income (Loss). We have adopted the provisions of SFAS 130, "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display of comprehensive income or loss and its components in a full set of general-purpose financial statements. For fiscal years ended March 31, 2009 and 2008, we had no comprehensive income items.

Segment Reporting. We have concluded that we have one operating segment.

Basic and Diluted Income and Loss per Common Share. Net income or loss per share is calculated in accordance with SFAS 128, "Earnings Per Share" ("SFAS 128"). Under the provisions of SFAS 128, basic net income or loss per common share is computed by dividing net income or loss for the period by the weighted average number of common shares outstanding for the period. Diluted net income or loss per common share is computed by dividing the net income or loss for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of the potential common shares is dilutive. The shares used in the calculation of dilutive potential common shares exclude options to purchase shares where the exercise price was greater than the average market price of common shares for fiscal year 2009. As a result of our net loss in fiscal year 2008, all potentially dilutive securities in fiscal year 2008 would be anti-dilutive and were excluded from the computation of diluted loss per share, and there are no differences between basic and diluted per share amounts for fiscal year 2008.

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The following table presents the calculation of basic and diluted net income (loss) per share:

Years Ended	March 31, 2009	March 31, 2008
Net income (loss)	$ 159,817	$ (179,318)
Weighted-average shares — basic	6,453,338	6,441,410
Effect of dilutive potential common shares	—	—
Weighted-average shares — diluted	6,453,338	6,441,410
Net income (loss) per share — basic	$ 0.02	$ (0.03)
Net income (loss) per share — diluted	$ 0.02	$ (0.03)
Antidilutive employee stock options	570,000	425,000

Recent Accounting Pronouncements. Effective April 1, 2007, we adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement 109, "Accounting for Income Taxes." FIN 48 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is not met, a company must measure the tax position to determine the amount to recognize in the financial statements. The application of income tax law and regulations is inherently complex and subject to change. We are required to make many subjective assumptions and judgments regarding the income tax exposures. Changes in these subjective assumptions and judgments can materially affect amounts recognized in our financial statements. At March 31, 2009 and 2008, we had no unrecognized tax benefits which would affect the effective tax rate if recognized, and as of March 31, 2009, we had no accrued interest or penalties related to uncertain tax positions. On initial application, FIN 48 was applied to all tax positions for which the statute of limitations remained open. As we have a federal net operating loss carryover from the fiscal year ended March 31, 1995 forward, except for fiscal years ended March 31, 2003 and 2004, all tax years from fiscal year ended March 31, 1995 forward are subject to examination. As states have varying carryforward periods, the states are generally subject to examination for the previous 14 years or less.

In February 2007, the FASB issued Statement of Financial Standards No. 159 ("FASB 159"), "The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115". This Statement provides companies with an option to measure, at specified election dates, many financial instruments and certain other items at fair value that are not currently measured at fair value. A company that adopts SFAS 159 will report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. FASB 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. FASB 159 is effective for fiscal years beginning after November 15, 2007. SFAS 159 has not had a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), "Business Combinations" ("SFAS No. 141R"). SFAS No. 141R changes the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R changes the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations we engage in will be recorded and disclosed following existing generally accepted accounting principles ("GAAP") until January 1, 2009. We expect SFAS No. 141R will have an impact on accounting for business combinations once adopted, but the effect is dependent upon acquisitions at that time. We believe that SFAS 141 should not have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Non-controlling Interests in Consolidated Financial Statements-An Amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. We believe that SFAS 160 should not have a material impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS No. 161"). The use and complexity of derivative instruments and hedging activities have increased significantly over the past several years. Constituents have expressed concerns that the existing disclosure requirements in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, do not provide adequate information about how derivative and hedging activities affect an entity's financial position, financial performance, and cash flows. Accordingly, this Statement requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We believe that SFAS 161 should not have a material impact on our financial position or results of operations.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles". This Statement identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). This Statement shall be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles. We believe that SFAS 162 should not have a material impact on our financial position or results of operations.

3. Shareholders' Equity

Stock Option Plan. We adopted our 2007 Stock Option Plan (the "Plan," as summarized below) to promote our and our shareholders' interests by helping us to attract, retain and motivate our key employees and associates. Under the terms of the Plan, the Board of Directors may grant either "nonqualified" or "incentive" stock options, as defined by the Internal Revenue Code and related regulations. The purchase price of the shares subject to a stock option will be the fair market value of our common stock on the date

the stock option is granted. Generally, vesting of stock

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options occurs such that 20% becomes exercisable on each anniversary of the date of grant for five years following the grant of such option. Generally, all stock options must be exercised within five years from the date granted. The number of common shares reserved for issuance under the Plan is 700,000 shares of common stock, subject to adjustment for dividend, stock split or other relevant changes in our capitalization.

Statement of Financial Accounting Standards 123(R). Beginning in fiscal year 2007, we adopted SFAS 123(R), which requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including employee stock options based on estimated fair values. Stock-based compensation expense related to employee stock options under SFAS 123(R) for fiscal years 2009 and 2008 was allocated as follows:

Years Ended	March 31, 2009	March 31, 2008
Cost of sales	$ 1,882	$ —
Sales and marketing	28,667	31,097
General and administrative	110,443	90,135
Research and development	19,783	17,574
Stock-based compensation expense	$ 160,775	$ 138,806

Upon adoption of SFAS 123(R) the value of each employee stock option was estimated on the date of grant using the Black-Scholes model for the purpose of financial information in accordance with SFAS 123. The use of a Black-Scholes model requires the use of actual employee exercise behavior data and the use of a number of assumptions including expected volatility, risk-free interest rate and expected dividends. Employee stock options for 200,000 and 45,000 shares of stock were granted during fiscal years 2009 and 2008, respectively.

As of March 31, 2009, $223,000 of total unrecognized compensation costs related to nonvested stock is expected to be recognized over a period of five years. The weighted-average assumptions for employee stock options are summarized as follows:

Years Ended	March 31, 2009	March 31, 2008
Risk-free interest rate	2.6%	3.0%
Expected life (in years)	5.0	5.0
Expected volatility	60%	49%
Expected dividend	0%	0%

To estimate expected lives of options for this valuation, it was assumed options would be exercised upon becoming fully vested. All options are initially assumed to vest. Cumulative compensation cost recognized in net income or loss with respect to options that are forfeited prior to vesting is adjusted as a reduction of compensation expense in the period of forfeiture. The volatility of the stock is based on the historical volatility for the period that approximates the expected lives of the options being valued. Fair value computations are highly sensitive to the volatility factor; the greater the volatility, the higher the computed fair value of options granted.

The total fair value of options granted was computed to be approximately $144,652 and $43,675, for the fiscal years ended March 31, 2009 and 2008, respectively. For disclosure purposes, these amounts are amortized ratably over the vesting periods of the options. Effects of stock-based compensation, net of the effect of forfeitures, totaled $160,775 and $138,806 for fiscal years 2009 and 2008, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the use of assumptions, including the expected stock price volatility. Because our employee stock options have characteristics significantly different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of our employee stock options. A summary of our stock option activity and related information for each of the fiscal years ended March 31, 2009 and 2008 is as follows:

	STOCK OPTIONS OUTSTANDING	
	Number Outstanding	Weighted-Average Exercise Price per Share
BALANCE AT MARCH 31, 2007	415,000	$ 2.86
Granted	45,000	2.09
Exercised	(16,663)	2.75
Forfeited/expired	(18,337)	2.73

BALANCE AT MARCH 31, 2008	425,000	$ 2.79
Granted	200,000	1.39
Exercised	(8,000)	1.44
Forfeited/expired	(47,000)	2.55
BALANCE AT MARCH 31, 2009	570,000	$ 2.33

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The following table summarizes information about employee stock options outstanding and exercisable at March 31, 2009:

	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Number Exercisable	Weighted-Average Exercise Price per Share
$1.20 - $2.20	230,000	4.4	$ 1.46	11,667	$ 1.94
$2.53 - $2.89	275,000	0.4	$ 2.81	264,455	$ 2.82
$3.00 - $3.75	65,000	1.3	$ 3.41	49,877	$ 3.42
	570,000	2.1	$ 2.33	325,999	$ 2.88

Of the 570,000 options exercisable as of March 31, 2009, 250,000 are nonqualified stock options and 320,000 are incentive stock options. The exercise price of all options granted through March 31, 2009 has been equal to or greater than the fair market value, as determined by our Board of Directors or based upon publicly quoted market values of our common stock on the date of the grant. As of March 31, 2009, options for 470,000 shares of our common stock remain available for grant under the Plan.

4. Commitments and Contingencies

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through August 14, 2009. We have renewed our lease under lease agreements through July 31, 2014. The minimum future lease payment by fiscal year as of March 31, 2009 is as follows:

Fiscal Year	Amount
2010	$ 245,925
2011	247,264
2012	254,629
2013	262,281
2014	270,221
2015	90,966
Total	$ 1,371,286

Our minimum future equipment lease payments with General Electric Capital Corporation as of March 31, 2009, by fiscal year, are as follows:

Fiscal Year	Amount
2010	$ 101,873
2011	101,873
2012	101,873
2013	101,873
2014	8,488
Total	$ 415,980

At March 31, 2009, we had borrowed $190,942 under our credit facility agreement with Silicon Valley Bank. We must repay our borrowings by November 10, 2009 unless we renegotiate a commitment with Silicon Valley Bank or another financial institution by then.

Rent expense for our facilities for the fiscal years ended March 31, 2009 and 2008 was $249,691 and $179,505, respectively. Rent expense for our equipment for the fiscal years ended March 31, 2009 and 2008 was $101,873 and $101,873, respectively.

We are subject to regulation by the United States Food and Drug Administration (“FDA”). The FDA provides regulations governing the manufacture and sale of our products and regularly inspects us and other manufacturers to determine our and their compliance with these regulations. As of March 31, 2009, we believe we were in substantial compliance with all known regulations. FDA inspections

are conducted periodically at the discretion of the FDA. We were last inspected in May 2004 and were notified of six potential deficiencies from that inspection, none of which we believe to be material.

We were granted a Certificate to Foreign Government in October 11, 2000 that states in part that, based on the last periodic inspection, we were in substantial compliance with current good manufacturing processes, thereby allowing us to ship products to foreign countries.

Our obligation with respect to employee severance benefits is minimized by the “at will” nature of the employee relationships. Our total obligation as of March 31, 2009 with respect to contingent severance benefit obligations is less than $150,000.

On November 10, 2006, we entered into a credit facility agreement with Silicon Valley Bank. The terms of the credit facility include a line of credit for $2,000,000 for three years at an interest rate calculated at prime rate plus 1.25%. In connection with the credit facility, we issued warrants to Silicon Valley Bank to purchase 28,000 shares of our common stock at a per share price of $2.75. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. At March 31, 2009 and 2008, we had borrowed $190,942 and $606,000, respectively, from the credit facility and, under our eligible receivables and inventory limit, had an additional $1,435,000 available to borrow. The credit facility requires us to meet certain financial covenants, which we met as of March 31, 2009. The credit facility is secured by all goods, accounts receivable, equipment, inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, general intangibles, commercial tort claims, documents, instruments, chattel paper, cash, deposit accounts, fixtures, letters of credit rights, securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located.

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5. Income Taxes

The provision for income taxes consists of the following:

Years Ended	March 31, 2009	March 31, 2008
Current:		
Federal	$ —	$ —
State	—	—
Total current	—	—
Deferred:		
Federal	280,000	71,000
State	29,000	7,000
Total deferred	309,000	78,000
Decrease in valuation allowance	(309,000)	(78,000)
Total	$ —	$ —

The items accounting for the difference between income taxes computed at the federal statutory rate and the provision for income taxes consists of the following:

Years Ended	March 31, 2009	March 31, 2008
Federal statutory rate	$ 54,000	$ (61,000)
Effect of:		
State taxes, net of federal tax benefit	6,000	(6,000)
Other	77,000	65,000
Valuation allowance	(137,000)	2,000
Total	$ —	$ —

The components of the deferred tax asset are as follows:

Years Ended	March 31, 2009	March 31, 2008
Credits and net operating loss carryforwards	$ 5,734,000	$ 6,011,000
Other	95,000	127,000
Gross deferred tax assets	5,829,000	6,138,000
Valuation allowance	(5,829,000)	(6,138,000)
Total deferred tax assets	$ —	$ —

We believe that based on all available evidence, it is more likely than not that the deferred tax assets will not be fully realized. Accordingly, a valuation allowance has been recorded against the deferred tax asset.

As of March 31, 2009, we had approximately $15.5 million of net operating loss carryovers for tax purposes. Additionally, we have approximately $124 thousand of research and development tax credits available to offset future federal income taxes. The net operating loss and credit carryovers begin to expire in the fiscal year ended March 31, 2010. In the fiscal years ended March 31, 2010, 2011 and 2012, net operating losses of approximately $1,000,000, $1,300,000 and $3,000,000, respectively, will begin to expire if sufficient taxable income is not available to use them. Our net operating loss carryovers at March 31, 2009 include $582,000 in income tax deductions related to stock options which will be tax effected and the benefit will be reflected as a credit to additional paid-in capital when realized. The Internal Revenue Code contains provisions, which may limit the net operating loss carryforwards available to be used in any given year if certain events occur, including significant changes in ownership interests.

6. Legal Proceedings

We are not involved in any legal proceeding. We may become involved in litigation in the future in the normal course of business.

7. Major Customers/Suppliers

We depend on sales that are generated from hospitals' ongoing usage of AEM surgical instruments. In fiscal year 2009, we generated sales from over 350 hospitals that have changed to AEM products, but no hospital customer contributed more than 6% to the total sales. Approximately 50% of the new hospital accounts in fiscal years 2009 and 2008 were from hospitals affiliated with group purchasing organizations, Novation and Premier, with whom we signed supplier agreements in 2002 with an extension with Novation through January 31, 2009 and a new three year agreement with Premier effective as of June 1, 2008. In fiscal year 2009, we depended upon one vendor for approximately 13% of our purchases.

8. Defined Contribution Employee Benefit Plan

We have adopted a 401(k) Profit Sharing Plan which covers all full-time employees who have completed three months of full-time continuous service and are age eighteen or older. Participants may defer up to 20% of their gross pay up to a maximum limit determined by law. Participants are immediately vested in their contributions. We may make discretionary contributions based on corporate financial results for the fiscal year. To date, we have not made contributions to the 401(k) Profit Sharing Plan. Vesting in a contribution account (our contribution) is based on years of service, with a participant fully vested after five years of credited service.

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9. Related Party Transaction

We paid consulting fees of approximately $58,000 and $64,000 to an entity owned by one of our directors in fiscal years 2009 and 2008, respectively.

We have an employment agreement with Roger C. Odell, an executive officer. In the event that the agreement is terminated, Mr. Odell is entitled, for a period of one year, to receive benefits and severance pay at the rate of his annual salary as of the date of termination, payable in equal monthly amounts. We have accrued a liability of $101,804 and $86,000 at March 31, 2009 and 2008, respectively.

10. Quarterly Results (Unaudited)

(In thousands, except per share amounts)

Quarter Ended	Mar. 31, 2009	Dec. 31, 2008	Sep. 30, 2008	June 30, 2008	Mar. 31, 2008	Dec. 31, 2007	Sep. 30, 2007	June 30, 2007
Net sales	$ 3,078	$ 3,271	$ 3,346	$ 3,094	$ 3,183	$ 3,131	$ 3,092	$ 2,659
Gross profit	$ 1,970	$ 2,079	$ 2,052	$ 1,865	$ 2,020	$ 2,028	$ 1,926	$ 1,628
Operating income (loss)	$ 34	$ 247	$ 92	$ (165)	$ 61	$ 67	$ 6	$ (288)
Net income (loss)	$ 16	$ 233	$ 75	$ (164)	$ 49	$ 59	$ 8	$ (295)
Net income (loss) per share—basic and diluted	$ 0.00	$ 0.04	$ 0.01	$ (0.03)	$ 0.01	$ 0.01	$ 0.00	$ (.05)

11. Recent Developments

On March 20, 2009, we and Caldera Medical, Inc. ("Caldera") entered into a Representation Agreement (the "Agreement"), whereby

we will use our sales employees to sell certain of Caldera's products to physicians and hospitals. Caldera will pay us commissions on such sales pursuant to the terms of the Agreement. The Agreement commenced on April 1, 2009 and will continue in effect until April 1, 2012, subject to early termination as provided in the Agreement. Caldera may, upon 45 days written notice to us, terminate the Agreement in the event that we fail to achieve a stated percentage of the quarterly sales forecast. Either party may terminate the Agreement for any reason with 30 days written notice to the other party or upon a material breach by the other party that remains uncured within a certain period. Upon the termination of the Agreement, we will be entitled to receive commissions for sales received by Caldera prior to the termination date and paid by the customers within a certain time period. Caldera will pay us commissions on all sales to pre-approved target accounts and customers that are accepted and fulfilled by Caldera. In connection with our sales of Caledera products, we will provide certain required in-service and customer service, as needed, but will not be responsible for warranty issues, regulatory requirements, or certain training activities with respect to such products. Caldera is required to indemnify us against losses relating to product performance, patent infringement claims, breach of the Agreement by Caldera, or any act, negligence, default or omission of Caldera or any of its employees or representatives. Pursuant to the Agreement, we and our employees are subject to confidentiality, non-competition and non-solicitation obligations, and we are required to indemnify Caldera for losses relating to a breach of the Agreement by us or any act, negligence, default or omission of us or any of our employees or representatives.

12. Subsequent Event

On April 3, 2009, we and Intuitive Surgical Inc. ("Intuitive") entered into a Manufacturing, Supply, and License Agreement (the "Agreement"), effective March 30, 2009, whereby Intuitive will, on a non-exclusive basis, purchase and use certain of our AEM technology products (the "Products") with Intuitive Surgical's da Vinci® Surgical Systems. The Agreement will continue in effect until March 30, 2014, subject to early termination as provided in the Agreement. After the five-year initial term, the Agreement will automatically renew for additional two-year periods, unless either party delivers a notice of non-renewal at least six months before the expiration of the then-current term. Either party may terminate the Agreement by delivering written notice to the other party (a) upon a material breach by the other party that remains uncured within a certain period; (b) if the other party experiences certain bankruptcy events; (c) if we violate the anti-assignment provision in the Agreement; (d) if we are unable or unwilling to supply the Products under the terms of the Agreement; or (e) if the parties fail to agree on the pricing for the Products. In addition, Intuitive may, upon written notice, terminate the Agreement in the event that a delay in the delivery of the Products pursuant to the Agreement continues for more than 18 days. Upon the termination or expiration of the Agreement, we may be obligated to manufacture and deliver a certain amount of additional Products to Intuitive or may otherwise be obligated to license to Intuitive certain of its intellectual property for the manufacture of the Products ordered by Intuitive after such termination or expiration. The parties intend for us to make a certain gross margin on our sales of the Products to Intuitive under the Agreement. Intuitive will also pay us a one-time license fee and the development costs associated with an Intuitive branded cord product. We are required to maintain quality systems in compliance with certain regulatory requirements and maintain commercial general liability insurance coverage, including coverage for contractual liability, product liability, personal injury and bodily injury, throughout the term of the Agreement. Pursuant to the Agreement, we grant to Intuitive certain non-exclusive, royalty-free licenses to use, sell, import and export the Products, licensed patents and inventions for a defined purpose and within a defined field of use. Intuitive grants to us an exclusive, royalty-free license to use outside of the defined field of use any inventions made jointly between us and Intuitive under the Agreement. We are required to indemnify Intuitive against losses relating to our breach of the Agreement, its negligence or willful misconduct, or the infringement by any of the Products of a third party's intellectual property rights. Intuitive is required to indemnify us against losses relating to Intuitive's breach of the Agreement, its negligence or willful misconduct, or any of Intuitive's activities beyond or outside of the purpose of the Agreement. We and Intuitive are subject to mutual confidentiality obligations with respect to the Agreement and the other party's proprietary information.

We have renewed our lease on our facilities at 6797 Winchester Circle, Boulder, Colorado under lease agreements through July 31, 2014.

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Item 9 Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9 (T). Controls and Procedures.

We carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Principal Accounting Officer concluded that our disclosure controls and procedures were effective as of March 31, 2009 in ensuring that information required to be disclosed by us under the Exchange Act is recorded, processed, summarized and reported within the time

periods specified under the Exchange Act rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed 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. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Management assessed the effectiveness of our internal control over financial reporting as of March 31, 2009. In making this assessment, management used the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on its assessment of internal control over financial reporting, management has concluded that, as of March 31, 2009, our internal control over financial reporting was effective.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

Changes In Internal Control Over Financial Reporting

There were no significant changes in our internal control over financial reporting during the three months ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9 B. Other Information

None

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2009.

Item 11. Executive Compensation.

Information in response to this item is incorporated by reference from the registrant's definitive statement for its 2009 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2009.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2009.

The following table summarizes certain information regarding our equity compensation plan as of March 31, 2009:

Plan Category	Number of securities to be issued upon exercise of outstanding options	Weighted-average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans (1)

Equity compensation plans approved by security holders	570,000	$	2.33	470,000
Equity compensation plans not approved by security holders	—		—	—
Total	570,000	$	2.33	470,000

(1) Shares available under the 2007 Stock Option Plan.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2009.

PART IV

Item 14. Principal Accounting Fees and Services.

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2009 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2009.

Item 15. Exhibits, Financial Statement Schedules.

(a) Financial Statements - See the index to the Financial Statements of Encision Inc. that appears in Item 8 of this Report.

(b) Exhibits - The following exhibits are attached to this report on Form 10-K or are incorporated herein by reference:

3.1 Articles of Incorporation of the Company, as amended. (Incorporated by reference from Registration Statement #333-4118-D dated June 25, 1996).

3.2 Bylaws of the Company. (Incorporated by reference from Current Report on Form 8-K filed on October 30, 2007).

4.1 Form of certificate for shares of Common Stock. (Incorporated by reference from Registration Statement #333-4118-D dated June 25, 1996).

10.1 Lease Agreement dated June 3, 2004 between Encision Inc. and DaPuzzo Investment Group, LLC (Incorporated by reference from Quarterly Report on Form 10-QSB filed on August 12, 2004).

10.2 Encision Inc. 2007 Stock Option Plan. (Incorporated by reference from Proxy Statement dated June 30, 2007).

10.3 Loan and Security Agreement between Encision Inc. and Silcon Valley Bank (Incorporated by reference from Current Report on Form 8-K filed on November 10, 2006).

10.4 Representation Agreement dated March 20, 2009 between Encision Inc. and Caldera Medical, Inc.

10.5* Manufacturing, Supply and License Agreement dated April 3, 2009 between Encision Inc. and Intuitive Surgical Inc.

23.1 Consent of Independent Registered Public Accounting Firm, Gordon, Hughes and Banks, LLP.

31.1 Section 302 Certification of Principal Executive Officer

31.2 Section 302 Certification of Principal Financial and Accounting Officer

32.1 Section 906 Certifications

* Certain portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the Securities and Exchange Commission.

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SIGNATURES

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

Dated: June 26, 2009.

ENCISION INC.

By: /s/ Marcia K. McHaffie

Marcia K. McHaffie
Controller
Principal Accounting Officer & Principal Financial Officer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Bruce L. Arfmann Bruce L. Arfmann Director	June 26, 2009
/s/ Robert H. Fries Robert H. Fries Director	June 26, 2009
/s/ Vern D. Kornelsen Vern D. Kornelsen Director	June 26, 2009
/s/ Ruediger Naumann-Etienne Ruediger Naumann-Etienne Director	June 26, 2009
/s/ John R. Serino John R. Serino President and CEO Principal Executive Officer Director	June 26, 2009
/s/ David W. Newton David W. Newton Vice President - Technology Director	June 26, 2009
/s/ Roger C. Odell Roger C. Odell Chairman of the Board and Vice-President — Business Development Director	June 26, 2009

REPRESENTATION AGREEMENT

1. (a) You, **Encision Inc.,** ("ECI" or "You") are hereby appointed as a representative of **Caldera Medical, Inc.** ("Caldera" or "We") under the terms of this agreement ("Agreement"), effective April 1, 2009 ("Effective Date"), for the solicitation of orders for the products listed on **Exhibit 2**.

(b) Your account list ("ECI Target Accounts") will be subject to approval by Caldera management. You will limit all your activities under this Agreement solely to ECI Target Accounts and ECI Target accounts that become customers ("ECI Customers"). You will immediately direct all inquiries you receive from outside your account list to Caldera.

(c) Your ECI Target Accounts are subject to change with written approval from Caldera, pursuant to the terms in paragraph 8 of this Agreement. At any given time, no more than five ECI Target Accounts shall be in effect per ECI sales rep. When an ECI Target Account becomes an ECI Customer, you will have the opportunity to add a Target Account such that you maintain up to five Target Accounts per ECI sales rep. Facilities that are eligible to become ECI Target Accounts are any accounts that have not purchased Caldera products within the most recent 12 consecutive months before being added to the ECI Target Accounts list.

(d) The term of this Agreement will be three years from April 1, 2009.

2. (a) You agree to provide all required in-service and customer service as needed, as generally described on **Exhibit 4**. You do not have any obligation for warranty work, installation, or customer training beyond that described in **Exhibit 4**.

(b) We reserve the right to accept or reject any orders solicited or obtained by you.

(c) We will be responsible for manufacturing, branding, regulatory affairs, quality, order administration/fulfillment, "train the trainer" activities, invoicing, collections (although ECI will provide assistance with collections matters), tax calculations for amounts owed by customers and tax remittances of such amounts.

3. (a) We will provide you sample products and sales promotion materials that will be distributed and monitored. To the extent samples and materials have been provided on a no charge basis, they remain our property and you agree to return them on demand, or in any event upon termination of this Agreement by either party. In the event you may lose any samples, or fail to return any of them to us on demand, you will be charged for them at a fair price determined by the age and condition of the items. You agree not to rent, lease, or sell any samples on your own without written authorization from Caldera.

(b) Caldera personnel may conduct an inventory of samples at any reasonable time upon reasonable notice. Unaccounted for samples will be your financial responsibility. Caldera may require direct payment or deduct appropriate amounts from commission otherwise payable to you.

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(c) Your signature on this Agreement constitutes your written authorization for Caldera to deduct the amounts in paragraph (b) from your commission, including from commissions already earned, but not paid. Caldera may withhold amounts Caldera has a reasonable belief are owing under paragraph (b)), and will pay over the withheld amounts only after the physical inventory has been completed and any necessary reconciliation has been accomplished to Caldera's reasonable satisfaction. Caldera will act in a timely fashion to complete the physical inventory and resolve the reconciliation.

4. (a) Commissions will be paid to you on all sales to ECI Target Accounts and ECI Customers ("Qualifying Sales") which are accepted and fulfilled by Caldera. The commission schedule is set forth on **Exhibit 1.**

(b) Commissions are payable to you by the end of the month following the month in which the shipment occurred. Your account will be charged back for any commissions paid on products that are returned by the customer, unless the customer receives credit on the returned products that may be used for products that you do not receive a commission on. It will also be charged back for products that are not paid for by the customer within one hundred twenty (120) days after shipment. In the event that the customer makes payment after the one hundred twenty (120)

days after shipment, then that commission will be payable to you. Your assistance in collecting outstanding accounts receivable will be required as requested by Caldera. This does not require you to sue the customer. Caldera has the primary responsibility to collect accounts receivable.

5. You agree to pay all of your own expenses in connection with your solicitation and obtaining of orders.

6 You agree that you are an independent contractor and not an employee of Caldera and that you have no authority to make any warranties, representations, or contractual commitments on our behalf.

7. (a) You agree that, during the term of the Agreement, neither you nor anyone employed by you or otherwise affiliated with your business and under your control, will, directly, or indirectly, handle any products that are competitive to those listed on **Exhibit 2**. If you have a question as to whether a product is competitive, you may ask Caldera and Caldera will respond within 60 days as to whether or not it believes the product is competitive.

(b) All know-how relating to our business and to your activities in performance of this Agreement are to be treated as confidential and proprietary information of Caldera and you will use your best efforts to safeguard disclosure by you of confidential information of Caldera given to you by Caldera regarding the patents, copyrights, trademarks, trade secrets and other proprietary information of Caldera.

(c) You recognize and acknowledge that all knowledge and information which you may acquire in the course of your relationship hereunder relating to the business, developments, activities, or products of Caldera, or financial affairs of any individual or firm doing business with Caldera, such as, but not limited to, customer and supplier

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lists, cost and selling prices, customer needs and requirements, confidential data regarding marketing sources and product designs, and other information, ideas, discoveries, operations, developments, improvements, designs and processes so acquired are the valuable property of Caldera and shall be held by you in confidence and trust for the sole benefit of Caldera.

(d) You agree not to disclose, divulge, or publish without the prior written consent of Caldera, either during the term of the Agreement or at any time subsequent thereto, knowledge of any confidential information concerning Caldera business about which you become aware in the course of our relationship under this Agreement. You will take all appropriate steps to safeguard against improper disclosure of Confidential Information by you. As requested by Caldera from time to time and upon the termination of this Agreement, you shall promptly deliver all copies and embodiments, in whatever form, of all Confidential Information in your possession or within your control (including, without limitation, written records, notes, photographs, manuals, notebooks, documentation, magnetic media, disks, diskettes, tapes and all other materials containing any Confidential Information) regardless of the location or form of such material and, will provide Caldera with written confirmation that all such materials have been delivered to Caldera. You may retain one copy of the Confidential Information in a secure and safe place as necessary for your business recordkeeping requirements or for potential or actual legal defense or prosecution purposes. For the purposes hereof, “Confidential Information” means information that is not generally known to the public and that is used, developed or obtained by Caldera regarding its products and the conduct of its business, including, but not limited to, fee, cost and pricing structures; profit margin information; product information; medical analyses; reports; studies; third party manufacturing and licensing agreements; manuals and documentation; accounting and business methods; the identity and information concerning distributors, representatives, customers and suppliers (prospective and existing); and any and all similar and related information in whatever form. Confidential Information does not include any information that has been published in a form generally available to the public prior to the date you propose to disclose or use such information (unless such publication constituted a breach by you of its duties hereunder). Information will not be deemed to have been published merely because individual portions of the information have been separately published, but only if all material features comprising such information have been published in combination.

Caldera agrees to maintain the confidentiality of all confidential information of ECI and only use it for the advancement of the relationship between the parties established by this Agreement.

(e) Upon written termination of your services, under terms of this Agreement as stated in paragraph 9,unless Caldera is in breach of this Agreement on the date of termination or thereafter you shall not directly or indirectly call on, solicit, sell, or otherwise deal with any competitive products or services to those listed on **Exhibit 2**. This restriction

shall begin upon termination of your services and continue for a period of one hundred eighty (180) days thereafter.

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8. We reserve the right, with your consent, to make additions, deletions, or other changes to your ECI Target Accounts. Any such additions, deletions or changes will take effect ten (10) days from the date of our written notification to you and your agreement to the change.

9. (a) A three year quarterly dollar forecast of sales ("Forecast") has been mutually agreed upon and is listed on **Exhibit 3.** The Forecast period will begin on April 1, 2009. If mutually agreed upon, the Forecast may be revised on a look-forward basis during the term of this Agreement. Neither party is guaranteeing that the Forecast will be achieved.

(b) If ECI does not achieve at least 80% of Forecast for two consecutive quarters, Caldera may terminate this Agreement with 45 days written notice, so long as such notice is given within 90 days of quarter end. ECI will not be required to achieve at least 80% of Forecast for the first two quarters that begin on April 1, 2009. (However, a failure to achieve a Forecast is not a breach by ECI.) Otherwise, with the exception of a breach by ECI, Caldera may terminate this Agreement with 30 days written notice at any time, and will be required to pay ECI a lump sum payment equal to two times the last quarterly commission payout. Notwithstanding the foregoing, Caldera's payment to ECI of any amounts pursuant to this Section 9 (b), shall be expressly conditioned upon (i) Caldera first receiving an executed release agreement from ECI, pursuant to which ECI, on behalf of itself and its successors and assigns, releases and forever discharges Caldera and its affiliates, agents, officers, directors, employees and representative, from any and all claims, known and unknown, arising out of or in any way connected with this Agreement; (ii) ECI providing such reasonable transition assistance as Caldera may reasonable request during such post-termination period, which shall not include ECI making new customer calls or extend for more than 90 days after termination; and (iii) reconciliation of sample products provided to you per Section 3. With the exception of a breach, ECI may terminate this Agreement with 30 days written notice at any time. Either party may terminate this Agreement upon a material breach by the other party, if the other party has not cured such breach within 10 days after notice of such breach from the non-breaching party. Termination will occur at the end of that 10 day period if the breach is not cured.

10. Upon termination of this Agreement, ECI will be entitled to receive commissions for Qualifying Sales which are received by us prior to the effective termination date and which are paid by the customer within one hundred twenty (120) days after shipment. We will process all Qualifying Sales orders in a timely manner and not delay accepting appropriate orders. ECI will have no right to commissions on any order accepted after the effective date of termination. Your signature on this Agreement constitutes your written authorization for Caldera to withhold any post-termination commissions in an amount up to the value of the entire unreturned inventory of samples, demonstration and sales promotion materials, which withheld commission payment shall not be due until physical receipt of the entire inventory of samples, demonstration and sales promotion materials and reconciliation to the reasonable satisfaction of Caldera of any discrepancy in the inventory. Caldera will act promptly to reconcile such amounts.

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11. Both parties recognize the necessity of making expenditures in preparing to perform and in performing this Agreement, and recognize the possibility and the likelihood of losses or damages resulting from termination. Both parties agree nevertheless that neither party shall be liable in any way to the other for any damages of any sort for termination of this Agreement, other than the payments provided for herein, including without limitation, for any business losses, consequential damages or damage to reputation resulting from or relating to such termination.

12. (a) Caldera may assign this Agreement (or may assign its rights under this Agreement or delegate its obligations under this Agreement), in whole or in part, to any purchaser of, or successor to, Caldera or to all or substantially all of Caldera's business.

(b) ECI may not assign this Agreement to any other entity, including by merger or transfer of all or substantially all of

your assets, and that any change in your ownership so that one person and its affiliates beneficially owns more than 50% of the stock of ECI, shall be deemed to be a prohibited assignment. ECI agrees to give Caldera prompt notice of any such event.

13. You agree that any person(s) employed by you will comply with all of the requirements of this Agreement including, without limitations, to avoid affiliation with representation of competitive products and services.

14. You acknowledge that during the term of this Agreement, you will have the opportunity to develop relationships with existing employees, clients, distributors, representatives, and prospective clients, vendors, suppliers and other business associates of Caldera, which relationships constitute goodwill of Caldera and that Caldera would be irreparably damaged if you were to take actions that would damage or misappropriate such goodwill. You accordingly agree that during the period commencing on the Effective Date and ending on the second anniversary of the termination of this Agreement, you shall not, directly or indirectly, either for the benefit of yourself or any other person or entity, do any of the following:

(a) Solicit any employee of Caldera to terminate his or her employment with Caldera, or employ or use in a consulting capacity any such individual during his or her employment with Caldera and for a period of twelve months after such individual terminates his or her employment with Caldera;

(b) Solicit any distributor, representative, vendor, supplier or customer, or prospective distributor, representative, vendor, supplier or customer, of Caldera to terminate his or her relationship with Caldera or accept any business from any such distributor, representative, vendor, supplier or customer, or prospective distributor, representative, vendor, supplier or customer, of the Company; or

(c) In the context of the business of Caldera, make any public statement, comment or remark that disparages the integrity or competence of a Caldera officer, director, employee, or shareholder, that disparages any product or service of Caldera, or that are reasonably likely to cause injury to the relationships between Caldera and any existing or prospective distributor, representative, client, lessor, lessee, contractual counterparty,

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vendor, supplier, customer, employee, consultant or other business associate of Caldera. This shall not restrict any statements made in the context of litigation or arbitration.

15. We acknowledge that during the term of this Agreement, we will have the opportunity to develop relationships with distributors, representatives, and sales, strategic development and marketing people of yours, which relationships constitute goodwill and important relationships of yours and that you would be irreparably damaged if we were to take actions that would damage or misappropriate such goodwill or relationships. We accordingly agree that during the period commencing on the Effective Date and ending on the second anniversary of the termination of this Agreement, we shall not, directly or indirectly, either for the benefit of us or any other person or entity, do any of the following:

(a) Solicit any employee or independent sales representative of yours to terminate his or her employment or representative relationship with you, or employ or use in a consulting capacity any such individual during his or her employment with you and for a period of twelve months after such individual terminates his or her employment with you;

In the context of the business of ECI, make any public statement, comment or remark that disparages the integrity or competence of an ECI officer, director, employee, or shareholder, that disparages any product or service of ECI, or that are reasonably likely to cause injury to the relationships between ECI and any existing or prospective distributor, representative, client, lessor, lessee, contractual counterparty, vendor, supplier, customer, employee, consultant or other business associate of ECI. This shall not restrict any statements made in the context of litigation or arbitration.

16. ECI has no liability for any Caldera representation or warranty concerning Caldera's products or services. ECI will not store or ship products to or from customers to Caldera.

17. This Agreement (which includes the Exhibits hereto) constitutes the entire agreement between us, superseding all previous agreements between us of any sort. You agree that no representations have been made to you other than as are contracted herein and in the written warranties and product descriptions that accompany products. This Agreement may be amended or superseded only in writing from an officer of Caldera and the written agreement of

ECI.

18. The invalidity or enforceability for any reason of one or more of the provisions of this Agreement shall not affect the validity or enforceability of the remaining provisions of the Agreement.

19. The laws of the State of California shall govern this Agreement.

20. Any controversy or claim arising out of or relating to this Agreement, or the breach thereof, shall be settled by arbitration before one (1) arbitrator in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment

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upon the award rendered by the arbitrators may be entered in any Court having jurisdiction thereof. The arbitration is to be held in Los Angeles, California. The arbitrator shall be empowered to award equitable relief and shall award the costs or expenses of the arbitration, including reasonable attorney's fee. Disbursements, arbitration expenses, arbitrator's fees and the administrative fees of the AAA, shall be awarded to the prevailing party, which award shall reflect the determination of the arbitrator on the merits. In addition to the foregoing remedy of arbitration, each party shall be entitled to seek from a court of competent jurisdiction such preliminary relief or other provisional remedy as such party may be entitled to under applicable law. The parties irrevocably agree that service of the demand for arbitration, or summons and complaint, or any other process, which may be served in any suit, action, or proceeding contemplated in this Agreement may be affected by mailing by Certified Mail a copy of such process to the parties at the address set forth herein. A copy of any such notice shall be sent to ECI at 6797 Winchester Circle, Boulder, CO 80301.

21. You represent that you have completely read, fully understand and agree to the terms of this Agreement and have so indicated by your signature below.

22. Subject to the limitations of paragraph 11, Caldera shall indemnify and hold ECI harmless against any loss or liability incurred by ECI arising out of or related to any product performance related or patent infringement claim. Caldera shall indemnify and hold ECI harmless for any liability, loss, costs, expenses (including, without limitation, attorney's fees, other than fees between the parties which are addressed in paragraph 20) or damages howsoever caused by reason of its breach of this Agreement or any act, negligence, default, or omission of Caldera or any of Calderas' employees or other representatives.

23. Subject to any limitations of paragraph 11, ECI shall indemnify and hold Caldera harmless for any liability, loss, costs, expenses (including, without limitation, attorney's fees, other than fees between the parties which are addressed in paragraph 20) or damages howsoever caused by reason of its breach of this Agreement or any act, negligence, default, or omission of ECI or any of ECI's employees or other representatives.

Encision Inc.	Caldera Medical, Inc.
By: _____	By: _____
Jack Serino	Bryon L. Merade
Chief Executive Officer	Chief Executive Officer
Date: 2009	Date: 2009

ECI Initials _____
CMI Initials _____

[*] = Certain confidential information contained in this document, marked with brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to a request for confidential treatment made pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

MANUFACTURING, SUPPLY, AND LICENSE AGREEMENT

This Manufacturing, Supply, and License Agreement (the "Agreement") is made on this 30th day of March 2009, (the "Effective Date") by and between **INTUITIVE SURGICAL INC**., (hereinafter, "Intuitive") a Delaware corporation with its principal place of business located at 1266 Kifer Road, Sunnyvale, California 94086, and **ENCISION, INC.** (hereinafter, "Encision"), a **Colorado** corporation with its principal place of business located at 6797 Winchester Circle, Boulder, CO 80301**.** Intuitive and Encision hereby agree to the following terms and conditions for the performance of this Agreement.

1. **General Scope**.

1.1 This Agreement contains the terms and conditions which shall apply to any and all transactions for the manufacturing, supply, and license by Encision, and purchase and use by Intuitive of goods for use in or with Intuitive's present and future lines of robotic surgical systems, during the term hereof.

2. **Definitions**.

2.1 "Adverse Event" shall mean an event or incident that led to a death, serious injury, or serious deterioration in the state of health of a patient, user, or other person; if the incident was wholly or partially caused by the Product or by shortcomings in the information supplied with the Product.

2.2 "Bill of Materials" or "BOM" refers to the list of Components necessary to manufacture the Product or Products.

2.3 "Certificate of Conformance" shall be written certification by Encision, that the supplied Product meets the Specifications.

2.4 "Complaint" shall mean any written, electronic, or verbal feedback directed to Intuitive and/or Encision, related to the use of a medical device/Product/accessory manufactured or distributed by Intuitive, or distributed by a third party on behalf of Intuitive, that alleges deficiencies related to the identity, quality, durability, reliability, safety, effectiveness, or performance of a Product after it is released for distribution.

2.5 "Components" shall mean any components and other materials listed in the Bill of Materials for any Product.

2.6 "Field" shall mean the diagnosis and/or treatment of a human or an animal using Robotic Systems.

2.7 "Kanban Signal" shall mean a signal, electronic or otherwise, used to trigger delivery of a set (Kanban) quantity against the quantity specified in the Scheduling Agreement. Intuitive will provide Kanban size to Encision.

2.8 "Product(s)" shall mean the item or items set forth in Exhibit A to be purchased by Intuitive from Encision during the term of this Agreement, including future revisions and enhancements and any additions to the items set forth in Exhibit A that may be agreed upon by the parties. For clarity, Products do not include Intuitive Instruments.

2.9 "Robotic Systems" shall mean computer-controlled manipulators used to diagnose and/or perform a medical or surgical procedure in a patient's body, controlled from a location external to the patient's body. Robotic Systems shall only include Intuitive's present and future lines of da Vinci Surgical Systems, instruments and accessories.

2.10 "Scheduling Agreement" shall mean an order by Intuitive, communicated via electronic data transfer, email or other means , to purchase Products, Components, or other materials, at a stated unit price, for a total quantity to be delivered within a delivery date range. Delivery due date will be determined based upon Kanban Signal and the Replenishment Lead Time.

2.11 "Specifications" are as set forth in Exhibit B.

2.12 "Sterilization" shall refer to both EtO (ethylene oxide) and Gamma (radiation isotope) sterilization methods.

2.13 "Replenishment Lead Time" is the agreed upon time to delivery from the Kanban Signal. Intuitive will provide the

Replenishment Lead Time.

2.14 “Licensed Patents” shall mean all worldwide patents issued as of the date of this Agreement (including any and all patents issuing or claiming priority from the above patents and patent applications, including non-provisionals, continuations, continuations in part, divisionals, re-examinations, reissues, and foreign counterparts thereof), owned or licensed by Encision, necessary to develop, use, make, have made, promote, offer for sale, sell, import, export, and otherwise commercialize Intuitive Instruments that are enabled to function with Products, within the Field.

2.15 “Encision’s Intellectual Property” shall mean the Licensed Patents and any and all now known or hereafter existing (a) copyrights, moral rights, and mask works, (b) trade secret rights, (c) designs, algorithms, and other industrial property rights, (d) trademark and trade name rights, (e) other intellectual and industrial property and proprietary rights, whether arising by operation of law, by contract or license, or otherwise, and (f) all registrations, applications, renewals, extensions, combinations, divisions, or reissues of the foregoing.

2.16 “Encision Inventions” shall mean Encision´s inventions, whether patentable or not, patents, patent applications, know-how, technical information, test results, and other intellectual property rights conceived or reduced to practice solely by representatives of Encision in the performance of this Agreement.

2.17 “Intuitive Inventions” shall mean Intuitive´s inventions, whether patentable or not, patents, patent applications, know-how, technical information, test results, and other intellectual property rights conceived or reduced to practice solely by representatives of Intuitive in the performance of this Agreement.

2.18 “Joint Inventions” shall mean any inventions whether patentable or not, patents, patent applications, know-how, technical information, test results and any other intellectual property rights conceived or reduced to practice jointly by representatives of Encision and Intuitive in the performance of this Agreement.

2.19 “Purpose” shall mean the supply, design, installation, adaptation, and certification of Products and Intuitive Instruments for use in or with Robotic Systems solely within the Field.

2.20 “Intuitive Instruments” shall mean any instrument that is used, in connection with Products, in or with a Robotic System.

3. **Forecast**.

3.1 Intuitive shall provide Encision with a non-binding nine (9) to twelve (12) month rolling forecast of Intuitive’s delivery requirements.

3.2 This Agreement is not an authorization for Encision to perform manufacturing services or to manufacture the Products. Intuitive will place Scheduling Agreements or purchase orders with Encision in such a manner that will provide Encision with Intuitive’s delivery requirements.

3.3 Intuitive may issue Scheduling Agreements or purchase orders for a minimum of the first **90 days** of the required deliveries. Each Scheduling Agreement or purchase order shall include a description of the Product(s) to be purchased, quantity, routing instructions, requested delivery date, destination and price. Thereafter, Intuitive will place Scheduling Agreements or purchase orders with Encision based on agreed upon lead times and needed delivery dates.

4. **Purchasing, Pricing and Payment Terms**.

4.1 Purchase Order or Scheduling Agreement Acknowledgement. Encision shall acknowledge in writing purchase orders or Scheduling Agreements submitted by Intuitive within seven (7) calendar days from Encision receipt. In the event an acknowledgment is not received within (7) calendar days, Intuitive may, at is option, cancel such purchase orders or Scheduling Agreements with zero (0) financial liability to Intuitive. Encision must submit in writing to Intuitive at the time of Scheduling Agreement or purchase order acknowledgment any minimum order quantity purchases or non-cancelable non-returnable’s (NCNR’s) that will result in excess inventory.

4.2 Material Liability. Encision is financially liable for any item on order, including NCNR’s, unless Encision has received Intuitive’s written pre-approval.

Intuitive shall be liable for the following:

(i) Finished goods: thirty (30) calendar days of demand*.

4.3 Flexibility. Intuitive may make changes to shipping instructions, quantities or requested delivery dates/schedules specified in any Scheduling Agreement or purchase order, as needed throughout the duration of this Agreement, in conformance with Table 1.0 below, unless otherwise mutually agreed upon in writing by the parties.

Table 1.0

Calendar days from notice	% change
0 - 30	+/- [*]
31 - 60	+/- [*]
61 - 120	+/- [*]
121+	+/- [*]

4.5 Product Price and License Fees.

4.5.1 Price of Products. The intent of the parties is for Encision to make [*] ([*]%) gross margin on the sale of Products to Intuitive, plus a license fee as defined below in Section 4.5.2. The prices set forth in Exhibit A, which shall be the prices as of the Effective Date of this Agreement, reflect a [*]% gross margin for Encision. The parties agree to negotiate a commercially reasonable annual price adjustment (up or down), bearing in mind the agreed intention to maintain a [*]% gross margin for Encision. Failure to agree on the pricing for the Products shall be deemed an event of mutual default, and shall give either Party the right to terminate this Agreement as provided in the Term and Termination Section of this Agreement. Given the intention for a [*]% gross margin, the annual price shall be computed as Encision's Cost of Goods Sold for the Product divided by [*]%. "Cost of Goods Sold" or COGS" shall mean the

sum of (i) direct materials cost (per the bill of materials), (ii) direct labor cost (for the time to build the Product), (iii) burden cost (applied at standard burden rate), and (iv) subcontract cost (if applicable, from bill of materials on Products sent out for an outside operation), all to be determined consistent with current US Generally Accepted Accounting Principles and consistent with Encision's practice for products of similar complexity with Products.

4.5.2 License Fee. In addition to the Price of Products set forth in Exhibit A and as defined in Section 4.5.1, Intuitive shall pay a one time up front License Fee to Encision of [*] within 45 days of signing this Agreement.

4.5.3 Cord Development Costs. Intuitive shall also reimburse Encision for the following costs associated (to the extent there are any and in an amount not to exceed [*]) with the Intuitive branded 12 foot cord product.

(a) Sterilization Validation
(b) Package Validation
(c) Shipping Tests
(d) Additional Dose Audits
(e) Validation for three (3) years

4.6 Price of Products purchased hereunder shall include, without limitation, the following:

(i) Inspection of all components.

(ii) Packing and crating, as required.

(iii) Pre-shipment testing.

(iv) Complete Device History Record ("DHR") paperwork to be maintained by Encision.

(v) CE or other regulatory labeling as required. The cost of any translation requested by Intuitive will be paid by Intuitive, provided the cost is pre-approved by Intuitive.

4.7 Payment. Intuitive will make payment upon receipt of a valid and undisputed invoice. Payment for Products received shall be due net forty-five (45) days from the date of Encision's invoice.

4.8 Kanban Replenishment. Intuitive's Kanban replenishment program requires the Encision to ship an exact quantity of

items to Intuitive within a specified number of days after Kanban Signal to Encision. Encision will be provided access to an internet portal that shows all open Kanban Signals to be delivered to Intuitive. This portal will display all parts that are to be shipped by Kanban scan number, Kanban quantity, and due date. Encision is required to deliver in full Kanban quantities only, unless otherwise approved in advance by Intuitive.

As feasible and consistent with Encision infrastructure and business processes, Encision will drive lean manufacturing concepts and best practices with Encision's vendors to maximize the effectiveness of the Kanban replenishment program for Intuitive. Encision will also maximize its internal quality assurance efforts to ensure that full Kanban stocking levels can be built and shipped to Intuitive, with zero defect quality levels.

Encision and Intuitive will define and agree on finished goods, work in process and raw material liabilities to enable the Kanban replenishment program to be successful and supportive of Intuitive needs. At a minimum, Encision shall always have a minimum of one (1) Kanban bin in ready to ship, finished goods status.

4.9 Certificate of Conformance. At Intuitive's request, Encision shall provide a Certificate of Conformance to Intuitive.

4.10 Audit. Encision agrees to make and maintain complete and accurate records of its manufacturing costs underlying its accounting statements provided to Intuitive, and shall allow Intuitive, or its representative, a certified public accountant mutually acceptable to Encision and Intuitive, during office hours and at reasonable intervals, no more than once a year, to inspect and make extracts or copies of such records solely for the purpose of ascertaining the correctness of such statements, COGS and Product per unit prices. If any such examination and audit shall disclose an overpayment of five percent (5%) or more, Encision shall pay, in addition to such overpayment, the reasonable costs of such examination and audit. All books of account and records with respect to Products shall be kept available for at least five (5) years after end of the Term.

5. **Branding and Training**.

5.1 Active Electrode Monitor (AEM) Branding. Product may be Encision branded, provided Intuitive shall have the right to determine the size and placement of the Encision branding, with input from Encision. Intuitive approves the current Encision branding of the AEM. Any changes to the branding of the AEM Product shall require Intuitive's approval.

5.2 Cord Branding. The cord Product shall be Intuitive branded with attribution provided to Encision. Intuitive will determine the messaging, size and placement of the branding and attribution, with input from Encision consistent with the parties' respective intellectual property rights. Intuitive will pay for the cost of branding the cord Intuitive.

5.3 Training. Encision shall provide training to Intuitive personnel on use and operation of Products and attendant safety measures as reasonably required and upon request of Intuitive

5.4 No Other Purpose. Encision shall not nor shall Encision enable or cause any other person to use or utilize the Products for any purpose other than for Robotic Systems used within the Field for which Intuitive would have sold the Products. For the avoidance of doubt, nothing in this Section or Agreement shall be construed to preclude Encision from selling any of its products, other than the Intuitive branded cord Product, to other parties.

6. **Product Changes**.

6.1 Product Changes. Intuitive may, upon advance written notice to Encision, submit Engineering Changes for incorporation into the Product(s). It is important that this notification include documentation of the change to effectively support an investigation of the Engineering Change (EC) impact. Encision shall, within a period not to exceed twenty-five (25) calendar days from EC notification from Intuitive, evaluate the feasibility of the EC and respond completely to Intuitive in writing with the potential impact of the EC, including but not limited to, current on-hand or on-order inventory, work-in-progress, the delivery schedule, price, Product quality performance, and any other information with respect to the EC requested by Intuitive. Encision's response will be considered by Intuitive to complete and release the EC and Encision will be notified of actual EC through a change in Scheduling Agreement or purchase order for the given Product(s) incorporating the EC change based upon a mutually agreed upon switch-over date..

Encision shall not make any changes to any Component (including manufacturing process), or to the Product Specification process that may affect the performance of the Product or the Product's compatibility with Intuitive's Robotic Systems unless approved by Intuitive in writing before implementation.

Encision will provide Intuitive with detailed information of any proposed change in Product labels and instructions for use that affect any sale or use of Products prior to its implementation. Any proposed changes to Product labels and instructions for use are subject to Intuitive's review and approval.

6.2 Discontinued Products and Components. Should Encision or any authorized supplier provide notice that a Component used in the manufacturing of the Products is to be discontinued, Encision will promptly notify Intuitive in writing of the Products or Component being discontinued, the last date available for placement of orders, the effective date the Product or Component will be discontinued, and any last buy instructions or other applicable information or documentation necessary for Intuitive to make an informed decision regarding any end of life purchases for Products. Notwithstanding the above, no Product or Component shall be discontinued without providing a minimum six (6) month notice period in order to allow Intuitive the time to source replacement products and/or components.

6.3 Obsolescence. Encision agrees to provide sustaining engineering support, repair and Component replacement of Product for a period of seven (7) years from the date of Product obsolescence or discontinuation. Field replacement units (FRU's) shall be of either new or like new product.

7. **Taxes**.

7.1 Encision agrees to cooperate in a reasonable manner with Intuitive in order to minimize all taxes that are to be paid directly or indirectly by Intuitive. Encision agrees to use reasonable efforts to notify Intuitive's tax department of notice of any audit or assessment which may affect the sales, use, excise, or property taxes which may be assessed on a Product or Products, within fifteen (15) calendar days of receiving such notice.

7.2 Intuitive has provided to Encision and Encision hereby acknowledges having received Intuitive's resale license/certificate.

8. **Delivery**.

8.1 Encision shall deliver Products in accordance with Intuitive's instructions as specified in each purchase order or Scheduling Agreement. Delivery will be FCA Encision's dock (Incoterms 2000). All Products will be shipped to Intuitive with freight and insurance to be paid by Intuitive.

8.2 Title and risk of loss will pass to Intuitive upon shipment from Encision'sdock.

8.3 A complete packing list must accompany all shipments. The following information shall be included in each packing list: Scheduling Agreement or purchase order number, Intuitive's part number and revision level, the Kanban scan number, quantity, delivery date, and lot or serial number. This information shall also be entered on the packing list in human readable barcodes.

8.4 If Encision uses transportation agents other than its own resources, Encision is fully responsible and liable to ensure these transportation agents support on time delivery requirements for the Kanban replenishment program in accordance with Section 4.8 of this Agreement.

8.5 Intuitive shall have the right to approve packaging and labeling.

8.6 In the event special transportation and storage conditions are required for Products, Encision will provide Intuitive with appropriate instructions in advance.

8.7 In the event Intuitive's account number will be used for freight, Encision will be subject to freight invoice audits on an ongoing basis. Encision shall reimburse Intuitive for freight charges not related to Intuitive's shipping.

9. **Acceptance**.

9.1 Intuitive shall have thirty (30) days from the date of delivery to perform acceptance testing on Products received from Encision and, shall have the right to return to Encision, for replacement, any Product that fails such acceptance testing. Intuitive agrees to comply with Encision's reasonable return material authorization ("RMA") procedures, including the procurement of RMA numbers applicable to each Product return to Encision.

10. **Delays**.

10.1 Time is of the essence for Products ordered pursuant to this Agreement and delivery shall be strictly in accordance with the schedule set forth within the relevant Scheduling Agreement or purchase order. Encision shall use its best efforts to minimize any delay that may prevent its timely compliance with one or more requirements of this Agreement. Whenever the delivery of Products shall be delayed for any reason, including any delays caused by circumstances as set forth in Section 20 entitled "Force Majeure", Encision shall promptly notify Intuitive of Encision's plan to remedy the delay, including the anticipated length of the delay, the cause of the delay, any measures proposed or taken to prevent or minimize the delay, and the timetable for implementation of such measures. Should any delay continue for a period more than eighteen (18) days, Intuitive shall be entitled, with written notice to Encision, to terminate this Agreement without further obligation, excluding payment for Products already delivered or in transit as of the date of termination.

11. **Reserved for future use**.

12. **Incoming Inspection and Process Control**.

12.1 Incoming Inspections. Encision shall perform incoming quality control inspections on all Components and will keep sufficient records such that the source and raw material specification of such Components may be readily determined. All records required under this Section 12.1, shall be maintained by Encision for a period of five (5) years and/or provided to Intuitive following termination of this Agreement.

12.2 Process Control. Encision shall follow documented processes during assembly of the Products and keep written records of all assembly and tests performed as determined by Encision's Quality Systems Procedures.

13. **Quality/Regulatory**.

13.1 Encision agrees to maintain a quality system that is in substantial compliance with USA FDA Quality System Regulations, Canadian Medical Device Regulations, European Union Medical Devices Directives, ISO 13485: 2003 and Japan GQP (Good Quality Practices). Intuitive understands that Japan GQP is currently in process but not completed.

13.2 Encision agrees to share with Intuitive any FDA 483 observations or notified body non-conformities that affect Intuitive and to allow Intuitive to participate in the resolution of the citation.

13.3 Encision agrees to notify Intuitive of any potential changes to the device license or registration that could affect availability of the Product.

13.4 Encision agrees to manufacture Product in compliance with the device master record established by Intuitive and Encision.

13.5 Each party will notify the other party of any FDA regulatory actions, any FDA 483 observations or Warning Letters that were issued, in addition to any pending or ongoing FDA investigations or inspections that may involve the Encision or Intuitive six (6) months prior to the Effective Date of this Agreement, and during the term of this Agreement. Encision's obligation is limited to Products as listed on Exhibit A.

13.6 Encision shall place the Product on hold and notify Intuitive within two (2) business days if:

(i) A Product does not meet Intuitive quality requirements and has been either certified for shipment via DHR review and release (still held at Encision) or has already shipped.

(ii) A finished device meets Intuitive quality requirements, but an identified quality issue exists which is not currently defined by Intuitive.

(iii) Encision is notified of any supplier-related quality issue that may affect the form-fit-or-function of finished products.

13.7 All Products provided to Intuitive under this Agreement shall be manufactured in accordance with the Specifications, and applicable to the relevant clauses of quality system regulations including: FDA 21 CFR 820, ISO 13485: 2003, and Japan GQP.

Encision will exercise its appropriate control over the quality of the output from its subcontractors, when applicable, and will maintain its own QMS covering such control.

13.8 Inspection Rights/Subcontracting. Intuitive shall have the right to have its representatives present at the Encision plants

and production facilities relating to or used in connection with the manufacture of the Products during normal business hours to conduct an initial inspection and periodic inspections of such plants and facilities and the manufacturing procedures, the Product Specifications and Intuitive quality assurance requirements and to inspect Encision's inventory of Products, work-in-process, raw materials to be used for the Products, production records and such other matters or records as may be necessary to proper quality assurance of the Products to be delivered hereunder. Intuitive agrees to give Encision a minimum of two (2) business days' prior notice of any such inspection, whenever possible.

Encision shall promptly use its best efforts to take such action as is required to correct any deficiencies identified by Intuitive relating to the production of any Product listed in Exhibit A.

13.9 Regulatory Matters. Encision shall maintain all regulatory approvals it has for the Product and shall keep Intuitive informed as to the status of all applicable regulatory approvals. Encision shall provide Intuitive, upon request, a true and complete copy of all regulatory approvals and other regulatory filings, submissions and communications for the Product(s) subject to reasonable redaction of proprietary information. Encision shall provide support, assistance and guidance to Intuitive with respect to Intuitive's efforts to obtain other regulatory approvals Intuitive may need for the Products or for Intuitive's products into which Product(s) are incorporated

13.10 Regulatory information and notification with respect to the Product(s)Each party agrees to share and provide to the other party all information related to regulatory approvals for the Product(s), and without limitation agrees to maintain a reasonable record of all material Complaints it receives with respect to the Product(s).

13.11 Regulatory information, notification and investigation with respect to the Product(s). Each party agrees without limitation to:

(i) Maintain a Complaint handling process.

(ii) Notify the other party of any material Complaint received in sufficient detail and within thirty (30) days after the end of the calendar quarter in which the event occurred.

(iii) Perform a complete investigation within sixty (60) days, in response to any Complaint, including a root cause analysis and formulate corrective action recommendations to address the issues raised by such complaint. Results of the investigation shall also be provided to the other party.

(iv) In the event a Complaint is received by either party and the information reasonably suggests that (a) a death has occurred, (b) the event resulted in a life-threatening illness or injury (c) the event resulted in a permanent impairment of a body function or permanent damage to a body structure, or (d) the event required medical or surgical intervention to preclude permanent impairment of a body function (including a clinically relevant increase in the duration of a surgical procedure), or (e) remedial action was required to prevent an unreasonable risk of substantial harm to public health, each party shall notify the other party of the Complaint within two (2) business days of the receipt of the Complaint to allow both parties sufficient time to comply with any and all legal and regulatory requirements.

(v) In the event a Complaint is received by either party involving a malfunction (i.e. failed to meet its performance specifications as intended) for the Product(s), that if it were to recur would likely cause or contribute to a death or serious injury either party shall notify the other party of the Complaint within seven (7) days of the receipt of the Complaint, to allow both parties sufficient time to comply with any and all legal and regulatory requirements.

13.12 Each party shall notify the other party within two (2) calendar days of becoming aware of any Adverse Event that has taken place and any safety-related issue with respect to the Product(s). In such an event, each party will, with the least practicable delay, provide the other party with copies of advisory notices issued by related regulatory authorities to enable both parties to take necessary actions in accordance with regulatory requirements.

13.13 Records.

(i) Upon reasonable request from Intuitive, Encision shall forward to Intuitive either a) copies of the completed device history records or b) access to the completed device history records.

(ii) Encision agrees to maintain inspection and production batch records for a period no less than five (5) years from the date the last Product is manufactured for Products purchased by Intuitive.

(For finished goods suppliers shipping to Japan, record requirement is fifteen (15) years.)

(iii) Upon request from either party, Complaint investigation reports shall be provided to the other party for Products purchased by Intuitive.

13.14 Recalls.

General. Encision shall have the exclusive right (subject to applicable law) to initiate voluntary Product recalls, and shall manage and be responsible (including bearing all costs and expense) for all Product recalls. Each of the Parties hereto agrees to notify the other in writing within forty eight (48) hours in the event either sees a need for a potential Product recall.

Encision Recall. In the event of any recall of any Product (whether voluntary, required by the FDA or any other Governmental Authority in any jurisdiction in which Intuitive, any Affiliate of Intuitive or any distributor of either has sold any Products, or resulting from any device notification or safety alert) due to design defect, workmanship or failure to manufacture in conformance with applicable Product (or Device) Documentation or Device Regulation standards, or due to any other defect or non-conformity in the Product (collectively, "Encision Recall"), Encision shall (i) if requested by Intuitive, provide Intuitive with a credit or reimbursement, or (ii)) replace, refurbish or repair of defective or non-conforming Products; and (ii) reimburse Intuitive for reasonable costs and expenses incurred by Intuitive associated with (a) the initial shipments of the recalled Products, and (b) customers' return of the recalled Products and shipment of replacement Products to customers. Encision shall use its reasonable efforts to correct, as promptly as is practicable, problems or other issues which result in Encision Recalls. If any recall results solely from an act or omission of Intuitive or its agents or employees, Intuitive shall reimburse Encision for its reasonable out-of-pocket costs and expenses incident to such recall. Encision's requested out-of pocket costs for reimbursement are subject to Intuitive's review and approval.

13.16 Encision agrees to maintain required manufacturing facility licenses as required by state and federal regulations.

13.17 Access to Technical Materials. All Technical Materials owned by Intuitive shall remain the property of Intuitive and all Technical Materials owned by Encision shall remain the property of Encision. Encision shall use commercially reasonable efforts to assist Intuitive with registration and regulatory requirements

13.18 Encision agrees not to modify the device master record for the 12 foot cord, i.e;

(i) Device specifications including appropriate drawings, composition, formulation, component specifications, and software Specifications;

(ii) Production process specifications including the appropriate equipment specifications, production methods, production procedures, and production environment specifications;

(iii) Quality assurance procedures and specifications including acceptance criteria and the quality assurance equipment to be used;

(iv) Packaging and labeling specifications, including methods and processes used; and

(v) Installation, maintenance, and servicing procedures and methods, in a manner that would result in changing device safety, performance or appearance without prior consent from Intuitive.

13.19 Encision shall assemble, test, and package the product in accordance with a mutually approved device master record for the 12 foot cord.

13.20 Encision shall ensure all required manufacturing and inspection steps have been successfully completed, prior to delivering the finished Product to Intuitive.

13.21 Encision shall be responsible for creating and documenting manufacturing methods, inspections and processes to meet Product Specifications.

13.22 Encision shall disclose and obtain prior consent from Intuitive to use subcontract manufacturers. Encision agrees to notify Intuitive of any significant changes to the facility, quality system, organization and change of QMS certification status.

13.23 Encision shall maintain ISO 13485:2003 certification. At Intuitive's request, Encision shall provide copies of ISO 13485:2003 certification and copies at every renewal of such certification.

14. **Representations and Warranties**.

14.1 Encision warrants that all Products delivered hereunder will: (a) conform strictly to the design specifications, drawings, process documents, samples or other descriptions provided, (b) conform strictly to the requirements of the relevant Scheduling Agreement or purchase order, and (c) be free from defects in material and workmanship. Encision's warranty shall be in effect: (i) in the case of AEM Products, for a period of one (1) year from date of acceptance from Intuitive; and (ii) in the case of cord Product, until the label expiry date, or one use, whichever occurs first.

14.2 If a Product or any Component is found by Intuitive, after appropriate tests and inspections, to have any defect, including any patent or latent defect, Intuitive will notify Encision in writing of such defect and Encision will, at Encision's election and at no cost to Intuitive, either (1) repair or replace the defective Component or Product or (2) arrange for the removal and replacement of the defective Product; provided however, that if the Product has been incorporated by Intuitive into a larger product assembly prior to the discovery of such defect, the parties shall confer as to the means of effecting the repair or replacement most convenient for Intuitive which is not unduly burdensome to Encision, and proceed accordingly. Encision will retain any Components removed from the Product for replacement. Components or Component parts furnished in warranty service shall be new or rebuilt parts, at the option of Encision, but in either case shall be of the same quality and subject to the same warranty as new parts. In any case, the warranty period of any parts furnished under warranty service shall not exceed the warranty period of the original parts or ninety (90) days from the date of delivery of any repair, reconditioned, or replacement thereof, whichever is longer.

14.3 Warranty Exclusions. The warranty set forth above excludes and does not apply to defects (i) caused through not fault of the Encision during shipment to or from Intuitive, (ii) caused by modifications or alterations made to Products by Intuitive or a third party not approved by Encision, (iii) caused by unauthorized repair or maintenance of Products by Intuitive or any third party not approved by Encision, (iv) caused by the failure of Intuitive to comply with the return procedures specified herein, or (v) damaged by excessive current, temperature, physical stress or other deviation from the applicable environmental specifications.

14.4 Warranty Procedures. Intuitive shall request authorization from Encision prior to the return of each defective Product for repair or replacement by Encision. Upon such request, Encision shall provide the address of the facility to which such Product shall be returned, together with Return Material Authorization (RMA) tracer number.

14.5 Warranty Disclaimer. THE EXPRESS WARRANTY SET FORTH IN THIS AGREEMENT ARE IN LIEU OF ALL OTHER GUARANTIES AND WARRANTIES OF ANY KIND, WHETHER EXPRESS, IMPLIED OR STATUTORY, INCLUDING WITHOUT LIMITATION, MERCHANTABILITY, FITNESS FOR PARTICULAR PURPOSE, NON-INFRINGEMENT. ALL SUCH OTHER WARRANTIES ARE HEREBY DISCLAIMED AND EXCLUDED BY ENCISION.

14.6 Mutual Representations and Warranties. Each party represents and warrants that it has full right, power, and authority to enter into this Agreement and to perform its obligations and duties under this Agreement, and that the performance of such obligations and duties does not and will not conflict with or result in a breach of any other agreements of such party or any judgment, order, or decree by which such party is bound.

14.7 Specific Disclaimer. Other than as specifically set forth herein, nothing in this Agreement will be construed as giving rise to: (a) a warranty or representation by Encision as to the validity, enforceability, or scope of the Licensed Patents; (b) a warranty or representation that using, making, selling, or importing a Licensed Product as permitted under this Agreement will not infringe,

directly or indirectly, any patent or other intellectual property right of a third party under the laws of the United States or any other jurisdiction; (c) an obligation by Encision to file, register, prosecute, maintain, or enforce any Licensed Patent; or (d) an obligation by Encision to deliver any technical or proprietary information or know-how or to provide any training or technical support other than as provided for in Section 5.3 or as mutually agreed upon by the Parties.

15. **Intellectual Property and License**.

15.1 Encision hereby grants Intuitive:

(i) a non-exclusive (without the right to sub-license), royalty-free, worldwide license under Encision's Intellectual Property to, use, promote, offer for sale, sell, import, and export Products within the Field, and

(ii) a non-exclusive (without the right to sub-license), royalty-free, worldwide, perpetual license under Licensed Patents to develop, use, make, have made, promote, offer for sale, sell, import, export, and otherwise

commercialize Intuitive Instruments within the Field.

15.2 Encision hereby agrees not to use any technology or intellectual property rights that are owned or controlled by any third party in the course of manufacturing the Product, unless Encision has the right to use such technology and/or intellectual property in the manufacture of the Product and Encision notifies Intuitive of such intended use in advance and Intuitive approves such use. Any additional terms or licenses required for the use of such intellectual property shall be provided to Intuitive for review and approval in writing, before acceptance of such Product

15.3 Upon the execution of this Agreement, Encision shall provide to Intuitive the drawings, specifications and CAD drawings for the AEM® connector so that Intuitive can configure the Intuitive Instruments to be compatible and interconnect with Encision's cord.

15.4 Ownership of Intellectual Property.

15.4.1 Intuitive Inventions shall be owned exclusively by Intuitive.

15.4.2 Encision Inventions shall be owned exclusively by Encision, with Intuitive having a non-exclusive, royalty free license to the Encision Inventions solely within the Field.

15.4.3 Joint Inventions shall be owned by Intuitive with Encision having an exclusive, royalty free license under the Joint Inventions outside of the Field.

15.5 Except as set forth in this Section 15, nothing in this Agreement is intended to convey any rights to any intellectual property owned by either party as of the Effective Date or developed during the term of the Agreement.

15.6 Restrictions on Use. Intuitive acknowledges that the Encision Intellectual Property including any structure, organization, manufacturing methods, and Source Code, contain valuable trade secrets of Encision. Accordingly, other than in connection with the Purpose and Intuitive's rights and obligations under the terms of this Agreement, Intuitive agrees not to (a) modify, adapt, alter, translate, or create derivative works from the Encision Intellectual Property; (b) sublicense, lease, rent, loan, or otherwise transfer the Encision Intellectual Property to any third party, (c) reverse engineer, decompile, or disassemble the Encision Intellectual Property; or (d) otherwise use or copy the Encision Intellectual Property except as expressly allowed under the terms of this Agreement.

15.7 Patent Marking. Intuitive shall mark all Intuitive Instrument packages using Licensed Patents in accordance with 35 U.S.C. § 287 with the number of each of the issued patents included in the Licensed Patents and indicate that the Product has been made under a license from Encision. Intuitive shall

provide a sample of each patent marking label to Encision for inspection and approval, which approval shall not be unreasonably withheld.

16. **General Indemnification**.

16.1 Indemnification by Encision. To the extent allowable by law, Encision hereby assumes all liability for, and agrees to indemnify, defend and hold harmless Intuitive and its successors, permitted assigns, agents and employees from and against, any and all liabilities, losses, damages, claims and expenses (including attorneys' fees, expert witness fees, and court costs) to the extent that they arise from third party claims, actions or demands including without limitation, claims arising in contract or tort (including negligence), strict liability or otherwise (collectively, "Claims") in any way relating to or arising from (a) Encision's breach of any of its representations or warranties or any other obligation hereunder, (b) Encision's negligence or willful misconduct, or (c) infringement by Encision's Product of a third party intellectual property right; provided that Encision's indemnification obligations under this Section 16.1 shall not apply to the extent that such Claims arise from (i) Intuitive's negligence or willful misconduct; (ii) Intuitive's breach of any of its obligations hereunder; or (iii) Intuitive's use of Product outside of the Field.

16.2 Indemnification by Intuitive. To the extent allowable by law, Intuitive hereby assumes all liability for, and agrees to indemnify, defend and hold harmless Encision and its successors, permitted assigns, agents and employees from and against, any and all liabilities, losses, damages, claims and expenses (including attorneys' fees, expert witness fees, and court costs) to the extent that they arise from third party claims, actions or demands including without limitation, claims arising in contract or tort (including negligence), strict liability or otherwise (collectively, "Claims") in any way relating to or arising from (a) Intuitive's breach of any of its representations or warranties or any other obligation hereunder, (b) Intuitive's negligence or willful misconduct, or (c) any activities of Intuitive beyond or outside of the Purpose; provided that Intuitive's indemnification obligations under this Section 16.2 shall not apply to the extent that such Claims arise from Encision's negligence or willful misconduct or breach of any of its obligations hereunder.

16.3 Claim Notification Requirement. An indemnifying party will use reasonable efforts to notify the indemnified party promptly of the claim as soon as the indemnified party becomes aware of it. However, an indemnified party's failure to provide such notice or delay in providing such notice will relieve the indemnifying party of its obligations under this Section only if and to the extent that such delay or failure materially prejudices the indemnifying party's ability to defend such claim. The indemnified party will have the right to participate in the defense of such claim with its own counsel and at its own expense. The indemnified party will cooperate with the indemnifying party, at indemnifying party's reasonable request and at the indemnifying party's expense, in the defense of such claim. No settlement of a claim will be binding on indemnified party without the indemnified party's prior written consent, which shall not be unreasonably withheld or delayed.

17. **Limitation of Liability**.

17.1 EXCEPT FOR THE BREACH OF THE CONFIDENTIALITY OBLIGATIONS SET FORTH IN SECTION 23 AND THE INDEMNITY OBLIGATIONS OF SECTION 16, IN NO EVENT, WHETHER AS A RESULT OF BREACH OF CONTRACT, WARRANTY, TORT (INCLUDING NEGLIGENCE), STRICT LIABILITY, OR OTHERWISE, SHALL EITHER PARTY OR ITS AFFILIATES BE LIABLE TO THE OTHER PARTY OR ANY THIRD PARTY FOR ANY INCIDENTAL DAMAGES, EXEMPLARY DAMAGES, PUNITIVE DAMAGES, INDIRECT OR CONSEQUENTIAL DAMAGES (INCLUDING LOSS OF PROFITS), OR LOSS OF BUSINESS, RECORDS, DATA, USE, REVENUE, OR ANTICIPATED SAVINGS, OR OTHER ECONOMIC LOSS, WHETHER OR NOT THE PARTY OR ITS AFFILIATES WERE INFORMED OR AWARE OF THE POSSIBILITY OF SUCH DAMAGES OR LOSS. SOME JURISDICTIONS DO NOT ALLOW THE LIMITATION OF LIABILITY FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES; IN SUCH

JURISDICTIONS, THE FOREGOING LIMITATION OF LIABILITY SHALL APPLY ONLY TO THE EXTENT PERMITTED BY LAW.

18. **Governing Law/Jurisdiction**.

18.1 The laws of the State of California shall govern the provisions of this Agreement without reference to its conflict of law provisions. The parties agree that the United Nations Convention on Contracts for the International Sale of Goods shall not apply to this Agreement. Each party hereby consents and submits to the exclusive jurisdiction of the State and Federal courts sitting in Santa Clara County, California, and hereby agrees that venue of any dispute which arises hereunder is proper, appropriate and acceptable in these state and federal courts. The prevailing party to any legal action shall be entitled to reimbursement of all reasonable costs and expenses (including attorneys' fees) incurred to defend such claim.

19. **Term and Termination**.

19.1 Term. This Agreement will commence upon the Effective Date of this Agreement and shall continue in effect for a period of five (5) years (the Initial Term), unless sooner terminated as specified in this Section 19. Thereafter, this Agreement shall automatically renew for additional two (2) year periods (each a "Renewal Term"), unless one party notifies the other in writing at least six (6) months before the expiration of its intent not to renew the Agreement.

19.2 Termination. Either party may terminate this Agreement upon written notice to the other party if (i) a party materially breaches this Agreement and does not cure the breach within thirty (30) days of the date of written notice of such breach;, (ii) a party becomes insolvent or seeks protection under any bankruptcy, receivership, trust deed, creditors arrangement, or comparable proceeding or if any such proceeding is instituted against a party and not dismissed within ninety (90) days; (iii) an assignment or attempted assignment in violation of the assignment provision of this Agreement; or (iv) Encision is otherwise unable or unwilling to supply Products to Intuitive pursuant to the terms of this Agreement.

19.3 Effect of Termination-Last Time Buy Order. Upon the expiration or termination of this Agreement for any reason, Intuitive shall have the right to, within sixty (60) days from the date of expiration or termination, place a Last Time Buy Order with Encision for Products in quantities not more than 2 times the last nonbinding 12 month forecast Intuitive provided to Encision pursuant to Section 3.1 ("Last Time Buy Quantity") with a delivery schedule generally consistent with the previously agreed upon lead times, delivery dates and other delivery obligations. In the event of termination subject to Section 19.2 or in the event Encision is otherwise unable or unwilling to fulfill the Last Time Buy Order, then Encision shall transfer to Intuitive those portions of Encision's Intellectual Property necessary to manufacture or have manufactured the Product to ensure that Intuitive gets continued supply of Product up to the Last Time Buy Quantity or until Encision is able to resume manufacturing Products for Intuitive, which shall be determined at Intuitive's reasonable and good faith discretion and in accordance with Encision's prior supply obligations under this Agreement. In connection with such transfer of Encision's Intellectual Property, Encision shall and hereby grants Intuitive a limited, non-exclusive license to such Intellectual Property for the sole purpose of enabling Intuitive to make or have made the Products. If the Parties subsequently agree to allow Encision to resume manufacturing and supply, this Agreement shall be deemed reinstated and thereafter in full force and effect, without any further action required by either Intuitive or Encision. Upon any such reinstatement,

any and all licenses and other rights granted under this Section 19.3 shall immediately terminate and Intuitive shall return and/or destroy all copies of Encision's Intellectual Property transferred under the terms of this Section. Any such expiration or termination shall not constitute a cancellation of open Scheduling Agreements or purchase orders.

19.4 Termination of this Agreement shall not limit either party from pursuing other remedies available to it, including injunctive relief, nor shall such termination relieve Encision of its obligation to immediately deliver to Intuitive any Products owed by Encision under any Scheduling Agreement or

purchase order, order form or invoice, minus any amounts paid or payments, deposits and installments made by Intuitive, or in transit, prior to the date of termination.

19.5 Upon the expiration or termination of this Agreement for any reason, and subject to the provisions in Sections 19.3 and 15.1(ii), all licenses granted under this Agreement shall be revoked and Intuitive shall cease all further use, manufacture, sale, offer for sale, exportation or importation of the Products and the Encision Intellectual Property. Nothing in this section shall be construed to prohibit Intuitive from using, selling, offering for sale, importing or exporting any Products supplied under the terms of this Agreement prior to any termination or supplied pursuant to Section 19.3.

20. **Survival**.

20.1 Each party's rights and obligations under Sections 4.5 (Price), Section 4.7 (Payment), 6.3 (Obsolescence), 14 (Representations and Warranties), 15.1(ii), 15.4 (Ownership of Intellectual Property), 16 (General Indemnification.), 17 (Limitation of Liability) 18 (Governing Law/Jurisdiction), 19 (Term and Termination), 22 (Compliance with Law), 23 (Confidentiality/Nondisclosure), 24 (Assignment.), 25 (General), and any provision which by its nature should survive, shall survive termination of this Agreement.

21. **Force Majeure**.

21.1 Neither party shall be held responsible for any delay or failure in performance of any part of this Agreement to the extent such delay or failure is caused by fire, flood, earthquake, explosion, war, embargo, government requirement, civil or military authority, act of nature, riot, strike, hostilities (including war, whether declared or not) or other similar cause beyond its control and without the fault or negligence of the delayed or non-performing party.

22. **Compliance with Law**.

22.1 In the performance of this Agreement, Encision shall at all times comply with all applicable governmental laws, statutes, ordinances, rules, regulations, orders, and other requirements, including, without limitation, the maintenance of a quality system and DHR (Device History Records) as required by 21 CFR 820 and other such governmental requirements applicable to environmental protection, wages, hours, equal employment opportunity, nondiscrimination, health, safety, working conditions, export control regulations, customs laws, and transportation regulations. In the event that Intuitive's assistance is necessary to achieve such compliance, Encision shall promptly notify Intuitive. Upon Intuitive's request, Encision shall provide Intuitive with documentation demonstrating Encision's compliance with such government's requirements. After reasonable notice and under reasonable conditions, Intuitive shall have the right to inspect and copy any of Encision's records regarding such compliance.

23. **Confidentiality/Nondisclosure**

23.1 During the term of this Agreement the parties may receive and otherwise be exposed to confidential and proprietary information relating to each other's business practices, strategies, and technologies. Such confidential and proprietary information may include but not be limited to confidential and proprietary information supplied with the legend "Confidential and Proprietary," or equivalent, including information relating to products, processes, know-how, designs, drawings, clinical data, test data, formulas, source and object code, methods, samples, developmental or experimental work, improvements, discoveries, plans for research, new products, forecasts, Scheduling Agreements, purchase orders, specifications relating to Components and Products, financial, customer or other information, normally considered to be confidential, manufacturing, and all derivatives, improvements and enhancements to any of the above which are created or developed under this Agreement and information of third parties (collectively referred to as "Proprietary Information").

23.2 Each party shall maintain all Proprietary Information in trust and confidence and shall not disclose any Proprietary Information to any third party or use any Proprietary Information for any unauthorized purpose. Each party may use such Proprietary

Information only to the extent required to accomplish the purposes of this Agreement. Proprietary Information shall not be reproduced in any form except as required to accomplish the purposes of this Agreement.

23.3 All Proprietary Information (including all copies thereof) shall remain the property of the disclosing party and shall be returned to the disclosing party after the receiving party's need for it has expired, or upon request of the disclosing party, and in any event, upon completion or termination of this Agreement.

23.4 The termination of this Agreement shall not relieve either party of the obligations imposed by Paragraphs 23.1 through 23.3 of this Agreement with respect to Proprietary Information. Each party shall agree to hold information confidential for a period of five (5) years after the date of last disclosure or five (5) years after the termination of this Agreement, whichever is shorter.

23.5 The parties shall not disclose the existence of this Agreement or its terms to others, except as may be necessary to enforce the terms of this Agreement, or as such party will deem necessary to comply with any disclosure or legal requirement.

23.6 Each party agrees not to disclose to the other party the confidential or proprietary information of others.

23.7 Notwithstanding the foregoing, Proprietary Information shall not include any information that:

(a) becomes generally available to the public other than as a result of a disclosure by the receiving party;

(b) was available to the receiving party on a non-confidential basis prior to the disclosure;

(c) becomes available to the receiving party on a non-confidential basis from a source other than the disclosing party or its agents, advisors, or representatives which such source is entitled, to the best of the receiving party's knowledge, to make the disclosure; or

(d) is independently developed by employees of the receiving party without reference to or use of such Proprietary Information.

23.8 Publicity. Neither party shall publish or submit for publication any document or press release, whether in written, electronic or other form, nor make any public announcement or presentation that discloses information about the existence or terms of this Agreement or transactions thereof, without the other party's prior written consent. Such consent from Intuitive shall not be unreasonably withheld.

24. **Assignment**.

24.1 Encision shall not assign any of its rights or obligations hereunder in whole or in part, without the prior written consent of Intuitive (which consent shall not be unreasonably withheld), whether or not as incident to a merger, consolidation, reorganization or acquisition of stock or assets or a similar transaction affecting all or substantially all of the assets or voting control of the Encision. Any attempted assignment in violation of this provision shall be null, void and without legal effect.

25. **General**.

25.1 Waivers. No waiver of any right by either party under this Agreement shall be of any effect unless such waiver is express, in writing and signed by the waiving party. Any purported waiver not consistent with the foregoing shall be void.

25.2 Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid under any applicable statute, rule or law, the parties agree that such invalidity shall not affect the validity of the remaining provisions of the Agreement, and further agree to substitute for the invalid provision a valid provision that most closely approximates the intent and economic effect of the invalid provision.

25.3 Headings. Headings used in this Agreement are provided for convenience only, and shall not in any way affect the meaning or interpretation hereof.

25.4 Notices. Any notices given under this Agreement must be in writing and shall be deemed given and received five (5) days after the date of mailing, one (1) day after dispatch by overnight courier service, or upon receipt if by hand delivery. Any notices pursuant to this Agreement shall be sent to Intuitive or Encision at the addresses as set forth below. Each party may change its address for receipt of notices by giving the other party notice of the new address.

(a) If to Encision, to:

Encision Inc.
6797 Winchester Circle
Boulder, CO 80301
Attention: Jack Serino, President & CEO
Facsimile No.: 303-339-6939
E-mail: jserino@encision.com

With a required copy to:

Neugeboren O'Dowd PC
1227 Spruce St., Suite 200
Boulder, CO 80302
Attention: Craig Neugeboren, Esq.
Facsimile No.: 720-536-4910
E-mail: craig@neugeborenlaw.com

(b) If to Intuitive, for operational issues related to the contract:
Intuitive Surgical, Inc.
1266 Kifer Road
Building 101
Sunnyvale, California 94086-5304
Attention: Materials Management
Facsimile No.: 408-523-1390
E-mail: [*]

with required copies to each of the following:

Office of General Counsel — Legal Department

Or at such other address for a Party as shall be specified by like notice.

Each party shall promptly notify the other of a replacement of the contact person responsible for prompt transmission of information in order to comply with Good Quality Practice (GQP) Ordinance. (Only for finished goods suppliers shipping to Japan).

25.5 Insurance**.** Encision shall obtain and maintain throughout the term of the Agreement, Commercial General Liability Insurance including coverage's for contractual liability, product liability, personal injury and bodily injury in an amount not less than $1,000,000 per occurrence/$3,000,000 aggregate. Encision shall furnish Intuitive with a certificate of insurance evidencing the coverage's as outlined above upon execution of this Agreement. Encision shall carry Workers' Compensation Insurance as required by California State Law.

25.6 Relationship of the Parties. The parties understand and agree that their relationship hereunder is one of contract and that they are not and shall not be construed as partners, joint ventures, or agent and principal. In no event shall either party be authorized to act for or on behalf of the other party.

25.7 Costs. Except as otherwise specifically provided herein or as agreed to by the Parties, each party shall bear its own costs and expenses incurred in connection with the performance of its obligations hereunder.

25.8 Taxes. Any taxes, levies or similar governmental charges, now in force or enacted in the future, however, designated ("Taxes") including related penalties and interest, imposed by any governmental authority on or measured by the activities described herein shall be paid by Intuitive in addition to the prices invoiced. Intuitive shall pay, or reimburse Encision for the payment of all Taxes including related penalties and interest, except Taxes for which Intuitive has provided a certificate of exemption or resale acceptable to both Encision and the appropriate taxing authority.

25.9 Counterparts. This Agreement may be executed in multiple copies, each of which shall be deemed an original, and all of which taken together will constitute one single agreement.

25.10 Specific Performance. Encision acknowledges and agrees that any breach of certain of Encision's obligations under this Agreement, including without limitation Encision's obligations under Sections 6.2, 6.3, 19.3 and 24 herein, will cause irreparable harm to Intuitive for which monetary damages will not be adequate remedy. Encision therefore agrees that Intuitive shall be entitled

(without limitation of any other rights or remedies otherwise available to Intuitive) to specific performance without posting a bond.

25.11 Entire Agreement; Amendment. This Agreement sets forth the entire agreement between Intuitive and Encision with respect to the subject matter hereof and supersedes any prior agreements, understandings promises and representations made orally or in writing by either party, to the other party, concerning the subject matter herein, pricing and the applicable terms. Any terms or conditions contained in any Scheduling Agreement or purchase order, acknowledgement, invoice or other similar forms of the parties which are different from, inconsistent with or in addition to the terms and conditions of this Agreement shall be void and of no effect, unless otherwise mutually agreed to in writing by the parties. This Agreement may be amended only in writing, signed by both parties. Any purported oral modification intended to amend the terms and conditions of this Agreement shall be void.

Upon signing below he/she acknowledges that they have read, understand and agree to be bound by the terms and conditions of this Agreement.

In Witness whereof, the undersigned represents that he/she has the authority to bind his or her party to this Agreement.

ACCEPTED BY:		ACCEPTED BY:	
INTUITIVE SURGICAL, INC.		**ENCISION, INC.**	
By:	_____	By:	_____
Name:	_____	Name:	_____
Title:	_____	Title:	_____
Date:	_____	Date:	_____

EXHIBIT A

PRODUCT LIST/PRICING

Product description	Encision Part number	Intuitive Part Number	$ Price (per Unit)	CE and 510K approvals responsibility of Encision or Intuitive.
EM2+ Active Electrode Monitor			[*]	Encision
EM2+A Active Electrode Monitor			[*]	Encision
EM2+AHF Active Electrode Monitor			[*]	Encision
EM2HF Active Electrode Monitor			[*]	Encision
EM2AB Active Electrode Monitor			[*]	Encision
EM2+E Active Electrode Monitor			[*]	Encision
ES9005 Active Adapter			[*]	Encision
12 ft Cord, to connect AEM® to Intuitive instrument			[*]	Encision

EXHIBIT B

SPECIFICATIONS

- [*]
- [*]

- [*]
- [*]

[*]

[*]

#	[*]	[*]	[*]
1	[*]	[*]	[*]
2	[*]	[*]	[*]
3	[*]	[*]	[*]
4	[*]	[*]	[*]
5	[*]	[*]	[*]

[*]

[*]

[*]

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos.333-37321, 333-37323, and 333-120201) and Form S-3 (No. 333-109159) of Encision Inc. of our report dated June 9, 2009, with respect to the balance sheet of Encision Inc. as of March 31, 2009, and the related statements of operations, shareholders' equity, and cash flows for the year then ended, which appears in the March 31, 2009 Annual Report on Form 10-K of Encision Inc.

/s/ Eide Bailly LLP

Eide Bailly LLP

Greenwood Village, Colorado
June 9, 2009

Exhibit 31.1

CERTIFICATIONS

I, John R. Serino, certify that:

1. I have reviewed this annual report on Form 10-K of Encision Inc.;

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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) for the small business issuer and 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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

   c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Dated: June 26, 2009.

/s/ John R. Serino
John R. Serino
Principal Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Marcia McHaffie, certify that:

1. I have reviewed this annual report on Form 10-K of Encision Inc.;

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 small business issuer as of, and for, the periods presented in this report;

4. The small business issuer'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)) for the small business issuer and 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 small business issuer, 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) evaluated the effectiveness of the small business issuer'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

   c) disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting;

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

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer'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 small business issuer's internal control over financial reporting.

Dated: June 26, 2009.

/s/ Marcia McHaffie

Marcia McHaffie
Controller, Principal Accounting Officer and Principal Financial Officer

Exhibit 32.1

CERTIFICATIONS OF PERIODIC REPORT

I, John R. Serino, Principal Executive Officer of Encision Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- the Annual Report on Form 10-K of the Company for the annual period ended March 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 26, 2009.

/s/ John R. Serino

John R. Serino
Principal Executive Officer

I, Marcia McHaffie, Controller, Principal Accounting Officer and Principal Financial Officer of Encision Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- the Annual Report on Form 10-K of the Company for the annual period ended March 31, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

- the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: June 26, 2009.

/s/ Marcia McHaffie

Marcia McHaffie
Controller, Principal Accounting Officer and Principal Financial Officer