

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Encision Inc

Form: 10-K

Date Filed: 2011-06-15

Corporate Issuer CIK: 930775

Symbol: ECIA

SIC Code: 3841

Fiscal Year End: 03/31

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

FORM 10-K

(Mark One)

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

For the fiscal year ended **March 31, 2011**

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
(State or other jurisdiction
of incorporation or organization)

84-1162056
(I.R.S. Employer
Identification No.)

6797 Winchester Circle, Boulder, Colorado
(Address of principal executive offices)

80301
(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. Yes
No

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
(not required)

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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

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, 2010, the aggregate market value of the shares of common stock held by non-affiliates of the issuer on such date was \$4,968,999. This figure is based on the average bid and asked price of \$1.45 per share of the issuer's common stock on September 30, 2010 as quoted on the OTC Bulletin Board.

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
(Class)

6,455,100
(Outstanding at June 15, 2011)

Documents Incorporated by Reference: Definitive Proxy Statement for the 2011 Annual Shareholders' Meeting to be filed with the Securities and Exchange Commission and incorporated by reference as described in Part III. The 2011 Proxy Statement will be filed within 120 days after the end of the fiscal year ended March 31, 2011.

[Table of Contents](#)

Table of Contents

	<u>Page</u>
<u>PART I</u>	
Item 1. Business	2
Item 1A. Risk Factors	8
Item 1B. Unresolved Staff Comments	10
Item 2. Properties	10
Item 3. Legal Proceedings	10
Item 4. (Removed and Reserved)	10
<u>PART II</u>	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	11
Item 6. Selected Financial Data	11
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	14
Item 8. Financial Statements and Supplementary Data	15
Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	28
Item 9A. Controls and Procedures	28
Item 9B. Other Information	28
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	29
Item 11. Executive Compensation	29
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	29
Item 13. Certain Relationships and Related Transactions, and Director Independence	29
Item 14. Principal Accounting Fees and Services	29
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	29

[Table of Contents](#)

Forward-Looking Statements

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, including the risk of death, 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 that may result in death. 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.

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 eight patents relating to AEM technology from the United States Patent and Trademark Office, each encompassing multiple claims, and which have between two months and thirteen 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.

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. We believe that it is possible to follow a course similar to that of pulse oximetry in 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 2011. Our supplier agreements with Novation, Broadlane and HealthTrust, major Group Purchasing Organizations ("GPOs") for hospitals in the U.S., are beginning to expose more hospitals to the benefits of our AEM technology. Our agreement with Premier ends June 30, 2011 and we have notified them that we will not be participating in bidding for a further extension of the agreement. Our focus is on smaller, more compliant hospital groups.

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 applicators 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. Of note, was a California jury award of \$2.2 million to a patient in a personal injury, product liability, defective laparoscopic device case against a competing medical device company.

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, 2011, and we expect this sales stream to grow as new hospitals increasingly adopt AEM technology. AEM Instruments are competitively priced compared 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 and integrated delivery networks to assist in promoting the benefits of AEM technology. GPOs have significant influence on the market for surgical instruments.

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

[Table of Contents](#)

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.

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 emerging 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

[Table of Contents](#)

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

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. Also, we have a 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 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, Premier and Broadlane, 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 our three year agreement with Premier continues through June 30, 2011.. We have notified Premier that we will not be participating in bidding for a further extension of the agreement. The Broadlane agreement continues through December 31, 2012. Effective June 1, 2010, we entered into a purchasing agreement with HealthTrust Purchasing Group, LP, ("HealthTrust") a group purchasing organization that supports nearly 1,400 not-for-profit and for-profit acute care facilities, and ambulatory surgery centers, physician practices, and alternate care sites. While these agreements do not involve purchase commitments, these relationships with Novation, Premier, Broadlane and HealthTrust expand the market visibility of AEM technology and smooth the procurement and conversion process for new hospital customers. In fiscal year 2011, approximately seventy percent of our new hospital account sales were sales to

[Table of Contents](#)

members of Novation, Premier, Broadlane and HealthTrust.

In addition to the efforts to broaden market acceptance in the United States, we have contracted with independent distributors in Canada, Australia, New Zealand Japan and the Netherlands 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 \$1,464,213 in fiscal

year 2011 and \$1,338,557 in fiscal year 2010. 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 2011, 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. During fiscal year 2011, we continued our manufacturing vertical integration goal with the addition of several processes and the addition of a controlled environment room to our manufacturing capabilities.

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 November 2009.

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 January 2010.

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. As of March 31, 2011, there are between two months and thirteen 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 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 November 2009, 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

[Table of Contents](#)

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. Our Certificate of Export from the United States Department of Health and Human Services was renewed in June 2010 and expires June 11, 2012. Even if we obtain a renewal, 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 January 2010. 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 2009.

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, 2011, we employed 52 full-time individuals, of which 8 are engaged directly in research, development and regulatory activities, 19 in manufacturing/operations, 20 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 1A. 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 12 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 electro-surgical 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 approximately \$16 million since that date. We have primarily financed research, development and operational activities with issuances of our common stock and warrants, the exercise of stock options to purchase our common stock, stock-based expense related to stock options and, in recent years, by operating profits. At March 31, 2011, we had \$120,008 in cash available to fund future operations and, in addition, access to a line of credit for \$1,565,000. 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 find ourselves at a competitive disadvantage due to our constrained liquidity. On November 4, 2009, we signed a second amendment to our credit facility agreement with Silicon Valley Bank, effective November 10, 2009. The terms of the credit facility include a line of credit for \$2,000,000 for two years at an interest rate calculated at the prime rate plus 1.25%, subject to increase upon a default. Under our original 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. As of March 31, 2011, these warrants were still outstanding. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. As of March 31, 2011, we had borrowed \$435,000 from the credit facility and, under our eligible receivables and inventory limit, had an additional \$1,105,000 available to borrow. The credit facility requires us to meet certain financial

[Table of Contents](#)

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 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 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 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, development, 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 such other regulatory agencies. Inspection of our manufacturing facilities and processes can be conducted at any time, without prior notice, by the Food and Drug Administration and such regulatory agencies. In addition, future changes in regulations or interpretations made by the Food and Drug Administration or other regulatory agencies, 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 eight 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. 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

[Table of Contents](#)

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 June 15, 2011, we had a public float, which is defined as shares outstanding minus shares held by our officers, directors, or beneficial holders of greater than 5% of our outstanding common stock, of 3,401,496 shares, or 52.7% 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.

Product liability claims may exceed our current insurance coverage. 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.

Item 1B. Unresolved Staff Comments

Not required for small reporting companies.

Item 2. Properties

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

Item 3. Legal Proceedings

We are involved in a legal proceeding that arose in the normal course of business. This matter is a product liability action. We do not know whether we will prevail in this matter nor can we assure that any remedy could be reached on commercially viable terms, if at all. Based on currently available information, we believe that we have meritorious defense to this action and that the resolution of this case is not likely to have a material adverse effect on our business, financial position or future results of operations. In accordance with generally accepted accounting principles in the United States (U.S. GAAP), we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

Item 4. (Removed and Reserved)

[Table of Contents](#)

PART II

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

Our common stock has been quoted on the Pink Sheets Electronic Quotation Service ("Pink Sheets") maintained by Pink Sheets LLC for the National Quotation Bureau, Inc. Trading of our stock on the OTCBB began on November 13, 2008. The ticker symbol "ECIA" has been assigned to our common stock for over-the-counter quotations. The following table shows the range of high and low bid quotations for each share of our common stock on the Pink Sheets, as applicable, for the periods indicated. The bid quotations on the Pink Sheets reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

<u>Fiscal</u>	<u>2011</u>		<u>2010</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>

First quarter	\$	2.00	\$	1.30	\$	2.00	\$	0.75
Second quarter	\$	1.85	\$	1.05	\$	1.70	\$	1.16
Third quarter	\$	1.47	\$	0.60	\$	1.65	\$	1.03
Fourth quarter	\$	1.50	\$	0.60	\$	1.52	\$	1.22

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, 2011, there were approximately 102 holders of record of our common stock.

Item 6. Selected Financial Data

Not required for smaller reporting companies.

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 we are gaining more awareness in medico-legal circles and publications and from presentations at medical meetings. 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 Operating Losses. We have an accumulated deficit of \$16,029,367 at March 31, 2011. 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.. In fiscal year 2012, we will focus on regrowing our AEM franchise through a social media campaign, a medico-legal initiative and our new AEM products. In addition, prior years' efforts in vertical integration have given us three recognized core competencies — electrosurgery, instrument design, and manufacturing — which we expect will allow us to increase sales from our strategic partnership initiatives. Our goal is to offer our customers an AEM disposable counterpart for each AEM reusable instrument. On January 21, 2011, we and Boston Scientific Corporation entered into a Development, License and Non-Commercial Supply Agreement. See Note 11, Recent Developments.

Gross Margin. We believe that our fiscal year 2012 gross margin will decrease slightly due to a lower gross margin on any development services that we perform.

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 2012, we expect to have 17 direct sales territories and four 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. We manufacture 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 2012.

Results of Operations

Net sales. Our sales for the fiscal year ended March 31, 2011 ("FY 11") were \$11,616,657, and for the fiscal year ended March 31, 2010 ("FY 10") our sales were \$12,835,768. This represents a decrease of 9.5% in FY 11 from FY 10. The decrease is attributable to weakness in the medical device industry and by business lost from hospitals that stopped using AEM technology. This was partially offset by addition of new hospital accounts in 17 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 11.

Gross profit. Gross profit in FY 11 decreased \$653,412, or 8%, to \$7,213,400 from \$7,866,812 in FY 10, which resulted in a gross margin of 62.1% of net sales for FY 11 and 61.2% of net sales for FY 10. The gross profit margin increase from FY 10 was due to an increase in FY 10 expense to inventory reserve of \$95,940 for expected scrap in inventory.

Sales and marketing expenses. Sales and marketing expenses were \$4,241,968 in FY 11, a decrease of \$516,182, or 11%, from \$4,758,150 in FY 10. The decrease was a result of decreased compensation and commissions, on decreased sales, for our direct sales representatives, decreased commissions, on decreased sales, for our independent sales representatives and decreased outside marketing services. The decrease was partially offset by an increase in public relations and trade shows expense.

General and administrative expenses. General and administrative expenses were \$1,457,138 in FY 11, a decrease of \$7,056, or 0.5%, from \$1,464,194 in FY 10. The decrease was primarily the result of lower compensation expense. The decrease was partially offset by an increase of outside services expense.

Research and development expenses. Research and development expenses were \$1,464,213 in FY 11, an increase of \$125,656 or 9%, from \$1,338,557 in FY 10. The increase was a result of an increase in temporary help, consulting services and outside services for the development of new products. The increase was partially offset by a decrease in compensation, inventory usage and tooling.

Net income. Net income in FY 11 of \$4,564 represented a decrease of \$260,294 compared to FY 10 net income of \$264,858. The decrease is a result of a decrease in sales and gross profit. The decrease was partially offset by a decrease of total operating expenses, as explained above.

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, in recent years, by operating profits. To date, operating funds totaled \$19,783,361 from our inception through March 31, 2011. Our operations provided \$196,174 and \$466,286 of cash in FY 11 and FY 10, respectively, on sales of \$11,616,657 and \$12,835,768 in FY 11 and FY 10, respectively. These amounts of cash generated from operations are not indicative of the expected cash to be generated from or used in operations in the fiscal year ending March 31, 2012 ("FY 12"). As of March 31, 2011, we had \$120,008 in cash and cash equivalents, and under our eligible receivables and inventory limit, had an additional \$1,105,000 available to fund future operations. Working capital was \$2,301,650 at March 31, 2011 compared to \$2,554,794 at March 31, 2010. The decrease in working capital was caused principally by a shift in debt from long-term line of credit to current liability line of credit. Current liabilities were \$1,656,874 at March 31, 2011, compared to \$1,365,420 at March 31, 2010. The increase in current liabilities at March 31, 2011 was caused principally by a shift in debt from long-term line of credit to current liability line of credit and was partially decreased by a reduction in accrued compensation.

On November 4, 2009, we signed a second amendment to our credit facility agreement with Silicon Valley Bank, effective November 10, 2009. The terms of the credit facility include a line of credit for \$2,000,000 for two years at an interest rate calculated at prime rate plus 1.25%, subject to increase upon a default. Under our original 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. As of March 31, 2011, these warrants were still outstanding. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. As of March 31, 2011 and 2010, we had borrowed \$435,000 and \$350,000 from the credit facility and, under our eligible receivables and inventory limit, had an additional \$1,105,000 available to borrow.

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 12. We believe that we enter FY 12 having achieved improvements in the clinical credibility of our technology. Our FY 12 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 12. 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 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.

[Table of Contents](#)

Income Taxes

As of March 31, 2011, net operating loss carryforwards totaling approximately \$13.3 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 12. 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 fiscal years 2011 and 2010, we used our tax loss carryforwards to reduce our taxable income. As a result, no provision for income tax 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, 2011 and 2010 was \$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, 2011 and 2010 was \$247,264 and \$245,925, respectively

Contractual Obligations

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through July 31, 2014. Effective June 1, 2011, we amended our lease to increase square footage by an additional 7,174 square feet. The minimum total future lease payment, by fiscal year, as of March 31, 2011 is as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	263,597
2013	301,469
2014	320,080
2015	108,303
Total	<u>\$ 993,449</u>

Our minimum future equipment lease payments with General Electric Capital Corporation as of March 31, 2011, by fiscal year, are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2012	101,873
2013	101,873
2014	8,488
Total	<u>\$ 212,234</u>

On November 4, 2009, we signed a second amendment to our credit facility agreement with Silicon Valley Bank ("Silicon"), effective November 10, 2009. The terms of the credit facility include a line of credit for \$2,000,000 for two years at an interest rate calculated at Silicon's prime rate, which was 4% at March 31, 2011, plus 1.25%, subject to increase upon a default. Under our original 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 and a maturity

date of November 10, 2011. At March 31, 2011, these warrants were still outstanding. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. At March 31, 2011 and 2010, we had borrowed \$435,000 and \$350,000, respectively, from the credit facility and, under our eligible receivables and inventory limit, had an additional \$1,105,000 available to borrow at March 31, 2011. The credit facility requires us to meet certain financial covenants, which we met at March 31, 2011. 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.

As of March 31, 2011, the following table shows our contractual obligations for the periods presented:

Contractual obligations	Payment due by period				
	Totals	Less than 1 year	1-3 years	3-5 years	More than 5 years
Line of credit obligations	\$ 435,000	\$ 435,000	\$ —	\$ —	\$ —
Operating lease obligations	1,205,683	365,470	731,910	108,303	—
Total	\$ 1,640,683	\$ 800,470	\$ 731,910	\$ 108,303	\$ —

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

[Table of Contents](#)

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 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.

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.

Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally three to seven years. We use the straight-line method of depreciation for property and equipment. 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.

Stock-based compensation is presented in accordance with the guidance of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 718, Compensation — Stock Compensation (“ASC 718”). Under the provisions of ASC 718, companies are required to estimate the fair value of share-based payment awards made to employees and directors including employee stock options based on estimated fair values 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 our statement of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Not required.

14

[Table of Contents](#)

Item 8. Financial Statements and Supplementary Data

The following financial statements are included in this Report:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	16
Balance Sheets as of March 31, 2011 and 2010	17
Statements of Operations for the fiscal years ended March 31, 2011 and 2010	18
Statements of Shareholders' Equity for the fiscal years ended March 31, 2011 and 2010	19
Statements of Cash Flows for the fiscal years ended March 31, 2011 and 2010	20
Notes to Financial Statements	21

15

[Table of Contents](#)

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Encision Inc.
Boulder, Colorado

We have audited the accompanying balance sheets of Encision Inc. (the “Company”) as of March 31, 2011 and 2010 and the related statements of operations, shareholders’ equity and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits 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 audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on

the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Encision Inc. as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ Eide Bailly LLP

Greenwood Village, Colorado
June 15, 2011

[Table of Contents](#)

**Encision Inc.
Balance Sheets**

	<u>March 31, 2011</u>	<u>March 31, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,008	\$ 113,735
Accounts receivable, net of allowance for doubtful accounts of \$9,000 at March 31, 2011 and \$12,500 at March 31, 2010	1,160,008	1,286,075
Inventories, net of reserve for obsolescence of \$60,000 at March 31, 2011 and \$150,940 at March 31, 2010	2,603,873	2,476,823
Prepaid expenses	74,635	43,581
Total current assets	<u>3,958,524</u>	<u>3,920,214</u>
Equipment, at cost:		
Furniture, fixtures and equipment	2,253,062	2,004,213
Customer-site equipment	814,357	778,761
Equipment-in-progress	325,575	389,815
Accumulated depreciation	(2,224,371)	(2,024,448)
Equipment, net	<u>1,168,623</u>	<u>1,148,341</u>
Patents, net of accumulated amortization of \$157,971 at March 31, 2011 and \$143,909 at March 31, 2010	260,097	265,988
Other assets	23,624	24,268
TOTAL ASSETS	<u>\$ 5,410,868</u>	<u>\$ 5,358,811</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 673,538	\$ 684,102
Accrued compensation	261,269	404,789
Other accrued liabilities	287,067	276,529
Line of credit	435,000	—
Total current liabilities	<u>1,656,874</u>	<u>1,365,420</u>
Line of credit	—	350,000
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 shares issued and outstanding at March 31, 2011 and 2010	19,783,361	19,677,322
Accumulated (deficit)	(16,029,367)	(16,033,931)
Total shareholders' equity	<u>3,753,994</u>	<u>3,643,391</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 5,410,868</u>	<u>\$ 5,358,811</u>

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

Encision Inc.
Statements of Operations

Years Ended	March 31, 2011	March 31, 2010
NET SALES	\$ 11,616,657	\$ 12,835,768
COST OF SALES	4,403,257	4,968,956
GROSS PROFIT	7,213,400	7,866,812
OPERATING EXPENSES:		
Sales and marketing	4,241,968	4,758,150
General and administrative	1,457,138	1,464,194
Research and development	1,464,213	1,338,557
Total operating expenses	7,163,319	7,560,901
OPERATING INCOME	50,081	305,911
Interest expense, net	(47,200)	(42,697)
Other income, net	1,683	1,644
Interest (expense) and other income, net	(45,517)	(41,053)
INCOME BEFORE PROVISION FOR INCOME TAXES	4,564	264,858
Provision for income taxes	—	—
NET INCOME	\$ 4,564	\$ 264,858
Net income per share—basic and diluted	\$ 0.00	\$ 0.04
Weighted average shares—basic	6,455,100	6,455,100
Weighted average shares—diluted	6,464,795	6,464,094

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

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, 2009	6,455,100	\$ 19,559,626	\$ (16,298,789)	\$ 3,260,837
Net income	—	—	264,858	264,858
Compensation expense related to stock options	—	117,696	—	117,696
BALANCES AT MARCH 31, 2010	6,455,100	\$ 19,677,322	\$ (16,033,931)	\$ 3,643,391
Net income	—	—	4,564	4,564
Compensation expense related to stock options	—	106,039	—	106,039
BALANCES AT MARCH 31, 2011	6,455,100	\$ 19,783,361	\$ (16,029,367)	\$ 3,753,994

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

Encision Inc.
Statements of Cash Flows

Years Ended	March 31, 2011	March 31, 2010
Cash flows from operating activities:		
Net income	\$ 4,564	\$ 264,858
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	260,510	237,974
Stock-based compensation expense related to stock options	106,039	117,696

Stock-based interest expense related to warrants	—	7,680
Provision for doubtful accounts, net change	(3,500)	3,500
Provision for inventory obsolescence, net change	(90,940)	95,940
Change in operating assets and liabilities:		
Accounts receivable	129,567	(25,824)
Inventories	(36,110)	(68,165)
Prepaid expenses and other assets	(30,410)	(14,483)
Accounts payable	(10,564)	(61,036)
Accrued compensation and other accrued liabilities	(132,982)	(91,854)
Net cash provided by operating activities	<u>196,174</u>	<u>466,286</u>
Cash flows from investing activities:		
Acquisition of property and equipment	(266,730)	(531,165)
Patent costs	(8,171)	(65,102)
Net cash used in investing activities	<u>(274,901)</u>	<u>(596,267)</u>
Cash flows from financing activities:		
Borrowings from credit facility	85,000	159,058
Net cash provided by financing activities	<u>85,000</u>	<u>159,058</u>
Net increase in cash and cash equivalents	6,273	29,077
Cash and cash equivalents, beginning of fiscal year	113,735	84,658
Cash and cash equivalents, end of fiscal year	<u>\$ 120,008</u>	<u>\$ 113,735</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 35,069	\$ 21,896

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

[Table of Contents](#)

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 an accumulated deficit of \$16,029,367 at March 31, 2011. Operating funds have been provided primarily by issuances of our common stock and warrants, the exercise of stock options to purchase our common stock, stock-based expense related to stock options and, in recent years, by operating profits. Our liquidity has diminished because of prior years' 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 ("GAAP") 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, payables and line of credit. The carrying values of cash and cash equivalents, short-term receivables and payables and line of credit

approximate their fair value due to their short maturities.

Concentration of Credit Risk. Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents, accounts receivable, accounts payable and line of credit. The carrying value of all financial instruments approximates fair value. The amount of cash on deposit with financial institutions does not exceed the \$250,000 federally insured limit at March 31, 2011. 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.

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, 2011	March 31, 2010
Balance, beginning of year	\$ 12,500	\$ 9,000
Provision for estimated losses	(3,500)	3,500
Write-off of uncollectible accounts	—	—
Balance, end of year	<u>\$ 9,000</u>	<u>\$ 12,500</u>

The net accounts receivable balance at March 31, 2011 of \$1,160,008 included no more than 13% from any one customer. The net accounts receivable balance at March 31, 2010 of \$1,286,075 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, 2011	March 31, 2010
Balance, beginning of year	\$ 50,000	\$ 50,000
Provision for estimated warranty claims	(11,974)	27,751
Claims made	(13,026)	(27,751)
Balance, end of year	<u>\$ 25,000</u>	<u>\$ 50,000</u>

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

[Table of Contents](#)

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, 2011 and 2010, inventory consisted of the following:

	March 31, 2011	March 31, 2010
Raw materials	\$ 1,576,706	\$ 1,518,737
Finished goods	1,087,167	1,109,026
Total gross inventories	2,663,873	2,627,763
Less reserve for obsolescence	(60,000)	(150,940)
Total net inventories	<u>\$ 2,603,873</u>	<u>\$ 2,476,823</u>

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

Years Ended	March 31, 2011	March 31, 2010
Balance, beginning of year	\$ 150,940	\$ 55,000

Provision for estimated obsolescence	6,355	112,213
Write-off of obsolete inventory	(97,295)	(16,273)
Balance, end of year	\$ 60,000	\$ 150,940

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. We use the straight-line method of depreciation for property and equipment. 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, 2011 and 2010 was \$246,447 and \$223,060, 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 (20 years from the date of application in the United States). Capitalized costs are expensed if patents are not issued. 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, 2011 and 2010 is as follows:

	March 31, 2011	March 31, 2010
Patents issued	\$ 215,801	\$ 215,801
Accumulated amortization	(157,971)	(143,909)
Patents issued, net of accumulated amortization	57,830	71,892
Patent applications	202,267	194,096
Total net patents	\$ 260,097	\$ 265,988

Accrued Liabilities. At March 31, 2011, we have accrued \$25,000 related to warranty claims, \$24,277 related to sales commissions, \$20,087 related to rent normalization and \$113,765 related to severance pay, and included these amounts in accrued liabilities in the accompanying balance sheet at March 31, 2011. At March 31, 2010, we had accrued \$50,000 related to warranty claims, \$44,397 related to sales commissions, \$9,948 related to rent normalization and \$108,258 related to severance pay, and included these amounts in accrued liabilities in the accompanying balance sheet at March 31, 2010.

Income Taxes. We account for income taxes under the provisions of ASC Topic 740, "Accounting for Income Taxes" ("ASC 740"). ASC 740 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. ASC 740 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 2011 and 2010, we used our tax loss carryforwards to reduce our taxable income. As a result, no provision for income tax 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).

ASC 740 prescribes a comprehensive model for how companies should recognize, measure, present, and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions must initially be recognized in the financial statements when it is more likely than not the position will be sustained upon examination by the tax authorities. Such tax positions must initially and subsequently be measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and relevant facts.

The cumulative effect of adopting ASC 740 on April 1, 2007 has been recorded net in deferred tax assets, which resulted in no ASC 740 liability on the balance sheet. The total amount of unrecognized tax benefits as of the date of adoption was zero. There are open statutes of limitations for taxing authorities in federal and state jurisdictions to audit the Company's tax returns from fiscal year ended March 31, 1996 through the current period. Our policy is to account for income tax related interest and penalties in income tax expense in the statement of operations. There have been no income tax related interest or penalties assessed or recorded. Because the Company has provided a full valuation allowance on all of its deferred tax assets, the adoption of ASC 740 had no impact on our effective tax rate.

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.

Advertising Costs. We expense advertising costs as incurred. Advertising expense for the years ended March 31, 2011 and 2010 was minimal.

Stock-Based Compensation. Stock-based compensation is presented in accordance with the guidance of ASC Topic 718, "Compensation — Stock Compensation" ("ASC 718"). Under the provisions of ASC 718, companies are required 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 our statement of operations.

ASC 718 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.

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 2011 and 2010 included compensation expense for share-based payment awards granted prior to, but not yet vested as of March 31, 2011, based on the grant date fair value. 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 2011 and 2010 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates.

We used the Black-Scholes option-pricing model ("Black-Scholes model") to determine fair value. 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 ASC 718 using an option-pricing model, that value may not be indicative of the fair value observed in a willing buyer/willing seller market transaction.

Stock-based compensation expense recognized under ASC 718 for fiscal years 2011 and 2010 was \$106,039 and \$117,696, respectively, which consisted of stock-based compensation expense related to director and employee stock options.

Stock-based compensation expense related to employee stock options under ASC 718 for fiscal years 2011 and 2010 was allocated as follows:

<u>Years Ended</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Cost of sales	\$ 3,238	\$ 3,240
Sales and marketing	13,073	21,872
General and administrative	74,735	74,942
Research and development	14,993	17,642
Stock-based compensation expense	<u>\$ 106,039</u>	<u>\$ 117,696</u>

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

Basic and Diluted Income per Common Share. Net income per share is calculated in accordance with ASC Topic 260, "Earnings Per Share" ("ASC 260"). Under the provisions of ASC 260, basic net income per common share is computed by dividing net income for the period by the weighted average number of common shares outstanding for the period. Diluted net income per common share is computed by dividing the net income 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 2011.

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

<u>Years Ended</u>	<u>March 31, 2011</u>	<u>March 31, 2010</u>
Net income	\$ 4,564	\$ 264,858

Weighted-average shares — basic

6,455,100

6,455,100

Effect of dilutive potential common shares	9,695	8,994
Weighted-average shares — diluted	6,464,795	6,464,094
Net income per share — basic	\$ 0.00	\$ 0.04
Net income per share — diluted	\$ 0.00	\$ 0.04
Antidilutive employee stock options	575,305	561,006

Recent Accounting Pronouncements. We have reviewed all recently issued, but not yet effective, accounting pronouncements and do not believe the future adoption of any such pronouncements may be expected to cause a material impact on our financial condition or the results of our operations.

[Table of Contents](#)

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 options occurs such that 20% becomes exercisable on each anniversary of the date of grant for each of the five years following the grant date 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.

Under ASC 718, 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 ASC 718. 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 50,000 and 265,000 shares of stock were granted during fiscal years 2011 and 2010, respectively.

As of March 31, 2011, \$307,000 of total unrecognized compensation costs related to nonvested stock is expected to be recognized over a period of five years. The assumptions for employee stock options are summarized as follows:

Years Ended	March 31, 2011	March 31, 2010
Risk-free interest rate	1.4% to 2.0%	1.9% to 2.7%
Expected life (in years)	5.0	5.0
Expected volatility	93% to 98%	47% to 91%
Expected dividend	0%	0%

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 \$30,842 and \$299,010, for the fiscal years ended March 31, 2011 and 2010, 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 \$106,039 and \$117,696 for fiscal years 2011 and 2010, respectively.

The Black-Scholes 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, 2011 and 2010 is as follows:

STOCK OPTIONS OUTSTANDING	
Number Outstanding	Weighted-Average Exercise Price per Share

BALANCE AT MARCH 31, 2009	570,000	\$	2.33
Granted	265,000		1.64
Forfeited/expired	(265,000)		2.89
BALANCE AT MARCH 31, 2010	570,000	\$	1.74
Granted	50,000		0.84
Forfeited/expired	(35,000)		2.56
BALANCE AT MARCH 31, 2011	585,000	\$	1.62

The following table summarizes information about employee stock options outstanding and exercisable at March 31, 2011:

Range of Exercise Prices	STOCK OPTIONS OUTSTANDING			STOCK OPTIONS EXERCISABLE	
	Number Outstanding	Weighted-Average Remaining Contractual Life (in Years)	Weighted-Average Exercise Price per Share	Number Exercisable	Weighted-Average Exercise Price per Share
\$0.60 - \$1.60	255,000	3.2	\$ 1.18	91,174	\$ 1.25
\$1.65 - \$2.20	290,000	2.9	\$ 1.76	124,371	\$ 1.83
\$3.38 - \$3.38	40,000	0.1	\$ 3.38	39,534	\$ 3.38
	<u>585,000</u>	2.9	\$ 1.62	<u>255,079</u>	\$ 1.86

24

[Table of Contents](#)

Of the 585,000 options outstanding as of March 31, 2011, 550,000 are nonqualified stock options and 35,000 are incentive stock options. The exercise price of all options granted through March 31, 2011 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, 2011, options for 155,000 shares of our common stock remain available for grant under the Plan.

As disclosed in Note 4, we have outstanding warrants to purchase 28,000 shares of common stock at a per share price of \$2.75 and a maturity date of November 10, 2011.

4. Commitments and Contingencies

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through July 31, 2014. Effective June 1, 2011, we amended our lease to increase square footage by an additional 7,174 square feet. The minimum total future lease payment, by fiscal year, as of March 31, 2011 is as follows:

Fiscal Year	Amount
2012	263,597
2013	301,469
2014	320,080
2015	108,303
Total	<u>\$ 993,449</u>

Our minimum future equipment lease payments with General Electric Capital Corporation as of March 31, 2011, by fiscal year, are as follows:

Fiscal Year	Amount
2012	101,873
2013	101,873
2014	8,488
Total	<u>\$ 212,234</u>

Rent expense for our facilities for the fiscal years ended March 31, 2011 and 2010 was \$247,264 and \$245,925, respectively. Rent expense for our equipment for the fiscal years ended March 31, 2011 and 2010 was \$101,873 and \$101,873, respectively.

On November 4, 2009, we signed a second amendment to our credit facility agreement with Silicon Valley Bank ("Silicon"), effective November 10, 2009. The terms of the credit facility include a line of credit for \$2,000,000 for two years at an interest rate calculated at Silicon's prime rate, which was 4% at March 31, 2011, plus 1.25%, subject to increase upon a default. Under our original 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 and a maturity date of November 10, 2011. At March 31, 2011, these warrants were still outstanding. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. At March 31, 2011 and 2010, we had borrowed \$435,000 and \$350,000, respectively, from the credit facility and, under our eligible receivables and inventory limit, had an additional \$1,105,000 available to borrow at March 31, 2011. The credit facility requires us to meet certain financial covenants, which we met at March 31, 2011. 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.

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, 2011, 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 November 2009 and were notified of six potential deficiencies from that inspection, none of which we believe to be material.

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, 2011 with respect to contingent severance benefit obligations is less than \$150,000.

5. Income Taxes

We account for income taxes under ASC 740, which requires the use of the liability method. ASC 740 provides that deferred tax assets and liabilities are recorded based on the differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, referred to as temporary differences. Deferred tax assets and liabilities at the end of each period are determined using the currently enacted tax rates applied to taxable income in the periods in which the deferred tax assets and liabilities are expected to be settled or realized.

Income tax provision (benefit) for income taxes is summarized below:

Years Ended	March 31, 2011	March 31, 2010
Current:		
Federal	\$ —	\$ —
State	—	—
Total current	—	—
Deferred:		
Federal	452,000	304,000
State	47,000	31,000
Total deferred	499,000	335,000
Valuation allowance	(499,000)	(335,000)
Total	\$ —	\$ —

25

[Table of Contents](#)

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, 2011	March 31, 2010
Federal statutory rate	\$ 2,000	\$ 90,000
Effect of:		
State taxes, net of federal tax benefit	—	9,000
Other	54,000	60,000
Valuation allowance	(56,000)	(159,000)
Total	\$ —	\$ —

The components of the deferred tax asset are as follows:

Years Ended	March 31, 2011	March 31, 2010
Credits and net operating loss carryforwards	\$ 4,908,000	\$ 5,360,000
Other	87,000	134,000
Gross deferred tax assets	4,995,000	5,494,000
Valuation allowance	(4,995,000)	(5,494,000)
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, 2011, we had approximately \$13.3 million of net operating loss carryovers for tax purposes. Additionally, we have approximately \$156,000 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, 2012. In the fiscal years ended March 31, 2012 and

2013, net operating losses of approximately \$3,000,000 and \$3,500,000, respectively, will begin to expire if sufficient taxable income is not available to use them. In fiscal years ended after March 31, 2013, net operating losses expire at various dates through March 31, 2029. Our net operating loss carryovers at March 31, 2011 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. As such, these deductions are not reflected in our deferred tax assets. 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 involved in a legal proceeding that arose in the normal course of business. This matter is a product liability action. We do not know whether we will prevail in this matter nor can we assure that any remedy could be reached on commercially viable terms, if at all. Based on currently available information, we believe that we have meritorious defense to this action and that the resolution of this cases is not likely to have a material adverse effect on our business, financial position or future results of operations. In accordance with GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

7. Major Customers/Suppliers

We depend on sales that are generated from hospitals' ongoing usage of AEM surgical instruments. In fiscal year 2011, we generated sales from over 350 hospitals that have changed to AEM products, but no hospital customer contributed more than 3% to the total sales. Approximately 70% of the new hospital accounts in fiscal year 2011 and 30% in fiscal year 2010 were from hospitals affiliated with group purchasing organizations, Novation, Premier, Broadlane and HealthTrust. Our agreement with Premier ends June 30, 2011 and we have notified them that we will not be participating in bidding for a further extension of the agreement. In fiscal year 2011, 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 at least 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.

[Table of Contents](#)

9. Related Party Transaction

We paid consulting fees of \$60,946 and \$60,126 to an entity owned by one of our directors in fiscal years 2011 and 2010, 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 \$113,765 and \$108,258 at March 31, 2011 and 2010, respectively.

10. Quarterly Results (Unaudited)

(In thousands, except per share amounts)

Quarter Ended	Mar. 31, 2011	Dec. 31, 2010	Sep. 30, 2010	June 30, 2010	Mar. 31, 2010	Dec. 31, 2009	Sep. 30, 2009	June 30, 2009
Net sales	\$ 2,921	\$ 2,917	\$ 2,866	\$ 2,913	\$ 3,186	\$ 3,260	\$ 3,216	\$ 3,174
Gross profit	\$ 1,714	\$ 1,821	\$ 1,834	\$ 1,845	\$ 1,881	\$ 2,009	\$ 1,945	\$ 2,032
Operating income (loss)	\$ 45	\$ 247	\$ (133)	\$ (109)	\$ (94)	\$ 160	\$ 62	\$ 178
Net income (loss)	\$ 35	\$ 234	\$ (145)	\$ (119)	\$ (94)	\$ 149	\$ 46	\$ 163
Net income (loss) per share— basic and diluted	\$ 0.01	\$ 0.04	\$ (0.02)	\$ (0.02)	\$ (0.01)	\$ 0.02	\$ 0.01	\$ 0.03

Quarterly net income (loss) per share may not equal the annual reported amounts due to rounding of the numbers.

11. Recent Developments

On January 21, 2011, we and Boston Scientific Corporation (“BSC”) entered into a Development, License and Non-Commercial Supply Agreement (the “Agreement”), whereby we (i) will perform development services for BSC for the development of electrosurgical instruments (the “Developed Products”), (ii) grant a non-exclusive, worldwide, royalty-free, irrevocable and perpetual license to BSC for the use of our AEM technology and other intellectual property developed by us in connection with the Agreement (collectively, the “Licensed IP”) to the extent the Licensed IP is incorporated into or necessary for the manufacture, use or sale of the Developed Products, and (iii) we will manufacture and supply BSC with the Developed Products pursuant to the terms of the Agreement. The initial term the Agreement commences on January 21, 2011 (the “Effective Date”) and will continue until the later of two years from the Effective Date or the expiration of sixty (60) business days after the termination of the last effective Statement of Work under the Agreement. We and BSC may mutually agree in writing to extend the term for additional one-year periods prior to the expiration of the then current term. In consideration for the license of the Licensed IP, BSC has paid us a one-time license fee. In addition, if BSC decides to commercialize the Developed Products, BSC will pay us a one-time commercialization license fee plus a negotiated royalty fee. For development services, BSC has and will pay us for services actually rendered on an hourly basis in accordance with the Agreement and the applicable Statement of Work. If BSC decides to commercialize the Developed Products with us pursuant to the Agreement, BSC and we will negotiate in good faith for the consideration to be paid to us for the supply of the Developed Product. The Agreement is subject to early termination by either party pursuant to the terms of the Agreement. Pursuant to the Agreement, each party agrees to indemnify the other party against losses relating to the material breach of the Agreement or the other party’s negligence. For the year ended March 31, 2011, we received a minimal amount of fees from this agreement.

12. Subsequent Events

Management evaluated all activity of us and concluded that, except for the event that follows, no subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

Effective June 1, 2011, we amended our lease on our facilities at 6797 Winchester Circle, Boulder, Colorado to increase square footage by an additional 7,174 square feet. Our lease and amendments to the lease expire July 31, 2014.

[Table of Contents](#)

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

None.

Item 9A. 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, 2011.

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, 2011. 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, 2011, 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 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, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9 B. Other Information

None.

28

[Table of Contents](#)

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 2011 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2011.

Item 11. Executive Compensation

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2011 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2011.

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 2011 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2011.

The following table summarizes certain information regarding our equity compensation plan as of March 31, 2011:

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options</u>	<u>Weighted-average exercise price of outstanding options</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (1)</u>
Equity compensation plans approved by security holders	585,000	\$ 1.62	155,000
Equity compensation plans not approved by security holders	—	—	—
Total	585,000	\$ 1.62	155,000

(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 2011 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2011.

Item 14. Principal Accountant Fees and Services

Information in response to this item is incorporated by reference from the registrant's definitive proxy statement for its 2011 Annual Meeting of Shareholders to be filed within 120 days after March 31, 2011.

PART IV

Item 15. Exhibits, Financial Statement Schedules

- (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 Silicon Valley Bank (Incorporated by reference from Current Report on Form 8-K filed on November 10, 2006).
 - 10.4* Development, License, and Non-Commercial Supply Agreement dated January 19, 2011 between Encision Inc. and Boston Scientific Corporation.
 - 23.1 Consent of Independent Registered Public Accounting Firm, Eide Bailly 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.

[Table of Contents](#)

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 15, 2011.

ENCISION INC.

By: /s/ Marcia K. McHaffie

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

Pursuant to the requirements of 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/ Marcia K. McHaffie June 15, 2011
Marcia K. McHaffie
Controller
Principal Accounting Officer & Principal Financial Officer

/s/ Bruce L. Arfmann June 15, 2011
Bruce L. Arfmann
Director

/s/ Robert H. Fries June 15, 2011
Robert H. Fries
Director

/s/ Vern D. Kornelsen June 15, 2011

Vern D. Kornelsen

Director

/s/ Ruediger Naumann-Etienne

June 15, 2011

Ruediger Naumann-Etienne

Director

/s/ John R. Serino

June 15, 2011

John R. Serino

President and CEO

Principal Executive Officer

Director

/s/ David W. Newton

June 15, 2011

David W. Newton

Vice President - Technology

Director

/s/ Roger C. Odell

June 15, 2011

Roger C. Odell

Chairman of the Board and Vice-President — Business Development

Director

[*] = 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.

January 19, 2011

Jack Serino
President & CEO
Encision Inc.
6797 Winchester Circle
Boulder, CO 80301

Re: Development, license, and non-commercial supply agreement between Encision Inc., a Colorado corporation having a principal place of business at 6797 Winchester Circle, Boulder, CO 80301 (together with any of its affiliates, parents and subsidiaries, "Encision"), and Boston Scientific Corporation, a Delaware corporation having a principal place of business at One Boston Scientific Place, Natick, MA 01670 ("Boston Scientific" or "BSC")

Dear Mr. Serino:

This letter constitutes a development, license, and non-commercial supply agreement ("Agreement") between Encision and Boston Scientific, effective as of the date both parties have executed the Agreement ("Effective Date").

1. **Definitions:** As used herein, the following terms shall have the following definitions.

"AEM Technology" means any technology and associated Intellectual Property Controlled by Encision relating to electrosurgical safety technology and systems for electrosurgical instruments and tools, including active electrode monitoring, which would absent the license herein infringe one or more issued claims of the AEM Patents.

"AEM Patents" means the patents and pending patent applications listed on Appendix A hereto including any continuations, continuations in part, divisionals, reissues, reexaminations, renewals and extensions thereof and any and all foreign counterpart applications to the foregoing.

"BSC Developed IP" means any Intellectual Property relating to either of the Developed Product or the Equipment that is developed solely by BSC, or jointly with Encision pursuant to this Agreement and to the extent of BSC's joint interest. BSC Developed IP expressly includes the Specifications.

"BSC IP" means any BSC Developed IP and any other Intellectual Property, including the Specifications, that is Controlled by BSC.

"Commercial/Commercialized" means any sale for value, regardless of amount, to a party that is not an affiliate or any sale for which BSC receives revenue.

"Control" or "Controlled" means, with respect to any Intellectual Property or other intangible property, the possession (whether by present or future license or ownership) by a party of the ability to grant to the

Contains Confidential Information

other party access and/or a license or sublicense as provided herein without violating the terms of any agreement with any third party.

"Developed Product" means [*]

"Encision Developed IP" means any Intellectual Property relating to either of the Developed Product or the Equipment that is developed solely by Encision, or jointly with BSC pursuant to this Agreement and to the extent of Encision's joint interest.

"Encision IP" means any Encision Developed IP and any other Intellectual Property, other than AEM Technology, that is Controlled by Encision.

"Equipment" means capital equipment product(s) Controlled by Encision, as necessary to enable use of Developed Product, including

the capital equipment product known as the AEM (Active Electrode Monitoring) product, any off-the-shelf instrument-to-Equipment cables, and any other accessories relating thereto.

“FHU Trial Phase” means a trial to be conducted by Boston Scientific with a limited number of non-Commercial units of Developed Product, regardless of the regulatory approval under which the trial is conducted.

“Field” means [*].

“Intellectual Property” means discoveries, concepts, ideas, developments, specifications, methods, drawings, diagrams, models, inventions, techniques, methodologies, modifications, improvements, works of authorship, know-how, trademarks, trade secrets, Proprietary Information, designs and data (whether or not protectable under patent, copyright, trade secrecy or similar laws), including patents (including patent applications, reissues, divisions, continuations and extensions thereof in any jurisdiction), utility models, and registered and unregistered designs, mask works, copyrights, and any other form of protection afforded by law to inventions, models, designs, works of authorship, databases or technical information and applications therefor.

“Proprietary Information” has the meaning set forth in that certain Confidential Disclosure Agreement dated May 5, 2008, entered into by Encision and BSC.

“Specifications” means those specifications and requirements provided by Boston Scientific to Encision for the development of the Developed Product, for example, [*] of the Developed Product. Specifications include those specifications and requirements called out in an SOW, e.g., Attachment-1 and Attachment-2 of Schedule A, as such SOWs may be updated from time to time.

2. **Scope of Development Work:** Encision will perform development services for the development of the Developed Product in accordance with the Specifications, through performance of the tasks set forth on the various Statements of Work (each a “SOW”) included on iterative Schedule A’s (e.g., Attachment-1, Attachment-2) attached hereto and incorporated herein and other related tasks (“Services”). Unless otherwise agreed by the parties in writing, the Services shall include the non-Commercial supply of the Developed Product to BSC for the FHU Trial Phase. For the avoidance of doubt, services will be performed generally in two phases: 1) a benchwork phase and 2) relating to the FHU Trial Phase. Each phase will be reflected in a separate SOW and shall be in accordance with the terms, including Specifications, Deliverables (defined below), build quantity, pricing and timing, as detailed in each SOW. The Services will be conducted in a professional and workmanlike manner and in accordance with industry standards at the general direction of the Liaison (defined below).

Contains Confidential Information

2

Each SOW shall set forth Encision employees (by title and experience) who will render the Services to be provided pursuant to that SOW. Encision will attempt to honor Boston Scientific’s request with respect to specific individuals, subject to scheduling and staffing considerations. Individuals performing Services shall be precluded from assignment by Encision to any engagement in the Field for the period of the individual’s assignment hereunder.

Encision and Boston Scientific acknowledge and agree that Encision shall not engage any third parties to perform hereunder unless the Liaison shall have approved Encision’s use and the terms and conditions relating to the engagement of such third party in writing, such approval not to be unreasonably withheld, conditioned or delayed.

Encision will be reasonably available to Boston Scientific personnel (or its designees) for consultation from time to time throughout the term of this Agreement as requested by Boston Scientific by telephone, fax, e-mail and visits to Encision’s premises. At Boston Scientific’s request, Encision will also attend occasional off-site working meetings or perform Services at locations and times mutually agreed upon by the parties. Entering into this Agreement in no way obligates Boston Scientific to retain Encision to perform any additional services or to retain Encision for a minimum amount of Services.

3. **Notification:** Encision represents that it has properly notified and received all required permissions from all parties (e.g., regulators) in connection with Services to be performed, obligations assumed and compensation to be paid under this Agreement. Encision will comply with all applicable laws, ordinances, rules and regulations in the performance of its obligations hereunder.

4. **Term:** The initial term of this Agreement will be for the later of a two-year period or the expiration of sixty (60) business days after the termination of the last effective SOW, commencing on the Effective Date. The parties may mutually agree in writing to extend the term for additional one-year periods prior to the expiration of the then current term. If there is no two-year initial or additional one-year period in effect and a gap of more than sixty (60) business days between effective SOWs, the Agreement shall reinstate with each successive SOW and extend until sixty (60) business days after termination of the last effective SOW.

5. **Termination:**

- a. 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; or (iii) a party assigns or attempts to assign this Agreement or any of the rights and obligations under this Agreement in violation of the assignment provision of this Agreement.
- b. Termination by Boston Scientific. Notwithstanding Section 4, Boston Scientific may terminate this Agreement or any or all SOWs immediately in accordance with the second paragraph of Section 17, or upon thirty (30) days written notice for any reason. In the event of termination by Boston Scientific, Encision shall immediately cease work on all Boston Scientific projects except such work that Boston Scientific provides prior written authorization directing Encision to complete certain tasks, if any, that Boston Scientific would like completed after Encision's receipt of the termination notice. Boston Scientific will, as its sole and exclusive obligation and subject to the preceding sentence, pay Encision at the rate specified in Section 6 below for Services provided through the date of termination, prorated on a daily basis in the event of termination prior to the last

Contains Confidential Information

3

day of a calendar quarter. Notwithstanding the foregoing, Boston Scientific may withhold final payment until it is in receipt of all Boston Scientific Property (defined below).

- c. Termination by Encision. Encision may terminate this Agreement or any or all SOWs upon twelve (12) months prior written notice for any reason.
 - d. Upon the expiration or termination of this Agreement, Encision shall promptly: (i) return to Boston Scientific all Proprietary Information of Boston Scientific and Boston Scientific Property (including Deliverables and embodiments of Developed Product, whether complete or in progress) in the possession or control of Encision; and (ii) except in the event of termination by Encision pursuant to section 5(a), take all steps reasonably necessary to disclose to Boston Scientific in accordance with the licenses in Section 11 only that particular Encision IP and AEM Technology that is reasonably necessary for Boston Scientific to complete the design and finalize the reduction to practice of the Developed Product, as applicable, and for Boston Scientific to make or have made the Developed Product, including for use with the Equipment. Except in the event of termination by Encision pursuant to section 5(a), Boston Scientific shall [*].
 - e. All obligations that are by their nature continuing, including the licenses provided in Section 11 and the provisions of Sections 5, 6, 8-10, 12, 14, 15 and 17-19, will survive expiration or termination of this Agreement.
6. **Payment for Services:** Subject to the terms of this Agreement, Boston Scientific will pay Encision for Services actually rendered in accordance with the terms of this Agreement and with the hourly rate amount set forth on the applicable SOW attached hereto and incorporated herein. Such support, as Services, subject to the hourly rate amount may encompass: general machining and engineering; electrical and/or mechanical testing; and consulting on electrical safety and compliance with electrical standards. The hourly rate amount, in the absence of an amount set forth on an applicable SOW, for the following positions will apply;

- (i) Executive Engineering — [*]
- (ii) Senior Engineering - [*]
- (iii) Engineer, Project Management - [*]
- (iv) Prototyping - [*]
- (v) Technician/Drafting - [*]

In addition, Boston Scientific will reimburse Encision for reasonable and documented travel and associated expenses actually incurred at Boston Scientific's request in the performance of Services; provided that travel expenses in excess of [*] must be approved by the Liaison in writing in advance, and all air travel will be coach-class, unless approved in writing in advance. Travel time not spent on actual Services shall not be compensated under this Agreement.

Encision will document and record all time spent in the performance of Services to the reasonable satisfaction of the Liaison. Without limiting the foregoing, on a monthly basis, Encision will submit an invoice, with detailed reporting and supporting documentation and receipts, to Boston Scientific of Services performed during the prior month, including a breakdown of hourly fees showing time for each employee, title of the employee, description of tasks, as well as a breakdown of any pass-through

costs for which Encision will seek reimbursement hereunder. If the fees to be paid on a given SOW are related to achievement of one or more milestone(s), the monthly statement shall describe the milestone(s) achieved and related fees and costs. Boston Scientific will not be obligated to pay Encision for any Services not listed on the invoice for such month. Payments for Services will be made by Boston Scientific within 45 days after receipt of Encision's invoice, unless Boston Scientific in good

Contains Confidential Information

4

faith disputes any amount invoiced. Encision represents and warrants that all amounts invoiced to Boston Scientific based on time-of-staff will be accurate as to the actual amount of time expended with respect to the Service invoiced, and all pass-through costs will be invoiced at Encision's cost plus [*], net of all discounts provided by any third party suppliers.

The parties acknowledge and agree that each SOW that includes payments to be made on a time and materials basis shall include a maximum payment amount that shall be a good faith estimate of the time and materials Encision believes necessary and appropriate to accomplish the Services included on such SOW. In no event will BSC pay more than [*] over the maximum payment noted in that SOW unless Encision has advised Boston Scientific promptly upon its discovery that it is likely to have a cost overrun for such SOW and the Liaison has approved such cost overrun in writing, in advance.

Encision represents, warrants and covenants that the consideration set forth in this Section 6 and in accordance with the applicable SOW: (a) is reasonable and customary for the Services to be rendered by Encision under this Agreement; and (b) except as set forth in Section 5(d) or Section 12, represents the total compensation due to Encision for Services, and no other compensation is or will be due to Encision or any other person or entity relating to the Services. Encision is solely responsible for, and will report and pay on a timely basis, any and all taxes which may or will be due with respect to Services and the payments described in this Section 6 and 12, including all federal, state and local taxes (including income, Social Security, unemployment, sales, use and excise taxes), or similar taxes, assessments or charges assessed or levied.

7. **Liaison:** The performance of Services under this Agreement will be coordinated through a Boston Scientific employee who has been designated as the contract liaison for this Agreement (the "Liaison"). All reports, documents and communications relating to the provision of Services will be transmitted to Boston Scientific through the Liaison or persons designated by the Liaison. The initial Liaison for Boston Scientific is [*], who can be reached by calling [*]. The initial liaison for Encision is Warren Taylor, who can be reached by calling (303) 339-6908. Each party may designate a new liaison by providing written notice to other party. Separate liaisons for a given SOW may be established in such SOW.
8. **Proprietary Information:** Encision and BSC acknowledge that to facilitate the business arrangements created by this Agreement, it may be necessary for the parties to exchange certain Proprietary Information on a confidential basis. In consideration of the mutual benefits to be derived from the exchange of such Proprietary Information, Encision and BSC have previously entered into that certain Confidential Disclosure Agreement dated May 5, 2008 and the terms of that mutual confidentiality agreement are incorporated into this Agreement by reference. A copy of the May 5, 2008 mutual confidentiality agreement is attached hereto as Appendix B.

The existence and terms of this Agreement shall be held confidential by the parties, except to the extent that the parties shall agree in writing to the wording of a press release to be issued after the Effective Date that discloses the existence but not the terms of this Agreement.

9. **Boston Scientific Property:** All (i) tangible property provided to Encision by BSC in connection with this Agreement whether in hardcopy, electronic or other form, including Proprietary Information, and further including any tooling or capital equipment provided to Encision by BSC or purchased by Encision with funds of BSC in connection with this Agreement; (ii) deliverables provided for herein or in any applicable SOW hereunder, including the bench work phase units and FHU Trial Phase units of Developed Product (collectively, "Deliverables"); and (iii) embodiments of the Developed Product as developed by Encision in connection with the Services, including related tangible

Contains Confidential Information

5

materials, components, prototypes, samples, testing, reports, data, specifications, designs, drawing, analyses, results and the like (collectively, "Boston Scientific Property"), will be and remain the sole and exclusive property of Boston Scientific. For the avoidance of doubt, Boston Scientific Property shall exclude Encision Developed IP, other Encision IP, and AEM Technology. Encision will keep and maintain in Encision's custody and control any Boston Scientific Property that Encision receives or

develops during the term of this Agreement and, upon termination or expiration of this Agreement or otherwise upon request by Boston Scientific, promptly return or surrender to Boston Scientific all Boston Scientific Property without retaining any copies thereof in any form.

10. **Ownership of IP:** BSC Developed IP and other BSC IP shall at all times be and remain the sole and exclusive property of BSC. Encision Developed IP, other Encision IP, and AEM Technology shall at all times be and remain the sole and exclusive property of Encision. The parties shall consult with each other in good faith to determine filing, control of prosecution, maintenance and enforcement decisions with respect to jointly (between BSC and Encision) Developed IP, with the cost of filing, prosecution and maintenance with respect to such joint Developed IP to be shared equally by the parties.
11. **Encision Licenses to BSC:** Encision hereby grants to BSC the following licenses:
 - a. a non-exclusive, worldwide, royalty-free, irrevocable and perpetual right and license in the Field under the Encision IP, to the extent incorporated into or necessary to the manufacture, use or sale of the Developed Product or Equipment, and solely for the purpose to make, have made, use, market, import, sell or have sold the Developed Product and/or to use, market, import, sell, or have sold the Equipment.
 - b. a non-exclusive, worldwide, royalty-bearing (as set forth in Section 12(b) in the event BSC decides to provide Commercial units), irrevocable and perpetual right and license in the Field under the AEM Technology, to the extent incorporated into or necessary to the manufacture, use or sale of the Developed Product or Equipment, and solely for the purpose to make, have made, use, market, import, sell, or have sold the Developed Product and/or to use, market, import, sell, or have sold the Equipment.
12. **Consideration:** As consideration for the licenses granted in Section 11 and the supply of the bench work phase and FHU Trial Phase units of Developed Product, BSC shall pay to Encision:
 - a. A one-time license fee of [*], payable in two equal payments of [*], with the first [*] payment due within five (5) business days of the Effective Date and the second [*] payment due on the six (6) month anniversary of the Effective Date; and
 - b. If, in BSC's sole discretion, BSC decides to provide Commercial units of Developed Product and/or the Equipment:
 - i. A one-time Commercialization license fee of [*], and
 - ii. To the extent Encision is unable or unwilling to supply the Developed Product and/or Equipment under Section 14(a), or BSC elects to manufacture for itself the Developed Product and/or Equipment or to have the Developed Product and/or Equipment manufactured by a third party for supply to BSC under Section 14(b), a royalty for the term of the AEM Patents to the extent the manufacture, use or sale of the Commercial units of Developed Product and/or Equipment constitutes AEM Technology, at a rate to be negotiated in good faith between the parties that will not exceed [*] of net sales of the Developed Product and/or Equipment.

Contains Confidential Information

The royalty rate and the due date of the license fee set forth in Section 12(b) shall be negotiated in good faith by the parties, in connection with a separate agreement (as set forth in Section 14 below) that shall be entered into by the parties at such time as BSC, in its sole discretion, decides to provide Commercial units of the Developed Product and/or the Equipment.

13. **BSC License to Encision:** BSC hereby grants to Encision for the term of this Agreement a non-exclusive, worldwide, royalty-free right and license under the BSC IP relating to the Specifications or Developed Product solely to develop the Developed Product for BSC, and solely to manufacture and supply the Developed Product and Equipment to BSC.
14. **Commercial Supply:** At any time following completion of the Services as detailed in the SOWs of Schedule A regarding the bench work phase and FHU Trial Phase, BSC shall have the option, in its sole discretion, to provide Commercial units of the Developed Product and/or the Equipment:
 - a. **Commercial Supply by Encision.** If BSC decides to commercialize the Developed Product and/or the Equipment with Encision, the parties shall negotiate in good faith for the purpose of entering into a supply agreement, pursuant to which Encision will manufacture and supply Developed Product and/or Equipment for BSC. Such supply agreement will include terms that are customary in the industry, the consideration set forth in Section 12(b)(i), and additional terms, such as Specifications, Deliverables, quantity, pricing, payment, branding, delivery, taxes, acceptance, inspection, quality, regulatory, patent marking, and timing.

In the event Encision is or becomes unable or unwilling to manufacture and supply the Developed Product and/or the Equipment for BSC, the parties shall negotiate in good faith and agree in writing on the royalty percentage figure for the consideration in paragraph 12(b)(ii), and Encision shall promptly, upon written request from BSC, take all steps reasonably necessary to disclose to BSC in accordance with the licenses in Section 11 only that particular Encision IP and AEM Technology that is reasonably necessary for BSC to make or have made the Developed Product and/or the Equipment. In addition, Encision shall provide BSC all assistance reasonably necessary to train personnel to manufacture the Developed Product and/or the Equipment, and technical consultation, advice, and know-how relating to the manufacture of the Developed Product and/or the Equipment, such as documentation, drawings, specifications, protocols, process information, and the like. For the avoidance of doubt, the Developed Product and/or the Equipment made, used or sold based on BSC having under this paragraph to manufacture for itself the Developed Product and/or the Equipment, or to have the Developed Product and/or the Equipment manufactured by a third party for supply to BSC, is subject to the royalty rate provisions described above in paragraph 12(b)(ii). In the event that Encision and BSC had entered into a supply agreement and Encision, after becoming unable or unwilling to manufacture and supply the Developed Product and/or the Equipment for BSC, is able or willing (and both parties subsequently agree to allow Encision) to resume such manufacture and supply, the supply agreement shall be deemed reinstated and thereafter in full force and effect without any further action required by either Boston Scientific or Encision. Upon any such reinstatement, Boston Scientific shall return and/or destroy all copies of Encision IP and AEM Technology relating to the Equipment transferred under the terms of this paragraph that are not Boston Scientific Property.

- b. **Commercial Supply by BSC or Third Party.** Notwithstanding the foregoing, if BSC prefers, in its sole discretion, to manufacture for itself the Developed Product and/or the Equipment, or to have the Developed Product and/or the Equipment manufactured by a third party for supply to BSC, the parties shall negotiate in good faith and agree in writing on the timing and royalty percentage figure for the consideration in Section 12(b), and Encision shall promptly, upon

Contains Confidential Information

written request from BSC, take all steps reasonably necessary to disclose to BSC in accordance with the licenses in Section 11 only that particular Encision IP and AEM Technology that is reasonably necessary for BSC to make or have made the Developed Product, including for use with the Equipment. In addition, Encision shall provide BSC all assistance reasonably necessary to train personnel to manufacture the Developed Product, and technical consultation, advice, and know-how relating to the manufacture of the Developed Product, including for use with the Equipment, such as documentation, drawings, specifications, protocols, process information, and the like. For the avoidance of doubt, the Developed Product and/or the Equipment made, used or sold based on BSC's decision under this paragraph to manufacture for itself the Developed Product and/or the Equipment, or to have the Developed Product and/or the Equipment manufactured by a third party for supply to BSC, is subject to the royalty rate provisions described above in paragraph 12(b)(ii).

15. **Information Not for Sale; No Implied Licenses:** The parties acknowledge that the disclosure of Proprietary Information (including that which is a process, machine, manufacture, or composition of matter) is not intended to be an offer for sale or public use. Each party shall not: (a) appropriate or use Proprietary Information of the other party for itself, for any third party or for any other purpose other than in accordance with this Agreement; or (b) by virtue of either this Agreement or the other party's performance of Services obtain any title to, interest in or license in any Proprietary Information of the other party, except as expressly provided herein.

16. *[This section intentionally left blank]*

17. **Additional Warranties:** Encision represents, warrants and covenants that as of the Effective Date and throughout the term of this Agreement: (a) Encision has and shall have the unrestricted right to disclose any information Encision submits to Boston Scientific hereunder free of all claims of third parties; (b) Encision's execution and delivery of, and performance under, this Agreement does not, and will not, conflict with or violate any other agreement to which Encision is a party or any obligation or restriction of any kind, including any confidentiality obligation to third parties; (c) Encision will comply with all applicable laws, ordinances, rules and regulations in the performance of its obligations under this Agreement; (d) all Services to be performed hereunder shall be performed by individual employees of Encision (and not subcontractors unless explicitly approved by the Liaison as described in Section 2 above, such approval not to be unreasonably withheld, conditioned or delayed), each of whom shall possess the requisite knowledge, training and experience to perform such Services in accordance herewith; (e) Encision shall advise each of its employees of Encision's obligations under Sections 7 through 16 of this Agreement and that each of such employees and any approved subcontractors shall be similarly bound as if he or she were the contracting party hereto, and in any event Encision shall be liable for the breach of this Agreement by any of its employees and subcontractors; and (f) Encision has and shall have in place legal, valid and binding agreements, including appropriate written confidentiality, invention assignment and copyright assignment agreements, with each of its employees and any approved subcontractors with respect to

the matters covered by Sections 7 through 16 of this Agreement, in each case sufficient to carry out the purposes of such provisions, including enabling Boston Scientific to enjoy the benefits and rights conferred thereunder without regard to whether it had contracted with Encision or directly with Encision's employee(s) or approved subcontractor(s) hereunder.

In addition, as of the Effective Date, Encision represents and warrants that it is not excluded, debarred, suspended or otherwise ineligible to participate in U.S. government health care programs (e.g., Medicare, Medicaid, CHAMPUS) or U.S. government procurement and non-procurement programs. If, during the term of this Agreement, Encision becomes excluded, debarred, suspended or otherwise ineligible to participate in any of the programs described in the immediately preceding

Contains Confidential Information

8

sentence, Encision will disclose immediately by written notice to Boston Scientific details of such exclusion, debarment, suspension or other ineligibility, and this Agreement will terminate immediately.

Encision further represents, warrants and covenants that throughout the term of this Agreement, all work in connection with Services performed and Deliverables delivered under the Agreement and any SOW shall: (i) be consistent with best industry practices; (ii) be free of any defects in design, material or workmanship; (iii) meet all specifications provided by Boston Scientific; (iv) comply with all applicable laws; (v) be free and clear of all liens and encumbrances or other defects in title; and (vi) be original and free of infringement of any third party intellectual property rights, except to the extent that such infringement is a direct result of adherence to Specifications provided by Boston Scientific.

Encision represents and warrants that during the 180 days following the delivery of a Deliverable, that the Deliverable will conform to the Specifications for such Deliverable set forth in the applicable SOW and that any nonconformities will be remedied promptly, or if that is not possible, the Deliverable will be replaced promptly with a conforming Deliverable. If Encision fails to remedy a breach of this subparagraph within a reasonable period of time, then Boston Scientific may terminate the applicable SOW pursuant to and in accordance with Section 5, and in addition to all of its other remedies at law and in equity, may seek a refund from Encision of all amounts then paid under the applicable SOW so terminated.

Encision represents and warrants that any Encision IP or AEM technology, Deliverables, Encision tools, software or hardware, or the like, that is licensed to Encision by a third party does not require a license or payment of any consideration by BSC to any third party for purposes of delivering the Deliverables under an SOW, and no such third party license(s) to the extent any may be or become applicable to the manufacture, use or sale of Developed Product will be implemented without the prior approval of BSC.

18. Indemnification:

- a. Encision agrees to indemnify, defend and hold Boston Scientific and its affiliates and their personnel, officers and directors harmless from and against any loss, costs, expenses (including reasonable attorneys fees) or damages incurred by them to the extent arising from (a) a material breach of this Agreement by Encision, including the representations and warranties in Section 17; or (b) Encision's negligence.
- b. Boston Scientific agrees to indemnify, defend and hold Encision and its affiliates and their personnel, officers and directors harmless from and against any loss, costs, expenses (including reasonable attorneys fees) or damages incurred by them to the extent arising from (a) a material breach of this Agreement by Boston Scientific; or (b) Boston Scientific's negligence.
- c. The indemnifying party's obligations under this Section 18 are conditioned upon the indemnified party: (i) providing notice to the indemnifying party of any claims promptly, but not later than 30 days after notice of such claim; (ii) permitting the indemnifying party to assume full responsibility for the defense of such claim; (iii) assisting the indemnifying party in defense of such claim; and (iv) not compromising or settling any such claim without the indemnifying party's prior consent, which shall not be unreasonably withheld, conditioned or delayed. The indemnifying party shall not compromise or settle any such claim without the indemnified party's prior consent, which shall not be unreasonably withheld, conditioned or

Contains Confidential Information

9

delayed, unless such compromise or settlement includes a full release of the indemnified party without any admission of liability or future obligation, monetary or otherwise.

19. **Miscellaneous:** Each party may not use the other party's name in any advertising or other form of publicity without the prior written permission of the other party. Encision acknowledges and agrees that it is free from the supervisory direction and control of Boston Scientific, is an independent contractor with no authority to sign the name or bind in any manner Boston Scientific, and is not entitled to any benefits for which Boston Scientific employees are eligible. This Agreement, together with each SOW attached hereto, is the entire understanding between the parties with regard to the subject matter hereof, and any prior or contemporaneous agreements between the parties relating to the subject matter hereof, either oral or written, are hereby superseded. No amendment to this Agreement, including changes to any SOW attached hereto, will be effective unless made in writing and signed by Encision and an authorized representative of Boston Scientific. This Agreement is governed by the laws of The Commonwealth of Massachusetts, without regard to its internal conflicts of law rules. The parties hereby consent and submit to the personal jurisdiction and venue of the state and federal courts located in Boston, MA for all disputes, suits, actions and claims related to or arising out of this Agreement. If any provision of this Agreement shall prove to be unenforceable, invalid or prohibited by any applicable law, such provision will be interpreted to be enforceable to the maximum extent permitted under applicable law; *provided* that any modification thereto does not frustrate an essential purpose of the Agreement, in which case the parties shall seek in good faith alternative provisions to achieve the same purpose. This Agreement is not assignable by Encision, nor may Encision delegate or sub-contract any duties hereunder. This Agreement will inure to the benefit of Boston Scientific and its successors and assigns. The headings in this Agreement are intended solely for convenience of reference and will be given no effect in the construction or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they will be deemed to be followed by the words "without limitation." Failure or delay of either party to enforce any right under this Agreement will not be deemed a waiver thereof. In the event of a conflict between the terms of this Agreement and a SOW, the terms of this Agreement shall control, unless a SOW includes reference to the particular section or subsection(s) of this Agreement that will be controlled by the SOW, with the parties acknowledging and agreeing that such change in controlling terms shall be applicable only for that SOW and not for any other SOW.
20. **Notice:** Any notice required to be given by either party will be deemed sufficiently given if mailed by certified mail, return receipt requested, or by a nationally recognized courier that guarantees overnight delivery and addressed as follows: (a) if to Encision, to Encision's address set forth on the first page of this Agreement; and (b) if to Boston Scientific, to Boston Scientific Corporation, 100 Boston Scientific Way, Marlborough, MA 01752, Attn: [*]; and, with respect to legal matters, with a copy to: Boston Scientific Corporation, One Boston Scientific Place, Natick, Massachusetts 01760-1537, Attn: General Counsel.
21. **Review of Agreement:** Encision acknowledges that it has had an adequate amount of time to read this Agreement and review its provisions with its counsel and advisors if it so chooses.

[Remainder of page left intentionally blank]

Contains Confidential Information

10

If the foregoing accurately represents our agreement, please sign where indicated below and return one copy of this Agreement to me. Please note that Boston Scientific cannot have you commence Services until after it has received the fully-signed Agreement from you, as required by Boston Scientific policies.

Sincerely,

BOSTON SCIENTIFIC CORPORATION

Date: January 21, 2011

By: /s/ Kurt Geitz

Name: Kurt Geitz

Title: Vice President of R&D

AGREED AND ACKNOWLEDGED:

ENCISION INC.

Date: January 20, 2011

By: /s/ Jack Serino

Name: Jack Serino

Title: President & CEO

Contains Confidential Information

11

SCHEDULE A
ATTACHMENT — 1 (BENCH WORK PHASE UNITS STATEMENT OF WORK)

Contains Confidential Information

12

SCHEDULE A
ATTACHMENT — 2 (FHU TRIAL PHASE UNITS STATEMENT OF WORK)

[Editorial Note: Intentionally omitted because the parties have combined what was anticipated to be in Attachment 2 with Attachment 1.]

Contains Confidential Information

13

APPENDIX A
(AEM Patents)

[*]

Contains Confidential Information

14

APPENDIX B
(May 5, 2008 Confidential Disclosure Agreement)

Contains Confidential Information

15



CONFIDENTIAL DISCLOSURE AGREEMENT

This Agreement is entered into May 5, 2008, between Boston Scientific Corporation (including its subsidiaries, collectively identified herein as "BSC"), a corporation with a place of business at One Boston Scientific Place, Natick, MA 01760-1537 and Encision Inc., 6797 Winchester Circle, Boulder, Colorado 80301, attn: John R. Serino, President and Chief Executive Officer.

WHEREAS, each party has developed or owns technical, operational, and business Information which it deems proprietary;
and

WHEREAS, the Parties agree that to facilitate possible future business arrangements concerning Boston Scientific's[*] (the "Project"), it may be necessary to exchange certain Information on a confidential basis;

NOW, THEREFORE, in consideration of the mutual benefits to be derived from the exchange of Information, the Parties agree as follows:

"Information" is defined as communication or data, in any form, including but not limited to oral, written, graphic or electromagnetic forms and physical observation.

"Proprietary Information" is defined as that Information which a Party desires to protect against unrestricted disclosure or competitive use, and which is designated as such in the manner provided by this Agreement.

All Information which is disclosed by one Party to the other Party and which is to be protected hereunder as Proprietary Information of the disclosing Party:

- (a) If in writing or other tangible form, shall be conspicuously labeled as proprietary at the time of delivery; and
- (b) If oral, or is disclosed by observation or viewing, shall be identified as proprietary prior to disclosure; and after disclosure shall be reduced to writing or other tangible form, within thirty (30) business days thereafter, and delivered to the receiving party.

Proprietary Information of a disclosing Party shall be treated and safeguarded hereunder by the receiving Party for a period of five (5) years from the date of disclosure and with the same degree of care with which it treats its own Proprietary Information of like character. The receiving Party warrants that it applies reasonable safeguards against the unauthorized disclosure and use of Proprietary Information.

The receiving Party agrees that (i) any Proprietary Information disclosed hereunder shall be used by the receiving Party solely for the purpose of evaluating the mutual interests of the Parties in the Project and (ii) it will not distribute, disclose, or disseminate Proprietary Information to anyone except its employees and consultants who are involved in the consideration or evaluation of the Project and who are bound to maintain its confidentiality, unless and until such time as:

-
- (a) Such Information is or becomes generally available to the public, through no fault of the receiving Party, its employees or consultants, and without breach of this Agreement; or
 - (b) Such Information is already in the possession of the receiving Party, its employees or consultants without restriction and prior to any disclosure hereunder, as evidenced by appropriate documentation; or
 - (c) Such Information is or has been lawfully disclosed to the receiving Party, its employees or consultants by a third party without an obligation of confidentiality upon the receiving Party; or
 - (d) Such Information can be shown to have been developed independently by employees or consultants of the receiving Party without use of the Information disclosed hereunder, as evidenced by appropriate documentation.

If disclosure is required by order of a competent court, each Party will give the other Party prior written notice sufficient for it to seek appropriate protective orders.

Except as expressly provided herein, no license or right is granted by either Party to the other Party under any patent, patent application, trademark, copyright or trade secret.

All Information furnished by one Party to the other Party shall remain the property of the disclosing Party. At the written request and instruction of the disclosing Party, all Information in the possession of the receiving Party which is Proprietary Information shall be returned to the disclosing Party, except for one archival copy.

This Agreement is governed by the laws of The Commonwealth of Massachusetts, USA, without regard for the conflicts of law provisions.

This Agreement sets forth the entire agreement and understanding between the Parties as to the subject matter hereof and merges all prior discussions between them.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by duly authorized representatives as of the date first written above.

Very truly yours,
Boston Scientific Corporation

ACKNOWLEDGED, ACCEPTED
AND AGREED TO:

By: /s/ William J. Shaw
Name: William J. Shaw
Title: Patent Counsel

By: /s/ John R. Serino
Name: John R. Serino
Title: President and CEO
Date: May 7, 2008

Confidential
January 27, 2011

Attachment-1

1. This Attachment-1 is issued as a Statement of Work (SOW) to that certain Development License and Supply Agreement between Boston Scientific Corporation and Encision, Inc., dated 21-January-2011 (the "Agreement"), and is incorporated by reference as part of such Agreement as of the date this Attachment-1 is signed by the parties.
2. **Services:** Service Provider shall perform the services requested by Boston Scientific in connection with its[*], for which services are detailed in: (a) the statements and table(s) set forth below, as described therein and in accordance with the payments and within the deadlines set forth therein; (b) further statements of work signed by the parties, if any, as described therein and in accordance with the payments and within the deadlines set forth therein; and/or (c) purchase order(s) issued by Boston Scientific in accordance therewith. In the event of any conflict between the Agreement and any purchase order or statement of work, the Agreement shall control.

The technical liaison for Services is [*], who may be reached at[*] (unless Boston Scientific hereafter notifies Encision of a new liaison for services).

As part of the Services, Service Provider shall generate and maintain all relevant and appropriate design history files and/or design master record documents. Services shall be performed with respect to BSC's specifications. Document numbers will be assigned by Boston Scientific.

Service Provider will provide design and manufacturing development services in accordance with the table(s) included in this Attachment-1.

3. **Payment:** Boston Scientific shall pay Service provider at the following hourly rates:

Executive Engineering: [*]
Senior Engineering: [*]
Engineering, Project Management: [*]
Prototyping: [*]
Technician/Drafting: [*]

for the Services that are set forth in this SOW, or in purchase order(s) corresponding to this SOW, as compensation for such Services satisfactorily performed by Service Provider, based upon invoices to be provided by Service Provider and in accordance with the Agreement.

BOSTON SCIENTIFIC CORPORATION

ENCISION, INC.

By: /s/ Barry Weitzner
Name: Barry Weitzner
Title: Director, R&D

By: /s/ Warren Taylor
Name: Warren Taylor
Title: V.P. Engineering

[Remainder of page left intentionally blank]

Table I: Services to be provided pursuant to Attachment-1 SOW.*

	Item	Description	Milestone Timeline	Milestone Deliverable(s)	Maximum Estimated Fees and Costs
[*]	[*]	[*]	[*]	[*]	[*]

* The work proposed in Table I is based upon the following assumptions:

1. ENCISION, Inc. will not maintain a design history file for this SOW.
 2. All documentation supplied by Boston Scientific is current and up-to-date and in a condition that it may be readily released into ENCISION, Inc. document control system and used for manufacture.
 3. An initial purchase order will be issued to ENCISION, Inc. within thirty (30) days of the date of this SOW.
-

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 15, 2011, with respect to the balance sheet of Encision Inc. as of March 31, 2011, and the related statements of operations, shareholders' equity, and cash flows for the year then ended, which appears in the March 31, 2011 Annual Report on Form 10-K of Encision Inc.

/s/ Eide Bailly LLP

Eide Bailly LLP

Greenwood Village, Colorado

June 15, 2011

CERTIFICATION

I, John R. Serino, certify that:

1. I have reviewed this 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 15, 2011.

/s/ John R. Serino

John R. Serino

Principal Executive Officer

CERTIFICATION

I, Marcia McHaffie, certify that:

1. I have reviewed this 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 registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: June 15, 2011.

/s/ Marcia McHaffie

Marcia McHaffie
Controller, Principal Accounting Officer and Principal Financial
Officer

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, 2011 (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 15, 2011.

/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, 2011 (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 15, 2011.

/s/ Marcia McHaffie

Marcia McHaffie

Controller, Principal Accounting Officer and Principal Financial Officer
