ENCISION INC
Form 10-Q
February 12, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 0-28604

ENCISION INC.

(Exact name of registrant as specified in its charter)

Colorado	**84-1162056**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6797 Winchester Circle

Boulder, Colorado 80301

(Address of principal executive offices)

(303) 444-2600

(Registrant s telephone number)

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

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

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.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common equity, as of the latest practicable date:

Common Stock, no par value	**6,455,100 Shares**
(Class)	(outstanding at January 31, 2010)

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ENCISION INC.

FORM 10-Q

For the Three Months Ended December 31, 2009

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PART I FINANCIAL INFORMATION

ITEM 1 – CONDENSED INTERIM FINANCIAL STATEMENTS

Encision Inc.

Condensed Balance Sheets

(unaudited)

	December 31, 2009	March 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 46,582	$ 84,658
Accounts receivable, net of allowance for doubtful accounts of $10,500 at December 31, 2009 and $9,000 at March 31, 2009	1,196,611	1,263,751
Inventories, net of reserve for obsolescence of $55,000	2,351,121	2,504,598
Prepaid expenses	91,909	36,541
Total current assets	3,686,223	3,889,548
Equipment, at cost:		
Furniture, fixtures and equipment	2,340,307	2,003,337
Customer-site equipment	751,504	667,171
Accumulated depreciation	(1,997,125)	(1,830,273)
Equipment, net	1,094,686	840,235
Patents, net of accumulated amortization of $140,393 at December 31, 2009 and $128,994 at March 31, 2009	264,887	215,801
Other assets	26,929	24,505
TOTAL ASSETS	$ 5,072,725	$ 4,970,089
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 372,276	$ 745,138
Accrued compensation	337,002	405,906
Other accrued liabilities	388,067	367,266
Line of credit		190,942
Total current liabilities	1,097,345	1,709,252
Long-term liabilities:		
Line of credit	275,000	
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	19,640,391	19,559,626
Accumulated (deficit)	(15,940,011)	(16,298,789)
Total shareholders equity	3,700,380	3,260,837
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 5,072,725	$ 4,970,089

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

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Encision Inc.

Condensed Statements of Operations

(Unaudited)

Three Months Ended	December 31, 2009	December 31, 2008
NET SALES	$ 3,260,316	$ 3,270,854
COST OF SALES	1,251,710	1,191,492
GROSS PROFIT	2,008,606	2,079,362
OPERATING EXPENSES:		
Sales and marketing	1,146,245	1,191,079
General and administrative	361,305	354,908
Research and development	340,749	286,551
Total operating expenses	1,848,299	1,832,538
OPERATING INCOME	160,307	246,824
Interest expense, net	(9,213)	(14,449)
Other income (expense), net	(2,071)	535
Interest and other income (expense), net	(11,284)	(13,914)
INCOME BEFORE PROVISION FOR INCOME TAXES	149,023	232,910
Provision for income taxes		
NET INCOME	$ 149,023	$ 232,910
Net income per share basic	$ 0.02	$ 0.04
Net income per share diluted	$ 0.02	$ 0.04
Weighted average shares basic	6,455,100	6,455,100
Weighted average shares diluted	6,461,192	6,455,100

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

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Encision Inc.

Condensed Statements of Operations

(Unaudited)

Nine Months Ended	December 31, 2009	December 31, 2008
NET SALES	$ 9,649,587	$ 9,711,029
COST OF SALES	3,664,038	3,714,908
GROSS PROFIT	5,985,549	5,996,121
OPERATING EXPENSES:		
Sales and marketing	3,580,145	3,887,030
General and administrative	1,058,367	1,079,861
Research and development	946,591	855,764
Total operating expenses	5,585,103	5,822,655
OPERATING INCOME	400,446	173,466
Interest expense, net	(34,026)	(50,073)
Other income (expense), net	(7,642)	20,500
Interest and other income (expense), net	(41,668)	(29,573)
INCOME BEFORE PROVISION FOR INCOME TAXES	358,778	143,893
Provision for income taxes		
NET INCOME	$ 358,778	$ 143,893
Net income per share basic	$ 0.06	$ 0.02
Net income per share diluted	$ 0.06	$ 0.02
Weighted average shares basic	6,455,100	6,453,338
Weighted average shares diluted	6,463,018	6,453,338

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

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Encision Inc.

Condensed Statements of Cash Flows

(Unaudited)

Nine Months Ended	December 31, 2009	December 31, 2008
Cash flows from operating activities:		
Net income	$ 358,778	$ 143,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	178,251	181,102
Stock-based compensation expense related to stock options	80,765	124,259
Stock-based interest expense related to warrants		9,381
Provision for doubtful accounts, net	1,500	(1,000)
Provision for inventory obsolescence, net		(20,000)
Change in operating assets and liabilities:		
Accounts receivable	65,640	20,916
Inventories	153,477	192,816
Prepaid expenses and other assets	(57,792)	9,558
Accounts payable	(372,862)	136,209
Accrued compensation and other accrued liabilities	(48,103)	(187,469)
Net cash provided by operating activities	359,654	609,665
Cash flows from investing activities:		
Acquisition of property and equipment	(421,303)	(184,250)
Patent costs	(60,485)	(28,492)
Net cash (used in) investing activities	(481,788)	(212,742)
Cash flows from financing activities:		
Borrowings from (paydown of) credit facility	84,058	(407,058)
Proceeds from the exercise of stock options		11,520
Net cash provided by (used in) financing activities	84,058	(395,538)
Net increase (decrease) in cash and cash equivalents	(38,076)	1,385
Cash and cash equivalents, beginning of period	84,658	70,995
Cash and cash equivalents, end of period	$ 46,582	$ 72,380

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

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ENCISION INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2009

(Unaudited)

Note 1. ORGANIZATION AND NATURE 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 patient safety risk in laparoscopic surgery. Our sales to date have been made principally in the United States.

We have, except for fiscal years 2009, 2004 and 2003 when we achieved profitable operations, incurred losses since our inception and have an accumulated deficit of $15,940,011 at December 31, 2009. Operations have been financed primarily through issuances of our common stock and warrants to purchase our common stock and, to a lesser extent, profits from operations. Our liquidity has substantially diminished because of such continuing operating losses, and we may be required to seek additional capital in the future.

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

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The condensed interim financial statements included herein have been prepared by us, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles accepted in the United States have been condensed or omitted pursuant to such rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. The condensed interim financial statements and notes thereto should be read in conjunction with the financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2009, filed on June 29, 2009.

The accompanying condensed interim financial statements have been prepared, in all material respects, in conformity with the standards of accounting measurements and reflect, in the opinion of management, all adjustments necessary to summarize fairly the financial position and results of operations for such periods in accordance with accounting principles generally accepted in the United States. All adjustments are of a

normal recurring nature. The results of operations for the most recent interim period are not necessarily indicative of the results to be expected for the full year.

Use of Estimates in the Preparation of Financial Statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and the 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. In February 2008, the Financial Accounting Standards Board (FASB) issued FSP FASB ASC 820-10-55 (Prior authoritative literature: FASB FSP 157-2/Statement 157, Effective Date of FASB Statement No. 157.) FASB ASC 820-10-55 (Prior authoritative literature: FASB FSP 157-2/Statement 157, Effective Date of FASB Statement No. 157), which delayed the effective date for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of the provisions of FASB ASC 820-10-55 (Prior authoritative literature: FASB FSP 157-2/Statement 157, Effective Date of FASB Statement No. 157) related to nonfinancial assets and nonfinancial liabilities on January 1, 2009 did not have a material impact on the Financial Statements. We adopted FASB ASC 820-10-55 as of April 1, 2008 for financial assets and liabilities and other assets and liabilities carried at fair value on a recurring basis. We adopted FASB ASC 820-10-55 for all nonfinancial assets and liabilities as of April 1, 2009. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies under other accounting pronouncements that require or permit fair value measurements.

Our financial instruments consist of cash and cash equivalents, short-term trade receivables, payables and line of credit. The carrying values of cash and cash equivalents and short-term receivables and payables approximate their fair value due to their short maturities.

Concentration of Credit Risk. Financial instruments with significant credit risk include cash. The amount of cash that we have on deposit with financial institutions may from time to time exceed the $250,000 federally insured limit. However, we believe that the financial institutions are financially sound and the risk of loss is minimal.

Financial instruments consist of cash and cash equivalents, short-term trade receivables, payables and line of credit. The carrying value of all financial instruments approximate fair value.

We have no significant off-balance sheet concentrations of credit risk such as foreign exchange contracts, options contracts or other foreign hedging arrangements. We maintain the majority of our cash balances with one financial institution in the form of demand deposits and money market funds. 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. The net accounts receivable balance at December

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31, 2009 of $1,196,611 included no more than 3% from any one customer. The net accounts receivable balance at March 31, 2009 of $1,263,751 included no more than 6% 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.

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

	December 31, 2009	March 31, 2009
Raw materials	$ 1,281,718	$ 1,336,376
Finished goods	1,124,403	1,223,222
Total gross inventories	2,406,121	2,559,598
Less reserve for obsolescence	(55,000)	(55,000)
Total net inventories	$ 2,351,121	$ 2,504,598

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.

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 granted. We review the carrying value of our patents periodically to determine whether the patents have continuing value, and such reviews could result in the conclusion that the recorded amounts have been impaired.

Accrued Liabilities. We have accrued $50,000 related to warranty claims, $45,889 related to sales commissions and $6,217 related to rent normalization and have included these amounts in accrued liabilities in the accompanying balance sheet at December 31, 2009. At March 31, 2009, we had accrued $50,000 related to warranty claims, $63,300 related to sales commissions and $15,202 related to rent normalization and have included these amounts in accrued liabilities in the accompanying balance sheet at March 31, 2009.

Income Taxes. We account for income taxes under FASB ASC 740-10-30 (Prior authoritative literature, FASB Statement 109 Accounting for Income Taxes . Recognition is required of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. SFAS 109 also requires recognition of deferred tax assets for the expected future tax effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. During the three months ended December 31, 2009, we reversed our deferred tax assets and valuation allowance by the effective tax rate on loss carryforwards that were used to offset taxable income for such period. During fiscal year 2009, no tax benefit was obtained from our loss. As a result, no tax benefit is reflected in the accompanying statements of operations for fiscal year 2009. Should we achieve sufficient, sustained income in the future, we may conclude that more or all of the valuation allowance should be reversed. We are required to make many subjective assumptions and judgments regarding our income tax exposures. At December 31, 2009, we had no unrecognized tax benefits which would affect the effective tax rate if recognized and had no accrued interest or penalties related to uncertain tax positions.

Sales Recognition. Sales from product sales is 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.

Stock-Based Compensation. We accounted for stock-based compensation under the provisions of FASB Accounting Standards Codification (ASC) 718-10-55 (Prior authoritative literature: FASB Statement 123(R), Share-Based Payment). This statement requires us to record an expense associated with the fair value of stock-based compensation. We currently use the Black-Scholes option valuation model to calculate stock based compensation at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

Stock-based compensation expense recognized under FASB Accounting Standards Codification (ASC) 718-10-55 for the three and nine months ended December 31, 2009 was $33,993 and $80,765, respectively, which consisted of stock-based compensation expense related to grants of employee stock options. Stock-based compensation expense related to grants of employee stock options recognized for the three and nine months ended December 31, 2008 was $45,828 and $124,259, respectively.

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

Recently Issued and Adopted Accounting Guidance

Recently Issued Accounting Guidance

Since the filing of our Form 10-K for the fiscal year ended March 31, 2009, the Financial Accounting Standards Board (FASB) has issued 22 accounting standards updates. We have evaluated these updates and do not believe the adoption of any of these updates will have a material impact on our unaudited condensed financial statements.

Recently Adopted Accounting Guidance

In June 2009, the FASB issued Accounting Standards Codification (ASC) 810, *Consolidation,* (formerly SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*) regarding the consolidation of variable interest entities. ASC 810 is intended to improve financial reporting by providing additional guidance to companies involved with variable interest entities and by requiring additional disclosures about a company s involvement in variable interest entities. We adopted the provisions of the standard on December 31, 2009, which did not have a material impact on our unaudited condensed consolidated financial statements.

In June 2009, the FASB issued ASC 860, *Transfers and Servicing* (formerly SFAS No. 166, *Accounting for Transfers of Financial Assets*). ASC 860 requires more information about transfers of financial assets and where companies have continuing exposure to the risk related to transferred financial assets. ASC 860 eliminates the concept of a qualifying special purpose entity, changes the requirements for derecognizing financial assets and requires additional disclosure. We adopted the provisions of the standard on December 31, 2009, which did not have a material impact on our unaudited condensed consolidated financial statements.

In June 2009, the FASB issued ASC 105, *Generally Accepted Accounting Principles* (formerly SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*). ASC 105 establishes the FASB ASC as the single source of authoritative nongovernmental U.S. GAAP, except for SEC rules and interpretive releases, which are sources of authoritative GAAP for SEC reporting companies. The standard is effective for interim and annual periods ending after September 15, 2009. We adopted the provisions of the standard on September 30, 2009, which did not have a material impact on our unaudited condensed consolidated financial statements.

In May 2009, the FASB issued ASC 855, *Subsequent Events* (formerly SFAS No. 165, *Subsequent Events*). ASC 855 establishes general accounting standards and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC 855 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855 is effective for fiscal years and interim periods ended after

June 15, 2009. We adopted the provisions of the standard, which had no effect on the unaudited condensed consolidated financial statements and subsequent events through the date of this filing. We evaluated subsequent events from January 1, 2010 to February 12, 2010, the date we issued our unaudited condensed consolidated financial statements.

In April 2009, the FASB issued ASC 825, *Financial Instruments* (formerly Financial Staff Position (FSP) No. 107-1 and Accounting Principles Board (APB) 28-1 (FSP No. 107-1 and APB 28-1), *Interim Disclosures about Fair Value of Financial Instruments*). ASC 825 requires disclosures of fair value for any financial instruments not currently reflected at fair value on the balance sheet for all interim periods. ASC 825 enhances consistency in financial reporting by increasing the frequency of fair value disclosures and is effective for interim and annual periods ending after June 15, 2009, and is to be applied prospectively. We adopted the provisions of the standard, which did not have an effect on our unaudited condensed consolidated financial statements.

Note 3. BASIC AND DILUTED INCOME AND LOSS PER COMMON SHARE

We report both basic and diluted net income (loss) per share. Basic net income or loss per common share is computed by dividing net income or loss for the period by the weighted average number of common shares outstanding for the period. Diluted net income or loss per common share is computed by dividing the net income or loss for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of the potential common shares is dilutive. The shares used in the calculation of dilutive potential common shares exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the period.

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

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Net income	$ 149,023	$ 232,910	$ 358,778	$ 143,893
Weighted-average shares basic	6,455,100	6,455,100	6,455,100	6,453,338
Effect of dilutive potential common shares	6,092		7,918	
Weighted-average shares diluted	6,461,192	6,455,100	6,463,018	6,453,338
Net income per share basic	$ 0.02	$ 0.04	$ 0.06	$ 0.02
Net income per share diluted	$ 0.02	$ 0.04	$ 0.06	$ 0.02
Antidilutive employee stock options	552,667	590,000	552,667	590,000

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Note 4. COMMITMENTS AND CONTINGENCIES

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

Fiscal Year		Amount
2010 (three months remaining)	$	60,621
2011		247,264
2012		254,629
2013		262,281
2014		270,221
2015		90,966
Total	$	1,185,982

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

Fiscal Year		Amount
2010 (three months remaining)	$	25,469
2011		101,873
2012		101,873
2013		101,873
2014		8,488
Total	$	339,576

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. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. As of December 31, 2009, we had borrowed $275,000 from the credit facility and, under our eligible receivables and inventory limit, had an additional $1,300,000 available to borrow.

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

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 compliance with these regulations. We believe that we were in substantial compliance with all known regulations as of December 31, 2009. FDA inspections are conducted periodically at the discretion of the FDA. Our latest inspection by the FDA occurred in November 2009.

Note 5. SHARE BASED COMPENSATION

The provisions of FASB Accounting Standards Codification (ASC) 718-10-55 requires the measurement and recognition of compensation expense for all share-based payment awards made to our employees and directors, including employee stock options, based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases for the three and nine months ended December 31, 2009 and 2008, which was allocated as follows:

	Three Months Ended		Nine Months Ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Cost of sales	$ 810	$ 1,113	$ 2,430	$ 1,533
Sales and marketing	5,562	7,950	16,310	22,068
General and administrative	23,445	30,756	49,497	85,007
Research and development	4,176	6,009	12,528	15,651
Stock-based compensation expense	$ 33,993	$ 45,828	$ 80,765	$ 124,259

The Black-Scholes model requires the use of actual employee exercise behavior data and the application of a number of assumptions, including expected volatility, risk-free interest rate and expected dividends. Stock options to purchase 200,000 and 235,000 shares of stock were granted during the three and nine months ended December 31, 2009, respectively. The weighted-average assumptions for employee stock options granted during the three and nine months ended December 31, 2009 are summarized as follows:

	Three Months Ended December 31, 2009	Nine Months Ended December 31, 2009
Risk-free interest rate	2.2%	2.3%
Expected life (in years)	5.0	5.0
Expected volatility	90%	88%
Expected dividend	0%	0%

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As of December 31, 2009, $422,000 of total unrecognized compensation costs related to nonvested stock options is expected to be recognized over a period of five years.

Note 6. RELATED PARTY TRANSACTION

We paid consulting fees of $18,035 and $47,225 to an entity owned by one of our directors during the three and nine months ended December 31, 2009, respectively, and approximately $13,000 and $42,000 during the three and nine months ended December 31, 2008, respectively.

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

Certain statements contained in this section on Management s Discussion and Analysis are not historical facts, including statements about our strategies and expectations with respect to new and existing products, market demand, acceptance of new and existing products, marketing efforts, 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 on Management s Discussion and Analysis 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-Q are strongly encouraged to review the section entitled *Risk Factors* in our Form 10-K for the fiscal year ended March 31, 2009.

General

Encision Inc., 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 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 preference for using electrosurgery devices in these procedures. The product opportunity was created by surgeons continued widespread demand for using monopolar electrosurgery instruments, which, when used in laparoscopic surgery, are susceptible to causing inadvertent collateral tissue damage outside the surgeon s field of view. The risk of unintended electrosurgical burn injury to the patient in laparoscopic surgery has been well documented. This risk poses a threat to patient safety and creates liability exposure for surgeons and hospitals that do not adequately address the issue.

Our patented AEM technology provides surgeons with the desired tissue effects, while preventing stray electrosurgical energy that can cause unintended and unseen tissue injury. AEM Laparoscopic Instruments are equivalent to conventional instruments in 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 when using conventional instruments. In addition, our 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 various groups involved in MIS. Surgeons, nurses, biomedical engineers, the medicolegal community, malpractice insurance carriers and electrosurgical device manufacturers advocate the use of AEM technology. Recommendations from the malpractice insurance and medicolegal communities complement the broad clinical endorsements AEM technology has garnered over the past few years.

Adding further credibility to the benefits of our AEM technology are our supplier agreements with Novation and Premier, two of the largest Group Purchasing Organizations (GPOs) in the United States. Together, Novation and Premier represent over 3,000 hospitals which perform over 50% of all surgery in the U.S. We believe that these GPO supplier agreements give further indication that AEM technology is gaining broader acceptance in the market. We believe that having the nation s leading medical purchasing groups recognize the value of our technology

reflects the potential impact that AEM products can have in the market and in advancing patient safety in surgery nationwide. These agreements do not involve purchase commitments, but we expect these relationships to expand the market visibility of AEM technology and to ease the procurement process for new hospital customers.

We have focused our marketing strategies to date on expanding the market awareness of the AEM technology and our broad independent endorsements and have continued efforts to improve and expand the AEM product line. Accordingly, we are currently focusing on updating our accepted AEM instruments to include ergonomics and user functionalities for which surgeons have been expressing a preference. During fiscal year 2006, we announced enTouch , an ergonomically-designed handle for our articulating instruments, and we plan to introduce new additions to the AEM product line in fiscal year 2010.

When a hospital changes to AEM technology, we receive recurring sales from sales of replacement instruments. We believe that there is no directly competing technology to supplant AEM products once a hospital switches to our products. The replacement market of reusable and disposable AEM products in hospitals that use our AEM technology represented over 90% of our sales during the three months ended December 31, 2009. This sales stream is expected to grow as the base of hospitals that switch to AEM technology continues to grow. In addition, we intend to develop disposable versions of more of our AEM products in order to meet market demands and expand our sales opportunities.

We have, except for fiscal years 2009, 2004 and 2003 when we achieved profitable operations, incurred losses since our inception and have an accumulated deficit of $15,940,011 at December 31, 2009. Operations have been financed primarily through issuances of our common stock and warrants, and to a lesser extent, from profits on operations. Our liquidity has substantially diminished because of such continuing operating losses, and we may be required to seek additional capital in the future.

During the nine months ended December 31, 2009, we provided $359,654 of cash from our operations and used $421,303 for investments in equipment. As of December 31, 2009, we had $46,582 in cash and cash equivalents available to fund future operations, a decrease of $38,076 from March 31, 2009. As of December 31, 2009, we had borrowed $275,000 from our $2,000,000 amended credit facility, an increase of $84,058 from March 31, 2009. Our working capital was $2,588,878 at December 31, 2009 compared to $2,180,296 at March 31, 2009.

Historical Perspective

We were organized 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 Office and international patent agencies. Patents were issued to us in 1994, 1996, 1997, 1998, 2002 and 2008.

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As we evolved, it became clear to us that our AEM 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 meet surgeons demands. As of fiscal year 2005, a sufficiently broad product line was available to provide hospital operating rooms with AEM instruments in most of the designs common for laparoscopic surgery.

The launch of an expanded line of AEM instruments was accomplished over the past three years. We are now turning our focus to developing next generation versions of our AEM instruments to better meet market demands, particularly the demand for improved ergonomics and simplified user functionalities. This strategy coincides with the independent endorsements of our AEM technology and the recommendations from the malpractice insurance and medicolegal communities.

Outlook

Installed Base of AEM Monitoring Equipment: We believe that sales of our installed base of AEM monitors will increase sales as the inherent risks associated with monopolar laparoscopic electrosurgery become more widely acknowledged and as we focus on increasing our sales efficiency. We expect that the replacement sales of electrosurgical instruments and accessories will also increase as additional hospitals adopt AEM technology. We anticipate that the efforts to improve the quality of sales representatives carrying the AEM product line, along with the introduction of next generation products, may provide the basis for increased sales and profitable operations. However, these measures, or any others that we may adopt, may not result in either increased sales or profitable operations. Furthermore, most of our next generation products are in the early stages of development.

We believe that the unique performance of the AEM technology and our breadth of independent endorsements provide an opportunity for continued market share growth. In our view, market awareness and awareness of the clinical credibility of the AEM technology, as well as awareness of our endorsements, are continually improving, and we expect this awareness to benefit our sales efforts for the remainder of fiscal year 2010. Our objectives in the remainder of fiscal year 2010 are to maintain expense controls while optimizing sales execution in the field, to expand market awareness of the AEM technology and to maximize the number of additional hospital accounts switching to AEM instruments while retaining existing hospital customers. In addition, acceptance of AEM products depends on surgeons preference for our instruments, which depends on factors such as ergonomics and ease of use in addition to the technological advantage of AEM products. If surgeons prefer other instruments to our instruments, our business results will suffer.

Possibility of Operating Losses: We have, except for fiscal years 2009, 2004 and 2003 when we achieved profitable operations, incurred losses since our inception and have an accumulated deficit of $15,940,011 at December 31, 2009. Operations have been financed primarily through issuances of our common stock and warrants to purchase our common stock and, to a lesser extent, profits from operations. We have made strides toward improving our operating results but due to the ongoing need to develop, optimize and train our direct sales managers and the independent sales representative network, the need to support the development of refinements to our product line, 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. Sustained losses, or our inability to generate sufficient cash flow from operations to fund our obligations, may result in a need to raise additional capital.

Sales Growth: Our sales growth has stabilized from weakness in the medical device industry. We expect to generate increased sales in the U.S. from sales to new hospital customers and from expanded sales in existing hospitals as our network of direct and independent sales

representatives becomes more efficient. We believe that the visibility and credibility of the independent clinical endorsements for AEM technology will contribute to new hospital accounts and increase sales in fiscal year 2010. We also expect that supplier agreements with Novation and Premier, which together represent over 3,000 U.S. hospitals, will expose more hospitals to the benefits of AEM technology and may stimulate new hospital accounts. We also expect to increase market share through promotional programs of placing our AEM monitors at no charge into hospitals that commit to standardize AEM instruments. However, all of these efforts to increase market share and grow sales will depend in part on our ability to expand the efficiency and effective coverage range of our direct and independent sales representatives.

We also have longer term initiatives in place to improve our prospects. We expect that development of next generation versions of our AEM products will better position our products in the marketplace and improve our retention rate at hospitals that have changed to AEM technology, enabling us to grow our sales. We may also explore overseas markets to assess opportunities for sales growth internationally. Finally, we intend to explore opportunities to capitalize on our proven AEM technology via licensing arrangements and strategic alliances. These efforts to generate additional sales and further the market penetration of our products are longer term in nature and may not materialize. Even if we are able to successfully develop next generation products or identify potential international markets or strategic partners, we may not be able to capitalize on these opportunities.

Gross Profit and Gross Margins: Gross profit and gross margins can be expected to fluctuate from quarter to quarter as a result of product sales mix and sales volume. Gross margins on products manufactured or assembled by us are expected to improve at higher levels of production and sales.

Manufacturing Equipment: We expect to increase gross profit and gross margins by manufacturing our scissor inserts internally. We began manufacturing our scissor inserts in the third quarter of fiscal year 2008.

Sales and Marketing Expenses: We continue our efforts to expand domestic and international distribution capability, and we believe that sales and marketing expenses will decrease as a percentage of net sales with increasing sales volume.

Research and Development Expenses: Research and development expenses are expected to increase modestly to support development of refinements to our AEM product line, which will further expand the instrument options for surgeons.

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Results of Operations

For the three months ended December 31, 2009 compared to the three months ended December 31, 2008.

Net sales. Net sales for the quarter ended December 31, 2009 were $3,260,316 compared to $3,270,854 for the quarter ended December 31, 2008, no percentage change. The decrease is attributable to weakness in the medical device industry and by business lost from hospitals that previously changed to AEM technology. This was partially offset by addition of new hospital accounts. We opened six new hospital accounts for AEM technology in the three months ended December 31, 2009 versus five new hospital accounts for AEM technology in the three months ended December 31, 2008. We have added sales employees in an effort to capitalize on identified market opportunities. It will take a number of months before new sales employees generate new hospital accounts, but we expect that these new additions will provide the focus that is needed to achieve market gains.

Gross profit. Gross profit for the quarter ended December 31, 2009 of $2,008,606 represented a decrease of 3% from gross profit of $2,079,362 for the quarter ended December 31, 2008. Gross profit as a percentage of sales (gross margins) decreased from 63.6% for the quarter ended December 31, 2008 to 61.6% for the quarter ended December 31, 2009. The gross profit margin decrease from the third quarter of fiscal year 2009 was due to increased sales of lower gross profit margin products.

Sales and marketing expenses. Sales and marketing expenses of $1,146,245 for the quarter ended December 31, 2009 represented a decrease of 4% from sales and marketing expenses of $1,191,079 for the quarter ended December 31, 2008. The decrease was a result of decreased commissions for independent sales representatives, decreased sales sample and sales literature costs. The decrease in such costs was partially offset by increased commissions for our sales employees, increased travel and trade show costs.

General and administrative expenses. General and administrative expenses of $361,305 for the quarter ended December 31, 2009 represented an increase of 2% from general and administrative expenses of $354,908 for the quarter ended December 31, 2008. The increase was the result of an increase in compensation expense.

Research and development expenses. Research and development expenses of $340,749 for the quarter ended December 31, 2009 represented an increase of 19% compared to $286,551 for the quarter ended December 31, 2008. The increase was the result of an increase in compensation and temporary help expense, and inventory usage, test materials and outside services for future new products.

Net income. Net income was $149,023 for the quarter ended December 31, 2009 compared to net income of $232,910 for the quarter ended December 31, 2008. The net income decrease was a result of a decrease in gross profit and increased operating expenses, as discussed above.

For the nine months ended December 31, 2009 compared to the nine months ended December 31, 2008.

Net sales. Net sales for the nine months ended December 31, 2009 were $9,649,587 compared to $9,711,029 for the nine months ended December 31, 2008, a decrease of 1%. The decrease is attributable to the business lost from hospitals that previously changed to AEM technology, partially offset by the addition of new hospital accounts. We opened 15 new hospital accounts for AEM technology in the nine months ended December 31, 2009 versus 34 new hospital accounts for AEM technology in the nine months ended December 31, 2008.

Gross profit. Gross profit for the nine months ended December 31, 2009 of $5,985,549 represented no percentage change from gross profit of $5,996,121 for the nine months ended December 31, 2008. Gross profit as a percentage of sales (gross margins) for the nine months ended December 31, 2009 did not change from 62% for the nine months ended December 31, 2008.

Sales and marketing expenses. Sales and marketing expenses of $3,580,145 for the nine months ended December 31, 2009 represented a decrease of 8% from sales and marketing expenses of $3,887,030 for the nine months ended December 31, 2008. The decrease was a result of decreased commissions for independent sales representatives, decreased sales sample, travel, sales literature, public relations and trade shows costs. The decrease in such cost was partially offset by increased compensation of our sales employees.

General and administrative expenses. General and administrative expenses of $1,058,367 for the nine months ended December 31, 2009 represented a decrease of 2% from general and administrative expenses of $1,079,861 for the nine months ended December 31, 2008. The decrease was the result of a decrease in stock option expense and regulatory fees.

Research and development expenses. Research and development expenses of $946,591 for the nine months ended December 31, 2009 represented an increase of 11% compared to $855,764 for the nine months ended December 31, 2008. The increase was a result of inventory usage for testing of products, outside services and tooling expense. The increase in such cost was partially offset by decreased compensation expense, temporary help and test materials.

Net income. Net income was $358,778 for the nine months ended December 31, 2009 compared to net income of $143,893 for the nine months ended December 31, 2008. The net income increase was a result of reduced operating expenses, as discussed above.

The results of operations for the three and nine months ended December 31, 2009 should not be taken as an indication of the results of operations for all or any part of the balance of the fiscal year.

Liquidity and Capital Resources

To date, operations have been financed primarily through issuances of our common stock and warrants to purchase our common stock which together totaled $19,640,391 through December 31, 2009 and, to a lesser extent, profits from operations.

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

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increase upon a default. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. As of December 31, 2009, we had borrowed $275,000 from the credit facility and, under our eligible receivables and inventory limit, had an additional $1,300,000 available to borrow.

Our operations provided $359,654 of cash during the nine months ended December 31, 2009 on net sales of $9,649,587. Cash was provided principally by net income and non-cash depreciation and amortization expense. The amounts of cash provided by and used in operations for the nine months ended December 31, 2009 are not indicative of the expected cash to be generated from or used in operations in fiscal year 2010. During the nine months ended December 31, 2009, we invested $421,303 in the acquisition of property and equipment. As of December 31, 2009, we had $46,582 in cash and cash equivalents available to fund future operations and had borrowed $275,000 from our credit facility. Working capital was $2,588,878 at December 31, 2009 compared to $2,180,296 at March 31, 2009. Current liabilities were $1,097,345 at December 31, 2009, compared to $1,709,252 at March 31, 2009. The decrease in current liabilities at December 31, 2009 was caused, principally, by reducing accounts payable and accrued compensation and classifying our borrowings under our line of credit as a long-term liability.

If we are not successful in maintaining profitability and positive cash flow, 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 additional lines of credit, 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), on acceptable terms or at all, through a sale of our common stock, loans from financial institutions or other third parties, or any of the actions discussed above. 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.

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

Fiscal Year		**Amount**
2010 (three months remaining)	$	60,621
2011		247,264
2012		254,629
2013		262,281
2014		270,221
2015		90,966
Total	$	1,185,982

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

Fiscal Year		**Amount**
2010 (three months remaining)	$	25,469
2011		101,873
2012		101,873
2013		101,873

2014		8,488
Total	$	339,576

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

			Payment due by period		
Contractual obligations	**Totals**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Line of credit obligations	$ 275,000	$	$ 275,000	$	$
Operating lease obligations	1,525,558	347,343	716,854	461,361	
Total	$ 1,800,558	$ 347,343	$ 991,854	$ 461,361	$

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

Our fiscal year 2010 operating plan is focused on increasing new hospital accounts, retaining existing hospital customers, growing sales, increasing gross profits and conserving cash. We are investing in research and development efforts to develop next generation versions of the AEM product line. We have invested in manufacturing property and equipment to manufacture disposable scissors inserts internally and reduce our cost of sales. We cannot predict with certainty the expected sales, gross profit, net income or loss and usage of cash and cash equivalents for fiscal year 2010. However, we believe that our cash resources and credit facility will be sufficient to fund our operations for at least the next twelve months. If we are unable to manage our business operations in line with budget expectations, it could have a material adverse effect on our business viability, financial position, results of operations and cash flows. If we are not successful in continuing profitability and positive cash flow, additional capital may be required to maintain ongoing operations.

Income Taxes

As of March 31, 2009, net operating loss carryforwards totaling approximately $15.5 million are available to reduce taxable income in the future. The net operating loss carryforwards expire, if not previously utilized, at various dates beginning in the fiscal year ending March 31, 2010. We have not

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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 ownership interests. We have established a valuation allowance for the entire amount of our deferred tax asset since inception due to our history of losses. Should we achieve sufficient, sustained income in the future, we may conclude that some or all of the valuation allowance should be reversed. If some or all of the valuation allowance were reversed, then, to the extent of the reversal, a tax benefit would be recognized which would result in an increase to income.

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 warranties. The warranty accrual is based on 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 on assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Any write-downs of inventory would reduce our reported net income during the period in which such write-downs were applied. To the extent that our estimates prove to be too high, and we ultimately utilize or sell inventory previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We recognize deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. Should we maintain 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 useful lives of our patents 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.

We currently estimate forfeitures for stock-based compensation expense related to employee stock options at 9% and evaluate the forfeiture rate quarterly. Other assumptions that are used in calculating stock-based compensation expense include risk-free interest rate, expected life, expected volatility and expected dividend.

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ITEM 4 – CONTROLS AND PROCEDURES

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

(b) During the quarter ended December 31, 2009, there were no changes in our internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, nor were there any significant deficiencies or material weaknesses in such disclosure controls and procedures or internal control over financial reporting requiring corrective actions.

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PART II. OTHER INFORMATION

ITEM 6 EXHIBITS

The following exhibits are filed with this report on Form 10-Q or are incorporated 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 dated October 30, 2008).
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	Second Amendment to Loan and Security Agreement by and between the Company and Silicon Valley Bank dated November 4, 2009 (incorporated by reference from Current Report on Form 8-K dated November 10, 2009).
31.1	Certification of Chief Executive Officer under Rule 13a-14(a) of the Exchange Act (filed herewith).
31.2	Certification of Principal Financial and Accounting Officer under Rule 13a-14(a) of the Exchange Act (filed herewith).
32.1	Certifications of Periodic Reports pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).

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SIGNATURE

Pursuant to the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Encision Inc.

February 12, 2010
Date

/s/ Marcia McHaffie
Marcia McHaffie
Controller
Principal Accounting Officer &
Principal Financial Officer