

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)

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

**84-1162056**  
(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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to 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 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  No

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

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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

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**  
(Class)

**6,455,100 Shares**  
(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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Table of Contents**PART I**      **FINANCIAL INFORMATION****ITEM 1 – CONDENSED INTERIM FINANCIAL STATEMENTS****Encision Inc.****Condensed Balance Sheets****(unaudited)**

	<b>December 31,</b>		<b>March 31,</b>
	<b>2009</b>		<b>2009</b>
<b>ASSETS</b>			
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
<b>TOTAL ASSETS</b>	<b>\$ 5,072,725</b>	<b>\$</b>	<b>4,970,089</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
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		
<b>Commitments and contingencies</b>			
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
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 5,072,725</b>	<b>\$</b>	<b>4,970,089</b>

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

Table of Contents**Encision Inc.****Condensed Statements of Operations****(Unaudited)**

<b>Three Months Ended</b>	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>NET SALES</b>	\$ 3,260,316	\$ 3,270,854
<b>COST OF SALES</b>	1,251,710	1,191,492
<b>GROSS PROFIT</b>	2,008,606	2,079,362
<b>OPERATING EXPENSES:</b>		
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
<b>OPERATING INCOME</b>	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)
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	149,023	232,910
Provision for income taxes		
<b>NET INCOME</b>	\$ 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.

Table of Contents**Encision Inc.****Condensed Statements of Operations****(Unaudited)**

Nine Months Ended	December 31, 2009	December 31, 2008
<b>NET SALES</b>	\$ 9,649,587	\$ 9,711,029
<b>COST OF SALES</b>	3,664,038	3,714,908
<b>GROSS PROFIT</b>	5,985,549	5,996,121
<b>OPERATING EXPENSES:</b>		
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
<b>OPERATING INCOME</b>	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)
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	358,778	143,893
Provision for income taxes		
<b>NET INCOME</b>	\$ 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.



Table of Contents**Encision Inc.****Condensed Statements of Cash Flows****(Unaudited)**

<b>Nine Months Ended</b>	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 358,778	\$ 143,893
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
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)
<b>Change in operating assets and liabilities:</b>		
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
<b>Cash flows from investing activities:</b>		
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)
<b>Cash flows from financing activities:</b>		
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

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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

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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:

<b>Three Months Ended December 31, 2009</b>	<b>Nine Months Ended</b>
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