

ENCISION INC
Form 10-Q
November 14, 2011
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number: 001-11789

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:

(Class)
Common Stock, no par value

(outstanding at October 31, 2011)
6,455,100 Shares

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FORM 10-Q

For the Three Months Ended September 30, 2011

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Table of Contents**PART I** **FINANCIAL INFORMATION****ITEM 1** **CONDENSED INTERIM FINANCIAL STATEMENTS****Encision Inc.****Condensed Balance Sheets****(unaudited)**

	September 30, 2011	March 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 15,126	\$ 120,008
Accounts receivable, net of allowance for doubtful accounts of \$4,000 at September 30, 2011 and \$9,000 at March 31, 2011	1,101,313	1,160,008
Inventories, net of reserve for obsolescence of \$115,000 at September 30, 2011 and \$60,000 at March 31, 2011	2,688,457	2,603,873
Prepaid expenses	122,374	74,635
Total current assets	3,927,270	3,958,524
Equipment, at cost:		
Furniture, fixtures and equipment	2,913,754	2,578,637
Customer-site equipment	814,357	814,357
Accumulated depreciation	(2,347,623)	(2,224,371)
Equipment, net	1,380,488	1,168,623
Patents, net of accumulated amortization of \$163,822 at September 30, 2011 and \$157,971 at March 31, 2011	269,002	260,097
Other assets	1,159	23,624
TOTAL ASSETS	\$ 5,577,919	\$ 5,410,868
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 727,525	\$ 673,538
Accrued compensation	233,545	261,269
Other accrued liabilities	617,253	287,067
Line of credit	691,012	435,000
Total current liabilities	2,269,335	1,656,874
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	19,827,702	19,783,361
Accumulated (deficit)	(16,519,118)	(16,029,367)
Total shareholders' equity	3,308,584	3,753,994
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 5,577,919	\$ 5,410,868

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	September 30, 2011	September 30, 2010
NET REVENUE:		
Product	\$ 2,830,369	\$ 2,865,799
Service	436,789	
Total Revenue	3,267,158	2,865,799
COST OF REVENUE:		
Product	1,525,244	1,031,576
Service	175,717	
Total Cost of Revenue	1,700,961	1,031,576
GROSS PROFIT	1,566,197	1,834,223
OPERATING EXPENSES:		
Sales and marketing	1,212,878	1,075,664
General and administrative	462,907	396,968
Research and development	342,173	494,578
Total operating expenses	2,017,958	1,967,210
OPERATING LOSS	(451,761)	(132,987)
Interest expense, net	(17,908)	(12,824)
Other income, net	294	443
Interest and other income, net	(17,614)	(12,381)
LOSS BEFORE PROVISION FOR INCOME TAXES	(469,375)	(145,368)
Provision for income taxes		
NET LOSS	\$ (469,375)	\$ (145,368)
Net loss per share basic and diluted	\$ (0.07)	\$ (0.02)
Weighted average shares basic and diluted	6,455,100	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)**

Six Months Ended	September 30, 2011	September 30, 2010
NET REVENUE:		
Product	\$ 5,663,574	\$ 5,729,732
Service	787,578	48,688
Total Revenue	6,451,152	5,778,420
COST OF REVENUE:		
Product	2,785,920	2,055,067
Service	319,909	44,802
Total Cost of Revenue	3,105,829	2,099,869
GROSS PROFIT	3,345,323	3,678,551
OPERATING EXPENSES:		
Sales and marketing	2,250,318	2,261,471
General and administrative	881,696	792,876
Research and development	672,765	866,549
Total operating expenses	3,804,779	3,920,896
OPERATING LOSS	(459,456)	(242,345)
Interest expense, net	(30,920)	(22,783)
Other income, net	625	964
Interest and other income, net	(30,295)	(21,819)
LOSS BEFORE PROVISION FOR INCOME TAXES	(489,751)	(264,164)
Provision for income taxes		
NET LOSS	\$ (489,751)	\$ (264,164)
Net loss per share basic and diluted	\$ (0.08)	\$ (0.04)
Weighted average shares basic and diluted	6,455,100	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 Cash Flows****(Unaudited)**

Six Months Ended	September 30, 2011	September 30, 2010
Cash flows from operating activities:		
Net loss	\$ (489,751)	\$ (264,164)
Adjustments to reconcile loss to net cash provided by operating activities:		
Depreciation and amortization	129,103	131,248
Stock-based compensation expense related to stock options	44,341	52,660
Provision for doubtful accounts, net	(5,000)	3,500
Provision for inventory obsolescence, net	55,000	(80,940)
Change in operating assets and liabilities:		
Accounts receivable	63,695	324,412
Inventories	(139,584)	26,303
Prepaid expenses and other assets	(25,274)	(21,325)
Accounts payable	53,987	(167,410)
Accrued compensation and other accrued liabilities	302,462	(45,124)
Net cash (used in) operating activities	(11,021)	(40,840)
Cash flows from investing activities:		
Acquisition of property and equipment	(335,117)	(145,310)
Patent costs	(14,756)	(3,821)
Net cash (used in) investing activities	(349,873)	(149,131)
Cash flows from financing activities:		
Borrowings from credit facility	256,012	231,263
Net cash provided by financing activities	256,012	231,263
Net increase (decrease) in cash and cash equivalents	(104,882)	41,292
Cash and cash equivalents, beginning of period	120,008	113,735
Cash and cash equivalents, end of period	\$ 15,126	\$ 155,027

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

SEPTEMBER 30, 2011

(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® (Active Electrode Monitoring) 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 an accumulated deficit of \$16,519,118 at September 30, 2011. Operating funds have been provided primarily by issuances of our common stock, the exercise of stock options to purchase our common stock and, in recent years, by operating profits. Should our liquidity be diminished in the future because of operating losses, we may be required to seek additional capital in the future. There are no assurances that additional capital will be available to us on terms acceptable to us, or at all.

Our strategic marketing and sales plan is designed to expand the use of our products in surgically active hospitals and surgery centers 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 (GAAP) 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, 2011, filed on June 15, 2011.

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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 GAAP. 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 GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and expense during the reporting period. Actual results could differ from those estimates.

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

Fair Value of Financial Instruments. Our financial instruments consist of cash and cash equivalents, short-term trade receivables and payables and a line of credit. The carrying values of cash and cash equivalents, short-term trade receivables and payables approximate their fair value due to their short maturities. The interest rate associated with the line of credit is variable and based upon fluctuations of the prime rate, thus the carrying value approximates fair value.

Concentration of Credit Risk. Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents, accounts receivable and a line of credit. The amount of cash on deposit with financial institutions does not exceed the \$250,000 federally insured limit at September 30, 2011. However, we believe that in the event that cash on deposit exceeds \$250,000, the financial institutions are financially sound and the risk of loss is minimal.

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

Accounts receivable are typically unsecured and are derived from transactions with and from entities in the healthcare industry primarily located in the United States. Accordingly, we may be exposed to credit risk generally associated with the healthcare industry. We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. The net accounts receivable balance at September 30, 2011 of \$1,101,313 included 11% from one customer. The net accounts receivable balance at March 31, 2011 of \$1,160,008 included 13% from 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. The warranty accrual balance at September 30, 2011 of approximately \$344,000 increased principally as a result of our voluntary recall of product, as explained herein, from the warranty accrual balance of \$25,000 at March 31, 2011.

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Inventories. Inventories are stated at the lower of cost (first-in, first-out basis) or market. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. At September 30, 2011 and March 31, 2011, inventory consisted of the following:

	September 30, 2011		March 31, 2011	
Raw materials	\$	1,908,337	\$	1,576,706
Finished goods		895,120		1,087,167
Total gross inventories		2,803,457		2,663,873
Less reserve for obsolescence		(115,000)		(60,000)
Total net inventories	\$	2,688,457	\$	2,603,873

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

Income Taxes. We account for income taxes under the provisions of FASB Accounting Standards Codification (ASC) Topic 740, Accounting for Income Taxes (ASC 740). ASC 740 requires recognition of deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. ASC 740 also requires recognition of deferred tax assets for the expected future tax effects of all deductible temporary differences, loss carryforwards and tax credit carryforwards. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. As a result, no provision for income tax is reflected in the accompanying statements of operations. Should we achieve sufficient, sustained income in the future, we may conclude that some or all of the valuation allowance should be reversed. We are required to make many subjective assumptions and judgments regarding our income tax exposures. At September 30, 2011, 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 are recorded when we ship the product and title has passed to the customer, provided that we have evidence of a customer arrangement and can conclude that collection is probable. Our shipping policy is FOB Shipping Point. We recognize revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims. We have no ongoing obligations related to product sales, except for normal warranty obligations.

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

Stock-Based Compensation. Stock-based compensation is presented in accordance with the guidance of ASC Topic 718, Compensation - Stock Compensation (ASC 718). Under the provisions of ASC 718, companies are required to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in our statement of operations.

Stock-based compensation expense recognized under ASC 718 for the three months ended September 30, 2011 and 2010 was \$21,259 and \$26,360, respectively, and \$44,341 and \$52,660 for the six months ended September 30, 2011 and 2010, respectively, which consisted of stock-based compensation expense related to grants of employee stock options.

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

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

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.

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

	Three Months Ended		Six Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
<hr/>				