ENCISION INC
Form 10-Q
February 14, 2019
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, 2018
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)

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 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 [_]	Smaller reporting company [X]
(Do not check if a smaller reporting company)	Emerging growth company [_]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [_]

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	11,558,355 Shares
(Class)	(outstanding at January 31, 2019)

ENCISION INC.

FORM 10-Q

For the Three and Nine Months Ended December 31, 2018

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PART I FINANCIAL INFORMATION

ITEM 1 - CONDENSED INTERIM FINANCIAL STATEMENTS

Encision Inc.
Condensed Balance Sheets
(Unaudited)

	December 31, 2018	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$577,000	$114,538
Restricted cash	25,000	25,000
Accounts receivable, net of allowance for doubtful accounts of $20,000 at December 31, 2018 and $20,500 at March 31, 2018	1,024,173	962,639
Inventories, net of reserve for obsolescence of $45,000 at December 31, 2018 and $21,000 at March 31, 2018	1,391,107	1,437,159
Prepaid expenses	129,709	74,830
Total current assets	3,146,989	2,614,166
Equipment, at cost:		
Furniture, fixtures and equipment	3,031,950	3,021,968
Accumulated depreciation	(2,792,830)	(2,673,037)
Equipment, net	239,120	348,931
Patents, net of accumulated amortization of $259,621 at December 31, 2018 and $238,571 at March 31, 2018	254,319	270,504
Other assets	18,873	18,873
TOTAL ASSETS	$3,659,301	$3,252,474
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$690,457	$466,418
Accrued compensation	257,775	257,133
Other accrued liabilities	100,390	284,550
Deferred rent	—	30,384
Total current liabilities	1,048,622	1,038,485
Long-term liability:		
Deferred rent	73,690	10,128
Total liabilities	1,122,312	1,048,613
Commitments and contingencies (Note 4)		
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; 11,558,355 and 10,683,355 shares issued and outstanding at December 31, 2018 and March 31, 2018, respectively	24,204,546	23,817,912
Accumulated (deficit)	(21,667,557)	(21,614,051)
Total shareholders' equity	2,536,989	2,203,861
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$3,659,301	$3,252,474

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

Encision Inc.
Condensed Statements of Operations
(Unaudited)

	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
NET REVENUE	$2,117,454	$2,190,305	$6,718,257	$6,716,480
COST OF REVENUE	1,054,980	956,687	3,149,620	2,880,101
GROSS PROFIT	1,062,474	1,233,618	3,568,637	3,836,379
OPERATING EXPENSES:				
Sales and marketing	645,301	569,802	2,077,522	1,745,121
General and administrative	312,001	368,545	953,968	1,057,810
Research and development	189,353	223,977	542,602	635,165
Total operating expenses	1,146,655	1,162,324	3,574,092	3,438,096
OPERATING INCOME (LOSS)	(84,181)	71,294	(5,454)	398,283
Interest expense, net	(1,837)	(15,343)	(48,476)	(44,165)
Other income (expense), net	1,616	118	424	(400)
Interest expense and other income (expense), net	(221)	(15,225)	(48,052)	(44,565)
INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES	(84,402)	56,069	(53,506)	353,718
Provision for income taxes	—	—	—	—
NET INCOME (LOSS)	$(84,402)	$56,069	$(53,506)	$353,718
Net income (loss) per share—basic and diluted	$(0.01)	$0.01	$0.00	$0.03
Weighted average shares—basic	10,798,740	10,683,355	10,721,817	10,683,355
Weighted average shares—diluted	10,798,740	10,707,814	10,721,817	10,702,493

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

Encision Inc.
Condensed Statements of Cash Flows
(Unaudited)

	Nine Months Ended	
	December 31, 2018	December 31, 2017
Operating activities:		
Net income (loss)	$(53,506)	$353,718
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	140,843	154,150
Share-based compensation expense	36,634	49,335
(Recovery from) doubtful accounts, net	(500)	(18,500)
(Recovery from) provision for inventory obsolescence, net	24,000	(20,000)
Changes in operating assets and liabilities:		
Accounts receivable	(61,034)	123,362
Inventories	22,052	(98,423)
Prepaid expenses and other assets	(54,879)	(82,940)
Accounts payable	224,039	118,869
Accrued compensation and other accrued liabilities	(150,340)	(85,167)
Net cash generated by operating activities	127,309	494,404
Investing activities:		
Acquisition of property and equipment	(9,982)	(41,647)
Patent costs	(4,865)	(35,238)
Net cash (used in) investing activities	(14,847)	(76,885)
Financing activities:		
Borrowings from (paydowns to) of credit facility, net change	—	(275,055)
Proceeds from the issuance of common stock	350,000	—
Net cash generated by (used in) financing activities	350,000	(275,055)
Net increase in cash, cash equivalents, and restricted cash	462,462	142,464
Cash, cash equivalents, and restricted cash beginning of period	139,538	95,117
Cash, cash equivalents, and restricted cash end of period	$602,000	$237,581

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

ENCISION INC.

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

DECEMBER 31, 2018
(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, and saves lives of, 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 $21,667,557 at December 31, 2018. A significant portion of our operating funds have been provided by issuances of our common stock and warrants, a line of credit, and the exercise of stock options to purchase our common stock. Should our liquidity be diminished in the future because of operating losses, we may be required to seek additional capital.

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, 2018, filed on June 14, 2018.

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 and nine months or less to be cash equivalents. Restricted cash is cash that was deposited to obtain a letter of credit for our importing and exporting activities.

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

Concentration of Credit Risk. Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and cash equivalents, accounts receivable and a line of credit. From time to time, the amount of cash on deposit with financial institutions may exceed the $250,000 federally insured limit at December 31, 2018. We believe that cash on deposit that exceeds $250,000 with financial institutions is 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 December 31, 2018 of $1,024,173 and at March 31, 2018 of $962,639 included no more than 8% from any one customer.

Inventories. Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the net realizable 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, 2018 and March 31, 2018, inventory consisted of the following:

	December 31, 2018	March 31, 2018
Raw materials	$1,149,562	$941,964
Finished goods	286,545	516,195
Total gross inventories	1,436,107	1,458,159
Less reserve for obsolescence	(45,000)	(21,000)
Total net inventories	$1,391,107	$1,437,159

Property and Equipment. Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally five 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 December 31, 2018, 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.

Revenue Recognition. We record revenue at a single point in time, when control is transferred to the customer, which is consistent with past practice. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure. 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. We evaluated the requirement to disaggregate revenue, and concluded that substantially all of its revenue comes from multiple products within a line of medical devices.

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 statements of operations.

Stock-based compensation expense recognized under ASC 718 for the three and nine months ended December 31, 2018 was $10,890 and $36,634, respectively, and for the three and nine months ended December 31, 2017 was $16,143 and $49,335, respectively, which consisted of stock-based compensation expense related to grants of employee stock options and restricted stock units ("RSUs").

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.

ASU No. 2014-09 (ASC 606), Revenue from Contracts with Customers became effective for us beginning April 1, 2018, and adopted the new accounting standard using the modified retrospective transition approach. We record revenue under ASC 606 at a single point in time, when control is transferred to the customer, which is consistent with past practice. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure under the new standard. Based on the results of the evaluation, we have determined that the adoption of the new standard presents no material impact on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of fiscal year 2020 and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting the new lease standard on its consolidated financial statements. However, the ultimate impact of adopting ASU 2016-02 will depend on the Company's lease portfolio as of the adoption date.

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 and RSUs 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 loss per share:

	Three Months Ended		Nine Months Ended	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Net income (loss)	$(84,402)	$56,069	$(53,506)	$353,718
Weighted-average shares — basic	10,798,740	10,683,355	10,721,817	10,683,355
Effect of dilutive potential common shares	—	24,459	—	19,138
Weighted-average shares — diluted	10,798,740	10,707,814	10,721,817	10,702,493
Net income (loss) per share — basic	$(0.01)	$0.01	$0.00	$0.03
Net income (loss) per share — diluted	$(0.01)	$0.01	$0.00	$0.03
Antidilutive employee stock options and RSUs	900,286	988,077	900,286	993,398

Note 4. COMMITMENTS AND CONTINGENCIES

Effective November 9, 2017, we extended our noncancelable lease agreement through July 31, 2024 for our facilities at 6797 Winchester Circle, Boulder, Colorado. The lease includes base rent abatement for the first two months, or $55,583, and $145,000 of leasehold improvements granted by the landlord. At the start of the lease on August 1, 2019, the $145,000 will be recorded on our condensed balance sheets as leasehold improvements and deferred rent. The leasehold improvements will be amortized over the lesser of the lease term or the assets life and the deferred rent will be amortized against rent expense over the lease term. The minimum future lease payment, by fiscal year, as of December 31, 2018 is as follows:

Fiscal Year	Amount
2019 (3 months remaining)	$73,397
2020	266,550
2021	343,167
2022	357,667
2023	372,167
2024	386,667
2025	130,500
Total	$1,930,115

On July 31, 2018, we signed a new line of credit agreement with Bank of America Merrill Lynch. The facility provides for up to $1 million revolving line of credit. The interest rate is a rate per year equal to the LIBOR Daily Floating Rate plus 2.75 percentage points. There is a minimum quarterly EBITDA covenant and a minimum Collateral Coverage ratio of 2. Minimum Collateral Coverage is the ratio of gross accounts receivable plus inventory to the line of credit commitment. As of December 31, 2018, we had no borrowings from the credit facility and had an additional $1 million available to borrow. For the quarter ended December 31, 2018, we were not in compliance with the minimum quarterly EBITDA covenant.

Aside from the operating lease, 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 at December 31, 2018. FDA inspections are conducted periodically at the discretion of the FDA. Our latest inspection by the FDA occurred in October 2016.

Note 5. SHARE-BASED COMPENSATION

The provisions of 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 and RSUs, based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options, RSUs and employee stock purchases for the three and nine months ended December 31, 2018 and 2017, which was allocated as follows:

	Three Months Ended December 31, 2018	December 31, 2017	Nine Months Ended December 31, 2018	December 31, 2017

Cost of sales	$658	$ 539	$1,973	$ 1,617
Sales and marketing	1,296	3,420	3,890	10,259
General and administrative	8,275	11,378	28,789	34,134
Research and development	661	806	1,982	3,325
Stock-based compensation expense	$10,890	$ 16,143	$36,634	$ 49,335

Share-based compensation cost for stock options is measured at the grant date, based on the fair value as calculated by the Black-Scholes-Merton ("BSM") option-pricing model. The BSM option-pricing 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. There were 10,000 stock options granted and 119,250 stock options forfeited during the three months ended December 31, 2018. There were 102,000 stock options granted and 209,250 stock options forfeited during the nine months ended December 31, 2018. Share-based compensation cost for RSUs is measured based on the closing fair market value of the Company's common stock on the date of grant.

As of December 31, 2018, $99,000 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 $17,681 and $52,726 to an entity owned by one of our directors during the three and nine months ended December 31, 2018, respectively, and $16,840 and $49,029 during the three and nine months ended December 31, 2017, respectively.

Note 7. SUBSEQUENT EVENTS

We evaluated all of our activity as of the date the condensed interim financial statements were issued and concluded that no subsequent events have occurred that would require recognition in our financial statements or disclosed in the notes to our condensed interim financial statements.

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, 2018.

General

Encision Inc., a medical device company based in Boulder, Colorado, has developed and markets innovative technology that provides unprecedented outcomes and patient safety in minimally-invasive surgery. We believe that our patented Active Electrode Monitoring ("AEM®") AEM EndoShield™ Burn Protection System is changing the marketplace for electrosurgical devices and laparoscopic instruments by providing a solution to a well-documented hazard unique to laparoscopic surgery. The Center for Medicare and Medicaid Services ("CMS") recently published its Hospital-Acquired Condition Reduction Program effective October 1, 2015. At that time, the program began to levy as much as a 1% penalty on Medicare reimbursements to hospitals in the lower quadrant of performance for selected quality indicators, including accidental puncture and laceration ("APL"). Examples of APL include the use of a cautery device (electrosurgery) or scissors to dissect a tissue plane that errantly causes an injury to underlying bowels. A Safety Communication was released by the FDA on May 29, 2018. It is on the FDA's website at: https://www.fda.gov/MedicalDevices/Safety/AlertsandNotices/ucm608637.htm. The Safety Communication states that, "In addition to serving as an ignition source, monopolar energy use can directly result in unintended patient burns from capacitive coupling and intra-operative insulation failure. If a monopolar electrosurgical unit (ESU) is used: Do not activate when near or in contact with other instruments."

We address market opportunities created by the increase in minimally-invasive surgery ("MIS") and surgeons' use of electrosurgery devices in these procedures. The product opportunity exists in that monopolar electrosurgery instruments used in laparoscopic procedures provide excellent clinical results, but are also susceptible to causing inadvertent collateral tissue damage outside the surgeon's field of view due to insulation failure and capacitive coupling. The risk of unintended electrosurgical burn injury to the patient in laparoscopic surgery has been well documented. This risk poses a threat to patient safety, including the risk of death, and creates liability exposure for surgeons and hospitals, as well as increased and preventable readmissions.

Our patented AEM technology provides surgeons with the desired tissue effects, while capturing stray electrosurgical energy that can cause unintended and unseen tissue injury that may result in death. AEM Surgical Instruments are equivalent to conventional instruments in size, shape, ergonomics, functionality and competitive pricing, 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, effectively and economically than is possible using conventional instruments or alternative energy sources.

AEM technology has been recommended and endorsed by many groups involved in MIS. Surgeons, nurses, biomedical engineers, the medicolegal community, malpractice insurance carriers and electrosurgical device

manufacturers advocate the use of AEM technology. We have focused our marketing strategies to date on expanding the market awareness of AEM technology and our broad independent endorsements and have continued efforts to improve and expand AEM technology penetration.

When a hospital or surgery center changes to AEM technology, we receive recurring revenue from sales of replacement instruments. We believe that there is no directly competing technology to supplant AEM products. The replacement market of reusable and disposable AEM products in hospitals and surgery centers that use our AEM technology represented over 90% of our product revenue during the three and nine months ended December 31, 2018. This revenue stream is expected to grow as the base of accounts using AEM technology expands. In addition, we intend to further develop disposable versions of more of our AEM products in order to meet market demands and expand our sales opportunities.

We have an accumulated deficit of $21,667,557 at December 31, 2018. A significant portion of our operating funds have been provided by issuances of our common stock and warrants, a line of credit, and the exercise of stock options to purchase our common stock. Should our liquidity be diminished in the future because of operating losses, we may be required to seek additional capital.

During the nine months ended December 31, 2018, we generated $127,309 of cash by our operating activities and used $9,982 for investments in property and equipment. During the quarter ended December 31, 2018, we issued 875,000 shares of our common stock in exchange for $350,000. As of December 31, 2018, we had $602,000 in cash, cash equivalents and restricted cash available to fund future operations, an increase of $462,462 from March 31, 2018. Our working capital was $2,098,367 at December 31, 2018 compared to $1,575,681 at March 31, 2018.

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. We have invested heavily in an effort to protect our valuable technology, and, as a result of this effort, we have been issued 11 unexpired relevant patents that together form a significant intellectual property position. Our patents relate to the basic shielding and monitoring technologies that we incorporate into our AEM products.

Our AEM Surgical Instruments have been engineered to provide a seamless transition for surgeons switching from conventional laparoscopic instruments. AEM technology has been integrated into instruments that have the same look, feel and functionality as conventional instruments that surgeons have been using for years. The AEM product line encompasses the full range of instrument sizes, types and styles favored by surgeons. Additionally, we continue to improve quality and add to the product line. These additions include more disposable versions, the introduction of hand-activated instruments, our enhanced scissors, our e·Edge™ scissors, our EM3 AEM Monitor and our AEM EndoShield Burn Protection System. Hospitals can make a complete and smooth conversion to our product line, thereby advancing patient safety in MIS with optimal convenience.

Outlook

Installed Base of AEM Monitoring Equipment: We believe that sales of our installed base of AEM products will increase as the inherent risks associated with monopolar laparoscopic electrosurgery become more widely acknowledged and as we focus on increasing our sales efficiency and continue to enhance our product line. We expect that the replacement sales of electrosurgical instruments and accessories will also increase as additional facilities adopt AEM technology. We anticipate that the efforts to improve the productivity 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.

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 improving, and we expect this awareness to benefit our sales efforts for the remainder of fiscal year 2019. Our objectives for the remainder of fiscal year 2019 are to optimize sales execution, to expand market awareness of the AEM technology and to maximize the number of additional hospital and surgery center accounts switching to AEM instruments while retaining existing customers. In addition, acceptance of AEM products depends on surgeons' preference for our instruments, which depends on factors such as ergonomics, quality and ease of use in addition to the technological and safety advantages of AEM products. If surgeons prefer other instruments to our instruments, our business results will suffer.

Possibility of Operating Losses: We have an accumulated deficit of $21,667,557 at December 31, 2018. A significant portion of our operating funds have been provided by issuances of our common stock and warrants, a line of credit, and the exercise of stock options to purchase our common stock. Should our liquidity be diminished in the future because of operating losses, we may be required to seek additional capital. 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.

Revenue Growth: We expect to generate increased product revenue in the U.S. from sales to new customers and from expanded sales to existing customers as the medical device industry stabilizes and 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 accounts and increased product revenue in fiscal year 2019. We also expect to increase market share through promotional programs of placing our AEM monitors at no charge into hospitals that commit to standardize with AEM instruments. However, all of these efforts to increase market share and grow product revenue will depend in part on our ability to expand the efficiency and effective coverage range of our direct and independent sales representatives, as well as maintain and in some cases, improve the quality of our product offerings. Service revenue represents design, development and product supply revenue from our agreements with strategic partners.

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 and surgery centers that have changed to AEM technology, enabling us to grow our sales. We are exploring 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, sales volume and service revenue. Gross margins on products manufactured or assembled by us are expected to improve at higher levels of production and sales.

Sales and Marketing Expenses: We continue to refine our 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 to support quality improvement efforts and development of refinements to our AEM product line and new products, which will further expand options for surgeons and hospitals.

Results of Operations

For the quarter ended December 31, 2018 compared to the quarter ended December 31, 2017.

Net revenue. Net revenue for the quarter ended December 31, 2018 was $2,117,454 compared to $2,190,305 for the quarter ended December 31, 2017, a decrease of 3%. Net revenue in the quarter ended December 31, 2017 included net revenue of $94,500 from an order for non-AEM product. After excluding the $94,500 of non-AEM product revenue, AEM product revenue increased by 1% for the quarter ended December 31, 2018. The increase of AEM product net revenue is attributable to business gained from hospitals that used AEM technology during the quarter.
Gross profit. Gross profit for the quarter ended December 31, 2018 of $1,062,474 represented a decrease of 14% from gross profit of $1,233,618 for the quarter ended December 31, 2017. Gross profit as a percentage of sales (gross margins) decreased from 56% for the quarter ended December 31, 2017 to 50% for the quarter ended December 31, 2018. Gross margins were lower in the quarter ended December 31, 2018 compared to last year's quarter was primarily a result of higher material costs, especially as a result of tariffs on our steel costs and, to a lesser extent, inventory reserve expense and product mix.
Sales and marketing expenses. Sales and marketing expenses of $645,301 for the quarter ended December 31, 2018 represented an increase of 13% from sales and marketing expenses of $569,802 for the quarter ended December 31, 2017. The increase was the result of an increase to the direct salesforce, outside services and sales samples. The increase was partially decreased by commissions.

General and administrative expenses. General and administrative expenses of $312,001 for the quarter ended December 31, 2018 represented a decrease of 15% from general and administrative expenses of $368,545 for the quarter ended December 31, 2017. The decrease was the result of a decrease of bonus accrual and regulatory fees.

Research and development expenses. Research and development expenses of $189,353 for the quarter ended December 31, 2018 represented a decrease of 15% compared to $223,977 for the quarter ended December 31, 2017. The decrease was the result of decreased compensation.

Net loss. Net loss was $84,402 for the quarter ended December 31, 2018 compared to net income of $56,069 for the quarter ended December 31, 2017. The net loss increase was principally a result of lower gross profit, as explained above.

For the nine months ended December 31, 2018 compared to the nine months ended December 31, 2017.

Net revenue. Net revenue for the nine months ended December 31, 2018 was $6,718,257 compared to $6,716,480 for the nine months ended December 31, 2017, a slight increase. Net revenue in the nine months ended December 31, 2017 included net revenue of $423,900 from an order for non-AEM product. After excluding the $423,900 of non-AEM product revenue, AEM product revenue increased by 7% for the nine months ended December 31, 2018.

The increase of net revenue is attributable to business gained from hospitals that used AEM technology during the nine months.

Gross profit. Gross profit for the nine months ended December 31, 2018 of $3,568,637 represented a decrease of 7% from gross profit of $3,836,379 for the nine months ended December 31, 2017. Gross profit as a percentage of sales (gross margins) decreased from 57% for the nine months ended December 31, 2017 to 53% for the nine months ended December 31, 2018. Gross margins were lower in the nine months ended December 31, 2018 compared to last year's nine months as a result of higher material costs and product mix.

Sales and marketing expenses. Sales and marketing expenses of $2,077,522 for the nine months ended December 31, 2018 represented an increase of 19% from sales and marketing expenses of $1,745,121 for the nine months ended December 31, 2017. The increase was the result of an increase to the direct salesforce, higher commissions on higher revenue, higher commissions on a higher commission rate due to exceeding quotas, travel, outside services, and advertising and literature.

General and administrative expenses. General and administrative expenses of $953,968 for the nine months ended December 31, 2018 represented a decrease of 10% from general and administrative expenses of $1,057,810 for the nine months ended December 31, 2017. The decrease was the result of a decrease of bonus accrual.

Research and development expenses. Research and development expenses of $542,602 for the nine months ended December 31, 2018 represented a decrease of 15% compared to $635,165 for the nine months ended December 31, 2017. The decrease was the result of decreased compensation.

Net loss. Net loss was $53,506 for the nine months ended December 31, 2018 compared to net income of $353,718 for the nine months ended December 31, 2017. The net loss increase was principally a result of lower gross profit and higher operating expenses, as explained above.

The results of operations for the three and nine months ended December 31, 2018 are not indicative of the results of operations for all or any part of the balance of the fiscal year.

Liquidity and Capital Resources

To date, a significant portion of our operating funds have been provided by issuances of our common stock and warrants, a line of credit, and the exercise of stock options to purchase our common stock. During the quarter ended December 31, 2018, we issued 875,000 shares of our common stock in exchange for $350,000. Common stock and additional paid in capital totaled $24,204,546 from inception through December 31, 2018.

On July 31, 2018, we signed a new line of credit agreement with Bank of America Merrill Lynch. The facility provides for up to $1 million revolving line of credit. The interest rate is a rate per year equal to the LIBOR Daily Floating Rate plus 2.75 percentage points. There is a minimum quarterly EBITDA covenant and a minimum Collateral Coverage ratio of 2. Minimum Collateral Coverage is the ratio of gross accounts receivable plus inventory to the line of credit commitment. As of December 31, 2018, we had no borrowings from the credit facility and had an additional $1 million available to borrow. For the quarter ended December 31, 2018, we were not in compliance with the minimum quarterly EBITDA covenant.

Our operations generated $127,309 of cash during the nine months ended December 31, 2018 on net revenue of $6,718,257. Cash was principally used for accrued compensation and other accrued liabilities and increased by accounts payable. The amounts of cash generated by operations for the nine months ended December 31, 2018 are not indicative of the expected amounts of cash to be generated from or used in operations in fiscal year 2019. During the nine months ended December 31, 2018, we invested $9,982 in the acquisition of property and equipment. At December 31, 2018, we had $602,000 in cash, cash equivalents and restricted cash available to fund future operations. Our working capital was $2,098,367 at December 31, 2018 compared to $1,575,681 at March 31, 2018. The increase of working capital at December 31, 2018 was the result of an increase to cash from issuing common stock, and partially offset by an increase to accounts payable. Current liabilities were $1,048,622 at December 31, 2018 compared to $1,038,485 at March 31, 2018.

Effective November 9, 2017, we extended our noncancelable lease agreement through July 31, 2024 for our facilities at 6797 Winchester Circle, Boulder, Colorado. The lease includes base rent abatement for the first two months, or $55,583, and $145,000 of leasehold improvements granted by the landlord. At the start of the lease on August 1, 2019,

the $145,000 will be recorded on our condensed balance sheets as leasehold improvements and deferred rent. The leasehold improvements will be amortized over the lesser of the lease term or the assets life and the deferred rent will be amortized against rent expense over the lease term. The minimum future lease payment, by fiscal year, as of December 31, 2018 is as follows:

Fiscal Year	Amount
2019 (3 months remaining)	$73,397
2020	266,550
2021	343,167
2022	357,667
2023	372,167
2024	386,667
2025	130,500
Total	$1,930,115

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

As of December 31, 2018, 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
Operating lease obligations	$1,930,115	$273,310	$678,054	$751,584	$227,167

Our fiscal year 2019 operating plan is focused on increasing new accounts, retaining existing customers, growing revenue, 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 to reduce our cost of product revenue. We cannot predict with certainty the expected revenue, gross profit, net income or loss and usage of cash, cash equivalents or restricted cash for fiscal year 2019. 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.

Income Taxes

As of March 31, 2018, net operating loss carryforwards totaling approximately $11.7 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, 2019. We have not paid income taxes since our inception. The Tax Reform Act of 1986 and other income tax regulations contain provisions which may limit the net operating loss carryforwards available to be used in any given year if certain events occur, including changes in 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 net 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, 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 record revenue at a single point in time, when control is transferred to the customer, which is consistent with past practice. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure. 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. We evaluated the requirement to disaggregate revenue, and concluded that substantially all of our revenue comes from multiple products within a line of medical devices.

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, thus 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. 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 accrual would be required.

We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated realizable 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 five 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 and RSUs at 20% 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.

ITEM 4 - CONTROLS AND PROCEDURES

(a) We have carried out an evaluation under the supervision and with the participation of our management, including our President and CEO 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 President and CEO and the Principal Accounting and Financial Officer concluded that, as of December 31, 2018, our disclosure controls and procedures were effective.

(b) During the quarter ended December 31, 2018, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. Exhibits

The following exhibits are filed with this report on Form 10-Q or are incorporated by reference:

10.1	Loan Agreement between Encision Inc. and Bank of America dated July 31, 2018 (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 13, 2018).
31.1	Certification of President and CEO 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 President and CEO and Principal Financial and Accounting Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).
101	The following materials from Encision Inc.'s Quarterly Report on Form 10-Q for the quarter ended December 31, 2018, formatted in XBRL (Extensible Business Reporting Language): (i) the unaudited Condensed Balance Sheets, (ii) the unaudited Condensed Statements of Income, (iii) the unaudited Condensed Statements of Cash Flows, and (iv) Notes to Condensed Financial Statements, tagged at Level I.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Encision Inc.

February 14, 2019

Date By: /s/ Mala Ray
Mala Ray
Controller
Principal Accounting Officer &
Principal Financial Officer