CALIBRUS, INC.
Form 10-K
April 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

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: 000-53408

Calibrus, Inc.
(Exact name of registrant as specified in charter)

Nevada	86-0970023
State or other jurisdiction of incorporation or organization	(I.R.S. Employer I.D. No.)
1225 West Washington Street, Suite 213, Tempe, AZ	85281
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number, including area code: (602) 778-7500

Securities registered pursuant to section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	N/A

Securities registered pursuant to section 12(g) of the Act:

Common Stock, $0.001 par value
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act
Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act
Yes [ ]   No [X]

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 past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 x

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter: The Registrant’s shares were not trading as of the date of this filing and have not had any trades in which to determine a price. Currently, the average of the bid and ask price is $1.00 per share giving the shares held by non-affiliates a value of $3,507,932. Since the Registrant does not have an active trading market this numbers may not be reliable indication of the share price.

As of March 20, 2009, the Registrant had 6,794,600 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the part of the Form 10-K (e.g., part I, part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or other information statement; and (3) Any prospectus filed pursuant to rule 424(b) or (c) under the Securities Act of 1933: NONE

PART I

ITEM 1. BUSINESS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This periodic report contains certain forward-looking statements with respect to the financial condition, results of operations, business strategies, operating efficiencies or synergies, competitive positions, growth opportunities for existing products, plans and objectives of management. Statements in this periodic report that are not historical facts are hereby identified as "forward-looking statements."

Overview

Calibrus, Inc. is a technology based company established in 1999. We have two business units that leverage our technology capabilities. We have provided Hosted Business Solutions for ten years and have now expanded to offer a social networking site called JabberMonkey, which is currently in the beta testing phase. Through our Hosted Business Solutions, we provide Third Party Verification (TPV) Services, Hosted Call Recording Services and Interactive Voice Response/Voice Recognition Unit (IVR/VRU) Services to some telecom, cable and insurance companies. We estimate that we have processed over 50 million live agent calls/recordings and 5 million IVR calls/recordings to date serving these companies. With over 125 employees, the latest equipment and in-house designed software and solutions, we are the hosted solution company that companies can trust with their data.

Our technology provides us with the ability to provide fully-integrated live voice, data, and automated services and combinations of services out of a unified platform. Our system's processes and functionality allow our IT staff to easily design and build systems that satisfy client's process requirements. Using our technology has allowed us to develop and build customized web-based solutions incorporating call recording, "click to call" and voice message broadcast functionality.

Calibrus has leveraged our technology capabilities to expand into the growing market of social expression website. Leveraging the software development experience we have obtained over the last 10 years, we created the site JabberMonkey.com which is currently completing its beta testing phase of development. JabberMonkey is a site where users can have an interactive experience of asking questions of other members, post comments and have ongoing interactive video and text chats.

Calibrus Products and Services - Calibrus Hosted Third Party Verification (TPV) Services

Calibrus' Third Party Verification service is easy to use and offers both Live Operator and IVR/VRU Third Party Verification services. Calibrus' Live Operators process thousands of TPV calls daily. To date, Live Operator TPV has been the solution of choice for several of our largest customers. Live operators offer the best customer experience and typically higher success rates over IVR/VRU solutions. Our Automated IVR (Interactive Voice Response) solution offers a low-cost alternative to a live voice agent while ensuring compliance with both FCC and State PUC (Public Utility Commission) Third Party Verification requirements. Our IVR systems feature intuitive scripting to automatically ensure the correct questions are asked. Our custom IVR solutions enable client's customers to easily opt-out to a live agent at any time if they require personal attention.

What is Third Party Verification?

Third Party Verification is the confirmation of a customer's order by an independent third party. This process protects both the customer and the company selling services from fraud and slamming/cramming of products onto their lines. Once the sale has been made the customer is transferred to an independent Third Party, such as Calibrus, that will read a pre-determined script to which the customer will answer yes or no.

In 1996, the Federal Communications Commission, FCC, enacted the Telecommunications Act which forced the Regional Bell Operating Companies to open their lines to competition. Accordingly, telecom companies were required to allow competitors to lease their lines and provide service to customers at a rate set by each individual State's Utility Commission. This was to promote competition and help new competitors compete with the larger telecom companies on a level playing field. Unfortunately, this led to another phenomena called slamming, customers being switched from one company to another without their approval, and sometimes without any knowledge whatsoever until they received their bill.

In response to slamming, legislation was enacted that required companies that were changing a customer's dial tone or long distance to their services would have to first obtain the customer's approval in one of three ways:

- A written and signed Letter of Authorization indicating that customer agrees to the change.
- An automated or live agent independent third party that the customer is transferred to for the verification.
- An electronic Signature on an electronic Letter of Authorization, usually done on websites.

Calibrus fulfills the second requirement, providing both automated IVR/VRU and Live Agent Third party Verification Services for our clients.

Automated IVR/VRU Service Highlights

- Dual Channel Recording to Eliminate the Loss of Interactions/Customer Statements
- Very Low Implementation and Ongoing Cost
- Simple to Set Up, Implement and Launch
- Close to Real-Time Call Record and File Retrieval and Posting
- Dedicated Management and IT Resources, 24/7 Availability
- Superior Value and Cost Competitive IVR Services

Our automated IVR verification method provides customers with a pre-determined script to comply with each client's unique verification requirements. The following diagram demonstrates our basic Automated IVR Process Method:

Our Automated IVR/VRU TPV services are priced on per transaction or per minute usage.

Live Operator TPV

In addition to our automated TPV services, we also offer Live Operator TPV Service. When customers want to provide live interactions with ultimate flexibility, our Live Operator Services can be used in conjunction with our automated TPV services or as a stand alone service. Customers that select our Live Operator service offering will see several benefits, such as:

- Better Customer Experience
- Superior Universal Language Coverage (i.e. Spanish, Chinese, Japanese, Korean, etc.)
- Documented Higher Success Rates (success rates average over 96%)
- Higher Success Rates Mean:
  - o Less Back Room Clean-up Expense
  - o Fewer Lost Sales due to Non-Verified TPV's
- Close to Real-Time Call Record and File Retrieval and Posting
- Cost Competitive Live Operator Answering Service

Calibrus has developed a TPV process that allows for a very efficient transfer of data from a sales agent to a Calibrus Live Operator. This process reduces call lengths, agent errors, and TPV costs. The following is a diagram of our Live Operator TPV Process Method.

Our Live Operator Third Party Verification solution helps our customers meet compliance requirements and improve their overall business processes. TPV revenue accounted for approximately 95% of the Company's total revenue. For 2009, 87% of our TPV revenue was derived from Live Operator services and 13% was derived IVR/VRU services. Our TPV services are priced on per transaction or per minute usage.

VOIP Verifications

Calibrus Live Agent VOIP Verifications provide a solution for customers that want to provide live interactions with the ultimate flexibility. Automated IVR Verifications is a low-cost alternative to a live voice agent that still complies with both FCC and State PUC Third Party Verification requirements. Intuitive scripting ensures the correct questions are automatically asked. Customers can easily opt-out to a live agent at any time if they require personal attention.

Hosted Call Recording

Calibrus' Call Recording service is easy to use and cost-effective and offers a number of features necessary for a superior call recording solution. Calibrus' Hosted Call Recording solutions are an alternative for companies that do not wish to invest in expensive hardware, maintenance and support of a state-of-the-art call recording system.

Our Hosted Call Recording Features include:

- All Inclusive Pay-As-You-Go Pricing Model by the Minute or by the Transaction/Call
- No Maintenance, Upgrade, Programming, Site/Seat Licensing or Change Fees
- Call Record & File Access 24/7 Via a Secured Website for Easy Retrieval
- Customized Reporting Options
- High Quality Recording with Redundant Systems and Disaster Recovery
- Compatible and Flexible Process can be used with Virtually Any System
- Optional Quality Control Monitoring and Evaluation Services

Hosted Call Recording for the Insurance Industry

Our call recording solution assists insurance companies to record and retain valuable, mission critical conversations that occur during claim statements and interviews, while, we believe, improving efficiencies and reducing costs in the claims process.

Calibrus' recording process is easy to use, secure and completely customizable. Insurance adjusters can set up a call and start recording quickly without expensive equipment. The Calibrus system ties important information for the claim, claim number, interviewee name, and other information to the file so customers can sort it later. The adjustor dials into Calibrus and records the conversation with the claimant and simply hangs up when finished. The recording will be processed and available within minutes after the call is finished and accessible via the reporting website. If necessary, Calibrus can send a confirmation email to the adjuster that includes a hyperlink to the recording for easy retrieval.

Once the recording has ended a secure password protected web-based reporting website allows claims managers, compliance officers and executives to access the recordings of the claim statements and interviews in seconds. Indexing of the data such as claim number, insured name, interviewee name, and adjuster ID allows authorized individuals the ability to search on things such as claim number and find all associated recordings for that claim. The reporting website serves as a quality assurance and management tool as well, providing the ability to pull up all recordings for an adjuster ID, and listen to every call that a particular adjuster did that day.

For independent/contracted adjusters out in the field, Calibrus has developed an upload tool to provide insurance companies with the ability to combine all of their digital claims recordings, whether done internally or externally by contracted companies, into one database. The Calibrus upload capability allows external adjustors/interviewers to record interviews "on the street" and then upload them to the Calibrus database using a secure web portal. Independent adjusters can use any handheld recorder that can download a recording into a .wav file format onto their computers.

The upload process is very simple to use: Access the secure web portal, enter in the information into the portal to be tied to the recording, mark the "Upload" existing file checkbox, identify the file and hit submit. The file is then uploaded into the Claims Recording Database and is then available to pull in the reporting website. Calibrus offers insurance companies the ability to switch to a hosted solution without having to invest heavily into an internal recording solution. By using our hosted solution customers forgo having to invest in hardware, software, site licenses, continuous upgrades, storage facilities and dedicated IT support. We handle all of that for our customers, and get a recording solution in place within weeks. Other benefits of using our solution are immediate access for playback of the recorded statement, back up redundancy of the digital .wav file for security purposes, enhanced call tracking and data analysis, ability by managers to quickly review calls and provide coaching easily, and customizable report capabilities. For 2009, 6.4% of our total revenue was derived from Call Recording services.

Voice Message Broadcasting (VMB)

Our web-based voice message broadcasting solution has the ability to contact hundreds to thousands of people in seconds. We can create dialing parameters based upon dialing lists, the message to be sent and the times to call out on, which can be adjusted to fit time zones across the nation. Customers can broadcast caller id and change and record their message in a matter of minutes.

Our voice message broadcasting programs can assist in:

- Retail Sales Alerts
- Thank You Messages
- Direct Customers to your Website
- Relationship calls – Happy Birthday, Anniversary, etc.
- Political Campaigns – Get out to Vote
- Customer Loyalty Campaigns to Repeat Customers
- Meeting/Conference Notifications
- Fundraising
- Sports Team Advertising
- School and Emergency Notifications

Calibrus Click-To-Call Services "ClickTalk"

Calibrus "ClickTalk" service allows customers to put a button or icon on a website or web-listing that will allow customers to contact others by telephone automatically and anonymously. The "ClickTalk" functionality has a variety of uses:

- Call Tracking
- Lead Generation
- Save Sales on Cancellations
- Online Phone Surveys
- Real Estate Listings

When someone presses the Calibrus "ClickTalk" button a pop up appears so that they can enter their phone number. Once a phone number is entered and they hit the submit button, the Calibrus system places an outbound call to them and once they have answered our system places a second call to a pre-programmed number and connects you with the customer.

Call Center Services

Calibrus, Inc. has been delivering call center services since 1999 to large and small businesses. Calibrus live operator agents can provide call center services to customers who want to grow their business or handle temporary, seasonal or overflow volume.

Several call center services Calibrus can provide are:

Outbound	Inbound
Cold Calls	Customer Support/Help Desk
Outbound Telemarketing	Order Taking/Fulfillment
Phone Surveys	Answering Service
Lead Qualifying	Sales Verifications
Direct Mail Follow up	Seminar Sign-up
Fundraising	
Political Campaigns	
Internet Sales Verifications	
Collections	

SpeechTrack.com

Calibrus has developed a hosted call recording utility that anyone can use from any phone. Through the SpeechTrack.com website anyone can record a phone conversation whether they are at work, home or on a cell phone. SpeechTrack enables phone conversations to be recorded easily, and securely, at a low per minute cost. SpeechTrack is an ideal solution for any individual, independent professional or small business owner. SpeechTrack is a hosted solution that requires no hardware or software to be purchased. SpeechTrack can also be used for dictation purposes. Customers can access their recordings online on SpeechTrack's secure website. Customers can add notes to the recording file to keep track of their calls and they can also download the recordings to their computer. Our plan is to market SpeechTrack.com to small to midsize businesses and individual professionals through several different marketing channels, including internet advertising, radio ads, forums, blogs and traditional print media.

Businesses and individuals use SpeechTrack for:

Staffing and Training
Protection/Disputes/Resolution – Prove "who said what" in a dispute
Confirmation of Agreements or Document Replacement
Compliance
Best Practice/Advice or Instructions

SpeechTrack users use our service for a myriad of purposes. Below is a partial list of just some of the types of independent professionals/small business owners that may utilize Speechtrack.

Attorneys

Accountants
Contractors/Vendors
Doctors
Executive Coaching
Service Providers
Sales Professionals
Private Investigators
Project Manager/Coordinators
Insurance Agents
Mortgage/Financial Brokers
Conference Calls
Market Researchers

Technology

Using software based PBX (public exchange system – best known as a telephone switch), ACD (automated call distribution), network equipment, data storage arrays, and servers; we have developed object oriented software application building blocks and relational databases. Because we record every verification conversation digitally, our system allows clients to be actively involved in monitoring and managing our services through secure Internet sites, VPN (virtual private networks), and dedicated point-to-point connectivity. By allowing near real time review of data and verification conversations, this infrastructure allows our clients to actively participate in the management of their programs. We virtually eliminate data errors because the majority of the data is transferred electronically.

Redundancy and Safeguards

Calibrus has worked diligently to provide the necessary redundancy and disaster recovery requirements to our clients. We offer a number of safeguards for our clients including separate power generation units in the event of a failure by the utility; we have UPS's (uninterrupted power supply) for all network and telecom equipment; we have a UPS on every agent station and our system up-time was over 99.9% for the last two years. For telecom access Calibrus utilizes two separate long distance providers that both have multiple access points into the Phoenix Metro area. One telecom company provides the primary number while the second provides the back-up number to prevent any downtime that could arise in a particular company's network.

Calibrus' facilities, equipment and technology are structured to ensure uptime and eliminate the worry of fiber cuts which could disrupt our business. Since Calibrus is connected to the telecom's network, we are able to install additional T1's or PTP (point-to-point) data circuits on a significantly reduced timeframe. It is common to have new circuits delivered and functioning within 10 business days, much quicker than the 30-45 business days most companies will receive. Calibrus uses multiple telephone switches, firewalls, routers and networks; and have automated tape back-up guards against data loss, corruption and down time.

The Company's technology is capable of receiving and interpreting automatic number identification information. Calibrus can then use this information in conjunction with our computer telephone integration functionalities for reporting and indexing functionality.

Security

Calibrus understands the need to protect data belonging to our customers. With that understanding, we have developed strict guidelines to protect customer information. Controlled access to data centers, physical security measures, and strong passwords on all network equipment ensures that only authorized personnel can gain entrance to sensitive areas and protects Calibrus' internal vulnerabilities. Firewalls, Access Control Lists and VPNs ensure that data is safe from external vulnerabilities.

We do offer several levels of securing access to our client's data, as it can vary from client to client. With the web based utility that some clients utilize we offer password protection and unique individual logins that can be completely controlled and maintained by the client by a custom interface, which can also be password protected, if necessary. Some of our clients find that task to be burdensome due to their number of agents and managers. For those specific clients, if they are coming through a proxy, we can limit access to the websites, both agent entry and to trusted internet protocol. This would limit the access to only those that are coming through the company's client side channel to the Calibrus website.

Reporting

Calibrus custom builds all reports to suit our client's needs because we have found that the information that each customer requires may be different from the information required by another customer. All telephone switches are centralized in our server databases and therefore, we can easily relate customer data with call data. As a result, we can custom build reports to the specifications of our clients and provide the data in any format to the client: Excel, fixed length and comma delimited, and deliver it in multiple ways, such as through a website, Web Service, e-mail, connect direct or FTP (file transfer protocol). We build all return files to client specifications and can deliver them at the times the client requests.

Regulations

Third Party Verification is mandated by both the FCC and State PUC agencies. Third Party Verification is the confirmation of a customer's order by an independent third party. This process protects both the customer and the company selling from fraud and slamming/cramming of products onto their lines. Once the sale has been made the customer is transferred to an independent Third Party that will read a pre-determined script to which the customer will answer yes or no.

In 1996, the Federal Communications Commission, FCC, enacted the Telecommunications Act which forced the Regional Bell Operating Companies to open their lines to competition. Accordingly, they were required to allow competitors to lease their lines and provide service to customers at a rate set by each individual State's Utility Commission. This was to promote competition and help new competitors compete with the large corporations on a level playing field.

This led to another phenomena called slamming, customers being switched from one company to another without their approval, and sometimes without any knowledge whatsoever until they received their bill.

In response to this, legislation was enacted that required companies that were changing a customer's Dial Tone or Long Distance to their services would have to first obtain the customer's approval in one of three ways.

- A written and signed Letter of Authorization indicating that customer agrees to the change.
- An automated or live agent independent third party that the customer is transferred to for the verification.
- An electronic Signature on an electronic Letter of Authorization, usually done on websites.

Calibrus fulfills the second requirement, providing both automated IVR, and Live Agent Third Party Verifications Services for our clients. Third Party Verification though intended to be a protection for the customer, is also a protection for the company initiating the switch as well. The necessity for TPV prevents companies from switching customers without their approval, and it also prevents a customer, or another company, from alleging that the company switched a customer without their approval. The protection that TPV provides for the company is critical as the fines levied by the FCC and the State PUCs can run in the millions of dollars and also include the loss of the ability to sell telecommunications products in a specific area.

Even though Calibrus acts as a Third Party Verification provider, Calibrus is not directly subject to any regulations. The service or process that we provide for our clients does have several defined rules and regulations that must be followed. For example, scripts that are implemented and used in both our Live Operator and IVR/VRU TPV services must be read verbatim to the customer. There are certain pre-defined questions that must be asked to the customer and certain types of information must be gathered from the customer in order for the TPV to be verified. The FCC and each State PUC has varying requirements in regards to the information that must be communicated to the customer and the information that must be captured. In addition, there are record keeping requirements for both data and voice for each Third Party Verification transaction. Whether the TPV is conducted by a Live Operator or IVR/VRU TPV there must be a voice recording of the customer responding to the script and the data that was captured during the transaction must also be recorded. The voice recordings and associated data must be archived and made available for up to thirty six (36) months.

Competitors

Calibrus faces numerous competitors both within and outside the United States. Many of Calibrus' competitors are much larger and better financed. The only barrier to entry in Calibrus markets is sufficient start up capital to buy initial equipment and such costs are not substantial. With the low barriers to entry, Calibrus faces competition from a large number of competitors with similar capabilities. Most call centers, both inside and outside the United States, either have similar technology or could develop similar technology. We initially were able to stay ahead of competitors by having a low cost business model but many competitors have reduced their costs to be similar to our costs. As such, the competition for customers has become more competitive.

Some of Calibrus' competitors include VoiceLog, now owned and operated by BSG Group, 3PV and Data Exchange. Although these are some of the larger competitors there are a substantial number of competitors of similar size to Calibrus that we compete against. Calibrus competes with these competitors for business by offering superior quality of service that is reliable and low cost in the market. Even with quality of services that we believe we offer, competition in our industry generally comes down to pricing. As such, there is constant pressure on margins and the need to keep costs low to be able to effectively compete in our industry.

Concentration of Customers

As the number of telecommunications companies has decreased, we have seen a concentration of revenues coming from two primary customers. In 2007 AT&T Communications and Cox Communications exceeded approximately eighty percent of our revenues for the first time. Currently nearly eighty percent of our revenues are still derived from these two customers. For the years ended December 31, 2009 and 2008, AT&T Communications accounted for 55% and 54% and Cox Communications 25% and 25%, respectively, of our revenues. This revenue is derived from our TPV business. If we were to lose one of these customers before our other business lines start generating more revenue, it could have a detrimental effect on our ability to stay in business. We are actively moving away from the TPV business being our primary operations and are hopeful that we will be able to reduce our reliance on these two customers. We made the decision to diversify our product offerings based on our belief that consolidation in the telecommunications industry has reduced the number of telephone customers changing carriers. As such, the need for third party verification has decreased. We believe there will continue to be customers changing phone carriers but as the number decreases the revenue we receive from our third party verification business continues to decline. We believe it is prudent to seek other sources of revenue.

Our contract with AT&T expired on December 31, 2009. We have signed two extensions with modified pricing through March 2010, although AT&T can terminate the contract on 90 days notice. On April 8, 2010 the Company signed a new contract with AT&T. The contract sets forth our pricing terms and provides the conditions on which we are to provide service to AT&T including that our services are deemed performed when provided. During the year ended December 31, 2009 the Company signed a new contract with Cox Communications to provide TPV services via IVR with a Live Opt-Out option.

Calibrus Products and Services - JabberMonkey.com

JabberMonkey is a social expression site that features questions on issues and topics that are current and relevant to its members. JabberMonkey questions will be on pertinent issues that in many instances will evoke an emotional response from its members. Many of the questions on JabberMonkey will provide the individuals voting with a voice to cause an action or affect a result.

There are many emotional issues or events that occur around the world that JabberMonkey will post questions about allowing JabberMonkey members to express themselves, participate and cause an action or outcome. One could imagine what some of these might be:

- A famous rock band might participate with JabberMonkey and allow JabberMonkey members to vote on the songs and the order the songs would be played at their next concert.

A business wants to get individuals to provide feedback and name their next product. JabberMonkey members can vote, provide feedback about the product and name the new product.

- A famous sports athlete through a video blog asks the question “if I win the US Open Golf Tournament what charity should I donate $250,000 of the $1,000,000 prize money?” Which charity has the most votes, wins and that is who will get the money.

a) American Red Cross
b) PETA
c) The Make a Wish Foundation
d) Boys and Girls Club of America
e) Breast Cancer Research Foundation

JabberMonkey members will vote and provide their comments on an issue and then see instant feedback on how others are feeling about a topic or issue and view comments made by others. JabberMonkey members will be able to express themselves by answering questions, posting there own questions, text blogging, video blogging, participating in forums, creating profiles, posting videos, photos, audio files, and rate other JabberMonkey members questions and content.

JabberMonkey members will also be able to meet new people and make new friends. When answering a question or participating in a group, members will be able to meet people with similar interests, they will then be able to become friends on JabberMonkey. They can then communicate via messaging, chat, and video voice calling as well as sharing photos, videos and other electronic media.

JabberMonkey questions will range across all categories of life, and run the gamut from serious to silly. The categories and sub-categories will allow for targeted feedback.

Categories could range from Entertainment to Music and Business, etc. Each category will also contain subcategories to encompass a wide range of topics and interests.

In addition to being able to conduct polls and questions, JabberMonkey offers a unique user experience by being able to offer interactive communication and high definition video. While most social networking sites offer only a static page for the user, JabberMonkey offers video communications between multiple users at once, the ability to quickly load video, and the ability to set up groups or companies into secure sites. JabberMonkey also takes advantage of other companies’ storage by allowing links to other web sites such as YouTube or Google.

Calibrus’ focus with JabberMonkey has been to try and distinguish it from the other social networking sites which are very static and rely only on instant messaging and fixed web pages. Calibrus has focused on designing a site that is easy to use and is video intensive with user friendly software for video attachment and conferencing.

JabberMonkey has completed its alpha test and has moved into beta testing during December 2009. The Company plans on running the beta test through May 2010 with a full launch expected in June or July 2010. We do not anticipate any revenue from JabberMonkey until the end of 2010 at the earliest.

Competition

JabberMonkey will be entering into one of the fastest growing segments of the internet and as such will face intense competition from sites such as MySpace and Facebook. Although Calibrus believes the JabberMonkey site offers new features, it is unlikely the other sites will not soon be able to offer similar features. Competitors in this space are very well financed and have the advantage of having already captured consumers that may be unwilling to switch to a new site. At this time, we have no intellectual property protection and are only now preparing preliminary patent and trademark filings. It is still unknown if any of our filings will lead to actually receiving provisional patents or final patents or trademarks. Although we believe our site offers unique features, we cannot say if other companies are developing similar features to their social networking sites. Additionally, many of the features of our site could be developed by other sites with variations that could possibly get around any intellectual property protections we are able to obtain.

The competition we face will make it difficult to attract customers from established sites such as Facebook and MySpace given their financial capabilities. Additionally, we believe we have only a small window to establish our site as being unique before the other social networking sites are able to come up with similar offerings. If we are unsuccessful in the short term in establishing a unique site that draws consumers, it will be difficult to compete against the other sites that we assume are working on similar interactive features. Additionally, some of these sites are backed by the largest players in the industry such as Google which can provide financial support far beyond anything we can raise at this time or in the perceived future.

Marketing

Our initial marketing will be aimed at attracting consumers from focusing on affinity sites and limited advertising on college and sport talk shows. We believe initial consumers can be attracted through links on web pages at Facebook and MySpace. However, to attract these users we first must establish JabberMonkey as a unique interactive experience that differs from the other social networking sites.

This initial advertising efforts will be directed at targeted groups and communities which would see the advantage of being able to communicate on their topic areas and have on-line conversations. Such groups would be gamers, sports enthusiast, school communities, clubs and political or civic organizations. To this end, we are reviewing the cost to advertise on radio particularly sports radio and on certain online sites. As our capital for advertising is very limited, we may have to focus initially on one advertising market or focus on a slow growth and word of mouth communications depending on the final development cost of the JabberMonkey site and how much capital we were able to raise. We will be reevaluating our advertising once we reach full functionality of our site and start to have consumer use of the site.

Revenue Model

Our initial revenue model will be based on advertising. As such, we do not anticipate any revenue for some time. To be able to sell advertisements on our site, we will need to have a certain level of users which we think will take most of 2010 to achieve. If we are not able to attract sufficient users, we will not be able to engage in any advertisement.

Once the site is up and running, we will also look at data mining as another source of revenue. With our existing product line, we have gained some limited experience in data mining and believe it offers another revenue source to be able to obtain information from consumers using the JabberMonkey site and sell such information to companies that would be able to use the information in their advertising or other business needs. This would not be an initial source of revenue as we will have to have sufficient users to make data mining effective and it will have to be developed with a view to not drive away potential users.

We also are analyzing charging consumers for certain features of our site but at this time, we believe it is more important to drive consumers to our site and will make everything available for free and focus on advertising revenues. Once we obtain a certain level of users, we may start offering more products that we believe we can charge for such as storage or secure web pages for communications. At this time, we do not know when we would be able to start charging for such product offerings, if ever.

Development

The Company closed the alpha testing phase of development during December, 2009. The site reached the beta testing phase in the first part of December, 2009. Our goal is to have the site fully operational in the second quarter of 2010. At this time, the site is still in the beta testing phase and does not have the full features and functionality planned for the fully operational website.

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We have been testing the site during our alpha and beta development. During our alpha development we essentially started limited testing on the software and functionality developed to run the JabberMonkey site. At this phase of development we had limited number of individuals, primarily our employees, testing the site and giving feedback as to its functionality. We also revised the software and tried to work out any issues found in the initial development. We have now closed our alpha development phase and the updates to correct any issues found during the alpha development. The beta stage of testing and development commenced in December 2009.

During our beta phase, we will be expanding the number of authorized users to our site beyond our employee group. This phase of development will be focused on making sure any issues with software or hardware are addressed before we launch the site to the general public. We will also be using this time to add additional hardware so we can make sure we have the capabilities to serve prospective customers. If problems are encountered during this phase, the final launch will be delayed. At this time, we cannot say if the beta phase will be successful or the exact timing of the launch of the site for the public.

Even after the completion of the beta phase, we could still have software and hardware development problems once the full launch of the site is made. We cannot say how our software and hardware will function under the strain of a large number of users. Even through our beta phase, we will have only limited users and our site will not be tested to the extent it could be once the public as a whole can use the site. Additionally, the timing of the full launch of our site is still unknown until we are further along in the beta phase and can see how the software and hardware are working.

Intellectual Property

$	0.00
$	0.00
Weighted average shares basic	8,168,067
	6,455,100
Weighted average shares diluted	8,177,853

6,455,100

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

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Encision Inc.

Condensed Statements of Cash Flows

(Unaudited)

Three Months Ended	**June 30, 2012**	**June 30, 2011**
Cash flows from operating activities:		
Net income (loss)	$ 10,310	$ (20,504)
Adjustments to reconcile loss to net cash provided by operating activities:		
Depreciation and amortization	72,614	63,289
Stock-based compensation expense related to stock options	14,661	23,083
Provision for doubtful accounts, net	(11,000)	(1,000)
Provision for inventory obsolescence, net	8,000	(20,000)
Change in operating assets and liabilities:		
Accounts receivable	151,689	2,024
Inventories	103,419	(69,094)
Prepaid expenses and other assets	(124,092)	(63,832)
Accounts payable	(587,788)	81,833
Accrued compensation and other accrued liabilities	99,629	51,761
Net cash provided by (used in) operating activities	(262,558)	47,560
Cash flows from investing activities:		
Acquisition of property and equipment	(65,768)	(169,410)
Patent costs	(5,905)	(9,981)
Net cash (used in) investing activities	(71,673)	(179,391)
Cash flows from financing activities:		
Borrowings from credit facility		200,000
Proceeds from the issuance of common stock	255,000	
Cost of the issuance of common stock	(22,286)	
Net cash provided by financing activities	232,714	200,000
Net increase (decrease) in cash and cash equivalents	(101,517)	68,169
Cash and cash equivalents, beginning of period	564,671	120,008
Cash and cash equivalents, end of period	$ 463,154	$ 188,177

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

JUNE 30, 2012

(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 $16,549,710 at June 30, 2012. Operating funds have been provided primarily by issuances of our common stock and warrants, 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 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, 2012, filed on May 16, 2012.

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 exceeds the $250,000 federally insured limit at June 30, 2012. 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 June 30, 2012 of $1,287,277 included 14% from one customer. The net accounts receivable balance at March 31, 2012 of $1,427,966 included 17% from one customer.

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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 June 30, 2012 and March 31, 2012, inventory consisted of the following:

		June 30, 2012		March 31, 2012
Raw materials	$	1,719,554	$	1,603,231
Finished goods		783,035		1,002,777
Total gross inventories		2,502,589		2,606,008
Less reserve for obsolescence		(125,000)		(117,000)
Total net inventories	$	2,377,589	$	2,489,008

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 June 30, 2012, 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. Revenue 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 obligations. Revenue from engineering services is recognized when the service is performed.

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 June 30, 2012 and 2011 was $14,661 and $23,083, 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	
	June 30, 2012	June 30, 2011
Net income (loss)	$ 10,310	$ (20,504)
Weighted-average shares basic	8,168,067	6,455,100
Effect of dilutive potential common shares	9,786	
Weighted-average shares diluted	8,177,853	6,455,100
Net income (loss) per share basic	$ 0.00	$ 0.00
Net income (loss) per share diluted	$ 0.00	$ 0.00
Antidilutive employee stock options	735,214	585,000

Note 4. COMMITMENTS AND CONTINGENCIES

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through July 31, 2014. The minimum future lease payment, by fiscal year, as of June 30, 2012 is as follows:

Fiscal Year	Amount
2013 (nine months remaining)	226,102
2014	320,080
2015	108,303
Total	$ 654,485

Our minimum future equipment lease payments with General Electric Capital Corporation as of June 30, 2012, by fiscal year, are as follows:

Fiscal Year	Amount
2013 (nine months remaining)	76,405
2014	8,488
Total	$ 84,893

On May 10, 2012, we signed an amendment to our credit facility agreement with Silicon Valley Bank, effective May 10, 2012. The terms of the credit facility include a line of credit for $2,000,000 for two years at an interest rate calculated at the prime rate plus 1.25%, subject to increase upon a default. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. The credit facility is secured by all goods, accounts receivable, equipment, inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, general intangibles, commercial tort claims, documents, instruments, chattel paper, cash, deposit accounts, fixtures, letters of credit rights, securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located.

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

We are subject to regulation by the United States Food and Drug Administration (FDA). The FDA provides regulations governing the manufacture and sale of our products and regularly inspects us and other manufacturers to determine compliance with these regulations. We believe that we were in substantial compliance with all known regulations as of June 30, 2012. FDA inspections are conducted periodically at the discretion of the FDA. Our latest inspection by the FDA occurred in November 2009.

During the quarter ended June 30, 2012, we were involved in a legal proceeding that arose in the normal course of business. This matter is a product liability action. We do not know whether we will prevail in this matter nor can we assure that any remedy could be reached on commercially viable terms, if at all. Based on currently available information, we believe that we have meritorious defense to this action and that the resolution of this case is not likely to have a material adverse effect on our business, financial position or future results of operations. In accordance with GAAP, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Under our product liability insurance, we have a maximum $25,000 deductible. During the quarter ended June 30, 2012, we accrued $25,000 for the deductible.

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, based on estimated fair values. The following table summarizes stock-based compensation expense related to employee stock options and employee stock purchases for the three months ended June 30, 2012 and 2011, which was allocated as follows:

	Three Months Ended	
	June 30, 2012	**June 30, 2011**
Cost of sales	$ 685	$ 810
Sales and marketing	210	2,771
General and administrative	11,063	16,581
Research and development	2,703	2,921
Stock-based compensation expense	$ 14,661	$ 23,083

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The Black-Scholes model requires the use of actual employee exercise behavior data and the application of a number of assumptions, including expected volatility, risk-free interest rate and expected dividends. There were 20,000 stock options granted during the three months ended June 30, 2012.

As of June 30, 2012, $290,000 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 $25,561 and $17,960 to an entity owned by one of our directors and $47,249 and none to an entity owned by another director during the three months ended June 30, 2012 and 2011, respectively.

In March and April of 2012, we completed a private placement of 1,755,000 shares of our common stock. The purchase price per share for the shares sold in the private placement was $1.00. Mr. Kornelsen, one of our directors, purchased 26,000 shares in the private placement. CMED Partners LLLP, an investment fund affiliated with Mr. Kornelsen, purchased 514,000 shares in the private placement.

Note 7. SUBSEQUENT EVENTS

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

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

Certain statements contained in this section on Management s Discussion and Analysis are not historical facts, including statements about our strategies and expectations with respect to new and existing products, market demand, acceptance of new and existing products, marketing efforts, technologies and opportunities, market and industry segment growth, and return on investments in products and markets. These statements are forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and involve substantial risks and uncertainties that may cause actual results to differ materially from those indicated by the forward looking statements. All forward looking statements in this section on Management s Discussion and Analysis are based on information available to us on the date of this document, and we assume no obligation to update such forward looking statements. Readers of this Form 10-Q are strongly encouraged to review the section entitled *Risk Factors* in our Form 10-K for the fiscal year ended March 31, 2012.

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) Surgical Instruments are changing the marketplace for electrosurgical devices and laparoscopic instruments by providing a solution to a well-documented hazard unique to laparoscopic surgery.

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. 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 preventing stray electrosurgical energy that can cause unintended and unseen tissue injury that may result in death. AEM Surgical Instruments are equivalent to conventional instruments in size, shape, ergonomics and functionality, but they incorporate Active Electrode Monitoring technology to dynamically and continuously monitor the flow of electrosurgical current, thereby helping to prevent patient injury. With our shielded and monitored instruments, surgeons are able to perform electrosurgical procedures more safely, effectively and economically than is possible using conventional instruments.

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 the AEM technology and our broad independent endorsements and have continued efforts to improve and expand the AEM product line. Accordingly, we are currently focusing on updating our accepted AEM instruments to include ergonomics and user functionalities for which surgeons have been expressing a preference. When a hospital or surgery center changes to AEM technology, we receive recurring sales from sales of replacement instruments. We believe that there is no directly competing technology to supplant AEM products. The replacement market of reusable and disposable AEM products in hospitals and surgery centers that use our AEM technology represented over 90% of our sales during the three months ended June 30, 2012. This sales stream is expected to grow as the base of accounts that switch to AEM technology grows. In addition, we intend to develop disposable versions of more of our AEM products in order to meet market demands and expand our sales opportunities.

We have an accumulated deficit of $16,549,710 at June 30, 2012. Operating funds have been provided primarily by issuances of our common stock and warrants 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 in the future.

During the three months ended June 30, 2012, we used $262,558 of cash from our operations and used $65,768 for investments in property and equipment. As of June 30, 2012, we had $463,154 in cash and cash equivalents available to fund future operations, a decrease of $101,517 from March 31, 2012. Our working capital was $3,096,414 at June 30, 2012 compared to $2,837,788 at March 31, 2012.

Historical Perspective

We were organized in 1991 and spent several years developing the AEM monitoring system and protective sheaths to adapt to conventional electrosurgical instruments. During this period, we conducted product trials and applied for patents with the United States Patent Office and international patent agencies. Patents, which are not expired, were issued to us by the United States Patent and Trademark Office in 1998, 1999, 2002, 2007, 2008 and 2011.

As we evolved, it was clear to us that our active electrode monitoring technology needed to be integrated into the standard laparoscopic instrument design. As the development program proceeded, it also became apparent that the merging of electrical and mechanical engineering skills in the instrument development process for our patented, integrated electrosurgical instruments was a complex and difficult task. As a result, instruments with integrated AEM technology were not completed for several years. Prior to offering a full range of laparoscopic electrosurgical instrumentation, it was difficult for hospitals to commit to the AEM solution, as we did not have adequate comparable surgical instrument options to match surgeon demand.

With the broad array of AEM instruments now available, the surgeon has a wide choice of instrument options and does not have to change surgical technique to use our AEM products. Since conversion to AEM technology is transparent to the surgeon, hospitals can now universally convert to AEM technology, thus providing all of their laparoscopic surgery patients a higher level of safety. This development coincides with the continued expansion of independent endorsements for AEM technology. Recommendations from the malpractice insurance and medicolegal communities complement the broad clinical endorsements that AEM technology has garnered over the past few years, leading to increased awareness for the benefits of the technology.

We continue our focus on developing next generation versions of our AEM instruments to better meet market demands, particularly the demand for

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improved ergonomics and simplified user functionalities.

Outlook

Installed Base of AEM Monitoring Equipment: We believe that sales of our installed base of AEM products will increase sales as the inherent risks associated with monopolar laparoscopic electrosurgery become more widely acknowledged and as we focus on increasing our sales efficiency. We expect that the replacement sales of electrosurgical instruments and accessories will also increase as additional 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 continually improving, and we expect this awareness to benefit our sales efforts for the remainder of fiscal year 2013. Our objectives in the remainder of fiscal year 2013 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 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 $16,549,710 at June 30, 2012. Operating funds have been provided primarily by issuances of our common stock and warrants, 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 2013. 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 and development service revenue from our agreements with strategic partners. As a result of a project that has been phased out by a strategic partner, and unless we obtain another strategic partner or further commitments from existing partners, we anticipate that future service revenue will be significantly reduced as compared to last fiscal year s service revenue.

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 development revenue. Gross margins on products manufactured or assembled by us are expected to improve at higher levels of production and sales.

Manufacturing: As sales increase, we expect to increase gross profit and gross margins by manufacturing our scissor inserts internally.

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

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

Results of Operations

For the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Product Revenue. Product revenue for the quarter ended June 30, 2012 was $2,805,351 compared to $2,833,205 for the quarter ended June 30, 2011, a decrease of 1%. The decrease is attributable to business lost from accounts that stopped using AEM technology and to outside reprocessors who reprocess our products for resale. This was partially offset by the addition of new accounts. We opened seven new accounts for AEM technology in the three months ended June 30, 2012 versus six new accounts for AEM technology in the three months ended June 30, 2011.

Service Revenue. Service revenue for the quarter ended June 30, 2012 was $295,821 compared to $350,789 for the quarter ended June 30, 2011, a decrease of 16%. The decrease is a result of a project that has been phased out by a strategic partner. As a result, and unless we obtain another strategic partner or

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further commitments from existing partners, we anticipate that future service revenue will be significantly reduced as compared to last fiscal year s service revenue.

G*ross profit*. Product gross profit for the quarter ended June 30, 2012 of $1,601,239 represented an increase of 2% from gross profit of $1,572,531 for the quarter ended June 30, 2011. Gross profit as a percentage of sales (gross margins) increased from 55.5% for the quarter ended June 30, 2011 to 57% for the quarter ended June 30, 2012. In the quarter ended June 30, 2011, our margin was lower due to a planned manufacturing slowdown that resulted in higher product unit costs, principally of our disposable scissor inserts. The gross profit margin increase from the first quarter of fiscal year 2011 was due to a return to normal production, principally of our disposable scissor inserts.

Service gross profit for the quarter ended June 30, 2012 of $147,101 represented a decrease of $59,495 from 206,596 for the quarter ended June 30, 2011. The decrease is a result of a project that has been phased out by a strategic partner.

Sales and marketing expenses. Sales and marketing expenses of $867,007 for the quarter ended June 30, 2012 represented a decrease of 16% from sales and marketing expenses of $1,037,570 for the quarter ended June 30, 2011. The decrease was the result of lower general purchasing organizations fees due to ceasing our relationships with some of our general purchasing organizations, and reduced outside services, printing and trade show participation. Further reductions were from reduced recruiting fees, sales samples, and travel and meals.

General and administrative expenses. General and administrative expenses of $527,645 for the quarter ended June 30, 2012 represented an increase of 26% from general and administrative expenses of $418,789 for the quarter ended June 30, 2011. The increase was the result of outside services, a quality software program and training, and bonus accrual. The increase in such costs was partially offset by reduced board of directors and investor relations fees.

Research and development expenses. Research and development expenses of $342,746 for the quarter ended June 30, 2012 represented an increase of 4% compared to $330,592 for the quarter ended June 30, 2011. The increase was the result of an increase in outside services and facilities allocation for additional use of space. The increase in such costs was partially offset by reduced small tools and test materials usage.

Net income. Net income was $10,310 for the quarter ended June 30, 2012 compared to net loss of $20,504 for the quarter ended June 30, 2011. The net income was a result, primarily, of slightly lower operating expenses and reduced interest expense.

The results of operations for the three months ended June 30, 2012 are not indicative of the results of operations for all or any part of the balance of the fiscal year.

Liquidity and Capital Resources

At June 30, 2012, operating funds have been provided primarily by issuances of our common stock and warrants and the exercise of stock options to purchase our common stock. Operating funds totaled $21,544,021 from our inception through June 30, 2012.

On May 10, 2012, we signed an amendment to our credit facility agreement with Silicon Valley Bank, effective May 10, 2012. The terms of the credit facility include a line of credit for $2,000,000 for two years at an interest rate calculated at the prime rate plus 1.25%, subject to increase upon a default. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. The credit facility is secured by all goods, accounts receivable, equipment, inventory, contract rights or rights to payment of money, leases, license agreements, franchise agreements, general intangibles, commercial tort claims, documents, instruments, chattel paper, cash, deposit accounts, fixtures, letters of credit rights, securities, and all other investment property, supporting obligations, and financial assets, whether now owned or hereafter acquired, wherever located.

Our operations used $262,558 of cash during the three months ended June 30, 2012 on net revenue of $3,101,172. Cash was used, principally, by increased prepaid expenses and other assets, and decreased accounts payable. Cash used was partially offset by a decrease to accounts receivable and inventories. The amounts of cash used by operations for the three months ended June 30, 2012 are not indicative of the expected amounts of cash to be generated from or used in operations in fiscal year 2013. During the three months ended June 30, 2012, we invested $65,768 in the acquisition of property and equipment. As of June 30, 2012, we had $463,154 in cash and cash equivalents available to fund future operations. Working capital was $3,096,414 at June 30, 2012 compared to $2,837,788 at March 31, 2012. The increase to working capital at June 30 was the result, principally, of obtaining proceeds from the issuance of our common stock. Current liabilities were $1,184,266 at June 30, 2012, compared to $1,672,425 at March 31, 2012. The decrease in current liabilities at June 30, 2012 was caused, principally, by a large decrease to accounts payable as a result of obtaining proceeds from the issuance of our common stock.

If we are not successful in maintaining profitability and positive cash flow, additional capital may be required to maintain ongoing operations. We have explored and are continuing to explore options to provide additional financing to fund future operations as well as other possible courses of action. Such actions include, but are not limited to, securing additional lines of credit, sales of debt or equity securities (which may result in dilution to existing shareholders), licensing of technology, strategic alliances and other similar actions. There can be no assurance that we will be able to obtain additional funding (if needed), on acceptable terms or at all, through a sale of our common stock, loans from financial institutions or other third parties, or any of the actions discussed above. If we cannot sustain profitable operations, and additional capital is unavailable, lack of liquidity could have a material adverse effect on our business viability, financial position, results of operations and cash flows.

We currently lease our facilities at 6797 Winchester Circle, Boulder, Colorado under noncancelable lease agreements through July 31, 2014. The minimum future lease payment by fiscal year as of June 30, 2012 is as follows:

Fiscal Year		**Amount**
2013 (nine months remaining)		226,102
2014		320,080
2015		108,303
Total	$	654,485

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Our minimum future equipment lease payments with General Electric Capital Corporation as of June 30, 2012, by fiscal year, are as follows:

Fiscal Year		**Amount**
2013 (nine months remaining)		76,405
2014		8,488
Total	$	84,893

As of June 30, 2012, the following table shows our contractual obligations for the periods presented:

					Payment due by period					
Contractual obligations		**Totals**		**Less than 1 year**		**1-3 years**		**3-5 years**		**More than 5 years**
Line of credit obligations	$		$		$		$		$	
Operating lease obligations		739,378		391,015		348,363				
Total	$	739,378	$	391,015	$	348,363	$		$	

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

Our fiscal year 2013 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 and cash equivalents for fiscal year 2013. On May 10, 2012, we signed an amendment to our credit facility agreement with Silicon Valley Bank, effective May 10, 2012. The terms of the credit facility include a line of credit for $2,000,000 for two years at an interest rate calculated at the prime rate plus 1.25%, subject to increase upon a default. Our borrowing under the credit facility is limited by our eligible receivables and inventory at the time of borrowing. We believe that our cash resources and credit facility will be sufficient to fund our operations for at least the next twelve months. If we are unable to manage our business operations in line with budget expectations, it could have a material adverse effect on our business viability, financial position, results of operations and cash flows. If we are not successful in continuing profitability and positive cash flow, and renewing our line of credit, additional capital may be required to maintain ongoing operations.

Income Taxes

As of March 31, 2012, net operating loss carryforwards totaling approximately $10.1 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, 2013. 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, warranty, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances would be required, which would increase our expenses during the periods in which any such allowances were made. The amount recorded as a provision for bad debts in each period is based upon our assessment of the likelihood that we will be paid on our outstanding receivables, based on customer-specific as well as general considerations. To the extent that our estimates prove to be too high, and we ultimately collect a receivable previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We provide for the estimated cost of product warranties at the time sales are recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, we have experienced some costs related to warranties. The warranty accrual is based on historical experience and is adjusted based on current experience. Should actual warranty experience differ from our estimates, revisions to the estimated warranty liability would be required.

We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Any write-downs of inventory would reduce our reported net income during the period in which such

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write-downs were applied. To the extent that our estimates prove to be too high, and we ultimately utilize or sell inventory previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

We recognize deferred income tax assets and liabilities for the expected future income tax consequences, based on enacted tax laws, of temporary differences between the financial reporting and tax bases of assets and liabilities. Deferred tax assets are then reduced, if deemed necessary, by a valuation allowance for the amount of any tax benefits which, more likely than not based on current circumstances, are not expected to be realized. Should we maintain sufficient, sustained income in the future, we may conclude that all or some of the valuation allowance should be reversed.

Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally three to seven years. We use the straight-line method of depreciation for property and equipment. Leasehold improvements are depreciated over the shorter of the remaining lease term or the estimated useful life of the asset. Maintenance and repairs are expensed as incurred and major additions, replacements and improvements are capitalized.

We amortize our patent costs over their estimated useful lives, which is typically the remaining statutory life. From time to time, we may be required to adjust these useful lives of our patents based on advances in technology, competitor actions, and the like. We review the recorded amounts of patents at each period end to determine if their carrying amount is still recoverable based on our expectations regarding sales of related products. Such an assessment, in the future, may result in a conclusion that the assets are impaired, with a corresponding charge against earnings.

We currently estimate forfeitures for stock-based compensation expense related to employee stock options at 23% and evaluate the forfeiture rate quarterly. Other assumptions that are used in calculating stock-based compensation expense include risk-free interest rate, expected life, expected volatility and expected dividend.

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ITEM 4 CONTROLS AND PROCEDURES

(a) We have carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Principal Accounting and Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 (the Exchange Act)). Based upon that evaluation, the Chief Executive Officer and the Principal Accounting and Financial Officer concluded that, as of June 30, 2012, our disclosure controls and procedures were effective.

(b) During the quarter ended June 30, 2012, 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.

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PART II. OTHER INFORMATION

ITEM 2 Unregistered Sales of Equity Securities and Use of Proceeds

As previously disclosed, on March 30, 2012, we completed a private placement of 1,500,000 shares of our common stock. This private placement raised, before costs, a total of $1,500,000. On April 16, 2012, we completed a private placement of an additional 255,000 shares of our common stock. This private placement raised, before costs, a total of $255,000.

The purchase price per share for the shares sold in the private placements was $1.00. We did not issue any warrants in connection with the transactions.

The proceeds of the private placements were used to repay indebtedness and for working capital and general corporate purposes. The private placements were exempt from registration under Section 4(2) of the Securities Act of 1993 and the rules and regulations thereunder.

ITEM 6 Exhibits

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

10.1 Amended and Restated Loan and Security Agreement between Encision Inc. and Silicon Valley Bank dated May 10, 2012 (Incorporated by reference from exhibit 10.7 to the Annual Report on Form 10-K filed on May 16, 2012).

31.1 Certification of Chief Executive Officer under Rule 13a-14(a) of the Exchange Act (filed herewith).

31.2 Certification of Principal Financial and Accounting Officer under Rule 13a-14(a) of the Exchange Act (filed herewith).

32.1 Certifications of Chief Executive Officer 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 June 30, 2012, 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.

Users of the XBRL data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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.

July 31, 2012	/s/ Marcia McHaffie
Date	Marcia McHaffie
	Controller
	Principal Accounting Officer &
	Principal Financial Officer