



Linking
New Strategies
for Growth

ENCISION[®]
2011 ANNUAL REPORT

LETTER TO SHAREHOLDERS

Our fiscal year that ended March 31, 2011 ("FY11") could best be described as a year of challenges and perseverance. Despite our profitable second half of FY11, we are all disappointed with last year's sales decrease of 9.5%. We lost some of our older accounts as we battled with larger companies who were also competing for very limited hospital dollars. These older accounts were among those where nursing was used as the entry point for leveraging patient safety. Currently, we use surgeons as our entry point for hospital conversions to Active Electrode Monitoring ("AEM®"). We also experienced attrition of disposable scissor insert sales as some hospitals turned to reprocessors to clean, sharpen and re-sterilize these one-time use devices. In our fiscal year ending March 31, 2012 ("FY12"), we will laser-etch our trademark on our disposable scissor inserts to give us additional protection for that single-use labeled device.

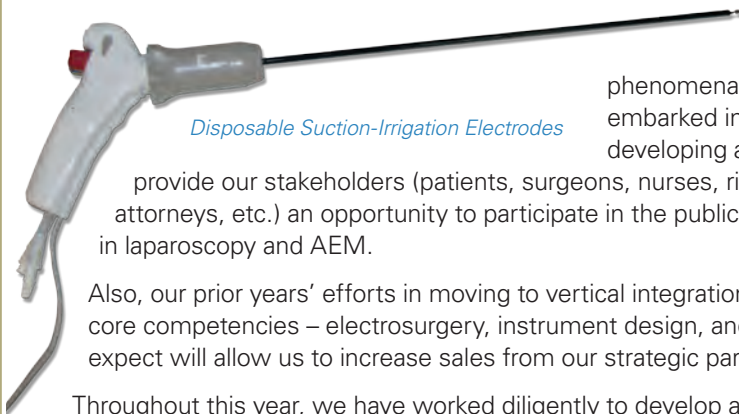
In mid-FY11, we trimmed our cost structure to align our costs with the reduction of sales and we implemented a new sales strategy to combat the sluggish economy. Results from this new sales strategy and the filling of open sales territories should become more evident in FY12.

For FY12, we will focus on re-growing our AEM franchise as reduced port and NOTES (Natural Orifice Transluminal Endoscopic Surgery) surgical access gives our AEM technology a renaissance in relevance. These new and exciting surgical techniques utilize energized instruments in close proximity to each other and can increase the risk for stray energy burns. Several presentations by surgeons at medical congresses enumerate the potential risks and the solutions to address them, including AEM.



An example of stray energy burns.

In addition, we will complete our goal this year of offering a disposable instrument option for every reusable instrument in our product line. Our new AEM monitor will be launched this year and it will offer enhanced customer satisfaction and facilitate ease of hook-up with our new disposable products.



Disposable Suction-Irrigation Electrodes

provide our stakeholders (patients, surgeons, nurses, risk managers, insurance carriers, attorneys, etc.) an opportunity to participate in the public conversation on patient safety in laparoscopy and AEM.

Also, our prior years' efforts in moving to vertical integration have given us three recognized core competencies – electrosurgery, instrument design, and manufacturing – which we expect will allow us to increase sales from our strategic partnership initiatives.

Throughout this year, we have worked diligently to develop and implement a four-year plan that responds to current industry trends. Our four-year plan builds upon our AEM franchise, explores new energy markets, and focuses on continued development of existing and future strategic partnerships. In FY12, as a result of our partnerships, we will generate engineering services revenue from our licensing and development agreements.

Laparoscopic surgery has been in the news recently, beginning with Congressman John Murtha's death following gallbladder surgery. It is speculated that, during an apparently routine laparoscopic surgical procedure, he sustained stray energy burns and subsequently died from peritonitis.

On May 7, 2010, the U.S. Department of Defense ("DOD") released a Patient Safety Analysis Center Alert stating that stray energy burns from laparoscopic surgery account for 5.4% of laparoscopic surgery related injuries and can lead to post-operative complications such as peritonitis, sepsis, and death. This article identified insulation leakage or capacitive coupling and instrument insulation failure as the principal dangers causing unintended electrosurgical tissue burns and provided recommendations that include "considering technologies that have automatic sensors which prevent arcing when near metal or other conductive sources, or channel energy away from the patient when any energy leakage occurs." The DOD referenced us as a primary source of information and requested permission to use our photos in their alert.

Linking Strategies for Growth:

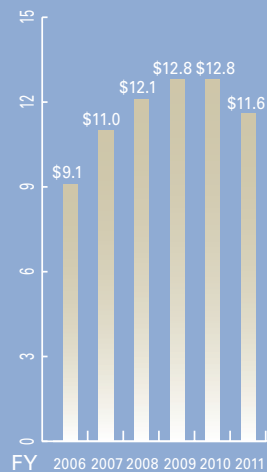
Over the past year, Encision has persevered and survived multiple challenges. As we addressed these challenges we found that the strength of our core competencies provided a healthy foundation for our company to build upon. By linking our core competencies together, we developed a four-year plan to address the changes in the industry and to position the company for successful growth in the future.

About Encision:

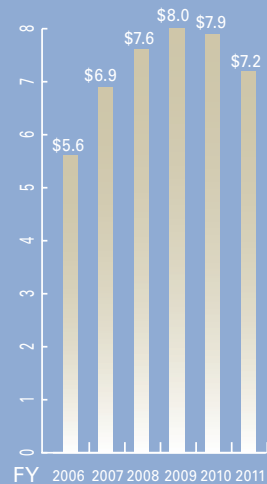
Encision designs, develops, manufactures and markets innovative, best of class surgical devices that allow surgeons to optimize technique and patient safety during a broad range of surgical procedures. Over the past year, our Active Electrode Monitoring ("AEM®") technology has been recognized as a safe and reliable solution to the dangers of stray energy burns during laparoscopic surgery. We have gained the attention of the U.S. Department of Defense ("DOD") and have been recognized as a source of information for their Patient Safety Analysis Alert regarding Stray Energy Burns from Laparoscopic Surgery.

Financial Highlights

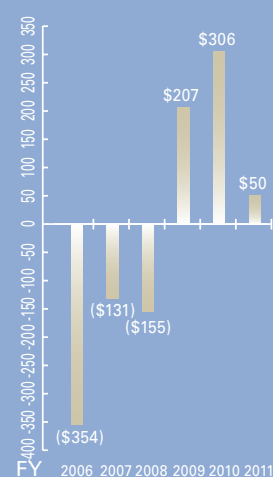
NET SALES (IN MILLIONS)



GROSS PROFIT (IN MILLIONS)



OPERATING INCOME (IN THOUSANDS)



Next, a jury verdict in San Diego awarded a patient \$2.2 million after it was determined that a competitor's medical device had a defective design and, as a result, the patient received stray energy burns that caused her injury during surgery. And lastly, the Canadian Medical Protective Association (CMPA) reviewed 131 legal actions and identified 25 cases in which patients developed intestinal complications following laparoscopic gallbladder surgery with 7 deaths. Of the 25 cases with intestinal complications, 52% were settled in favor of the patient. In FY12, we will embark on a medico-legal campaign to bring the AEM message to executive management, risk management and legal counsel of small and regional hospital groups and IDNs (Integrated Delivery Networks). The increasing awareness of costs associated with stray energy burns during laparoscopy is now on the radar screen of hospital insurers and their legal defense counsel. Standard of care designation is our goal with these hospital groups.

These changes have created an environment for the surgical community to recognize the increasing relevance of our AEM technology. Competitors have developed alternative energy technologies in the areas of bipolar energy and harmonics devices due, in part, to the risks of stray energy burns in non-AEM monopolar laparoscopic surgical devices. We will be rebranding our monopolar energy source as AEM Energy™, a brand that provides a safe, familiar, effective and inexpensive alternative to standard monopolar systems and alternative technologies. Our AEM technology provides a fresh start to an existing and current technology that surgeons are accustomed to and comfortable with, but without the risks of traditional monopolar surgical devices. We are taking this opportunity to further enhance our products by developing state-of-the-art disposable instruments to improve the ease of use and cost-effectiveness of our AEM products.

As I mentioned previously, our four-year plan utilizes our recognized core competencies as the center of the plan, and it provides the platform for three categories of sustainable growth opportunities for us.



We have already addressed our planned initiatives with our AEM franchise. Our second category of growth opportunity is the emerging new energy markets. We are committed to exploring and developing these markets in response to the current trends in the industry. We believe that our current AEM Energy will continue to answer the need for a safer, familiar, and cost-effective solution to the laparoscopic surgical market. However, we acknowledge that we need to continue to develop equipment within the emerging new energy technologies to ensure that we remain competitive in the marketplace for the future.

The third category of sustainable growth opportunity is our commitment to the development of strategic partnerships within the medical and medical device communities. Currently, we have established partnerships with Intuitive Surgical, Inc. and Boston Scientific Corporation and we continue to pursue new partnerships and opportunities as new technologies emerge and develop.

We believe that increasing the standard of care in laparoscopic surgery has been needed for a long time, and we have been at the forefront with the development of our patented and trademarked AEM technology, which provides actively monitored laparoscopic equipment to prevent stray energy burns. It is time for us to be the solution for the immediate concerns of the public and the governmental agencies that closely monitor and develop improved standards of care. We are dedicated to continuing to develop improvements and enhancements of our current products and to developing new and improved technologies that create safe, reliable and cost-effective solutions for the laparoscopic surgical community.



I believe that our four-year plan builds upon our current strengths, addresses emerging energy markets and creates a platform for sustainable growth for our future. We look forward to sharing the positive results with you, our shareholders, as we emerge as a leader in this changing industry.

Jack Serino

Jack Serino, President & Chief Executive Officer



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