



AEM® SAFETY - PERFORMANCE - VALUE

## ENCISION INC.

For the Years ended March 31, 2026 and March 31, 2025

### Directors

Vern Kornelsen  
Robert Fries

### Officers

Robert Fries, Interim President, CEO, CFO  
Jason Johnson, VP -- Sales

**ENCISION INC.**

**Annual Report**

**For the Years ended March 31, 2026 and March 31, 2025**

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**FINANCIAL INFORMATION**

**Encision Inc.  
Condensed Balance Sheets**

	March 31, 2026 Unaudited	March 31, 2025 Audited
<b>ASSETS</b>		
Current assets:		
Cash	\$ 245,114	\$257,433
Accounts receivable	649,609	786,471
Inventories, net	1,320,869	1,483,182
Prepaid expenses	86,364	85,679
Total current assets	2,301,956	2,612,765
Equipment:		
Furniture, fixtures and equipment, at cost	2,628,662	2,585,446
Accumulated depreciation	(2,414,199)	(2,340,689)
Equipment, net	214,463	244,757
Right of use asset	948,553	568,395
Patents, net	153,238	171,890
Other assets	82,565	72,892
<b>TOTAL ASSETS</b>	<b>\$ 3,700,775</b>	<b>\$3,670,699</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$338,338	\$346,900
Line of credit	355,586	395,964
Secured notes	29,069	44,128
Accrued compensation	100,069	180,850
Deferred revenue	--	17,401
Other accrued liabilities	131,278	160,274
Accrued lease liability	459,296	430,398
Total current liabilities	1,413,636	1,575,915
Long-term liabilities:		
Secured notes	150,626	177,470
Accrued lease liability	704,491	266,212
Total liabilities	2,268,753	2,019,597
<b>Commitments and contingencies</b>		
Shareholders' equity:		
Preferred stock, no par value: 10,000,000 shares authorized; none issued and outstanding	--	--
Common stock and additional paid-in capital, no par value: 100,000,000 shares authorized; 16,879,645 and 11,879,645 issued and outstanding at March 31, 2026 and March 31, 2025, respectively	24,916,347	24,416,347
Accumulated (deficit)	(23,484,325)	(22,765,245)
Total shareholders' equity	1,432,022	1,651,102
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$3,700,775</b>	<b>\$3,670,699</b>

**Encision Inc.**  
**Condensed Statements of Operations**

Years Ended	March 31, 2026 Unaudited	March 31, 2025 Audited
<b>NET REVENUE:</b>		
Product	\$5,516,490	\$6,217,687
Service	267,701	337,628
Total revenue	5,784,191	6,555,315
<b>COST OF REVENUE:</b>		
Product	2,937,884	2,873,588
Service	135,554	170,441
Total cost of revenue	3,073,438	3,044,029
GROSS PROFIT	2,710,753	3,511,286
<b>OPERATING EXPENSES:</b>		
Sales and marketing	1,404,469	1,689,503
General and administrative	1,184,482	1,400,611
Research and development	758,960	593,152
Total operating expenses	3,347,911	3,683,266
OPERATING (LOSS)	(637,158)	(171,980)
Interest expense, net	(59,891)	(43,723)
Other income (expense), net	(22,031)	(4,495)
Interest expense and other income (expense), net	(81,922)	(48,218)
(LOSS) BEFORE PROVISION FOR INCOME TAXES	(719,080)	(220,198)
Provision for income taxes	--	--
NET (LOSS)	\$(719,080)	\$(220,198)
Net (loss) per share—basic and diluted	\$ (0.05)	\$ (0.02)
Weighted average shares—basic and diluted	14,893,344	11,879,645

**Encision Inc.**  
**Statements of Shareholders' Equity**

	Shares of Common Stock	Common Stock and Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
<b>BALANCES AT MARCH 31, 2024</b>	11,858,627	\$24,371,795	\$(22,545,047)	\$1,826,748
Net loss	--	--	(220,198)	(220,198)
Compensation expense related to equities	--	46,001	--	46,001
Options exercised	21,018	(1,449)	--	(1,449)
<b>BALANCES AT MARCH 31, 2025</b>	11,879,645	\$24,416,347	\$(22,765,245)	\$1,651,102
Net loss	--	--	(719,080)	(719,080)
Compensation expense related to equities	--	--	--	--
Net proceeds from issuance of common stock	5,000,000	500,000	--	500,000
<b>BALANCES AT MARCH 31, 2026</b>	16,879,645	\$24,916,347	\$(23,484,325)	\$1,432,022

**Encision Inc.**  
**Condensed Statements of Cash Flows**

Years Ended	March 31, 2026 Unaudited	March 31, 2025 Audited
Cash flows (used in) operating activities:		
Net (loss)	\$(719,080)	\$(220,198)
Adjustments to reconcile net (loss) to net cash (used in) operating activities:		
Depreciation and amortization	94,562	81,393
Stock-based compensation expense related to stock options	--	46,001
Provision for inventory obsolescence, net change	(1,920)	4,920
Change in operating assets and liabilities:		
Right of use asset, net	87,020	(37,985)
Accounts receivable	136,862	104,658
Inventories	164,233	(85,764)
Prepaid expenses and other assets	(10,358)	(2,632)
Accounts payable	(8,562)	18,252
Accrued compensation and other accrued liabilities	(127,179)	36,407
Net cash (used in) operating activities	(384,422)	(54,948)
Cash flows (used in) investing activities:		
Acquisition of property and equipment	(43,216)	(54,415)
Patent costs	(2,400)	(25,610)
Net cash (used in) investing activities	(45,616)	(80,025)
Cash flows from financing activities:		
Borrowings from (paydown of) credit facility, net change	(40,378)	395,964
Borrowings from (paydown of) secured notes	(41,903)	(44,618)
Net proceeds from issuance of common stock	500,000	--
Net proceeds (payments) from exercise of stock options	--	(1,449)
	417,719	349,897
Net increase (decrease) in cash	(12,319)	214,924
Cash, beginning of fiscal year	257,433	42,509
Cash, end of fiscal quarter	\$245,114	\$257,433
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ 59,891	\$ 43,723

ENCISION INC.

NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

March 31, 2026  
(Unaudited)

ORGANIZATION AND NATURE OF BUSINESS

Encision Inc. is a medical device company that designs, develops, manufactures and markets patented surgical instruments that provide greater safety to, and saves lives of, patients undergoing minimally invasive surgery. We believe that our patented AEM<sup>®</sup> (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 \$23,484,325 on March 31, 2026. A significant portion of our operating funds have been provided by issuances of our common stock and warrants, the exercise of stock options to purchase our common stock, loans, and (in some periods) by operating profits. Shareholders' equity decreased by \$219,080 since March 31, 2025 because of our net loss of \$719,080 and net proceeds from issuance of common stock of \$500,000. A significant portion of our operating funds have been provided by issuances of our common stock and warrants, the exercise of stock options to purchase our common stock, loans, and (in some periods) by operating profits. Should our liquidity be diminished in the future because of operating losses, we may be required to seek additional capital.

Our strategic marketing and sales plan is designed to expand the use of our products in surgically active hospitals and surgery centers in the United States.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation. The unaudited 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 accompanying unaudited 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.

We had a net loss of \$719,080 and \$220,198 for the years ended March 31, 2026 and 2025, respectively. At March 31, 2026, we had cash of \$245,114 and current borrowings of \$355,586. Working capital was \$888,320, a decrease of \$148,530 from March 31, 2025. Management has developed plans to ensure that we have the working capital necessary to fund operations. Management concludes that it is probable that our cash resources and line of credit will be sufficient to meet our cash requirements for twelve months from the issuance of the unaudited condensed financial statements. Therefore, the accompanying unaudited condensed financial statements have been prepared assuming that we will continue as a going concern.

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 expenses 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, trade receivables, payables and Economic Injury Disaster Loan (“EIDL”) loan. The carrying values of cash and trade receivables approximate their fair value due to their short maturities. The fair values of the EIDL loan approximates the carrying value based on estimated discounted future cash flows using the current rates at which similar loans would be made.

Concentration of Credit Risk. Financial instruments, which potentially subject us to concentrations of credit risk, consist of cash and accounts receivable. From time to time, the amount of cash on deposit with financial institutions may exceed the \$250,000 federally insured limit. We believe that our 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. The accounts receivable balance at March 31, 2026 of \$649,609 and on March 31, 2025 of \$786,471 included no more than 8% from any one customer.

Inventories. Inventories are stated at the lower of cost (first-in, first-out basis) or net realizable value. We reduce inventory for estimated obsolete or unmarketable inventory equal to the difference between the cost of inventory and the net realizable value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. On March 31, 2026 and March 31, 2025 inventory consisted of the following:

	<b>March 31, 2026</b>	<b>March 31, 2025</b>
Raw materials	\$1,066,284	\$1,093,530
Finished goods	254,585	389,652
Total net inventories	\$1,320,869	\$1,483,182

Property and Equipment. Property and equipment are stated at cost, with depreciation computed over the estimated useful lives of the assets, generally five to seven years. Depreciation expense for the years ended March 31, 2026 and 2025 was \$73,510 and \$63,662, respectively. 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 continued 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. On March 31, 2026, we had no unrecognized tax benefits, which would affect the effective tax rate if recognized and had no accrued interest, or penalties related to uncertain tax positions.

**Revenue Recognition.** We record revenue at a single point in time when control is transferred to the customer. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure. Our shipping policy is FOB Shipping Point. We recognize revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims. We have no ongoing obligations related to product sales, except for normal warranty obligations. As presented on the Statement of Operations our revenue is disaggregated between product revenue and service revenue. As it relates specifically to product revenue, we do not believe further disaggregation is necessary as substantially all of our product revenue comes from multiple products within a line of medical devices. Our engineering service contracts are billed on a time and materials basis, and revenue is recognized over time as the services are performed.

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

**BASIC AND DILUTED INCOME AND LOSS PER COMMON SHARE**

We report both basic and diluted net income (loss) per share. Basic net income or loss per common share is computed by dividing net income or loss for the period by the weighted average number of common shares outstanding for the period. Diluted net income or loss per common share is computed by dividing the net income or loss for the period by the weighted average number of common and potential common shares outstanding during the period if the effect of the potential common shares is dilutive. The shares used in the calculation of dilutive potential common shares exclude options to purchase shares where the exercise price was greater than the average market price of common shares for the period.

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

	<b>Years Ended</b>	
	<b>March 31, 2026</b>	<b>March 31, 2025</b>
Net (loss)	\$(719,080)	\$(220,198)
Weighted-average basic shares outstanding	14,893,344	11,879,645
Effect of dilutive securities	--	--
Weighted-average diluted shares	14,893,344	11,879,645
Basic net (loss) per share	\$ (0.05)	\$ (0.02)
Diluted net (loss) per share	\$ (0.05)	\$ (0.02)

**COMMITMENTS AND CONTINGENCIES**

We have a noncancelable lease agreement for our facilities at 6797 Winchester Circle, Boulder, Colorado. The lease expires October 31, 2028.

We determine if an arrangement contains a lease at inception. We currently do not have any finance leases. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. We use our incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as our leases do not provide an implicit rate. Lease expense is recognized on a straight-line basis over the lease term.

Effective November 9, 2017, we extended our noncancelable lease agreement through July 31, 2024, and further extended it through October 31, 2028, for our facilities at 6797 Winchester Circle, Boulder, Colorado. Lease expense was \$394,581 for the fiscal year ended March 31, 2026 and \$384,184 for the fiscal year ended March 31, 2025.

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 on March 31, 2026. FDA inspections are conducted periodically at the discretion of the FDA. Our latest inspection by the FDA occurred in October 2019.

### SUBSEQUENT EVENTS

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

## **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.

### **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. Approximately one in every three surgeons may have a patient injury each year from preventable stray energy burns. We believe that our patented Active Electrode Monitoring (“AEM®”) AEM EndoShield™ Burn Protection System is changing the marketplace for electrosurgical devices and laparoscopic instruments by providing a solution to a well-documented hazard unique to laparoscopic surgery. The Center for Medicare and Medicaid Services has published its Hospital-Acquired Condition Reduction Program. The program has begun to levy as much as a 1% penalty on Medicare reimbursements to hospitals in the lower quadrant of performance for selected quality indicators, including accidental puncture and laceration (“APL”). Examples of APL include the use of a cautery device (electrosurgery) or scissors to dissect a tissue plane that errantly causes an injury to underlying bowels.

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

Our patented AEM technology provides surgeons with the desired tissue effects, while capturing stray electrosurgical energy that can cause unintended and unseen tissue injury that may result in death. AEM Surgical Instruments are equivalent to conventional instruments in size, shape, ergonomics, functionality and competitive pricing, but they incorporate “Active Electrode Monitoring” technology to dynamically and continuously monitor the flow of electrosurgical current, thereby preventing patient injury from stray energy burns. With our “shielded and monitored” instruments, surgeons can perform electrosurgical procedures more

safely, effectively and economically than is possible using conventional instruments or alternative energy sources.

The AEM system consists of shielded 5mm AEM Instruments and an AEM monitor. The AEM Instruments are designed to function identically to the conventional 5mm instruments that surgeons are familiar with, but with the added benefit of enhanced patient safety. Our entire line of laparoscopic instruments has the integrated AEM design and includes the full range of instruments that are common in laparoscopic surgery today. The AEM monitor is compatible with most electrosurgical generators and can also be adapted for use in robotic systems. AEM Surgical Instruments provide enhanced patient safety, require no change in surgeon technique and are cost competitive. Thus, conversion to AEM Surgical Instruments is easy and economical.

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 technology penetration.

When a hospital or surgery center changes to AEM technology, we receive recurring revenue from sales of replacement instruments. We believe that there is no directly competing technology to supplant AEM products. The replacement market of reusable and disposable AEM products in hospitals and surgery centers that use our AEM technology represented over 90% of our product revenue during the year ended March 31, 2026. This revenue stream is expected to grow as the base of accounts using AEM technology expands. In addition, we intend to further develop disposable versions of more of our AEM products in order to meet market demands and expand our sales opportunities.

### **Historical Perspective**

We were organized in 1991 and spent several years developing the AEM monitoring system and protective sheaths to adapt to conventional electrosurgical instruments. We have invested heavily in an effort to protect our valuable technology, and, as a result of this effort, we have been issued 16 unexpired relevant patents that together form a significant intellectual property position. Our patents relate to the basic shielding and monitoring technologies that we incorporate into our AEM products.

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

### **Outlook**

We believe that the unique performance of the AEM technology and our breadth of independent endorsements provide an opportunity for market share growth. In our view, market awareness and awareness of the clinical credibility of the AEM technology, as well as awareness of our endorsements, are improving, and we expect this awareness to benefit our sales efforts. Our objectives for the remainder of fiscal year 2027 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 and to further reduce costs. In addition, acceptance of AEM products depends on surgeons' preference for our instruments, which depends on factors such as ergonomics, quality and ease of use in addition to the technological and safety advantages of AEM products. If surgeons prefer other instruments to our instruments, our business results will suffer.

*Possibility of Operating Losses:* We have an accumulated deficit of \$22,693,269 on March 31, 2026. A significant portion of our operating funds have been provided by issuances of our common stock and warrants and the exercise of stock options to purchase our common stock, loans, and (in some periods) by operating profits. 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 Decline:** We believe that sales will continue to decline in part because procedures performed by Intuitive's surgical robots will continue to replace procedures that have historically used our instrumentation.

**Gross Profit and Gross Margins:** Gross profit and gross margins can be expected to fluctuate from quarter to quarter as a result of product sales mix, sales volume and service revenue. Gross margins on products manufactured or assembled by us are expected to improve at higher levels of production and sales.

**Sales and Marketing Expenses:** We believe that sales and marketing expenses will decrease because of reducing our direct sales representatives.

**Research and Development Expenses:** Research and development expenses are expected to decrease as we move to sustaining engineering expense instead of further research for new products.

## **Results of Operations**

*For the year ended March 31, 2026 compared to the year ended March 31, 2025.*

**Net revenue.** Net revenue for the year ended March 31, 2026 was \$5,784,191 compared to \$6,555,315 for the year ended March 31, 2025, a decrease of 12%. We believe sales have continued to decline in part because procedures performed by Intuitive's surgical robots have replaced procedures that have historically used our instrumentation.

**Gross profit.** Gross profit for the quarter ended March 31, 2026 of \$2,710,753 represented a decrease of 23% from gross profit of \$3,511,286 for the year ended March 31, 2025. Gross profit decreased principally because of a non-cash cost increase to inventory reserves for the year ended March 31, 2026. Gross profit on product net revenue as a percentage of sales (gross margin) was 47% for the year ended March 31, 2026 and 54% for the year ended March 31, 2025.

**Sales and marketing expenses.** Sales and marketing expenses of \$1,404,469 for the year ended March 31, 2026 represented a decrease of 17% from sales and marketing expenses of \$1,689,503 for the year ended March 31, 2025. The decrease was because of lower commissions.

**General and administrative expenses.** General and administrative expenses of \$1,184,482 for the year ended March 31, 2026 represented a decrease of 15% from general and administrative expenses of \$1,400,611 for the year ended March 31, 2025. The decrease was principally because of lower compensation expense from the departure of executives in the fourth quarter.

**Research and development expenses.** Research and development expenses of \$758,960 for the year ended March 31, 2026 represented an increase of 28% compared to \$593,152 for the year ended March 31, 2025. The increase was because of development of a new product.

**Net loss.** Net loss was \$719,080 for the year ended March 31, 2026 compared to net loss of \$220,198 for the year ended March 31, 2025. The increase to net loss was primarily because of the reduction to revenue and gross profit that was partially offset by a decrease of total operating expenses.

## **Liquidity and Capital Resources**

To date, a significant portion of our operating funds have been provided by issuances of our common stock and warrants, the exercise of stock options to purchase our common stock, loans, and (in some periods) by operating profits. Common stock and additional paid in capital totaled \$24,916,347 from inception through March 31, 2026.

On August 4, 2020, we received \$150,000 in loan funding from the U.S. Small Business Administration ("SBA") under the Economic Injury Disaster Loan ("EIDL") program administered by the SBA, which program was

expanded pursuant to the CARES Act. The EIDL is evidenced by a promissory note, dated August 1, 2021 in the original principal amount of \$150,000 with the SBA, the lender. Under the terms of the Note, interest accrues on the outstanding principal at the rate of 3.75% per annum. The term of the Note is thirty years, though it may be payable sooner upon an event of default under the Note.

During January 2023, we entered into a note agreement with U.S. Bank for \$92,000. The note is for five years at a 5% interest rate and the proceeds were used to purchase equipment. The note is secured by the equipment.

During September 2023, we entered into a note agreement with U.S. Bank for \$115,004. The note is for five years at a 6% interest rate and the proceeds were used to purchase equipment. The note is secured by the equipment.

On November 15, 2023, we entered into a loan and security agreement with Pathward, N.A. (formerly Crestmark Bank). The loan is due on demand and has no financial covenants. Under the agreement, we were provided with a line of credit that is not to exceed the lesser of \$1,000,000 or 85% of eligible accounts receivable. The interest rate is prime rate plus 0.5%, with a floor of 6.75%, plus a monthly maintenance fee of 0.4%, based on the average monthly loan balance. Interest is charged on a minimum loan balance of \$300,000, a loan fee of 0.5% at closing and annually, and an exit fee of 3%, 2% and 1% during years one, two and three and six, respectively.

Our operations used \$384,422 of cash during the year ended March 31, 2026 on net revenue of \$5,784,191. The amounts of cash generated by operations for the year ended March 31, 2026 are not necessarily indicative of the expected amounts of cash to be generated from or used in operations in fiscal year 2027.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. We use our incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as our leases do not provide an implicit rate. Lease expense is recognized on a straight-line basis over the lease term.

During September 2022, we entered into a note agreement with U.S. Bank for \$115,004. The note is for five years at a 6% interest rate, and the proceeds were used to purchase equipment. The note is secured by the equipment.

Aside from the line of credit, operating lease, EIDL loan and U.S. Bank loans, we do not have any material contractual commitments requiring settlement in the future.

We cannot predict with certainty the expected revenue, gross profit, net income or loss and usage of cash for fiscal year 2027. If we are unable to manage our business operations in line with budget expectations, it could have a material adverse effect on our business viability, financial position, results of operations and cash flows.

### **Income Taxes**

As of March 31, 2024, net operating loss carryforwards totaling approximately \$8.1 million are available to reduce taxable income in the future. The Tax Reform Act of 1986 and other income tax regulations contain provisions which may limit the net operating loss carryforwards available to be used in any given year if certain events occur, including changes in ownership interests. We have established a valuation allowance for the entire amount of our deferred tax asset since inception due to our history of losses. Should we achieve sufficient, sustained income in the future, we may conclude that some or all of the valuation allowance should be reversed. If some or all of the valuation allowance were reversed, then, to the extent of the reversal, a tax benefit would be recognized which would result in an increase to net income.

### **Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and

liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, sales returns, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements.

We record revenue at a single point in time, when control is transferred to the customer, which is consistent with past practice. We will continue to apply our current business processes, policies, systems and controls to support recognition and disclosure. Our shipping policy is FOB Shipping Point. We recognize revenue from sales to stocking distributors when there is no right of return, other than for normal warranty claims. We have no ongoing obligations related to product sales, except for normal warranty obligations. We evaluated the requirement to disaggregate revenue and concluded that substantially all of our revenue comes from multiple products within a line of medical devices. Our engineering service contracts are billed on a time and materials basis, and revenue is recognized over time as the services are performed. We record deferred revenue when funds are received prior to the recognition of the associated revenue. We record a contract liability to deferred revenue which includes customer prepayments and is included in other accrued liabilities.

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 realizable value based on assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Any write-downs of inventory would reduce our reported net income during the period in which such write-downs were applied. To the extent that our estimates prove to be too high, and we ultimately utilize or sell inventory previously determined to be impaired, we may record a reversal of the provision in the period of such determination.

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

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

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