

UROPLASTY INC
Form 10-Q
October 27, 2010

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

**Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2010**

**Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____.**

**Commission File No. 001-32632
UROPLASTY, INC.**

(Exact name of registrant as specified in its Charter)

Minnesota, U.S.A.
(State or other jurisdiction of
incorporation or organization)

41-1719250
(I.R.S. Employer Identification No.)

**5420 Feltl Road
Minnetonka, Minnesota, 55343**
(Address of principal executive offices)

(952) 426-6140

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(Do not check if a smaller
reporting company)

Smaller Reporting
Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) YES NO

As of October 27, 2010 the registrant had 20,526,457 shares of common stock outstanding.

Table of Contents
INDEX
UROPLASTY INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Balance Sheets 3

Condensed Consolidated Statements of Operations 5

Condensed Consolidated Statement of Shareholders' Equity and Comprehensive Loss 6

Condensed Consolidated Statements of Cash Flows 7

Notes to the Condensed Consolidated Financial Statements 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 15

Item 3. Quantitative and Qualitative Disclosures about Market Risk 20

Item 4. Controls and Procedures 20

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 21

Item 1A. Risk Factors 21

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 21

Item 3. Defaults upon Senior Securities 21

Item 4. (Removed and Reserved) 21

Item 5. Other Information 21

Item 6. Exhibits 21

SIGNATURES 22

Certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 23

Certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 25

EX-31.1

EX-32.1

EX-99.1

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

UROPLASTY, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

| | September 30, 2010 | March 31, 2010 |
|-------------------------------------|-------------------------------|---------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 15,387,687 | \$ 2,311,269 |
| Short-term investments | 6,000,000 | 3,500,000 |
| Accounts receivable, net | 1,492,279 | 1,287,440 |
| Inventories | 472,584 | 341,497 |
| Income tax receivable | | 23,820 |
| Other | 318,808 | 237,321 |
| Total current assets | 23,671,358 | 7,701,347 |
| Property, plant, and equipment, net | 1,186,372 | 1,230,771 |
| Intangible assets, net | 2,122,945 | 2,533,095 |
| Deferred tax assets | 115,026 | 108,530 |
| Total assets | \$ 27,095,701 | \$ 11,573,743 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| | September 30, 2010 | March 31, 2010 |
|--|-----------------------|-------------------|
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 487,114 | \$ 485,594 |
| Current portion - deferred rent | 35,000 | 35,000 |
| Income tax payable | 12,433 | 10,000 |
| Accrued liabilities: | | |
| Compensation | 952,835 | 903,057 |
| Other | 264,578 | 212,028 |
| Total current liabilities | 1,751,960 | 1,645,679 |
| Deferred rent - less current portion | 94,886 | 112,500 |
| Accrued pension liability | 556,124 | 601,037 |
| Total liabilities | 2,402,970 | 2,359,216 |
| Commitments and Contingencies | | |
| Shareholders' equity: | | |
| Common stock \$.01 par value; 40,000,000 shares authorized, 20,526,457 and 14,946,540 shares issued and outstanding at September 30, 2010 and March 31, 2010, respectively | 205,265 | 149,465 |
| Additional paid-in capital | 53,463,984 | 36,178,126 |
| Accumulated deficit | (28,469,141) | (26,617,161) |
| Accumulated other comprehensive loss | (507,377) | (495,903) |
| Total shareholders' equity | 24,692,731 | 9,214,527 |
| Total liabilities and shareholders' equity | \$ 27,095,701 | \$ 11,573,743 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|---------------------------|------------------|-------------------------|--------------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net sales | \$ 3,244,823 | \$ 2,986,475 | \$ 6,280,322 | \$ 5,812,404 |
| Cost of goods sold | 594,469 | 535,074 | 1,105,165 | 1,087,044 |
| Gross profit | 2,650,354 | 2,451,401 | 5,175,157 | 4,725,360 |
| Operating expenses | | | | |
| General and administrative | 897,368 | 713,040 | 1,747,685 | 1,561,591 |
| Research and development | 472,008 | 435,898 | 872,637 | 963,713 |
| Selling and marketing | 2,017,420 | 1,968,054 | 4,005,946 | 4,025,342 |
| Amortization | 210,682 | 211,503 | 421,450 | 423,316 |
| | 3,597,478 | 3,328,495 | 7,047,718 | 6,973,962 |
| Operating loss | (947,124) | (877,094) | (1,872,561) | (2,248,602) |
| Other income (expense) | | | | |
| Interest income | 17,999 | 24,230 | 31,627 | 55,629 |
| Interest expense | (1,938) | (1,788) | (3,885) | (9,694) |
| Foreign currency exchange gain (loss) | 10,574 | (7,365) | 12,364 | (14,697) |
| Other, net | | 2,000 | (192) | (183) |
| | 26,635 | 17,077 | 39,914 | 31,055 |
| Loss before income taxes | (920,489) | (860,017) | (1,832,647) | (2,217,547) |
| Income tax expense | 2,183 | 14,642 | 19,333 | 22,887 |
| Net loss | \$ (922,672) | \$ (874,659) | \$ (1,851,980) | \$ (2,240,434) |
| Basic and diluted loss per common share | \$ (0.05) | \$ (0.06) | \$ (0.11) | \$ (0.15) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 19,088,249 | 14,946,540 | 17,207,957 | 14,942,179 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND COMPREHENSIVE
LOSS
Six Months Ended September 30, 2010
(Unaudited)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Shareholders Equity |
|---|--------------|------------|----------------------------------|------------------------|---|---------------------------------|
| | Shares | Amount | | | | |
| Balance at March 31, 2010 | 14,946,540 | \$ 149,465 | \$ 36,178,126 | \$ (26,617,161) | \$ (495,903) | \$ 9,214,527 |
| Proceeds from public offering, net of costs of \$1,182,941 | 4,600,000 | 46,000 | 14,871,059 | | | 14,917,059 |
| Share-based consulting and compensation | 70,025 | 701 | 147,991 | | | 148,692 |
| Proceeds from exercise of warrants | 886,000 | 8,860 | 2,190,322 | | | 2,199,182 |
| Proceeds from exercise of stock options, net of 1,608 shares returned for payment of related income taxes | 23,892 | 239 | 76,486 | | | 76,725 |
| Comprehensive loss | | | | (1,851,980) | (11,474) | (1,863,454) |
| Balance at September 30, 2010 | 20,526,457 | \$ 205,265 | \$ 53,463,984 | \$ (28,469,141) | \$ (507,377) | \$ 24,692,731 |

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Six Months Ended | |
|---|-------------------------|----------------|
| | September 30, | |
| | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net loss | \$ (1,851,980) | \$ (2,240,434) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 567,576 | 567,238 |
| Loss on disposal of equipment | 192 | 186 |
| Share-based consulting expense | 8,202 | |
| Share-based compensation expense | 140,490 | 291,462 |
| Deferred income taxes | (4,925) | (3,249) |
| Deferred rent | (17,614) | (17,462) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (187,514) | 91,206 |
| Inventories | (125,674) | 47,499 |
| Other current assets and income tax receivable | (57,949) | (102,998) |
| Accounts payable | 1,196 | (185,406) |
| Accrued liabilities | 94,179 | (348,419) |
| Accrued pension liability, net and income tax payable | (48,246) | (58,492) |
| Net cash used in operating activities | (1,482,067) | (1,958,869) |
| Cash flows from investing activities: | | |
| Proceeds from sale of short-term investments | 2,500,000 | 2,500,000 |
| Purchase of short-term investments | (5,000,000) | (2,000,000) |
| Purchases of property, plant and equipment | (94,506) | (61,334) |
| Purchases of intangible assets | (11,300) | |
| Proceeds from sale of property, plant and equipment | | 2,000 |
| Net cash (used in) provided by investing activities | (2,605,806) | 440,666 |
| Cash flows from financing activities: | | |
| Net proceeds from public offering of common stock | 14,917,059 | |
| Net proceeds from warrant and option exercise | 2,275,906 | |
| Net cash provided by financing activities | 17,192,965 | |
| Effect of exchange rates on cash and cash equivalents | (28,674) | 34,771 |
| Net increase(decrease) in cash and cash equivalents | 13,076,418 | (1,483,432) |

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| | | |
|--|---------------|--------------|
| Cash and cash equivalents at beginning of period | 2,311,269 | 3,276,299 |
| Cash and cash equivalents at end of period | \$ 15,387,687 | \$ 1,792,867 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest | \$ | \$ 6,145 |
| Cash received(paid) during the period for income taxes | 248 | (105,877) |
| See accompanying notes to the condensed consolidated financial statements. | | |

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
Notes to the Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

We have prepared our condensed consolidated financial statements included in this Form 10-Q, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to such rules and regulations, although we believe that our disclosures are adequate to make the information not misleading. The consolidated results of operations for any interim period are not necessarily indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2010.

The condensed consolidated financial statements presented herein as of September 30, 2010 and for the three and six month periods ended September 30, 2010 and 2009 reflect, in the opinion of management, all material adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods.

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, accounts receivable, inventories, foreign currency translation and transactions, impairment of long-lived assets, share-based compensation, defined benefit pension plans and income taxes, each of which is described in our Annual Report on Form 10-K for the year ended March 31, 2010. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and six months periods ended September 30, 2010, and we have made no changes to these policies during fiscal 2011.

2. Short-term Investments

Short-term investments consist of certificates of deposit held-to-maturity that mature within the next twelve months. We have determined that short-term investments and cash equivalents are measured using Level 1 inputs within the fair value hierarchy of Accounting Standards Codification (ASC 820), *Fair Value Measurements and Disclosures*. Level 1 valuations are based on unadjusted quoted prices in active markets for identical assets. Based on the short-term nature of these investments, their cost approximates their fair market value.

3. Accounts Receivable

We grant credit to our customers in the normal course of business and, generally, do not require collateral or any other security to support amounts due. If necessary, we have an outside party assist us with performing credit and reference checks and establishing credit limits for the customer. Accounts outstanding longer than the contractual payment terms, are considered past due. We carry our accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. We determine the allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivables are past due, customer financial condition and ability to pay the obligation, historical and expected credit loss experience, and the condition of the general economy and the industry as a whole. We write off accounts receivable when deemed uncollectible. We record recoveries of accounts receivable previously written off when received. We are not always able to timely anticipate changes in the financial condition of our customers and if circumstances related to these customers deteriorate, our estimates of the recoverability of accounts receivable could be materially affected and we may be required to record additional allowances. Alternatively, if more allowances are provided than are ultimately required, we may reverse a portion of such provisions in future periods based on the actual collection experience. Historically, the accounts receivable balances we have written off have generally been within our expectations. The allowance for doubtful accounts was \$8,000 and \$11,000 at September 30, 2010 and March 31, 2010, respectively.

Table of Contents**4. Inventories**

Inventories are stated at the lower of cost (first-in, first-out method) or market (net realizable value). Inventories consist of the following:

| | September 30, 2010 | March 31, 2010 |
|-----------------|-------------------------------|---------------------------|
| Raw materials | \$ 160,680 | \$ 158,942 |
| Work-in-process | 42,913 | 28,935 |
| Finished goods | 268,991 | 153,620 |
| | \$ 472,584 | \$ 341,497 |

5. Intangible Assets

Our intangible assets are comprised of patents which we amortize on a straight-line basis over their estimated useful lives of six years.

| | Gross carrying amount | Accumulated amortization | Net value |
|--------------------|--------------------------------------|-------------------------------------|------------------|
| September 30, 2010 | \$ 5,483,812 | \$ 3,360,867 | \$ 2,122,945 |
| March 31, 2010 | \$ 5,472,512 | \$ 2,939,417 | \$ 2,533,095 |

Estimated annual amortization for these assets for the fiscal years ending March 31, is as follows:

| | |
|-------------------|---------------------|
| Remainder of 2011 | \$ 422,000 |
| 2012 | 844,000 |
| 2013 | 844,000 |
| 2014 | 6,000 |
| 2015 and beyond | 7,000 |
| | \$ 2,123,000 |

6. Deferred Rent and Leasehold Improvements

We entered into an 8-year operating lease agreement, effective May 2006, for our corporate facility in Minnesota. As part of the agreement, the landlord provided an incentive of \$280,000 for leasehold improvements. We recorded this incentive as deferred rent and are amortizing it as a reduction in lease expense over the lease term in accordance to ASC 840, *Leases*. We are amortizing the leasehold improvements over the shorter of the asset life or the lease term.

Table of Contents**7. Comprehensive Loss**

Comprehensive loss includes our net loss, accumulated translation adjustment, and change in minimum pension obligation as follows:

| | Three Months Ended | | Six Months Ended | |
|---|---------------------------|--------------|-------------------------|----------------|
| | September 30, | | September 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net loss | \$ (922,672) | \$ (874,659) | \$ (1,851,980) | \$ (2,240,434) |
| Items of other comprehensive income (loss): | | | | |
| Translation adjustment | 131,973 | 60,116 | (502) | 176,067 |
| Pension related | (29,683) | (4,146) | (10,972) | (4,717) |
| | | | | |
| Comprehensive loss | \$ (820,382) | \$ (818,689) | \$ (1,863,454) | \$ (2,069,084) |

Other accumulated comprehensive loss at September 30, 2010 totalled \$507,377 and consists of \$118,247 for accumulated translation adjustment and \$389,130 for accumulated additional pension liability.

8. Net Loss per Common Share

The following unvested restricted stock, options and warrants outstanding at September 30, 2010 and 2009, to purchase shares of common stock, were excluded from diluted loss per common share because of their anti-dilutive effect:

| | Number of unvested restricted stock/ options/warrants | Range of exercise prices |
|--------------------|--|-------------------------------------|
| September 30, 2010 | 2,171,925 | \$ 0.71 to \$5.19 |
| September 30, 2009 | 4,555,928 | \$ 0.69 to \$5.30 |

9. Credit Facilities

Uroplasty BV, our subsidiary, has an agreement with Rabobank of The Netherlands for a 500,000 (approximately \$681,000 as of September 30, 2010) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (4.50% base rate on September 30, 2010), subject to a minimum interest rate of 3.50% per annum. At September 30, 2010, we had no borrowings outstanding on this credit line.

On October 30, 2009 we entered into a one-year business loan agreement with Venture Bank. The agreement provides for a credit line of up to \$2.0 million secured by the assets of our company. We may borrow up to 50% (to a maximum of \$500,000) of the value of our eligible inventory on hand and 80% of the value of our eligible U.S. accounts receivable; provided, however, our total liabilities, inclusive of the amount borrowed, may not exceed our tangible net worth. To be eligible to borrow any amount, we must maintain a minimum tangible net worth of \$5.0 million. At September 30, 2010 we had no borrowings outstanding under this agreement, but we estimate we had a borrowing capacity of approximately \$700,000. Interest on the outstanding borrowings is charged at a per annum rate of the greater of 7.50% or one percentage point over the prime rate (3.25% prime rate on September 30, 2010).

Table of Contents**10. Warrants**

The following table summarizes the activity during the six months ended September 30, 2010 related to warrants to purchase our common shares:

| | Number of shares | Weighted average exercise price |
|-------------------------------|---------------------|--|
| Outstanding at March 31, 2010 | 2,066,928 | \$ 3.78 |
| Warrants expired | 1,180,928 | 4.75 |
| Warrants exercised | 886,000 | 2.49 |

Outstanding at September 30, 2010

For the six months ended September 30, 2010, we had proceeds of approximately \$2.2 million from exercise of warrants.

11. Share-based Compensation

As of September 30, 2010, we had one active plan (2006 Amended Stock and Incentive Plan) for share-based compensation grants. Under the plan, if we have a change in control, all outstanding grants, including those subject to vesting or other performance targets, fully vest immediately. Under this plan, we had reserved 2,700,000 shares of our common stock for share-based grants. As of September 30, 2010, we had 1,267,575 shares remaining that were available for grant. We grant option awards with an exercise price equal to the closing market price of our stock at the date of the grant.

We account for share-based compensation costs under ASC 718, *Compensation Stock Compensation*. We incurred approximately \$149,000 and \$291,000 in share-based compensation expense (inclusive of \$8,000 and \$0, respectively, for option grants to consultants) for the six months ended September 30, 2010 and 2009, respectively. We determined the fair value of our option awards using the Black-Scholes option pricing model. We used the following weighted-average assumptions to value the options granted during the following periods:

| | Six Months Ended September 30, 2010 | Six Months Ended September 30, 2009 |
|-----------------------------|--|--|
| Expected life in years | 6.05 | 4.83 |
| Risk-free interest rate | 2.20% | 2.74% |
| Expected volatility | 90.99% | 94.21% |
| Expected dividend yield | 0 | 0 |
| Weighted-average fair value | \$ 3.50 | \$ 0.60 |

The expected life selected for options granted during the quarter represents the period of time that we expect our options to be outstanding based on historical data of option holder exercise and termination behavior for similar grants. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatilities are based upon historical volatility of our stock. We estimate a forfeiture rate for stock awards of up to 13.80% based on our historical experience.

Table of Contents

The following table summarizes the activity related to our stock options during the six months ended September 30, 2010:

| | Number of shares | Weighted average exercise price | Weighted average remaining life in years | Aggregate intrinsic value |
|-----------------------------------|---------------------|--|--|---------------------------------|
| Outstanding at March 31, 2010 | 2,037,500 | \$ 3.14 | 4.00 | \$ 506,000 |
| Options granted | 129,900 | 4.70 | | |
| Options exercised | 25,500 | 3.31 | | |
| Options surrendered | 40,000 | 4.02 | | |
| Outstanding at September 30, 2010 | 2,101,900 | \$ 3.21 | 3.78 | \$ 3,470,000 |
| Exercisable at September 30, 2010 | 1,873,664 | \$ 3.24 | 3.60 | \$ 3,046,000 |

Our 2006 Stock and Incentive Plan also provides for our Compensation Committee to grant other stock-based benefits, including restricted shares. Restricted shares are subject to risk of forfeiture for termination of employment. The forfeiture risk generally lapses over a period of four years.

The following table summarizes the activity related to our restricted shares during the six months ended September 30, 2010:

| | Number of Shares | Weighted average grant date fair value | Weighted average remaining life in years | Aggregate intrinsic value |
|-------------------------------|------------------------|--|--|---------------------------------|
| Balance at March 31, 2010 | | | | |
| Shares granted | 70,025 | \$ 4.74 | | |
| Shares vested | | | | |
| Balance at September 30, 2010 | 70,025 | \$ 4.74 | 1.74 | \$ 330,000 |

The aggregate intrinsic value represents the total pre-tax value of restricted stock that holders would have received (based on the closing price of our Company's common stock on the grant date) had all restricted stock vested and if we had issued common stock to the holders on the grant date.

As of September 30, 2010, we had approximately \$739,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to stock options and restricted shares that we expect to recognize over a weighted-average period of 1.94 years.

12. Savings and Retirement Plans

We sponsor various plans for eligible employees in the United States, the United Kingdom (UK), and The Netherlands. Our retirement savings plan in the United States conforms to Section 401(k) of the Internal Revenue Code and participation is available to substantially all employees. We may also make discretionary contributions ratably to all eligible employees. We made no discretionary contributions to the U.S. plan for the six months ended

September 30, 2010 and made discretionary contributions of \$68,000 for the six months ended September 30, 2009. Our international subsidiaries have defined benefit retirement plans for eligible employees. These plans provide benefits based on the employee's years of service and compensation during the years immediately preceding retirement, termination, disability, or death, as defined in the plans. We froze the UK subsidiary's defined benefit plan on December 31, 2004. On March 10, 2005, we established a defined contribution plan for the UK subsidiary. As of April 1, 2005 we closed The Netherlands subsidiary's defined benefit retirement plan for new employees and established a defined contribution plan for them.

Table of Contents

The cost for our defined benefit retirement plans in The Netherlands and the United Kingdom includes the following components for the three and six month periods ended September 30, 2010 and 2009:

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|------------------------------|-------------------------------------|-----------|-----------------------------------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Gross service cost | \$ 23,370 | \$ 16,179 | 46,463 | \$ 31,586 |
| Interest cost | 27,895 | 23,614 | 55,269 | 46,053 |
| Expected return on assets | (12,291) | 1,306 | (24,280) | 2,609 |
| Amortization | 4,160 | (113) | 8,196 | (221) |
| Net periodic retirement cost | \$ 43,134 | \$ 40,986 | \$ 85,648 | \$ 80,027 |

Major assumptions used in the above calculations include:

| | Six Months Ended September 30, | |
|---|-----------------------------------|------------|
| | 2010 | 2009 |
| Discount rate | 4.70-5.50% | 6.60-6.70% |
| Expected return on assets | 4.70-5.00% | 5.00-6.60% |
| Expected rate of increase in future compensation: | | |
| General | 3.00% | 3.00% |
| Individual | 0.00-3.00% | 0.00-3.00% |

Both the Netherlands and United Kingdom pension plans are in an underfunded position and the funded status of the plans is shown as accrued pension liability. We made aggregate contributions of approximately \$136,000 and \$139,000, respectively, during the six months ended September 30, 2010 and 2009 to the two defined benefit plans.

13. Equity Offering

We completed a public offering of 4.6 million shares of our common stock at \$3.50 per share in July 2010, generating gross proceeds of \$16.1 million, and net proceeds, after fees and expenses, of approximately \$14.9 million. We anticipate using the proceeds to expand our U.S. sales and marketing organization to support our Urgent PC business and for clinical studies, working capital and general corporate purposes.

14. Foreign Currency Translation

We translate all assets and liabilities using period-end exchange rates. We translate statements of operations items using average exchange rates for the period. We record the resulting translation adjustment within accumulated other comprehensive loss, a separate component of shareholders' equity. We recognize foreign currency transaction gains and losses in our consolidated statements of operations, including unrealized gains and losses on short-term intercompany obligations using period-end exchange rates. We recognize unrealized gains and losses on long-term intercompany obligations within accumulated other comprehensive loss, a separate component of shareholders' equity. We recognize exchange gains and losses primarily as a result of fluctuations in currency rates between the U.S. dollar (the functional reporting currency) and the Euro and British pound (currencies of our subsidiaries), as well as their effect on the dollar denominated intercompany obligations between us and our foreign subsidiaries. All intercompany balances are revolving in nature and we do not deem them to be long-term balances. For the three months ended September 30, 2010 and 2009, we recognized foreign currency exchange gain of \$10,574 and foreign currency exchange loss of \$7,365, respectively. For the six months ended September 30, 2010 and 2009, we recognized currency exchange gain of \$12,364 and currency exchange loss of \$14,697, respectively.

15. Business Segment Information

ASC 280, *Segment Reporting*, establishes disclosure standards for segments of a company based on management's approach to defining operating segments. In accordance with the objective and basic principles of the standard we aggregate our operating segments into one reportable segment.

Table of Contents

Sales to customers outside the United States for the three months ended September 30, 2010 and 2009 represented 43% and 50%, respectively, of our consolidated sales. Sales to customers outside the United States for the six months ended September 30, 2010 and 2009 represented 45% and 49%, respectively, of our consolidated sales. Information regarding sales to customers by geographic area for the three- and six- month periods ended September 30 is as follows:

| | United States | United Kingdom | All Other Foreign Countries | Consolidated |
|---------------------------------------|--------------------------|---------------------------|--|---------------------|
| Three months ended September 30, 2010 | \$ 1,843,808 | \$ 349,151 | \$ 1,051,864 | \$ 3,244,823 |
| Three months ended September 30, 2009 | \$ 1,503,716 | \$ 428,011 | \$ 1,054,748 | \$ 2,986,475 |
| Six months ended September 30, 2010 | \$ 3,465,826 | \$ 736,392 | \$ 2,078,104 | \$ 6,280,322 |
| Six months ended September 30, 2009 | \$ 2,963,454 | \$ 783,712 | \$ 2,065,238 | \$ 5,812,404 |

Information regarding location of our long-lived assets by geographic area at September 30, 2010 is as follows:

| | United States | United Kingdom | The Netherlands | Consolidated |
|--------------------|--------------------------|---------------------------|----------------------------|---------------------|
| September 30, 2010 | \$ 502,221 | \$ 2,650 | \$ 681,502 | \$ 1,186,373 |

Accounting policies of the operations in the various geographic areas are the same as those described in Note 1. Sales attributed to each geographic area are net of intercompany sales. No single customer represents 10% or more of our consolidated net sales. Long-lived assets consist of property and equipment.

16. Income Tax Expense

As of March 31, 2010, we have generated approximately \$25 million in U.S. net operating loss carryforwards that we cannot use to offset taxable income in foreign jurisdictions. We recognize a valuation allowance when we determine it is more likely than not that we will not realize a portion of the deferred tax asset. We have established a valuation allowance for U.S. and certain foreign deferred tax assets due to the uncertainty that we will generate enough income in those taxing jurisdictions to utilize the assets.

In addition, future utilization of NOL carryforwards is subject to certain limitations under Section 382 of the Internal Revenue Code. This section generally relates to a 50 percent change in ownership of a company over a three-year period. We believe that the issuance of our common stock in the July 2010 public offering resulted in an ownership change under Section 382. Accordingly, our ability to use NOL tax attributes generated prior to July 2010 may be limited.

During the three months ended September 30, 2010 and 2009, we recorded income tax expense of approximately \$2,000 and \$15,000, respectively, for foreign income taxes, and for required minimum payments for U.S. income taxes. During the six months ended September 30, 2010 and 2009, we recorded income tax expense of approximately \$19,000 and \$23,000, respectively.

On September 30, 2010 we had a deferred tax asset of \$115,000. We recognize deferred tax assets and liabilities for future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates we expect to apply to taxable income in the years in which we expect to recover or settle those temporary differences. ASC 740, *Income Taxes*, prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions we take or expect to take in a tax return. It is management's responsibility to determine whether it is more-likely-than-not that a taxing authority will sustain a tax position upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We have reviewed all income tax positions taken or that we expect to take for all open tax years and determined that our income tax positions are appropriately stated and supported for all open years. Accordingly, we have no reserve for uncertain tax positions recorded in our consolidated financial statements.

Table of Contents

In addition, under our accounting policies we would recognize interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable tax settlements within income tax expense.

The fiscal tax years 2006 through 2010 remain open to examination by the Internal Revenue Service and various state taxing jurisdictions to which we are subject. In addition, we are subject to examination by certain foreign taxing authorities for which the fiscal years 2008 through 2010 remain open for examination.

17. Recently Issued Accounting Standards

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures : Improving Disclosures about Fair Value Measurements* (ASU 2010-06). This update provides amendments to ASC 820-10 that require new disclosures and clarify existing disclosures. Part of the ASU was effective for our fourth quarter of our fiscal 2010. The adoption did not have an impact on our financial position or results of operations. The disclosures about purchase, sales, issuances, and settlements in the roll forward of activity in level 3 fair value measurements become effective starting our fourth quarter of fiscal 2011. We do not anticipate adoption to have an impact on our financial position or results of operations.

18. Subsequent events

We evaluated all subsequent events to ensure that we have included in this Form 10-Q appropriate disclosure of events both recognized in the financial statements as of September 30, 2010, and events which occurred subsequent to September 30, 2010 but were not recognized in the financial statements.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We recommend that you read this Report on Form 10-Q in conjunction with our Annual Report on Form 10-K for the year ended March 31, 2010.

Forward-looking Statements

This Form 10-Q contains forward-looking statements relating to projections, plans, objectives, estimates, and other statements of future economic performance. These forward-looking statements are subject to known and unknown risks and uncertainties relating to our future performance that may cause our actual results, performance, or achievements, or industry results, to differ materially from those expressed or implied in any such forward-looking statements. Our business operates in highly competitive markets and is subject to changes in general economic conditions, competition, reimbursement levels, customer and market preferences, government regulation, the impact of tax regulation, foreign exchange rate fluctuations, the degree of market acceptance of products, the uncertainties of potential litigation, as well as other risks and uncertainties detailed elsewhere herein and in our Annual Report filed on Form 10-K for the year ended March 31, 2010.

We do not undertake, nor assume obligation, to update any forward-looking statement that we may make from time to time.

Critical Accounting Policies

We prepare our consolidated financial statements in accordance with U.S. generally accepted accounting principles, which require us to make estimates and assumptions in certain circumstances that affect amounts reported. In preparing these consolidated financial statements, we have made our best estimates and judgments of certain amounts, giving due consideration to materiality.

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, accounts receivable, inventories, foreign currency translation and transactions, impairment of long-lived assets, share-based compensation, defined benefit pension plans and income taxes, each of which is described in our Annual Report on Form 10-K for the year ended March 31, 2010. Based upon our review, we have determined that these policies remain our most critical accounting policies for the six-month period ended September 30, 2010, and we have made no changes to these policies during fiscal 2011.

Table of Contents**Overview**

We are a medical device company that develops, manufactures and markets innovative, proprietary products for the treatment of voiding dysfunctions. Our primary focus is on two products: the Urgent[®] PC system, which we believe is the only FDA-cleared minimally invasive, office-based neuromodulation therapy for the treatment of urinary urgency, urinary frequency, and urge incontinence symptoms often associated with overactive bladder (OAB); and Macroplastique[®], a minimally invasive, soft-tissue urethral bulking agent for the treatment of adult female stress urinary incontinence primarily due to intrinsic sphincter deficiency (ISD). Outside of the U.S., our Urgent PC is also approved for treatment of fecal incontinence, and our soft tissue bulking agent is also approved for treatment of male incontinence and vesicoureteral reflux.

Our sales growth during fiscal 2007 and 2008 was largely attributable to rapid market acceptance of our Urgent PC product in the U.S. However, our sales performance in the U.S. was impacted by the American Medical Association's (AMA) advice to the medical community, during our first fiscal quarter of 2009, that the previously recommended unique, listed CPT code for reimbursement for Urgent PC treatments be replaced with an unlisted code. As a result, some third-party insurers delayed or denied reimbursement while other third party payers continued to provide reimbursement for Urgent PC treatments under published positive coverage policy or on a case-by-case basis. Sales of our Urgent PC system have declined from a peak of about \$2 million in the first fiscal quarter of 2009 and since then have declined because of reimbursement-related issues, although sales have now ranged between \$0.9 million to \$1 million per quarter. We do not expect the sales to return to prior historical levels until after a listed CPT code is effective and payers create coverage policies that provide adequate reimbursement.

A major part of our strategy, supported by publication of clinical studies in peer-reviewed journals in the U.S., has been to obtain a unique, listed Current Procedure Technology (CPT) code for PTNS, and expand third-party reimbursement coverage of Urgent PC treatments in the U.S. Additionally, we continue to implement a comprehensive program designed to educate Medicare carriers and private payer medical directors about the benefits and clinical study results of Urgent PC.

We submitted an application for a unique, listed CPT code to the AMA for consideration at the CPT Editorial Panel Meeting in February 2010. The AMA has advised us that a unique, listed Category I CPT code will be assigned for PTNS, when those codes are published in the Federal Register by the Centers for Medicare and Medicaid Services in fall of 2010. The code will not become effective until January 2011, the suggested reimbursement amount for Urgent PC treatments is not yet established, and no private payers or governmental agencies have agreed, or can agree, to provide reimbursement on the basis of this new CPT code prior to its effective date. While we believe the availability of a unique, listed Category I CPT code will encourage broader use of our Urgent PC, there is no assurance that additional payers will agree to create coverage policies or that the policies, if they are created, will provide an adequate level of reimbursement.

In anticipation of increased interest in our Urgent PC after the new CPT code is effective, we have started to expand our U.S. field sales and support organization. On September 30, 2010 we had 19 employed sales representatives and 4 independent manufacturer's representatives. Our employed sales representatives generated approximately 72% of our U.S. sales in the second quarter of fiscal 2011. We expect our employed sales representatives to generate a greater portion of our sales in the future as we expand our sales organization. Our current plans are to increase our sales organization to 30 employed sales representatives by November 2010.

To assist with the funding of these increased sales expenses and working capital, we completed a public offering of 4.6 million shares of our common stock at \$3.50 per share in July 2010, generating gross proceeds of \$16.1 million, and net proceeds, after fees and expenses, of approximately \$14.9 million.

Results of Operations**Three and six months ended September 30, 2010 compared to three and six months ended September 30, 2009**

Net Sales: During the three months ended September 30, 2010, net sales of \$3.2 million represented a \$258,000, or a 9% increase, over net sales of \$3.0 million for the three months ended September 30, 2009. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 13%. During the six months ended September 30, 2010, net sales of \$6.3 million represented a \$468,000, or an 8% increase, over net sales of \$5.8 million for the three months ended September 30, 2009. Excluding the translation impact of fluctuations in

foreign currency exchange rates, sales increased by approximately 12%.

Table of Contents

Sales to customers in the U.S. of \$1.8 million during the three months ended September 30, 2010, represented a \$340,000, or a 23% increase, over net sales of \$1.5 million for the three months ended September 30, 2009. During the six months ended September 30, 2010 sales to customer in the U.S. totaled \$3.5 million, representing a 17% increase, over net sales of \$3.0 million for the six months ended September 30, 2009.

Sales in the U.S. of our Urgent PC product, increased 6% to \$1.0 million for three months ended September 30, 2010, from \$960,000 for the same year-ago period, and for the six months ended September 30, 2010 decreased 3% to \$1.9 million from \$2.0 million for the same year-ago period. Sales of our Urgent PC system have declined from a peak of about \$2.0 million in the first fiscal quarter of 2009 because of the reimbursement-related issues noted previously.

We believe sales of Urgent PC in the U.S. for the quarter ended September 30, 2010 benefited from a promotion we offered on our Urgent PC lead set boxes. In the second quarter ended September 30, 2010, we sold 1,355 Urgent PC lead set boxes to 185 customers compared with 1,157 boxes to 186 customers in the previous quarter.

Sales in the U.S. of our Macroplastique product, increased 50% to \$791,000 for the three months ended September 30, 2010, from \$528,000 for the same year-ago period, and for the six months ended September 30, 2010 increased 58% to \$1.5 million from \$949,000 for the same year-ago period. Sales of our Macroplastique product increased over the corresponding year-ago period because of our increased sales and marketing focus of this product.

Sales to customers outside the U.S. for the three months ended September 30, 2010 and 2009 were \$1.4 million and \$1.5 million, respectively, a decrease of 6%. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 4%. For the six months ended September 30, 2010 and 2009 sales were about flat at \$2.8 million in each period. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 7%.

Gross Profit: Gross profit was \$2.7 million and \$2.5 million for the three months ended September 30, 2010 and 2009, respectively, or 82% of net sales for both periods. Gross profit was \$5.2 million and \$4.7 million for the six months ended September 30, 2010 and 2009, respectively, or 82% and 81% of net sales, respectively. We attribute the slightly higher gross profit percentage for the six months ended September 30, 2010 primarily to the favorable impact of increase in manufacturing capacity utilization as a result of the increased sales. This favorable impact was offset partially by the negative impact of the additional costs associated with the sourcing of our Urgent PC lead sets from a secondary supplier for part of the six-month period ended September 2010. We estimate this negative impact to be approximately two percentage points in the three-month period and one percentage point in the six-month period ended September 2010.

General and Administrative Expenses (G&A): G&A expenses of \$897,000 during the three months ended September 30, 2010, increased \$184,000 from \$713,000 during the same period in 2009. G&A expenses increased primarily because of an \$80,000 increase in compensation and bonus costs, and a \$106,000 increase in consulting costs. G&A expenses of \$1.7 million during the six months ended September 30, 2010, increased \$186,000 from \$1.6 million during the same period in 2009. Included in the six-month period ended September 30, 2010 is a \$68,000 non-cash, share-based compensation expense, compared with a charge of \$144,000 in the six-month period ended September 30, 2009. Excluding share-based compensation charges, G&A expenses increased by \$262,000. G&A expenses increased primarily because of a \$120,000 increase in compensation and bonus costs, a \$106,000 increase in consulting costs, and a \$36,000 increase in legal fees.

Research and Development Expenses (R&D): R&D expenses increased to \$472,000 during the three months ended September 30, 2010 from \$436,000 during the same period in 2009. The increase is attributed primarily to a \$17,000 increase in compensation and bonus costs, and a \$14,000 increase in costs related to regulatory activities. R&D expenses decreased to \$873,000 during the six months ended September 30, 2010 from \$964,000 during the same period in 2009. Included in the six-month period ended September 30, 2010 is a \$13,000 non-cash, share-based compensation expense, compared with a charge of \$32,000 in the six-month period ended September 30, 2009. Excluding share-based compensation charges, R&D expenses decreased by \$72,000. The decrease is attributed primarily to a \$133,000 decrease in spending for clinical studies, offset partially by an increase of \$24,000 in compensation and bonus costs, and an increase of \$31,000 in regulatory costs. We expect to spend approximately \$400,000 in fiscal 2011 for ongoing clinical studies to support marketing efforts and to meet regulatory requirements.

Selling and Marketing Expenses (S&M): S&M expenses of \$2.0 million during the three months ended September 30, 2010 were about flat with expenses during the same period in 2009. S&M expenses of \$4.0 million during the six months

Table of Contents

ended September 30, 2010 were about flat with expenses during the same period in 2009. Included in the six-month period ended September 30, 2010 is a \$52,000 non-cash, share-based compensation expense, compared with a charge of \$97,000 in the six-month period ended September 30, 2009. We have maintained our assembled U.S. sales force and redirected some of their effort to our Macroplastique product line until reimbursement for Urgent PC stabilizes. In anticipation of increased interest in our Urgent PC after the new CPT code is effective, we have started to expand our U.S. field sales and support organization. Accordingly, we expect to incur increased S&M expenses during the remaining six months of our current fiscal year.

Amortization of Intangibles: Amortization of intangibles was \$211,000 and \$212,000 for the three months ended September 30, 2010 and 2009, respectively, and was \$421,000 and \$423,000 for the six months ended September 30, 2010 and 2009, respectively. In April 2007, we acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC system for \$4.7 million, which we are amortizing over six years.

Other Income (Expense): Other income (expense) includes interest income, interest expense, foreign currency exchange gains and losses and other non-operating costs when incurred. Net other income was \$27,000 and \$17,000 for the three months ended September 30, 2010 and 2009, respectively, and was \$40,000 and \$31,000 for the six months ended September 30, 2010 and 2009, respectively. Interest income declined by \$24,000 due to lower interest rates.

We recognize exchange gains and losses primarily as a result of fluctuations in currency rates between the U.S. dollar (the functional reporting currency) and the Euro and British pound (currencies of our subsidiaries), as well as their effect on the dollar denominated short-term intercompany obligations between us and our foreign subsidiaries. We recognized foreign currency exchange gain of \$11,000 and foreign currency exchange loss of \$7,000 for the three months ended September 30, 2010 and 2009, respectively, and foreign currency exchange gain of \$12,000 and foreign currency exchange loss of \$15,000 for the six months ended September 30, 2010 and 2009, respectively.

Income Tax Expense: During the three months ended September 30, 2010 and 2009, we recorded income tax expense of \$2,000 and \$15,000, respectively, and \$19,000 and \$23,000 for the six months ended September 30, 2010 and 2009, respectively.

Non-GAAP Financial Measures: The following table reconciles our operating loss calculated in accordance with accounting principles generally accepted in the U.S. (GAAP) to non-GAAP financial measures that exclude non-cash charges for share-based compensation, and depreciation and amortization expenses from gross profit, operating expenses and operating loss. The non-GAAP financial measures used by management and disclosed by us are not a substitute for, or superior to, financial measures and consolidated financial results calculated in accordance with GAAP, and you should carefully evaluate our reconciliations to non-GAAP. We may calculate our non-GAAP financial measures differently from similarly titled measures used by other companies. Therefore, our non-GAAP financial measures may not be comparable to those used by other companies. We have described the reconciliations of each of our non-GAAP financial measures described above to the most directly comparable GAAP financial measures.

We use these non-GAAP financial measures, and in particular non-GAAP operating loss, for internal managerial purposes and incentive compensation for senior management because we believe such measures are one important indicator of the strength and the operating performance of our business. Analysts and investors frequently ask us for this information. We believe that they use these measures to evaluate the overall operating performance of companies in our industry, including as a means of comparing period-to-period results and as a means of evaluating our results with those of other companies.

Table of Contents

Our non-GAAP operating loss during the three months ended September 30, 2010 and 2009 was approximately \$591,000 and \$475,000, respectively. Our non-GAAP operating loss during the six months ended September 30, 2010 and 2009 was approximately \$1.2 million and \$1.4 million, respectively.

| | Three Months Ended September 30, | | Six Months Ended September 30, | |
|-----------------------------|---|--------------|---|----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Gross Profit | | | | |
| GAAP gross profit | \$ 2,650,354 | \$ 2,451,401 | \$ 5,175,157 | \$ 4,725,360 |
| % of sales | 82% | 82% | 82% | 81% |
| Share-based compensation | 4,184 | 4,903 | 8,667 | 18,448 |
| Depreciation expense | 15,766 | 14,150 | 31,464 | 28,299 |
| Non-GAAP gross profit | 2,670,304 | 2,470,454 | 5,215,288 | 4,772,107 |
| Operating Expenses | | | | |
| GAAP operating expenses | 3,597,478 | 3,328,495 | 7,047,718 | 6,973,962 |
| Share-based compensation | 68,241 | 113,909 | 140,024 | 273,014 |
| Depreciation expense | 57,074 | 57,546 | 114,662 | 115,623 |
| Amortization expense | 210,682 | 211,503 | 421,450 | 423,316 |
| Non-GAAP operating expenses | 3,261,481 | 2,945,537 | 6,371,582 | 6,162,009 |
| Operating Loss | | | | |
| GAAP operating loss | (947,124) | (877,094) | (1,872,561) | (2,248,602) |
| Share-based compensation | 72,425 | 118,812 | 148,692 | 291,462 |
| Depreciation expense | 72,840 | 71,696 | 146,126 | 143,922 |
| Amortization expense | 210,682 | 211,503 | 421,450 | 423,316 |
| Non-GAAP operating loss | \$ (591,177) | \$ (475,083) | \$ (1,156,293) | \$ (1,389,902) |

Liquidity and Capital Resources*Cash Flows.*

At September 30, 2010, our cash and cash equivalent and short-term investments balances totaled \$21.4 million.

At September 30, 2010, we had working capital of approximately \$21.9 million. For the six months ended September 30, 2010, we used \$1.5 million of cash in operating activities, compared to \$2.0 million of cash used in the same period a year ago. We attribute the decrease in cash used in operating activities primarily to the decrease in the operating loss and a decrease in cash used for operating assets and liabilities.

For the six months ended September 30, 2010, we used \$95,000 in investing activities to purchase property, plant and equipment compared with approximately \$61,000 for the same period a year ago.

For the six months ended September 30, 2010 we generated proceeds from financing activities of approximately \$17.2 million, consisting of approximately \$14.9 million net proceeds from the offering of our common stock and approximately \$2.3 million from the exercise of warrants and options. In July 2010, in a public offering of our common stock, we issued 4.6 million shares (inclusive of the over-allotment exercised by the underwrites) at \$3.50 per share, for gross proceeds of \$16.1 million, and net proceeds, after fees and expenses, of approximately \$14.9 million. We anticipate using the proceeds to expand our U.S. sales and marketing organization to support our Urgent PC business and for clinical studies, working capital and general corporate purposes. In anticipation of increased

interest in our Urgent PC after the new CPT code is effective, we have already started to expand our U.S. field sales and support organization.

Table of Contents

Sources of Liquidity.

On October 30, 2009 we renewed our credit line with Venture Bank. The agreement provides for a credit line of up to \$2.0 million secured by the assets of our company. We may borrow up to 50% (to a maximum of \$500,000) of the value of our eligible inventory on hand and 80% of the value of our eligible U.S. accounts receivable; provided, however, our total liabilities, inclusive of the amount borrowed, may not exceed our tangible net worth. To be eligible to borrow any amount, we must maintain a minimum tangible net worth of \$5.0 million. At September 30, 2010 we had no borrowings outstanding under this agreement. We estimate we had a borrowing capacity of approximately \$700,000 at September 30, 2010. Interest on the loan is charged at a per annum rate of the greater of 7.50% or one percentage point over the prime rate (3.25% prime rate on September 30, 2010).

Uroplasty BV, our subsidiary, has an agreement with Rabobank of The Netherlands for a 500,000 (approximately \$681,000) credit line secured by our facility in Geleen, The Netherlands. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (4.50% base rate on September 30, 2010), subject to a minimum interest rate of 3.50% per annum. At September 30, 2010, we had no borrowings outstanding on this credit line.

We believe we have sufficient liquidity to meet our needs for beyond the next twelve months. Although we have historically not generated cash from operations because we have yet to achieve profitability, we anticipate we will become profitable and generate excess cash from operations prior to the full use of the current available cash. To achieve profitability, we must generate substantially more revenue than we have this year or in prior years.

Our ability to achieve significant revenue growth will depend, in large part, on our ability to achieve widespread market acceptance for our products and successfully expand our business in the U.S., which in turn may be partially dependent upon re-establishing broad reimbursement for our Urgent PC product and successfully demonstrating the superiority of our Macroplastique product to clinicians. We cannot guarantee that we will be entirely successful in either of these pursuits. Nevertheless, if we fail to meet our projections of profitability and cash flow, or determine to use cash for matters we have not currently projected, we may need to again seek financing to meet our cash needs. We cannot assure you that such financing, if needed, will be available to us on acceptable terms, or at all.

Commitments and Contingencies.

We discuss our commitments and contingencies in our Annual Report on Form 10-K for the year ended March 31, 2010. There have been no significant changes in our commitments for capital expenditure and contractual obligations since March 31, 2010.

We expect to continue to incur costs for clinical studies to support our ongoing marketing efforts and to meet regulatory requirements. We also expect to continue to incur significant expenses to support our U.S. sales and marketing organization, and for regulatory activities.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable due to our status as a Smaller Reporting Company.

ITEM 4. Controls and Procedures

Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including, our President and Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e)) under the Securities Exchange Act of 1934 (the Exchange Act). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

None.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended March 31, 2010.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None during the quarter ended September 30, 2010.

ITEM 3. Defaults upon Senior Securities

None.

ITEM 4. (Removed and Reserved)

ITEM 5. Other Information

We issued our earnings release with respect to the quarter ended September 30, 2010 on October 27, 2010. A copy of that earnings release is furnished (but not filed) as an exhibit to this Quarterly Report on Form 10-Q.

ITEM 6. Exhibits

Exhibits

31.1 Certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certifications by the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (this Exhibit is furnished pursuant to SEC rules, but is deemed not filed)

99.1 Press Release dated October 27, 2010

Table of Contents

SIGNATURES

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

UROPLASTY, INC.

Date: October 27, 2010

By: /s/ DAVID B. KAYSEN
David B. Kaysen
President and Chief Executive Officer

Date: October 27, 2010

By: /s/ MAHEDI A. JIWANI
Mahedi A. Jiwani
Chief Financial Officer