

UROPLASTY INC  
Form 10-Q  
November 03, 2008

**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, 2008**

**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. 000-20989**

**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)

**(912) 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 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  Smaller Reporting Company

(Do not check if a 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 31, 2008 the registrant had 14,946,540 shares of common stock outstanding.

**Table of Contents**  
**INDEX**  
**UROPLASTY INC. AND SUBSIDIARIES**

**PART I. FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets</u>	3
	<u>Condensed Consolidated Statements of Operations</u>	5
	<u>Condensed Consolidated Statement of Shareholders' Equity and Comprehensive Loss</u>	6
	<u>Condensed Consolidated Statements of Cash Flows</u>	7
	<u>Notes to the Condensed Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	20
<u>Item 4.</u>	<u>Controls and Procedures</u>	20

**PART II. OTHER INFORMATION**

<u>Item 1.</u>	<u>Legal Proceedings</u>	21
<u>Item 1A.</u>	<u>Risk Factors</u>	21
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>Item 3.</u>	<u>Defaults upon Senior Securities</u>	21
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	21
<u>Item 5.</u>	<u>Other Information</u>	21
<u>Item 6.</u>	<u>Exhibits</u>	21
	<u>SIGNATURES</u>	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

Page 2

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

UROPLASTY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	<b>September 30, 2008</b>	<b>March 31, 2008</b>
	<b>(unaudited)</b>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,675,592	\$ 3,880,044
Short-term investments	5,349,105	6,266,037
Accounts receivable, net	1,690,285	2,318,604
Income tax receivable	34,445	50,841
Inventories	527,460	558,657
Other	359,598	244,517
Total current assets	11,636,485	13,318,700
Property, plant, and equipment, net	1,546,601	1,638,953
Intangible assets, net	3,778,949	4,200,890
Prepaid pension asset	36,482	26,482
Deferred tax assets	105,961	105,298
Total assets	\$ 17,104,478	\$ 19,290,323

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

UROPLASTY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2008  (unaudited)	March 31, 2008
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities - long-term debt	\$	\$ 84,879
Deferred rent - current	35,000	35,000
Accounts payable	504,126	661,624
Accrued liabilities:		
Compensation	952,034	1,471,950
Other	339,260	486,480
 Total current liabilities	 1,830,420	 2,739,933
 Long-term debt - less current maturities		413,279
Deferred rent - less current portion	164,277	180,979
Accrued pension liability	290,744	353,411
 Total liabilities	 2,285,441	 3,687,602
 Shareholders' equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 14,946,540 shares issued and outstanding at September 30, 2008 and 14,916,540 shares issued and outstanding at March 31, 2008	149,465	149,165
Additional paid-in capital	35,504,014	35,014,313
Accumulated deficit	(20,802,842)	(19,835,230)
Accumulated other comprehensive income (loss)	(31,600)	274,473
 Total shareholders' equity	 14,819,037	 15,602,721
 Total liabilities and shareholders' equity	 \$ 17,104,478	 \$ 19,290,323

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net sales	\$ 3,920,516	\$ 3,039,543	\$ 8,446,138	\$ 5,988,217
Cost of goods sold	549,199	669,041	1,257,166	1,263,253
 Gross profit	 3,371,317	 2,370,502	 7,188,972	 4,724,964
 Operating expenses				
General and administrative	918,394	1,147,432	1,957,108	1,955,806
Research and development	327,978	426,997	733,498	933,122
Selling and marketing	2,505,598	1,974,583	5,125,632	3,607,372
Amortization of intangibles	210,966	206,482	421,941	423,003
	3,962,936	3,755,494	8,238,179	6,919,303
 Operating loss	 (591,619)	 (1,384,992)	 (1,049,207)	 (2,194,339)
 Other income (expense)				
Interest income	63,542	65,239	138,656	141,622
Interest expense	(6,750)	(9,279)	(13,585)	(20,644)
Foreign currency exchange gain (loss)	5,038	(13,877)	(732)	(15,906)
Other, net	(4,687)		(4,687)	1,880
	57,143	42,083	119,652	106,952
 Loss before income taxes	 (534,476)	 (1,342,909)	 (929,555)	 (2,087,387)
 Income tax expense	 26,487	 41,783	 38,057	 137,940
 Net loss	 \$ (560,963)	 \$ (1,384,692)	 \$ (967,612)	 \$ (2,225,327)
 Basic and diluted loss per common share	 \$ (0.04)	 \$ (0.10)	 \$ (0.06)	 \$ (0.17)
 Weighted average common shares outstanding:				
Basic and diluted	14,916,540	13,342,284	14,916,540	13,162,862

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, 2008  
 (Unaudited)

	Common Stock		Additional Paid-in	Accumulated	Accumulated Other Comprehensive Income	Total Shareholders
	Shares	Amount	Capital	Deficit	(loss)	Equity
Balance at March 31, 2008	14,916,540	\$ 149,165	\$ 35,014,313	\$ (19,835,230)	\$ 274,473	\$ 15,602,721
Share-based consulting and compensation	30,000	300	489,701			490,001
Comprehensive loss				(967,612)	(306,073)	(1,273,685)
Balance at September 30, 2008	14,946,540	\$ 149,465	\$ 35,504,014	\$ (20,802,842)	\$ (31,600)	\$ 14,819,037

See accompanying notes to the condensed consolidated financial statements.

Page 6

---

**Table of Contents**

UROPLASTY, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Six Months Ended September 30, 2008 and 2007  
(Unaudited)

	<b>Six Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
Cash flows from operating activities:		
Net loss	\$ (967,612)	\$ (2,225,327)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	566,949	529,766
(Gain) Loss on disposal of equipment	4,687	(2,771)
Share-based consulting expense	36,409	26,005
Share-based compensation expense	453,592	644,637
Deferred income taxes	(10,164)	2,474
Deferred rent	(17,500)	(17,500)
Changes in operating assets and liabilities:		
Accounts receivable	537,959	(498,578)
Inventories	(11,128)	(16,176)
Other current assets and income tax receivable	(108,041)	64,660
Accounts payable	(145,610)	190,508
Accrued liabilities	(634,851)	(80,460)
Accrued pension liability, net	(44,772)	(305,435)
Net cash used in operating activities	(340,082)	(1,688,197)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	8,808,304	1,800,000
Purchase of short-term investments	(7,891,373)	(1,200,000)
Purchases of property, plant and equipment	(130,421)	(135,984)
Proceeds from sale of equipment		4,417
Payments for intangible assets		(89,725)
Net cash provided by investing activities	786,510	378,708
Cash flows from financing activities:		
Proceeds from financing obligations		178,374
Repayment of debt obligations	(455,913)	(184,458)
Net proceeds from issuance of common stock, warrants and option exercise		768,298
Net cash provided by (used in) financing activities	(455,913)	762,214
Effect of exchange rates on cash and cash equivalents	(194,967)	93,320

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Net decrease in cash and cash equivalents	(204,452)	(453,955)
Cash and cash equivalents at beginning of period	3,880,044	3,763,702
Cash and cash equivalents at end of period	\$ 3,675,592	\$ 3,309,747
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 13,612	\$ 17,024
Cash paid during the period for income taxes	35,474	38,923
Supplemental disclosure of non-cash financing and investing activities:		
Purchase of intellectual property funded by issuance of stock	\$	\$ 4,658,861
See accompanying notes to the condensed consolidated financial statements.		

Page 7

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**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. 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, 2008.

The condensed consolidated financial statements presented herein as of September 30, 2008 and for the three and six-month periods ended September 30, 2008 and 2007 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, 2008. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and six-month periods ended September 30, 2008, and we have made no changes to these policies during fiscal 2009.

**2. Short-term Investments**

Short-term investments consist of certificates of deposit that mature within the next twelve months. Based on the short-term nature of these investments, their cost approximates their fair market value.

**3. Inventories**

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

	<b>September 30,</b>	<b>March 31,</b>
	<b>2008</b>	<b>2008</b>
Raw materials	\$ 186,815	\$ 215,378
Work-in-process	29,870	15,438
Finished goods	310,775	327,841
	<b>\$ 527,460</b>	<b>\$ 558,657</b>

We purchase several medical grade materials and other components for use in our finished products from single source suppliers meeting our quality and other requirements. Although we believe our supply sources could be replaced if necessary without due disruption, the process of qualifying new suppliers could cause an interruption in our ability to manufacture our products, which could have a negative impact on sales.

**Table of Contents****4. Intangible Assets**

**Intangible Assets.** Our intangible assets are comprised of patents and licensed technology which we amortize on a straight-line basis over their estimated useful lives or contractual terms, whichever is less.

	Estimated Lives (Years)	September 30, 2008		
		Gross Carrying Amount	Accumulated Amortization	Net value
Licensed technology	5	\$ 26,290	\$ 26,290	\$
Patents and inventions	6	5,449,230	1,670,281	3,778,949
		\$ 5,475,520	\$ 1,696,571	\$ 3,778,949
		March 31, 2008		
Licensed technology	5	\$ 26,290	\$ 26,290	\$
Patents and inventions	6	5,449,230	1,248,340	4,200,890
		\$ 5,475,520	\$ 1,274,630	\$ 4,200,890

In April 2007, we acquired from CystoMedix patents and certain intellectual property assets related to the Urgent PC product and terminated the April 2005 exclusive manufacturing and distribution agreement. In consideration, we issued CystoMedix 1,417,144 shares of common stock valued at approximately \$4.7 million. We have capitalized the consideration plus approximately \$77,000 of costs related to the transaction as patents and inventions.

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

Remainder of 2009	\$ 422,000
2010	840,000
2011	839,000
2012	839,000
2013	839,000
	\$ 3,779,000

**5. 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 SFAS 13, Accounting for Leases and FASB Technical Bulletin 88-1, Issues Relating to Accounting for Leases. We are amortizing the leasehold improvements over the shorter of the asset life or the lease term.

**Table of Contents****6. Comprehensive Loss**

Comprehensive loss consists of net loss, translation adjustments and additional pension liability as follows:

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net loss	\$ (560,963)	\$ (1,384,692)	\$ (967,612)	\$ (2,225,327)
Items of other comprehensive income (loss):				
Translation adjustment	(326,738)	156,903	(317,868)	179,030
Pension related	11,774	(8,365)	11,795	(11,665)
Comprehensive loss	\$ (875,927)	\$ (1,236,154)	\$ (1,273,685)	\$ (2,057,962)

Other accumulated comprehensive income (loss) at September 30, 2008 totalled \$(31,600) and consists of \$94,241 for accumulated translation adjustment and \$(125,841) for accumulated additional pension liability.

**7. Net Loss per Common Share**

The following restricted stock, options and warrants outstanding at September 30, 2008 and 2007, to purchase shares of common stock, were excluded from diluted loss per common share because of their anti-dilutive effect:

	<b>Number of Restricted Stock/Options/Warrants</b>	<b>Range of Exercise Prices</b>
For the six months ended:		
September 30, 2008	4,340,361	\$ 1.82 to \$5.30
September 30, 2007	4,119,578	\$ 1.82 to \$5.30

**8. Credit Facilities**

In September 2008 we entered into a one-year business loan agreement with Venture Bank. The agreement provides for a credit line of up to \$2 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 million. Interest on the loan is charged at a per annum rate of the greater of 7.5% or one percentage point over the prime rate (5.00 % prime rate on September 30, 2008). At September 30, 2008, we had no borrowing outstanding on this credit line.

Uroplasty BV, our subsidiary, has an agreement for an indefinite term with Rabobank of The Netherlands for a 500,000 (approximately \$720,000) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (5.85% base rate on September 30, 2008), subject to a minimum interest rate of 3.5% per annum. At September 30, 2008, we had no borrowings outstanding on this credit line.

**9. Warrants**

As of September 30, 2008, we had issued and outstanding warrants to purchase an aggregate of 2,116,928 common shares, at a weighted average exercise price of \$3.81.

In connection with the equity offerings of April 2005 private placement, August 2006 private placement and December 2006 follow-on offering, we issued five-year warrants to purchase 1,180,928, 764,500 and 121,500 common shares, respectively, at exercise prices of \$4.75, \$2.50 and \$2.40 per share, respectively.

**Table of Contents**

Under a now expired consulting agreement for investor relations services with C.C.R.I. Corporation, we have outstanding five-year warrants, expiring in November 2008, to purchase 50,000 of our shares at an exercise price of \$5.00 per share.

**10. Share-based Compensation**

As of September 30, 2008, 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. On September 18, 2008 our shareholders amended this plan to increase the number of reserved shares of our common stock, and as of September 30, 2008, we had remaining 1,819,167 shares available for grant. We generally 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 Statement of Financial Accounting Standards No. 123(R),

Share-Based Payment Revised 2004. We incurred a total of approximately \$490,000 and \$671,000 in share-based expense (inclusive of approximately \$36,000 and \$26,000, respectively, for option grants to consultants) for the six months ended September 30, 2008 and 2007, 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:

	<b>Six Months Ended September 30, 2008</b>	<b>Six Months Ended September 30, 2007</b>
Expected life in years	4.08	4.03
Risk-free interest rate	3.16%	4.61%
Expected volatility	82.76%	91.47%
Expected dividend yield	0	0
Weighted-average fair value	\$ 1.90	\$ 2.85

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 14% based on the historical employee turnover rates.

The following table summarizes the activity related to our stock options for the six months ended September 30, 2008:

	<b>Number of Shares</b>	<b>Weighted Avg. Exercise Price</b>	<b>Weighted Avg. Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value</b>
Options outstanding at beginning of period	2,038,100	\$ 4.01		\$
Options granted	232,000	3.05		
Options exercised				
Options cancelled	(76,667)	3.93		
Options outstanding at end of period	2,193,433	\$ 3.91	4.44	\$ 78,900

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Exercisable at end of period	1,877,178	\$	4.01	4.46	\$ 78,900
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The aggregate intrinsic value represents the total pre-tax value of in-the-money options that holders would realize based on an exercise price equal to the closing price of our Company's common stock on September 30, 2008. As of September 30, 2008, we had approximately \$520,400 of unrecognized share-based compensation expense, net of estimated forfeitures, related to options that we expect to recognize over a weighted-average period of 1.37 years.

Page 11

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**Table of Contents**

The following table summarizes the activity related to our restricted stock for the six months ended September 30, 2008:

	<b>Number of Shares</b>	<b>Weighted Avg. Grant Date Fair Value</b>	<b>Weighted Avg. Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value</b>
Shares unvested at beginning of period		\$		\$
Shares granted	30,000	3.11		
Shares vested				
Shares cancelled				
Shares unvested at end of period	30,000	\$ 3.11	0.38	\$ 93,220

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, 2008, we had \$41,200 of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock awards that we expect to recognize over a weighted-average period of 0.38 years.

**11. Savings and Retirement Plans**

We sponsor various plans for eligible employees in the United States (U.S.), the United Kingdom (UK), and The Netherlands. Our retirement savings plan in the U.S. 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 did not make any contribution to the U.S. plan for the six months ended September 30, 2008 and 2007.

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. We closed The Netherlands subsidiary's defined benefit retirement plan for new employees, as of April 1, 2005. On April 1, 2005, we established a defined contribution plan for new employees for The Netherlands subsidiary. The cost for our defined benefit retirement plans in The Netherlands and the United Kingdom includes the following components for the three and six-months ended September 30, 2008 and 2007:

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Gross service cost	\$ 17,494	\$ 21,670	\$ 35,657	\$ 42,927
Interest cost	24,778	22,910	50,518	45,395
Expected return on assets	4,187	(16,891)	8,520	(33,469)
Amortization	1,044	1,619	2,127	3,209
Net periodic retirement cost	\$ 47,503	\$ 29,308	\$ 96,822	\$ 58,062



**Table of Contents**

Major assumptions used in the above calculations include:

	<b>Six Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
Discount rate	6.10-6.70%	4.90-5.30%
Expected return on assets	5.00-6.10%	4.90-5.00%
Expected rate of increase in future compensation:		
General	3%	3%
Individual	0%-3%	0%-3%

The United Kingdom pension plan is in an over funded position and its funded status is shown as a prepaid pension asset. The Netherlands pension plan is in an under funded position and its funded status is shown as accrued pension liability.

We made aggregate contributions of approximately \$144,000 and \$371,000, respectively, for the six months ended September 30, 2008 and 2007 to the two defined plans.

**12. 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 income (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, 2008 and 2007, we recognized foreign currency exchange gain (loss) of \$5,038 and \$(13,877), respectively. For the six months ended September 30, 2008 and 2007, we recognized foreign currency exchange loss of \$732 and \$15,906, respectively.

**13. Income Tax Expense**

For the three months ended September 30, 2008 and 2007, our Dutch subsidiary recorded income tax expense of \$26,487 and \$41,783, respectively. For the six months ended September 30, 2008 and 2007, our Dutch subsidiary recorded income tax expense of \$38,057 and \$137,640, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2008, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 200,000.

Effective April 1, 2007, we adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement 109, which 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. At adoption on April 1, 2007, we had no unrecognized tax benefits which needed adjustment. We 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, adoption of FIN 48 did not have a significant effect on our consolidated financial statements.

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. At the adoption date of April 1, 2007, we recognized no interest or penalties related to uncertain tax positions. As of September 30, 2008, we recorded no

accrued interest or penalties related to uncertain tax positions.

Page 13

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**Table of Contents**

The fiscal tax years 2004 through 2008 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 2003 through 2008 remain open for examination. We expect no significant change in the amount of unrecognized tax benefit, accrued interest or penalties within the next 12 months.

**14. Recently Issued Accounting Standards**

In December 2007, the FASB issued SFAS 141(R), *Business Combinations*, which requires the acquiring entity in a business combination to recognize and measure all assets and liabilities assumed in the transaction and any non-controlling interest in the acquiree at fair value as of the acquisition date. SFAS 141(R) also establishes guidance for the measurement of the acquirer shares issued in consideration for a business combination, the recognition of contingent consideration, the accounting treatment of pre-acquisition gain and loss contingencies, the treatment of acquisition related transaction costs and the recognition of changes in the acquirer's income tax valuation allowance and deferred taxes. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which the statement is applied. Early adoption is not permitted. In December 2007, the FASB issued SFAS 160, *Noncontrolling Interest in Consolidated Financial Statements An Amendment of ARB 51*, which establishes accounting and reporting standards that require reporting of noncontrolling interests as a component of equity. SFAS 160 also requires that a parent account as equity transactions, changes in ownership interest while it retains its controlling interest. SFAS 160 further requires that a parent initially measure at fair value any retained noncontrolling equity investment upon the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008 and is applied prospectively as of the beginning of the fiscal year in which the statement is applied.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles, and expands disclosure about fair value measurements. In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 157 and SFAS 159 were effective beginning with our current quarter. The adoption of these two statements did not have an impact on our financial position or results of operations.

**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, 2008.

**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 from time to time in our filings with the Securities and Exchange Commission.

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



**Table of Contents**

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, 2008. Based upon our review, we have determined that these policies remain our most critical accounting policies for the six month period ended September 30, 2008, and we have made no changes to these policies during fiscal 2009.

**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 the continued commercialization of our Urgent PC system, which we believe is the only FDA-approved minimally invasive, office-based neurostimulation therapy for the treatment of urinary urgency, urinary frequency, and urge incontinence symptoms often associated with overactive bladder (OAB). We also offer Macroplastique, a urethral bulking agent for the treatment of adult female stress urinary incontinence primarily due to intrinsic sphincter deficiency (ISD). We believe physicians prefer our products because they offer an effective therapy for the patient, can be administered in office-based settings and, to the extent reimbursement is in place, provide the physicians a new profitable recurring revenue stream. We believe patients prefer our products because they are minimally invasive treatment alternatives and they do not have the side effects associated with pharmaceutical treatment options.

Our net sales have increased significantly during the first six months ended September 30, 2008 over the corresponding year ago period, as our UrgentPC System has begun to be adopted by a larger number of physicians in the United States. We have also realized increased sales of our Macroplastique product, which we introduced in the U.S. market in late 2007. With the growth in our Urgent PC sales and the benefit of increased manufacturing capacity utilization, we have realized increased gross margins. Although we have incurred increased sales and marketing expenses, primarily to support the growth in our U.S. business, the increased sales and the improvement in gross margins, together with relatively stable general and administrative expenses and decrease in research and development expenses, have allowed us to significantly decrease our net loss in the past six months.

During the past few months, our Urgent PC sales in the U.S. have moderated, primarily because of reimbursement related issues for Urgent PC treatments. The American Medical Association has advised the medical community that their previously recommended listed CPT code for reimbursement of Urgent PC treatments be replaced with an unlisted code. Some third-party insurance carriers are now reassessing their coverage and reimbursement policies for Urgent PC treatments. However, many other third party payors, including Aetna, under its national policy, and several local Blue Cross/Blue/Shield plans across the U.S., as well as many other carriers on a case-by-case basis, continue to cover Urgent PC treatments. We are working with third party payors to clarify the reimbursement process and have commissioned an additional clinical study that we anticipate may assist in obtaining the specific listed CPT code that will encourage broader use of our Urgent PC. We anticipate spending \$1.0 million to \$1.4 million for this clinical study, substantially all of it in the second half of our current fiscal year.

**Results of Operations****Three months ended September 30, 2008 compared to three months ended September 30, 2007**

**Net Sales:** During the three months ended September 30, 2008, net sales of \$3.9 million represented a \$0.9 million or a 29% increase over net sales of \$3.0 million for the three months ended September 30, 2007. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 27%. We attribute this growth in sales to our customers in the U.S. as a result of our expanded U.S. sales organization and the growth in sales of our Urgent PC system.

Sales to customers in the U.S. in the three months ended September 30, 2008 of \$2.2 million increased 83% from \$1.2 million in the three months ended September 30, 2007. We attribute this growth primarily to the Urgent PC system and the expanded sales organization. During the three months ended September 30, 2008, we had sales of \$254,000 of our Macroplastique product in the U.S., which we launched in the U.S. early in 2007.

Sales to customers outside the U.S. for the three months ended September 30, 2008 and 2007 were \$1.7 and \$1.8 million, respectively, a decrease of 7%. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales decreased by approximately 10%. We attribute the decrease primarily to a decrease in sales of our Macroplastique-related and I-Stop products, offset by an increase in sales of our the Urgent PC system.





**Table of Contents**

**Gross Profit:** Gross profit was \$3.4 million and \$2.4 million for the three months ended September 30, 2008 and 2007, respectively, or 86% and 78% of net sales in the respective periods. We attribute the higher gross profit percentage in the three months ended September 30, 2008 primarily to the favorable product mix, cost reductions and an increase in the average selling price attributed to our Urgent PC system, as well as to higher manufacturing capacity utilization.

**General and Administrative Expenses (G&A):** G&A expenses decreased from \$1.1 million during the three months ended September 30, 2007 to \$0.9 million during the same period in 2008. Included in the three-month period ended September 30, 2007 is a \$370,000 non-cash, SFAS 123 (R) charge for share-based employee compensation, compared with a charge of \$94,000 in the three-month period ended September 30, 2008. Excluding share-based compensation charges, G&A expenses increased by \$47,000.

**Research and Development Expenses (R&D):** R&D expenses decreased from \$427,000 during the three months ended September 30, 2007 to \$328,000 during the same period in 2008. We attribute the decrease primarily to a decrease in personnel-related costs, a \$25,000 decrease in SFAS 123 (R) non-cash charges for share-based employee compensation, and a \$65,000 decrease in spending for clinical studies and related consulting expense. We expect our R&D spending to increase from our current level as we ramp up for a new clinical study.

**Selling and Marketing Expenses (S&M):** S&M expenses increased from \$2.0 million during the three months ended September 30, 2007 to \$2.5 million during the same period in 2008. We attribute the increase primarily to a \$424,000 increase in commissions to independent sales representatives and compensation-related costs for our expanded sales organization, a \$82,000 increase in travel related costs, an increase in other costs to support our expanded sales organization and marketing activities and a \$69,000 charge for severance pay, offset by a \$94,000 decrease in costs to attend tradeshow.

**Amortization of Intangibles:** Amortization expenses of intangibles were \$211,000 and \$206,000 during the three months ended September 30, 2008 and 2007, 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 \$57,000 and \$42,000 for the three months ended September 30, 2008 and 2007, respectively.

We recognize foreign currency 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 (loss) of \$5,000 and \$(14,000) for the three months ended September 30, 2008 and 2007, respectively.

**Income Tax Expense:** During the three months ended September 30, 2008 and 2007, our Dutch subsidiary recorded income tax expense of \$26,000 and \$42,000, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2008, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 200,000.

**Six months ended September 30, 2008 compared to six months ended September 30, 2007**

**Net Sales:** During the six months ended September 30, 2008, net sales were \$8.4 million, representing a \$2.5 million or a 41% increase compared to net sales of \$6.0 million for the six months ended September 30, 2007. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 36%. We attribute the vast majority of this growth in sales to our customers in the U.S. as a result of our expanded U.S. sales organization, and the continued growth in sales of our Urgent PC system. Also, in the six months ended September 30, 2008, sales of our Macroplastique product increased, which we attribute to our increased marketing focus in the U.S. Sales to customers in the U.S. increased to \$4.4 million during the six months ended September 30, 2008, from \$2.2 million in the same period last year. We attribute this growth primarily to the Urgent PC system and the expanded sales organization. During the six months ended September 30, 2008, we had sales of \$441,000 of our Macroplastique product in the U.S., which we launched in the U.S. early in 2007.

Sales to customers outside the U.S. for the six months ended September 30, 2008 were \$4.0 million, representing a \$0.3 million or 7% increase, compared to \$3.8 million for the six months ended September 30, 2007. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales decreased by approximately 1%.



**Table of Contents**

**Gross Profit:** Gross profit was \$7.2 million and \$4.7 million for the six months ended September 30, 2008 and 2007, respectively, or 85% and 79% of net sales in the respective periods. We attribute the higher gross profit percentage in the six months ended September 30, 2008 primarily to the favorable product mix, cost reductions and an increase in the average selling price attributed to our Urgent PC system, as well as to higher manufacturing capacity utilization.

**General and Administrative Expenses (G&A):** G&A expenses were \$2.0 million during the six months ended September 30, 2008 and 2007. Included in the six-month period ended September 30, 2007 is a \$464,000 non-cash, SFAS 123 (R) charge for share-based employee compensation, compared with a charge of \$217,000 in the six-month period ended September 30, 2008. Excluding share-based compensation charges, G&A expenses increased by \$247,000, primarily because of an increase in personnel-related costs.

**Research and Development Expenses (R&D):** R&D expenses decreased from \$933,000 during the six months ended September 30, 2007 to \$733,000 during the same period in 2008. We attribute the decrease primarily to a decrease in personnel-related costs, and a decrease in spending of \$111,000 for clinical studies and related consulting expense. We expect our R&D spending to increase from our current level as we ramp up for a new clinical study.

**Selling and Marketing Expenses (S&M):** S&M expenses increased from \$3.6 million during the six months ended September 30, 2007 to \$5.1 million during the same period in 2008. We attribute the increase to a \$665,000 increase in compensation-related costs, primarily as a result of increased salaries and bonuses, a \$270,000 increase in commissions for sales agents and independent sales representatives, a \$69,000 charge for severance pay, and an increase in other costs to support our expanded sales organization and marketing activities.

**Amortization of Intangibles:** Amortization expenses of intangibles were \$422,000 and \$423,000 during the six months ended September 30, 2008 and 2007, respectively. In April 2007, we acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC system for \$4.7 million. We began amortizing the intellectual property assets acquired over six years starting in April 2007.

**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 \$120,000 and \$107,000 for the six months ended September 30, 2008 and 2007, respectively.

We recognize foreign currency 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 losses of \$1,000 and \$16,000 for the six months ended September 30, 2008 and 2007, respectively.

**Income Tax Expense:** During the six months ended September 30, 2008 and 2007, our Dutch subsidiaries recorded income tax expense of approximately \$38,000 and \$138,000, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2008, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 200,000.

**Non-GAAP Financial Measures:** The following table reconciles our financial results 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 under SFAS 123 (R), 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 above to the most directly comparable GAAP financial measures.

Management uses our non-GAAP financial measures, and in particular non-GAAP operating loss, for internal managerial purposes because we believe such measures are one important indicator of the strength and the performance of our business as they provide a link to operating cash flow. We also believe that analysts and investors use such 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 performance improved from a loss of approximately \$616,000 and \$994,000, respectively, for the three and six months ended September 30, 2007 to a (loss) gain of approximately (\$98,000) and \$8,000, respectively, for the three and six months ended September 30, 2008. We attribute this improvement in non-GAAP operating performance to the increase in sales and an improvement in gross margin rate, offset partially by an increase in cash operating expenses.

	<b>Three Months Ended September 30,</b>		<b>Six Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Gross Profit</b>				
GAAP gross profit	3,371,317	\$ 2,370,502	7,188,972	\$ 4,724,964
% of sales	86%	78%	85%	79%
SFAS 123 (R) share-based compensation	8,879	9,107	25,253	9,686
Depreciation expenses	13,057	13,054	25,847	28,604
<b>Non-GAAP gross profit</b>	<b>3,393,253</b>	<b>2,392,663</b>	<b>7,240,072</b>	<b>4,763,254</b>
<b>Operating Expenses</b>				
GAAP operating expenses	3,962,936	3,755,494	8,238,179	\$ 6,919,303
SFAS 123 (R) share-based compensation	198,131	494,449	464,748	660,956
Depreciation expenses	62,104	46,379	119,161	78,159
Amortization expenses	210,966	206,482	421,941	423,003
<b>Non-GAAP operating expenses</b>	<b>3,491,735</b>	<b>3,008,184</b>	<b>7,232,329</b>	<b>5,757,185</b>
<b>Operating Loss</b>				
GAAP operating loss	(591,619)	(1,384,992)	(1,049,207)	(2,194,339)
SFAS 123 (R) share-based compensation	207,010	503,556	490,001	670,642
Depreciation expenses	75,161	59,433	145,008	106,763
Amortization expenses	210,966	206,482	421,941	423,003
<b>Non-GAAP operating gain (loss)</b>	<b>(98,482)</b>	<b>\$ (615,521)</b>	<b>7,743</b>	<b>\$ (993,931)</b>

**Liquidity and Capital Resources***Cash Flows.*

At September 30, 2008, our cash and cash equivalent and short-term investments balances totaled \$9.0 million.

At September 30, 2008, we had working capital of approximately \$9.8 million. For the six months ended September 30, 2008, we used \$340,000 of cash in operating activities, compared to \$1.7 million of cash used in the same period a year ago. We attribute the decrease in cash used in operating activities primarily to the increase in sales and an improvement in gross profit rate, offset partially by an increase in cash operating expenses.

For the six months ended September 30, 2008 we used approximately \$130,000 to purchase property, plant and equipment compared with approximately \$136,000 for the same period a year ago.

For the six months ended September 30, 2008 we used approximately \$456,000 for financing activities (retirement of debt), while for the same period a year ago we generated approximately \$762,000, primarily because of approximately

\$768,000 we generated from exercise of warrants and options.

**Table of Contents***Sources of Liquidity.*

In September 2008 we entered into a business loan agreement with Venture Bank. The agreement provides for a credit line of up to \$2 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 million. Interest on the loan is charged at a per annum rate of the greater of 7.5% or one percentage point over the prime rate (5.00 % prime rate on September 30, 2008). At September 30, 2008, we had no borrowing outstanding on this credit line.

Uroplasty BV, our subsidiary, has an agreement with Rabobank of The Netherlands for a 500,000 (approximately \$720,000) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (5.85% base rate on September 30, 2008), subject to a minimum interest rate of 3.5% per annum. At September 30, 2008, we had no borrowings outstanding on this credit line.

We believe we have sufficient liquidity to meet our needs over the next twelve months. However, we may need to raise additional financing to support our operations and planned growth activities in the future as we have yet to achieve profitability and generate positive cash flows. 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 we cannot guarantee will happen. If we are unable to raise the needed funds, we may need to curtail our operations including product development, clinical studies and sales and marketing activities. This would adversely impact our future business and prospects. Ultimately, we will need to achieve profitability and generate positive cash flows from operations to fund our operations and grow our business.

*Commitments and Contingencies.*

We expect to continue to incur significant costs for clinical studies to support the marketing of our products and for regulatory activities associated with the FDA-required, post-market studies in the United States for the Macroplastique product. We also expect that during the remainder of fiscal 2009, we will continue to incur significant expenses to support our U.S. selling and marketing organization.

Under a royalty agreement we pay royalties, in the aggregate, of three to five percent of net sales of Macroplastique, Bioplastique, and PTQ Implants subject to a monthly minimum of \$4,500. The royalties payable under this agreement will continue until the patent referenced in the agreement expires in 2010. Under a license agreement for the Macroplastique Implantation System, we pay a royalty of 10 British pounds for each unit sold during the life of the patent.

We have commitments, generally for periods less than twelve months, to purchase from various vendors finished goods and manufacturing components under issued purchase orders.

We have a defined benefit pension plan covering seven employees in The Netherlands. We pay premiums to an insurance company to fund annuities for these employees. However, we are responsible for funding additional annuities based on continued service and future salary increases. We closed this defined benefit plan for new employees in April 2005. As of that date, the Dutch subsidiary established a defined contribution plan that now covers new employees. We also closed our UK subsidiary's defined benefit plan to further accrual for all employees effective December 31, 2004, and, effective March 2005, established a defined contribution plan that now covers new employees.

In January 2006, we entered into a long-term lease with Liberty Property Limited Partnership for an 18,258 square foot facility for our U.S. headquarters located at 5420 Feltri Road, Minnetonka, Minnesota. The lease effective date was May 1, 2006, has a term of 96 months, requires average annual minimum rent payments of approximately \$140,000 and requires us to pay annual operating expenses that we estimate to be \$89,000 each year.

**Table of Contents**

**ITEM 3. Quantitative and Qualitative Disclosures about Market Risk**

*Foreign Currency Risk*

Due to the global nature of our operations, we are subject to exposures resulting from foreign currency exchange fluctuations in the normal course of business. Our primary exchange rate exposures are with the Euro and the British pound. The direct financial impact of foreign currency exchange includes the effect of translating profits from local currencies to U.S. dollars, the impact of currency fluctuations on the transfer of goods between our operations in the United States and abroad and transaction gains and losses. In addition to the direct financial impact, foreign currency exchange has an indirect financial impact on our results, including the effect on sales volumes within local economies and the impact of any pricing actions taken as a result of foreign exchange rate fluctuations. Because our products are currently manufactured or sourced primarily from the United States, a stronger dollar generally has a negative impact on results from operations outside the United States, while a weaker dollar generally has a positive effect. We could experience favorable or unfavorable foreign exchange effects for the remainder of our current fiscal year, compared with prior year results.

*Other Matters*

Management regularly reviews our business operations, processes and overall organizational structure with the objective of improving our financial performance. As a result of this ongoing process to improve financial performance, we may incur restructuring charges in the future which, if taken, could be material to our financial results.

**ITEM 4. Controls and Procedures**

(a) *Evaluation of Disclosure Controls 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.

(b) *Changes in Internal Controls.* We also maintain a system of internal accounting controls designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our policies and procedures are followed. There were no changes in our internal controls over financial reporting during the three months ended September 30, 2008, or thereafter, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Any control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. The design of a control system inherently has limitations, and the benefits of controls must be weighed against their costs. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the control. Therefore, no evaluation of a cost-effective system of controls can provide absolute assurance that all control issues and instances of fraud, if any, will be detected.



**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. Legal Proceedings**

None.

**ITEM 1A. Risk Factors**

The discussion of our business and operations should be read together with the risk factors contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended March 31, 2008 filed with the Securities and Exchange Commission, which describe various risks and uncertainties to which we are or may become subject. These risks and uncertainties have the potential to affect our business, financial condition, results of operations, cash flows, strategies or prospects in a material and adverse manner.

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

None.

**ITEM 3. Defaults upon Senior Securities**

None.

**ITEM 4. Submission of Matters to a Vote of Security Holders**

On September 18, 2008 we held our 2008 Annual Meeting. At the meeting the shareholders approved (i) a proposal to reelect as directors Sven A. Wehrwein and R. Patrick Maxwell to three-year terms expiring on the date of our 2011 annual shareholders meeting, and (ii) an amendment to our 2006 stock and incentive plan increasing the number of common shares reserved for issuance thereunder by 1,500,000. A summary of the voting is as follows:

	<b>Votes For</b>	<b>Votes Against</b>	<b>Votes Withheld</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
<b>Proposal 1 Election of Directors:</b>					
Sven A. Wehrwein	12,263,415		1,385,744		382,088
R. Patrick Maxwell	13,471,675		177,484		382,088
<b>Proposal 2 Amendment of the 2006 Stock and Incentive Plan:</b>	6,697,556	2,652,079		30,065	4,650,577

**ITEM 5. Other Information**

None.

**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 )

Page 21

**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: November 3, 2008

By: /s/ DAVID B. KAYSEN

David B. Kaysen  
President and Chief Executive Officer

Date: November 3, 2008

By: /s/ MAHEDI A. JIWANI

Mahedi A. Jiwani  
Chief Financial Officer

Page 22