UROPLASTY INC
Form 10QSB
October 31, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB
Quarterly Report Under section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2007
Commission File No. 000-20989
UROPLASTY, INC.
(Name of Small Business Issuer in its Charter)

Minnesota, U.S.A.	**41-1719250**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5420 Feltl Road
Minnetonka, Minnesota, 55343
(Address of principal executive offices)
(912) 426-6140
(Issuer s telephone number, including area code)

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $.01 par value (Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer o Accelerated Filer o Non-accelerated Filer þ

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

The number of shares outstanding of the issuer s only class of common stock on October 25, 2007 was 13,450,140.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 3,309,747	$ 3,763,702
Short-term investments	2,400,000	3,000,000
Accounts receivable, net	1,796,574	1,240,141
Income tax receivable	19,356	113,304
Inventories	883,619	823,601
Other	310,272	272,035
Total current assets	8,719,568	9,212,783
Property, plant, and equipment, net	1,510,722	1,431,749
Intangible assets, net	4,633,676	308,093
Deferred tax assets	97,838	93,819
Total assets	$ 14,961,804	$ 11,046,444

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	March 31, 2007
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities long-term debt	$ 115,847	$ 78,431
Deferred rent current	35,000	35,000
Accounts payable	744,433	544,507
Accrued liabilities	1,294,330	1,347,670
Total current liabilities	2,189,610	2,005,608
Long-term debt less current maturities	413,064	427,382
Deferred rent less current portion	197,680	214,381
Accrued pension liability	318,564	596,026
Total liabilities	3,118,918	3,243,397
Shareholders equity:		
Common stock $.01 par value; 40,000,000 shares authorized, 13,450,140 and 11,614,330 shares issued and outstanding at September 30 and March 31, 2007, respectively	134,501	116,143
Additional paid-in capital	30,076,261	23,996,818
Accumulated deficit	(18,236,317)	(16,010,990)
Accumulated other comprehensive loss	(131,559)	(298,924)
Total shareholders equity	11,842,886	7,803,047
Total liabilities and shareholders equity	$ 14,961,804	$ 11,046,444

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Net sales	$ 3,039,543	$ 1,760,771	$ 5,988,217	$ 3,524,980
Cost of goods sold	669,041	452,857	1,263,253	1,008,372
Gross profit	2,370,502	1,307,914	4,724,964	2,516,608
Operating expenses				
General and administrative	1,147,432	800,715	1,955,806	1,658,287
Research and development	426,997	658,409	933,122	1,333,363
Selling and marketing	1,974,583	1,303,696	3,607,372	2,536,283
Amortization of intangibles	206,482	26,575	423,003	53,112
	3,755,494	2,789,395	6,919,303	5,581,045
Operating loss	(1,384,992)	(1,481,481)	(2,194,339)	(3,064,437)
Other income (expense)				
Interest income	65,239	18,308	141,622	37,815
Interest expense	(9,279)	(10,483)	(20,644)	(16,465)
Warrant expense		(700,412)		(372,680)
Foreign currency exchange gain (loss)	(13,877)	3,553	(15,906)	29,964
Other, net		(1,216)	1,880	3,585
	42,083	(690,250)	106,952	(317,781)
Loss before income taxes	(1,342,909)	(2,171,731)	(2,087,387)	(3,382,218)
Income tax expense (benefit)	41,783	(12,841)	137,940	17,911
Net loss	$ (1,384,692)	$ (2,158,890)	$ (2,225,327)	$ (3,400,129)
Basic and diluted loss per common share	$ (0.10)	$ (0.28)	$ (0.17)	$ (0.46)
Weighted average common shares outstanding:				
Basic and diluted	13,342,284	7,784,118	13,162,862	7,376,900

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND COMPREHENSIVE LOSS
Six months ended September 30, 2007
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance (deficit) at March 31, 2007	11,614,330	$ 116,143	$ 23,996,818	$ (16,010,990)	$ (298,924)	$ 7,803,047
Issuance of common stock in connection with the purchase of intellectual property	1,417,144	14,171	4,644,690			4,658,861
Registration costs private placement			(17,000)			(17,000)
Proceeds from exercise of warrants	50,000	500	149,500			150,000
Proceeds from exercise of stock options	368,666	3,687	631,611			635,298
Share-Based Consulting and Compensation			670,642			670,642
Comprehensive Loss				(2,225,327)	167,365	(2,057,962)
Balance(deficit) at September 30, 2007	13,450,140	$ 134,501	$ 30,076,261	$ (18,236,317)	$ (131,559)	$ 11,842,886

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended September 30, 2007 and 2006
(Unaudited)

	Six Months Ended September 30,	
	2007	**2006**
Cash flows from operating activities:		
Net loss	$ (2,225,327)	$ (3,400,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	529,766	147,989
Gain on disposal of equipment	(2,771)	(3,584)
Warrant expense		372,680
Stock-based consulting expense	26,005	29,524
Stock-based compensation expense	644,637	447,652
Deferred income taxes	2,474	(42,976)
Deferred rent	(17,500)	(13,917)
Changes in operating assets and liabilities:		
Accounts receivable	(498,578)	(368,428)
Inventories	(16,176)	(221,587)
Other current assets and income tax receivable	64,660	121,808
Accounts payable	190,508	216,037
Accrued liabilities	(80,460)	(86,062)
Accrued pension liability, net	(305,435)	142,780
Net cash used in operating activities	(1,688,197)	(2,658,213)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	1,800,000	1,137,647
Purchase of short-term investments	(1,200,000)	
Purchases of property, plant and equipment	(135,984)	(126,740)
Proceeds from sale of equipment	4,417	4,294
Payments for intangible assets	(89,725)	
Net cash provided by investing activities	378,708	1,015,201
Cash flows from financing activities:		
Proceeds from financing obligations	178,374	210,999
Repayment of debt obligations	(184,458)	(104,656)
Net proceeds from issuance of common stock, warrants and option exercise	768,298	1,967,023
Net cash provided by financing activities	762,214	2,073,366
Effect of exchange rates on cash and cash equivalents	93,320	(10,484)

Net increase (decrease) in cash and cash equivalents	(453,955)	419,870
Cash and cash equivalents at beginning of period	3,763,702	1,563,433
Cash and cash equivalents at end of period	$ 3,309,747	$ 1,983,303
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 17,024	$ 14,615
Cash paid during the period for income taxes	38,923	58,335
Supplemental disclosure of non-cash financing and investing activities:		
Employee retirement savings plan contribution issued in common shares	$	$ 44,385
Property, plant and equipment additions funded by lessor allowance and classified as deferred rent		280,000
Purchase of intellectual property funded by issuance of stock	$ 4,658,861	

See accompanying notes to the condensed consolidated financial statements.

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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-QSB, 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 consolidated financial statements and related notes included in our Annual Report on Form 10-KSB for the year ended March 31, 2007.

The condensed consolidated financial statements presented herein as of September 30, 2007 and for the three and six-month periods ended September 30, 2007 and 2006 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 more fully described in our Annual Report on Form 10-KSB for the year ended March 31, 2007. 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, 2007, and we have made no changes to these policies during fiscal 2008.

2. Nature of Business, Sales of Common Stock and Corporate Liquidity

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 commercialization of our Urgent® PC system, which we believe is the only FDA-approved non-surgical neurostimulation therapy for the treatment of overactive bladder symptoms (OAB). We also offer Macroplastique® Implants, a bulking agent for the treatment of urinary incontinence. We believe that physicians prefer our products because they offer an effective therapy for the patient, can be administered in office-based settings and, with reimbursement in place, provide the physicians a new profitable recurring revenue stream. We believe that patients prefer our products because they are non-surgical treatment alternatives that do not have the side effects associated with pharmaceutical treatment options.

Strategy

Our goal is to become the leading provider of non-surgical neurostimulation solutions for patients who suffer from OAB symptoms. We also plan to market other innovative products to physicians focused on office-based procedures for the treatment of urinary incontinence. We believe that, with our Urgent PC and Macroplastique products, we will increasingly garner the attention of key physicians, independent sales representatives and distributors to grow revenue. The key elements of our strategy are to:

- educate physicians about the benefits of our Urgent PC neurostimulation system;
- build patient awareness of office-based solutions;
- focus on office-based solutions for physicians;
- increase market coverage in the United States and internationally; and

develop, license or acquire new products.

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Our Products

The Urgent PC neurostimulation system is a minimally invasive device designed for office-based treatment of overactive bladder symptoms of urge incontinence, urinary urgency and urinary frequency. The treatment can be administered by qualified office-based staff under the supervision of a physician. The system uses percutaneous tibial nerve stimulation to deliver an electrical pulse that travels to the sacral nerve plexus, a control center for bladder function. We have received regulatory approvals for sale of the Urgent PC system in the United States, Canada and Europe. We launched sales of our second generation Urgent PC system in late 2006.

Macroplastique is a minimally invasive, implantable soft tissue bulking product for the treatment of urinary incontinence. When Macroplastique is injected into tissue around the urethra, it stabilizes and bulks tissues close to the urethra, thereby providing the surrounding muscles with increased capability to control the release of urine. Macroplastique has been sold for urological indications in over 40 countries outside the United States since 1991. In October 2006, we received from the FDA pre-market approval for the use of Macroplastique to treat female stress incontinence. We began marketing this product in the United States in early 2007.

Sales and Marketing

We are focusing our sales and marketing efforts primarily on office-based and outpatient surgery-based urologists, urogynecologists and gynecologists with significant patient volume. We believe the United States is a significant opportunity for future sales of our products. In order to grow our United States business, we have expanded our sales organization, consisting of direct field sales and independent sales representatives, marketing organization and reimbursement department to market our products directly to our customers. By expanding our United Sates presence, we intend to develop long-standing relationships with leading physicians treating overactive bladder symptoms and incontinence.

Sales of Common Stock and Corporate Liquidity

Our future liquidity and capital requirements will depend on numerous factors including: acceptance of our products, and the timing and cost involved in manufacturing scale-up and in expanding our sales, marketing and distribution capabilities, in the United States markets; the cost and effectiveness of our marketing and sales efforts with respect to our existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting our proprietary rights. Because we have yet to achieve profitability and generate positive cash flows, we will need to raise additional debt or equity financing to meet our liquidity needs for beyond fiscal 2008 for product development, continued expansion of our sales and marketing activities and for working capital.

In October 2007 we retained Craig-Hallum Capital Group and Noble International Investments, Inc. to act as underwriters in connection with our proposed public offering of $10.0 million (exclusive of over-allotment option) of our common stock (see Note 16 to these Condensed Consolidated Financial Statements). There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. Ultimately, we will need to achieve profitability and generate positive cash flow from operations to fund our operations and grow our business.

3. Short-term Investments

At September 30, 2007, short-term investments consisted of $2,400,000 of certificates of deposit maturing in the third quarter of fiscal 2008.

4. Inventories

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

	September 30, 2007	March 31, 2007
Raw materials	$ 311,033	$ 254,988
Work-in-process	24,414	20,773
Finished goods	548,172	547,840

	$	883,619	$ 823,601

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5. Intangible Assets

Intangible assets are comprised of patents, trademarks and licensed technology which are amortized on a straight-line basis over their estimated useful lives or contractual terms, whichever is less. In April 2007, we acquired from CystoMedix, Inc. certain intellectual property assets related to the Urgent PC system, which was previously licensed to us. In consideration, we issued CystoMedix 1,417,144 shares of our common stock. We have capitalized $4.7 million of the acquisition costs as patents and inventions.

The following is a summary of intangible assets at September 30, 2007 and March 31, 2007:

	Estimated Useful Lives (Years)	September 30, 2007 Gross Carrying Amount	Accumulated Amortization	Net value
Licensed technology	5	$ 26,290	$ 26,290	$
Patents and inventions	6	5,461,486	827,810	4,633,676
Totals		$ 5,487,776	$ 854,100	$ 4,633,676

		March 31, 2007		
Licensed technology	5	$ 26,290	$ 26,290	$
Patents and inventions	6	712,900	404,807	308,093
Totals		$ 739,190	$ 431,097	$ 308,093

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

Remainder of fiscal 2008	$ 423,003
2009	845,903
2010	843,619
2011	840,651
2012	840,250
Thereafter	840,250
	$ 4,633,676

6. Deferred Rent and Leasehold Improvements

We entered into an 8-year operating lease agreement, effective May 2006, for our corporate facility. 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.

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7. Comprehensive Loss

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Net loss	$ (1,384,692)	$ (2,158,890)	$ (2,225,327)	$ (3,400,129)
Items of other comprehensive income (loss):				
Translation adjustment	156,903	(18,492)	179,030	78,097
Pension related	(8,365)	(416)	(11,665)	(11,819)
Comprehensive loss	$ (1,236,154)	$ (2,177,798)	$ (2,057,962)	$ (3,333,851)

8. Net Loss per Common Share

The following options and warrants outstanding at September 30, 2007 and 2006, to purchase shares of common stock, were excluded from diluted loss per common share because of their anti-dilutive effect:

	Number of Options/Warrants	Range of Exercise Prices
For the six months ended:		
September 30, 2007	4,119,578	$1.82 to $5.30
September 30, 2006	4,967,380	$0.90 to $5.30

9. Warrants

As of September 30, 2007, we had issued and outstanding warrants to purchase an aggregate of 2,166,478 common shares, at a weighted average exercise price of $3.81.

In connection with our private equity offerings in April 2005 and August 2006 and our December 2006 follow-on public offering, we issued five-year warrants to purchase 1,180,928, 764,500 and 121,050 common shares, respectively, at exercise prices of $4.75, $2.50 and $2.40 per share, respectively.

As part of a consulting agreement, we have outstanding five-year warrants, issued in November 2003 to CCRI Corporation, to purchase 50,000 shares of common stock at a per share price of $5.00.

Proceeds from the exercise of warrants were $150,000 for the six months ended September 30, 2007.

10. Share-based Compensation

As of December 31, 2006, we had one active plan (2006 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 1,200,000 shares of our common stock for stock-based grants, and as of September 30, 2007, we had remaining 559,500 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 $645,000 and $448,000 in compensation expense for the six months ended September 30, 2007 and 2006, respectively.

Proceeds from the exercise of stock options were $635,000 for the six months ended September 30, 2007.

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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 six months ended September 30:

	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
Expected life in years	4.03	7.88
Risk-free interest rate	4.61%	4.98%
Expected volatility	91.47%	100.26%
Expected dividend yield	0	0
Weighted-average fair value	2.85	1.96

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 10.9% in 2008 based on the historical employee turnover rates. The expected life of the options is based on the historical life of previously granted options, which are generally held to maturity.

As of September 30, 2007, we had approximately $816,000 of unrecognized compensation cost related to share-based payments that we expect to recognize over a weighted-average period of 1.56 years.

The following table summarizes the activity related to our stock options during the six months ended September 30, 2007:

	Number of Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at beginning of period	2,169,866	$ 3.62	4.93	
Options granted	282,500	4.24	4.28	
Options exercised	(368,666)	1.72		
Options surrendered	(80,600)	4.68		
Options outstanding at end of period	2,003,100	$ 4.00	5.36	1,394,825
Exercisable at end of period	1,556,597	4.26	5.29	873,907

11. 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 made no discretionary contributions in association with these plans in the United States for the three- and six-month periods ended September 30, 2007. For the six months ended September 30, 2006, we made a contribution of $44,408 in the form of our fully vested common stock.

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 and established a defined contribution plan on March 10, 2005. Effective April 1, 2005, we closed The Netherlands subsidiary s defined benefit retirement plan for new participants and established a defined contribution plan for new employees.

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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, 2007 and 2006:

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Gross service cost	$ 21,670	$ 51,303	$ 42,927	$ 101,845
Interest cost	22,910	30,941	45,395	61,354
Expected return on assets	(16,891)	(17,764)	(33,469)	(35,208)
Amortization	1,619	10,604	3,209	21,035
Net periodic retirement cost	$ 29,308	$ 75,084	$ 58,062	$ 149,026

Major assumptions used in the above calculations include:

	Six Months Ended September 30,	
	2007	2006
Discount rate	4.90-5.30%	4.25-5.50%
Expected return on assets	4.90-5.00%	4.00-5.00%
Expected rate of increase in future compensation:	3%	3%
General	0%-3%	0%-3%
Individual		

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 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, 2007 and 2006, we recognized foreign currency gain (loss) of $(13,877) and $3,553, respectively. For the six months ended September 30, 2007 and 2006, we recognized foreign currency gain (loss) of $(15,906) and $29,964, respectively.

13. Income Tax Expense

During the three months ended September 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense (benefit) of $41,783 and $(12,841), respectively. During the six months ended September 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense of $137,640 and $17,911, respectively. During the three and six months ended September 30, 2007 and 2006, our U.S. organization recorded income tax expense of $300 and $0, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2007, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 60,000.

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 taken or expected to be taken in a tax return. It is management s responsibility to

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determine whether it is more-likely than-not that a tax position will be sustained 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 be taken for all open tax years and determined that our income tax positions are appropriately stated and supported for all open years and that the adoption of FIN 48 did not have a material effect on our consolidated financial statements.

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, 2007, we recorded no accrued interest or penalties related to uncertain tax positions.

The fiscal tax years 2004 through 2007 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 2005 through 2007 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. Business Segment and Geographic Information

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 commercialization of our Urgent PC system, which we believe is the only FDA-approved non-surgical neurostimulation therapy for the treatment of overactive bladder symptoms (OAB). We also offer Macroplastique, a bulking agent for the treatment of urinary incontinence.

Based upon the above, we operate in only one reportable segment consisting of medical products, primarily for the voiding dysfunctions market served primarily by urologists, urogynecologists and gynecologists.

Information regarding operations in different geographies for the three months ended September 30, 2007 and 2006 is as follows:

	United States	The Netherlands	United Kingdom	Eliminations *	Consolidated
Fiscal 2008					
Sales, three months ended September 30, 2007	$ 1,853,602	$1,481,376	$648,259	$(943,694)	$ 3,039,543
Income tax expense, three months ended September 30, 2007		41,783			41,783
Net income (loss), three months ended September 30, 2007	(1,288,669)	95,462	(90,404)	(101,081)	(1,384,692)
Long-lived assets At September 30, 2007	5,368,247	770,228	5,923		6,144,398
Fiscal 2007					
Sales, three months ended September 30, 2006	$ 707,733	$1,252,452	$423,270	$(622,684)	$ 1,760,771

Income tax benefit, three months ended September 30, 2006		(12,841)			(12,841)
Net income (loss), three months ended September 30, 2006	(2,007,429)	1,283	(41,669)	(111,075)	(2,158,890)
Long-lived assets At September 30, 2006	1,047,566	730,261	5,766		1,783,593

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Information regarding operations in different geographies for the six months ended September 30, 2007 and 2006 is as follows:

	United States	The Netherlands	United Kingdom	Eliminations *	Consolidated
Fiscal 2008					
Sales, six months ended September 30, 2007	$ 3,204,395	$3,218,154	$1,163,912	$(1,598,244)	$ 5,988,217
Income tax expense, six months ended September 30, 2007	300	137,640			137,940
Net income (loss), six months ended September 30, 2007	(2,486,013)	385,828	(153,139)	27,997	(2,225,327)
Fiscal 2007					
Sales, six months ended September 30, 2006	$ 1,006,033	$2,415,581	$ 952,707	$ (849,341)	$ 3,524,980
Income tax expense, six months ended September 30, 2006		17,911			17,911
Net income (loss), six months ended September 30, 2006	(3,355,374)	109,210	(99,344)	(54,621)	(3,400,129)

* The information in the column entitled Eliminations represents intercompany transactions.

15. Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board, or FASB, issued SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 establishes a common definition for fair value to be applied to US GAAP guidance requiring use of fair value, establishes a framework for measuring fair value, and expands disclosure about such fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact of SFAS No. 157 but do not believe the adoption will have a significant impact on our financial position and results of operations.

On February 15, 2007, the FASB, issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities . Under SFAS No. 159, we may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS No. 159

provides an opportunity to mitigate volatility in reported earnings caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex hedge accounting provisions of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , are not met. SFAS No. 159 is effective for years beginning after November 15, 2007. If we adopt this standard, we do not expect it to have a material effect on our financial statements.

16. Subsequent Events

In October 2007, we retained Craig-Hallum Capital Group and Noble International Investments, Inc. to act as our underwriters in connection with a proposed public offering of $10.0 million (exclusive of over-allotment option) of our common stock. The underwriters propose to purchase this dollar amount of securities from us in this offering, but do not intend to bind themselves to this commitment until they receive adequate indications of interest to purchase the securities offered. We have filed a registration statement with the SEC for the proposed public offering. As of the date hereof, the SEC has not declared the registration statement effective. There is no assurance that we will complete the proposed public offering.

In October 2007, we exited our manufacturing facility in Eindhoven, The Netherlands upon receiving FDA approval to manufacture Macroplastique at our facility in the U.S. for our U.S. market. In the quarter ending December 31, 2007, we expect to incur a charge of approximately $120,000, primarily related to the cost of terminating the lease for the Eindhoven facility.

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

We recommend that you read this Report on Form 10-QSB in conjunction with our Annual Report on Form 10-KSB for the year ended March 31, 2007.

Forward-looking Statements

We may from time to time make written or oral forward-looking statements , including our statements contained in this filing with the Securities and Exchange Commission and in our reports to stockholders, as well as elsewhere. Forward-looking statements are statements such as those contained in projections, plans, objectives, estimates, statements of future economic performance, and assumptions related to any of the foregoing, and may be identified by the use of forward-looking terminology, such as may , expect , anticipate , estimate , goal , continue , or other co terminology. By their very nature, 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. Any such statement is qualified by reference to the following cautionary statements.

Our business operates in highly competitive markets and is subject to changes in general economic conditions, competition, 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 Securities and Exchange Commission filings.

In this filing, the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Various factors and risks (not all of which are identifiable at this time) could cause our results, performance, or achievements to differ materially from that contained in our forward-looking statements, and investors are cautioned that any forward-looking statement contained herein or elsewhere is qualified by and subject to the warnings and cautionary statements contained above and in our other 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.

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 commercialization of our Urgent PC system, which we believe is the only FDA-approved non-surgical neurostimulation therapy for the treatment of overactive bladder (OAB) symptoms. We also offer Macroplastique, a bulking agent for the treatment of urinary incontinence. We believe that physicians prefer our products because they offer an effective therapy for the patient, can be administered in office-based settings and, with reimbursement in place, provide the physicians a new profitable recurring revenue stream. We believe that patients prefer our products because they are non-surgical treatment alternatives that do not have the side-effects associated with pharmaceutical treatment options.

The Urgent PC neurostimulation system is a minimally invasive device designed for office-based treatment of OAB symptoms of urge incontinence, urinary urgency and urinary frequency. The treatment can be administered by qualified office-based staff under the supervision of a physician. The Urgent PC system uses percutaneous tibial nerve stimulation to deliver an electrical pulse that travels to the sacral nerve plexus, a control center for bladder function. We have received regulatory approvals for sale of the Urgent PC system in the United States, Canada and Europe. We launched sales of our second generation Urgent PC system in late 2006.

Macroplastique is a minimally invasive, implantable soft tissue bulking agent for the treatment of urinary incontinence. When Macroplastique is injected into tissue around the urethra, it stabilizes and bulks tissues close to the urethra, thereby providing the surrounding muscles with increased capability to control the release of urine. Macroplastique has been sold for urological indications in over 40 countries outside the United States since 1991. In October 2006, we received from the FDA pre-market approval for the use of Macroplastique to treat female stress incontinence. We began marketing Macroplastique in the United States in early 2007.

We are focusing our sales and marketing efforts primarily on urologists, urogynecologists and gynecologists with significant office-based and outpatient surgery-based patient volume. We believe the United States is a significant opportunity for future

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sales of our products. In order to grow our United States business, we recently established a sales organization, consisting of direct field sales personnel and independent sales representatives, and a marketing organization to market our products directly to our customers. By expanding our United States presence, we intend to develop long-standing relationships with leading physicians treating OAB symptoms and incontinence.

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 believe that of our significant accounting policies, the following are particularly important to the portrayal of our results of operations and financial position. They may require the application of a higher level of judgment by Uroplasty management, and as a result are subject to an inherent degree of uncertainty.

Revenue Recognition. The Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 104, Revenue Recognition in Financial Statements, provides guidance on the application of generally accepted accounting principles to selected revenue recognition issues. We believe our revenue recognition policies comply with SAB 104. We recognize revenue upon shipment of product to our distributors and direct customers. We have no customer acceptance provisions or installation obligations. Our sales terms to our distributors and customers provide no right of return outside of our standard warranty, and payment terms consistent with industry standards apply. Sales terms and pricing to our distributors are governed by the respective distribution agreements. Our distributors purchase our products to meet the sales demand of their end-user customers as well as to fulfill their internal requirements associated with the sales process and, if applicable, contractual purchase requirements under the respective distribution agreements. Internal and other requirements include purchases of products for training, demonstration and evaluation purposes, clinical evaluations, product support, establishing inventories, and meeting minimum purchase commitments. As a result, the level of our net sales during any period is not necessarily indicative of our distributors sales to end-user customers during that period, which we estimate are not substantially different than our sales to those distributors in each of the three- and six month periods ended September 30, 2007 and 2006. Our distributors level of inventories of our products, their sales to end-user customers and their internal product requirements may impact our future revenue growth.

Accounts Receivable. 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 based on customer financial health, and both historical and expected credit loss experience. We write off our accounts receivable when we deem them uncollectible. We record recoveries of accounts receivable previously written off when received.

Inventories. We state inventories at the lower of cost or market using the first-in, first-out method. We provide lower of cost or market reserves for slow moving and obsolete inventories based upon current and expected future product sales and the expected impact of product transitions or modifications. While we expect our sales to grow, a reduction in sales could reduce the demand for our products and may require additional inventory reserves.

Foreign Currency Translation/Transactions. We translate the financial statements of our foreign subsidiaries in accordance with the provisions of SFAS No. 52 Foreign Currency Translation. Under this Statement, we translate all assets and liabilities using period-end exchange rates, and 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 the statement of operations, including unrealized gains and losses on short-term intercompany obligations using period-end exchange rates, resulting in an increase in the volatility of our consolidated statements of operations. We recognize unrealized gains and losses on long-term intercompany obligations within accumulated other comprehensive loss, a separate component of shareholders equity.

Impairment of Long-Lived Assets. Long-lived assets at September 30, 2007 consist of property, plant and equipment and intangible assets. We review our long-lived assets for impairment whenever events or business circumstances indicate that the carrying amount of an asset may not be recoverable. We measure the recoverability of assets to be

held and used by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the asset. If we consider such assets impaired, we measure the impairment to be recognized by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value, less costs to sell.

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Share-Based Compensation. FASB published Statement No. 123 (revised 2004), *Share-Based Payment,* or SFAS 123(R). SFAS 123(R) requires that we recognize the compensation cost relating to share-based payment transactions, including grants of employee stock options, in our financial statements. We measure that cost based on the fair value of the equity or liability instruments issued. SFAS 123(R) covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

This Statement requires us to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period we require our employee to provide services for the award.

Defined Benefit Pension Plans. We have a liability attributed to defined benefit pension plans we offered to certain former and current employees prior to April 2005. We pay premiums to an insurance company to fund annuities and are responsible for funding additional annuities based on continued service and future salary increases for these employees pension benefit. The liability is dependent upon numerous factors, assumptions and estimates, and the continued benefit costs we incur may be significantly affected by changes in key actuarial assumptions such as the discount rate, compensation rates, or retirement dates used to determine the projected benefit obligation. Additionally, changes made to the provisions of the plans may impact current and future benefit costs. In accordance with accounting rules, changes in benefit obligations associated with these factors may not be immediately recognized as costs on the income statement, but are recognized in future years over the remaining average service period of plan participants.

Income Taxes. 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. As of March 31, 2007, we have generated approximately $18 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 all or a portion of the deferred tax asset. We have established a valuation allowance for all 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 December 2006 follow-on public offering resulted in an ownership change under Section 382. Accordingly, our ability to use NOL tax attributes generated prior to December 2006 will likely be limited.

Set forth below is management s discussion and analysis of the financial condition and results of operations for the three and six-months ended September 30, 2007 and 2006. See Note 14 to our condensed consolidated financial statements for business segment information.

Results of Operations

Three months ended September 30, 2007 compared to three months ended September 30, 2006

Net Sales: During the three months ended September 30, 2007, net sales were $3.0 million, representing a $1.3 million or a 73% increase compared to net sales of $1.8 million for the three months ended September 30, 2006. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 66%. 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 three months ended September 30, 2007, sales of our Macroplastique product outside of the U.S. increased, which we attribute to our increased marketing focus.

Sales to customers in the U.S. in the three months ended September 30, 2007 increased to $1.2 million from $253,000 in the three months ended September 30, 2006. Sales for the three months ended September 30, 2007, represent a sequential, quarter-to-quarter increase from $1.0 million in the previous quarter. We attribute this growth primarily to the Urgent PC system and the expanded sales organization. During the three months ended September 30, 2007, we had minimal sales 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, 2007 were $1.8 million, representing a $318,000 or 21% increase, compared to $1.5 million for the three months ended September 30, 2006. Excluding the

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translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 13%. We attribute the increase primarily to the increase in our Macroplastique sales.

Gross Profit: Gross profit was $2.4 million and $1.3 million for the three months ended September 30, 2007 and 2006, respectively, or 78% and 74% of net sales in the respective periods. We attribute the higher gross profit percentage in the three months ended September 30, 2007, to savings of approximately $90,000 due to the discontinuation of manufacturing at our Eindhoven, The Netherlands facility, and approximately one percentage point impact due to an increase in the average selling price in the U.S. of the lead sets used with our Urgent PC system. We expect the gross profit percentage to be in the range of 73% to 78%, excluding any unusual charges, in the remaining quarters of the current fiscal year, although change in the product mix we sell can shift the overall gross margin.

General and Administrative Expenses (G&A): G&A expenses increased from $801,000 during the three months ended September 30, 2006 to $1,147,000 during the same period in 2007. Included in the three-month period ended September 30, 2006 is a $126,000 non-cash, SFAS 123 (R) charge for share-based employee compensation, compared with a charge of $370,000 in the three-month period ended September 30, 2007. Excluding share-based compensation charges, G&A expenses increased by $102,000, primarily because of an increase in personnel-related costs and consulting fees primarily related to Sarbanes-Oxley compliance.

Research and Development Expenses (R&D): R&D expenses decreased from $658,000 during the three months ended September 30, 2006 to $427,000 during the same period in 2007. We attribute the decrease primarily to reduced consulting expense of $127,000 and a decrease in personnel-related costs of $96,000. During the three months ended September 30, 2006, we incurred consulting expense associated with the development of our second generation Urgent PC system and preparation for a clinical study.

Selling and Marketing Expenses (S&M): S&M expenses increased from $1.3 million during the three months ended September 30, 2006 to $2.0 million during the same period in 2007. We attribute the increase to a $257,000 increase in compensation-related costs, primarily as a result of increased salaries and bonuses, a $210,000 increase in commissions for sales agents and independent sales representatives, an $115,000 increase in costs to attend tradeshows, and an increase in other costs to support our expanded sales organization and marketing activities.

Amortization of Intangibles: Amortization of intangibles increased from $27,000 during the three months ended September 30, 2006 to $206,000 during the same period in 2007. 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, warrant expense, foreign currency exchange gains and losses and other non-operating costs when incurred. Other income (expense) was $42,000 and $(690,000) for the three months ended September 30, 2007 and 2006, respectively, with $700,000 of the change resulting from a warrant expense in the three months ended September 30, 2006.

In May 2002, we conducted a public rights offering. In the rights offering, we issued to those shareholders who exercised their rights three shares of our common stock and a warrant, exercisable through July 2004, to purchase an additional share of our common stock. We registered with the SEC the issuance of the shares, the warrants and the shares underlying the warrants. In July 2004, we suspended the right to exercise the warrants shortly before their scheduled expiration date because we announced a planned restatement of our fiscal 2004 financial statements. In November 2004, we became current with our SEC filings. In April 2005, we chose to issue like-kind replacement warrants to the holders of the expired warrants. The terms for the replacement warrants required that we issue shares covered by a registration statement and maintain the effectiveness of the registration (by making timely SEC filings) for the warrant holders to receive registered shares upon exercise of the warrants. In April 2005, we recognized a liability and equity charge of $1.4 million associated with the grant of these warrants, and subsequently recognized in other income (expense) the change in fair value of the warrants due to the change in the value of our common stock issuable upon exercise of these warrants. We determined the fair value of the warrants using the Black-Scholes option-pricing model. The period to exercise the warrants ended in March 2007. We recognized a net warrant expense of $700,000 in the quarter ended September 30, 2006.

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 gains (losses) of $(14,000) and $4,000 for the three months ended September 30, 2007 and 2006, respectively.

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Income Tax Expense: During the three months ended September 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense (benefit) of approximately $42,000 and $(13,000), respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2007, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 60,000.

Six months ended September 30, 2007 compared to six months ended September 30, 2006

Net Sales: During the six months ended September 30, 2007, net sales were $6.0 million, representing a $2.5 million or a 70% increase compared to net sales of $3.5 million for the six months ended September 30, 2006. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 64%. 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, 2007, sales of our Macroplastique product outside of the U.S. increased, which we attribute to our increased marketing focus.

Sales to customers in the U.S. increased to $2.2 million during the six months ended September 30, 2007, from $357,000 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, 2007, we had minimal sales of our Macroplastique product in the U.S., which we launched in the U.S. early in 2007, and the I-Stop product, which we discontinued.

Sales to customers outside the U.S. for the six months ended September 30, 2007 were $3.8 million, representing a $592,000 or 19% increase, compared to $3.2 million for the six months ended September 30, 2006. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 12%. We attribute the increase primarily to the increase in our Macroplastique sales.

Gross Profit: Gross profit was $4.7 million and $2.5 million for the six months ended September 30, 2007 and 2006, respectively, or 79% and 71% of net sales in the respective periods. We attribute the lower gross profit percentage for the six months ended September 30, 2006 primarily to lower manufacturing capacity utilization in the three months ended June 30, 2006 due to the decline in Macroplastique sales and duplicate manufacturing facilities in the U.S. This decline was offset partially by increased manufacturing capacity utilization in the three months ended September 30, 2006, when we stepped up production to build inventory to meet our needs for the transition period while relocating our manufacturing operations to our new corporate headquarters in Minnetonka, Minnesota. We attribute the higher gross profit percentage for the six months ended September 30, 2007 to a favorable impact of approximately four percentage points due to the increase in manufacturing capacity utilization as a result of increased sales, savings of approximately $180,000 due to the discontinuation of manufacturing at our Eindhoven, The Netherlands facility, and approximately one percentage point impact due to an increase in the average selling price in the U.S. of the lead sets used with our for our Urgent PC system. We expect the gross profit percentage to be in the range of 73% to 78%, excluding any unusual charges, in the remaining quarters of the current fiscal year, although change in the product mix we sell can shift the overall gross margin.

General and Administrative Expenses (G&A): G&A expenses increased from $1.7 million during the six months ended September 30, 2006 to $2.0 million during the same period in 2007. Included in the six-month period ended September 30, 2006 is a $392,000 non-cash, SFAS 123 (R) charge for share-based employee compensation, compared with a charge of $464,000 in the six-month period ended September 30, 2007. Excluding share-based compensation charges, G&A expenses increased by $226,000, primarily because of an increase in personnel-related costs and consulting fees, offset by a reduction in rent expense for our leased facilities in the United Kingdom and the U.S.

Research and Development Expenses (R&D): R&D expenses decreased from $1.3 million during the six months ended September 30, 2006 to $933,000 during the same period in 2007. We attribute the decrease primarily to reduced consulting expense of $233,000 and a decrease in personnel-related costs of $131,000. During the six months ended September 30, 2006, we incurred consulting expense associated with the development of our second generation Urgent PC system and preparation for a clinical study.

Selling and Marketing Expenses (S&M): S&M expenses increased from $2.5 million during the six months ended September 30, 2006 to $3.6 million during the same period in 2007. We attribute the increase to a $353,000 increase in compensation-related costs, primarily as a result of increased salaries and bonuses, a $444,000 increase in commissions for sales agents and independent sales representatives, and an increase in other costs to support our

expanded sales organization and marketing activities.

Amortization of Intangibles: Amortization of intangibles increased from $53,000 during the six months ended September 30, 2006 to $423,000 during the same period in 2007. In April 2007, we acquired from CystoMedix, Inc., certain intellectual

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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, warrant expense, foreign currency exchange gains and losses and other non-operating costs when incurred. Other income (expense) was $107,000 and $(318,000) for the six months ended September 30, 2007 and 2006, respectively, with $373,000 of the change resulting from a warrant expense in the six months ended September 30, 2006.

In May 2002, we conducted a public rights offering. In the rights offering, we issued to those shareholders who exercised their rights three shares of our common stock and a warrant, exercisable through July 2004, to purchase an additional share of our common stock. We registered with the SEC the issuance of the shares, the warrants and the shares underlying the warrants. In July 2004, we suspended the right to exercise the warrants shortly before their scheduled expiration date because we announced a planned restatement of our fiscal 2004 financial statements. In November 2004, we became current with our SEC filings. In April 2005, we chose to issue like-kind replacement warrants to the holders of the expired warrants. The terms for the replacement warrants required that we issue shares covered by a registration statement and maintain the effectiveness of the registration (by making timely SEC filings) for the warrant holders to receive registered shares upon exercise of the warrants. In April 2005, we recognized a liability and equity charge of $1.4 million associated with the grant of these warrants, and subsequently recognized in other income (expense) the change in fair value of the warrants due to the change in the value of our common stock issuable upon exercise of these warrants. We determined the fair value of the warrants using the Black-Scholes option-pricing model. The period to exercise the warrants ended in March 2007. We recognized a net warrant expense of $373,000 during the six months ended September 30, 2006.

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 gains (losses) of $(16,000) and $30,000 for the six months ended September 30, 2007 and 2006, respectively.

Income Tax Expense: During the six months ended September 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense of approximately $138,000 and $18,000, respectively. During the six months ended September 30, 2007 and 2006, our U.S. organization recorded income tax expense of $300 and $0, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2007, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 60,000.

Non-GAAP Financial Measures. The following table reconciles our financial results calculated in accordance to U.S. generally accepted accounting principles (GAAP) to non-GAAP financial measures that exclude non cash charges attributed to stock options 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 because 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.

Our non-GAAP operating loss of approximately $616,000 and $1.0 million for the three and six months ended September 30, 2007 respectively, declined from $1.2 million and $2.4 million for the respective prior year periods. The decline in non-GAAP operating loss is attributed primarily to the increase in sales and an improvement in gross margin rate, offset partially by moderate increase in cash operating expenses.

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	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Gross Profit				
GAAP gross profit	$ 2,370,502	$ 1,307,914	$ 4,724,964	$ 2,516,608
% of sales	78%	74%	79%	71%
SFAS 123 (R) stock option charges	9,107	641	9,686	1,361
Depreciation expenses	13,054	12,491	28,604	24,028
Non-GAAP gross profit	2,392,663	1,321,046	4,763,254	2,541,997
Operating Expenses				
GAAP operating expenses	3,755,494	$ 2,789,395	$ 6,919,303	$ 5,581,045
SFAS 123 (R) stock option charges	494,449	165,933	660,956	475,815
Depreciation expenses	46,379	42,789	78,159	70,848
Amortization expenses	206,482	26,576	423,003	53,113
Non-GAAP operating expenses	3,008,184	2,554,097	5,757,185	4,981,269
Operating Loss				
GAAP operating loss	(1,384,992)	(1,481,481)	(2,194,339)	(3,064,437)
SFAS 123 (R) stock option charges	503,556	166,574	670,642	477,176
Depreciation expenses	59,433	55,280	106,763	94,876
Amortization expenses	206,482	26,576	423,003	53,113
Non-GAAP operating loss	$ (615,521)	$ (1,233,051)	$ (993,931)	$ (2,439,272)

Liquidity and Capital Resources

Cash Flows.

As of September 30, 2007, our cash and cash equivalents balances totaled $3.3 million and our short-term investments totaled $2.4 million.

At September 30, 2007, we had working capital of approximately $6.5 million. For the six months ended September 30, 2007, we used $1.7 million of cash in operating activities, compared to $2.7 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 margin rate, offset partially by moderate increase in cash operating expenses.

Sources of Liquidity.

In August 2006, we entered into a securities purchase agreement with certain investors pursuant to which we sold approximately 1.4 million shares of our common stock for $1.50 per share, together with warrants to purchase 695,000 shares of our common stock, for an aggregate purchase price of approximately $2.1 million. After offset for our estimated costs of $183,000, we received net proceeds of approximately $1.9 million. The warrants are exercisable for five years (commencing 181 days after closing) at an exercise price of $2.50 per share.

In December 2006, we conducted a follow-on public offering in which we sold 2,430,000 shares of our common stock at a price per share of $2.00, resulting in net proceeds of approximately $4.3 million.

In May 2007, we amended our business loan agreement with Venture Bank. The agreement, expiring in May 2008, provides for a credit line of up to $1 million secured by our assets. We may borrow up to 50% (to a maximum of $500,000) of the value of our eligible inventory on hand in the U.S. and 80% of our eligible U.S. accounts receivable value. To borrow any amount, we must maintain consolidated net equity of at least equal to $3.5 million as well as maintain certain other financial covenants on a quarterly basis. The bank charges interest on the loan at a per annum rate of the greater of 7.5% or one

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percentage point over the prime rate (7.75% on September 30, 2007). In addition, Uroplasty BV, our subsidiary, entered into an agreement with Rabobank of The Netherlands for a 500,000 (approximately $714,000) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (5.25% on September 30, 2007), subject to a minimum interest rate of 3.5% per annum. At September 30, 2007, we had no borrowings under any of our credit lines.

Because we have yet to achieve profitability and generate positive cash flows, we will need to raise additional debt or equity financing to continue funding for product development, continued expansion of our sales and marketing activities and planned growth activities beyond fiscal 2008. To this end, we have filed a registration statement relating to our proposed public offering of up to $10 million (excluding over-allotment option) of our common stock. There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. If we are unable to raise the needed funds, we will 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.

For the balance of fiscal 2008, we expect to incur additional research and development expenses, including those in connection with clinical trials for the Urgent PC and FDA-required post-approval studies to obtain market feedback on safety and effectiveness of Macroplastique. We also expect that during the balance of fiscal 2008, we will continue to incur significant expenses as we fund our selling and marketing organization in the U.S. to market our products.

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 a pension plan covering eight employees in The Netherlands, reported as a defined benefit plan. 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 Feltl 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 payments for operating expenses we estimated at approximately $82,000 over 12 months.

Repayments of our contractual obligations as of September 30, 2007, consisting of royalties, notes payable (inclusive of interest), and operating leases, are summarized below:

		Payments Due by Period			
	Total	Remainder of Fiscal 2008	Fiscal 2009 and 2010	Fiscal 2011 and 2012	Fiscal 2013 and thereafter
Minimum royalty payments	$ 166,500	$ 27,000	$ 108,000	$ 31,500	$
Open purchase order commitments	298,137	178,297	119,840		
Notes payable, including interest	604,513	53,404	167,968	109,732	273,409
Operating lease commitments [1]	1,241,075	130,378	427,590	375,166	307,941
Total contractual obligations	$ 2,310,225	$ 389,079	$ 823,398	$ 516,398	$ 581,350

(1) Included in our operating lease commitments as of September 30, 2007 is an aggregate of $215,000 of payments to be made in equal instalments over 57 months under our lease agreement for our facility in Eindhoven, The Netherlands. We terminated this lease in October 2007 (see Note 16 to our Condensed Consolidated Financial Statements).

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ITEM 3. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls Procedures. Within the 90 days prior to the date of this report, our President and Chief Executive Officer and Chief Financial Officer carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15b under the Securities Exchange Act of 1934. Based on this evaluation, these officers concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including such officers, to allow timely decisions regarding disclosure, and is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Internal Control Matters. 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 have been no changes in our internal control over financial reporting during the six months ended September 30, 2007, 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.

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PART II. OTHER INFORMATION

Except as indicated below, none of the items contained in PART II of Form 10-QSB are applicable to us for the six months ended September 30, 2007.

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On September 13, 2007 we held our 2007 Annual Meeting. At the meeting the shareholders approved the proposal for the election of directors. A summary of the voting is as follows:

	Votes For	Votes Against	Votes Withheld	Abstentions And Broker Non-Votes
Proposal 1 Election of Directors:				
Thomas E. Jamison	11,566,489			816,097
James P. Stauner	11,566,489			816,097

ITEM 6. EXHIBITS.

(a) 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)

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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 31, 2007

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

Date: October 31, 2007

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