

UROPLASTY INC  
Form 10-Q  
October 25, 2012

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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, 2012
- Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File No. 001-32632

UROPLASTY, INC.  
(Exact name of registrant as specified in its Charter)

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

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

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

(952) 426-6140  
(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  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 23, 2012 the registrant had 20,989,982 shares of common stock outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## UROPLASTY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2012	March 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,611,542	\$ 4,653,226
Short-term investments	10,563,762	7,200,901
Accounts receivable, net	2,577,134	2,704,434
Inventories	869,554	698,742
Other	465,568	363,639
Total current assets	19,087,560	15,620,942
Property, plant, and equipment, net	1,087,182	1,171,979
Intangible assets, net	519,030	945,880
Long-term investments	240,000	4,429,140
Deferred tax assets	117,456	122,872
Total assets	\$ 21,051,228	\$ 22,290,813

See accompanying notes to the condensed consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	September 30, 2012	March 31, 2012
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 614,919	\$ 593,585
Current portion – deferred rent	35,000	35,000
Income tax payable	6,480	17,892
Accrued liabilities:		
Compensation	1,501,995	1,576,147
Other	407,074	316,995
<b>Total current liabilities</b>	<b>2,565,468</b>	<b>2,539,619</b>
Deferred rent – less current portion	23,669	42,043
Accrued pension liability	424,481	474,396
<b>Total liabilities</b>	<b>3,013,618</b>	<b>3,056,058</b>
<b>Commitments and Contingencies</b>	<b>-</b>	<b>-</b>
Shareholders' equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 20,989,982 and 20,808,532 shares issued and outstanding at September 30, 2012 and March 31, 2012, respectively	209,900	208,085
Additional paid-in capital	55,409,538	54,906,670
Accumulated deficit	(37,174,716 )	(35,515,835 )
Accumulated other comprehensive net loss	(407,112 )	(364,165 )
<b>Total shareholders' equity</b>	<b>18,037,610</b>	<b>19,234,755</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 21,051,228</b>	<b>\$ 22,290,813</b>

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		Six Months Ended	
	September 30		September 30	
	2012	2011	2012	2011
Net sales	\$5,709,840	\$4,967,621	\$11,286,963	\$9,620,743
Cost of goods sold	774,963	759,336	1,530,550	1,468,901
Gross profit	4,934,877	4,208,285	9,756,413	8,151,842
Operating expenses				
General and administrative	1,027,835	942,557	2,119,681	1,964,415
Research and development	598,933	456,871	1,161,974	912,631
Selling and marketing	3,734,042	3,869,875	7,698,877	7,464,017
Amortization	215,681	214,056	431,290	426,371
	5,576,491	5,483,359	11,411,822	10,767,434
Operating loss	(641,614 )	(1,275,074 )	(1,655,409 )	(2,615,592 )
Other income (expense)				
Interest income	10,931	13,716	23,509	31,550
Interest expense	-	(57 )	-	(57 )
Foreign currency exchange gain (loss)	5,794	(8,587 )	(3,877 )	(3,279 )
	16,725	5,072	19,632	28,214
Loss before income taxes	(624,889 )	(1,270,002 )	(1,635,777 )	(2,587,378 )
Income tax expense	14,637	8,485	23,104	22,416
Net loss	\$(639,526 )	\$(1,278,487 )	\$(1,658,881 )	\$(2,609,794 )
Basic and diluted loss per common share	\$(0.03 )	\$(0.06 )	\$(0.08 )	\$(0.13 )
Weighted average common shares outstanding:				
Basic and diluted	20,763,345	20,688,919	20,753,368	20,659,017

See accompanying notes to the condensed consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

	Three Months Ended September 30		Six Months Ended September 30	
	2012	2011	2012	2011
Net loss	\$(639,526 )	\$(1,278,487)	\$(1,658,881)	\$(2,609,794)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	36,466	(86,227 )	(44,633 )	(60,235 )
Unrealized gain (loss) on available for sale investments	2,941	(1,235 )	2,151	10,233
Pension adjustments	(7,116 )	8,622	(465 )	7,263
Total other comprehensive income (loss), net of tax	32,291	(78,840 )	(42,947 )	(42,739 )
Comprehensive loss	\$(607,235 )	\$(1,357,327)	\$(1,701,828)	\$(2,652,533)

See accompanying notes to the condensed consolidated financial statements.



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## UROPLASTY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Six Months Ended September 30, 2012

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2012	20,808,532	\$208,085	\$54,906,670	\$(35,515,835)	\$ (364,165 )	\$ 19,234,755
Share-based consulting and compensation	141,450	1,415	353,268	-	-	354,683
Proceeds from exercise of stock options	40,000	400	149,600	-	-	150,000
Comprehensive loss	-	-	-	(1,658,881 )	(42,947 )	(1,701,828 )
Balance at September 30, 2012	20,989,982	\$209,900	\$55,409,538	\$(37,174,716)	\$ (407,112 )	\$ 18,037,610

See accompanying notes to the condensed consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six Months Ended September 30	
	2012	2011
Cash flows from operating activities:		
Net loss	\$ (1,658,881 )	\$ (2,609,794 )
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	576,665	552,275
Loss on disposal of equipment	2,797	6,475
Amortization of premium on marketable securities	26,716	17,039
Share-based consulting expense	1,623	2,787
Share-based compensation expense	353,060	288,754
Deferred income tax expense (benefit)	2,860	(3,040 )
Deferred rent credit	(18,374 )	(17,614 )
Changes in operating assets and liabilities:		
Accounts receivable, net	100,537	(196,435 )
Inventories	(175,833 )	(65,281 )
Other current assets	(102,998 )	(143,370 )
Accounts payable	26,516	(27,130 )
Accrued liabilities	10,040	(20,515 )
Accrued pension liability, net	(36,401 )	(65,303 )
Net cash used in operating activities	(891,673 )	(2,281,152 )
Cash flows from investing activities:		
Proceeds from maturity of held-to-maturity investments	3,800,000	3,500,016
Proceeds from maturity of available-for-sale investments	2,000,000	7,518,252
Purchases of held-to-maturity investments	(1,780,000 )	(5,280,042 )
Purchases of available-for-sale investments	(3,218,286 )	-
Purchases of property, plant and equipment	(93,981 )	(106,325 )
Proceeds from sale of property, plant and equipment	7,276	-
Purchase of intangible assets	(4,440 )	(67,198 )
Net cash provided by investing activities	710,569	5,564,703
Cash flows from financing activities:		
Net proceeds from exercise of options	150,000	207,050
Net cash provided by financing activities	150,000	207,050
Effect of exchange rate changes on cash and cash equivalents	(10,580 )	(15,824 )
Net (decrease) increase in cash and cash equivalents	(41,684 )	3,474,777
Cash and cash equivalents at beginning of period	4,653,226	6,063,573
Cash and cash equivalents at end of period	\$ 4,611,542	\$ 9,538,350

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Cash paid during the period for interest	\$ -	\$ 57
Cash paid during the period for income taxes	35,507	24,074

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-Q, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to such rules and regulations, although we believe that our disclosures are adequate to make the information not misleading. The consolidated results of operations for any interim period are not necessarily indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2012.

The condensed consolidated financial statements presented herein as of September 30, 2012 and for the three- and six-month periods ended September 30, 2012 and 2011 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, 2012. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and six months ended September 30, 2012 and we have made no changes to these policies during fiscal 2013.

2. Newly Adopted Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income” (ASU 2011-05), which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this guidance effective April 1, 2012. Since this standard impacts presentation and disclosure requirements only, this adopted guidance did not have an impact on our results of operations or financial position.

3. Fair Value Measurements

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework prioritizes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three broad levels of inputs may be used to measure fair value under the fair value hierarchy:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
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Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

- Level 3: Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

If the inputs used to measure the financial assets and liabilities fall within more than one of the different levels described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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The following table provides the assets carried at fair value measured on a recurring basis.

Asset Class	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2012				
Short-term investments:				
U.S. Government and Agency debt securities	\$ 3,019,000	\$ -	\$ 3,019,000	\$ -
Bank holding company debt securities	1,205,000	-	1,205,000	-
March 31, 2012				
Short-term investments:				
U.S. Government and Agency debt securities	1,001,000	-	1,001,000	-
Long-term investments:				
U.S. Government and Agency debt securities	2,029,000	-	2,029,000	-

Our U.S. Government and U.S. Government Agency debt securities consist of bonds, notes and treasury bills with risk ratings of AAA/Aaa. The estimated fair value of these securities represents valuations provided by external investment managers.

Our bank holding company debt securities consist of FDIC insured securities. The estimated fair value of these securities represents valuations provided by external investment managers.

Measurements to fair value on a nonrecurring basis relate primarily to our tangible fixed assets and other intangible assets and occur when the derived fair value is below the carrying value on our condensed consolidated balance sheet. As of September 30, 2011 and March 31, 2012 we had no remeasurements of such assets to fair value.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for short-term and long-term investments include certificates of deposit of which, due to the negligible risk of changes in value resulting from changes in interest rates and the short-term nature of these investments, their cost approximates their fair market value.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, inventories, other current assets, accounts payable and other current liabilities approximate fair market value.

#### 4. Accounts Receivable

The allowance for doubtful accounts and sales returns was \$118,000 at September 30, 2012 and \$101,000 at March 31, 2012.

## 5. Inventories

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

	September 30,	
	2012	March 31, 2012
Raw materials	\$ 221,000	\$ 219,000
Work-in-process	19,000	1,000
Finished goods	630,000	479,000
	\$ 870,000	\$ 699,000

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## 6. Intangible Assets

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

	Gross carrying amount	Accumulated amortization	Net value
September 30, 2012	\$ 5,590,000	\$ 5,071,000	\$ 519,000
March 31, 2012	5,586,000	4,640,000	946,000

At September 30, 2012, we estimate the following annual amortization for these assets in subsequent fiscal years:

Remainder of 2013	\$431,000
2014	24,000
2015	23,000
2016	21,000
2017 and beyond	20,000
	\$519,000

## 7. Net Loss per Common Share

The following potentially dilutive options to purchase shares of common stock and unvested restricted stock at September 30, were excluded from diluted net loss per common share because of their anti-dilutive effect, and therefore, basic net loss per common share equals dilutive net loss per common share for all periods presented in our consolidated statements of operations:

	Number of options and unvested restricted stock	Range of stock option exercise prices
September 30, 2012	1,277,000	\$ 0.77 to \$3.76
September 30, 2011	1,428,000	\$ 0.71 to \$4.83

## 8. Share-based Compensation

As of September 30, 2012, we had one active plan (2006 Amended Stock and Incentive Plan) for share-based compensation grants. Under the plan, if we have a change in control, all outstanding grants, including those subject to vesting or other performance targets, fully vest immediately. Under this plan, we had reserved 2,700,000 shares of our common stock for share-based grants. As of September 30, 2012, we had 1,109,000 shares remaining that were available for grant. We grant option awards with an exercise price equal to the closing market price of our stock at the date of the grant. Options granted under this plan generally expire over a period ranging from five to seven years from date of grant and vest at varying rates ranging up to three years.

We recognize share-based compensation expense in the statement of operations based on the fair value of the share-based payment over the requisite service period. We incurred approximately \$355,000 and \$292,000 in



share-based compensation and consulting expense (inclusive of \$2,000 and \$3,000, respectively, for option grants to consultants) for the six months ended September 30, 2012 and 2011, respectively.

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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:

	2012	2011
Expected life in years	5.59	5.46
Risk-free interest rate	0.95 %	1.67 %
Expected volatility	91.16 %	89.98 %
Expected dividend yield	0	0
Weighted-average grant date fair value	\$ 2.61	\$ 4.90

The expected life selected for options granted during the quarter represents the period of time that we expect our options to be outstanding based on historical data of option holder exercise and termination behavior for similar grants. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatilities are based upon historical volatility of our stock. We estimate a forfeiture rate for stock awards of up to 13.0% based on our historical experience.

The following table summarizes the activity related to our stock options during the six months ended September 30, 2012:

	Number of shares	Weighted average exercise price	Weighted average remaining life in years	Aggregate intrinsic value
Outstanding at March 31, 2012	2,083,000	\$ 3.64		
Options granted	84,000	3.61		
Options exercised	(40,000 )	3.75		
Options surrendered	(194,000 )	4.33		
Outstanding at September 30, 2012	1,933,000	\$ 3.57	2.94	\$ 1,766,000
Exercisable at September 30, 2012	1,702,000	\$ 3.35	2.55	\$ 1,747,000

The total fair value of stock options that vested during the six months ended September 30, 2012 and 2011 was \$386,000 and \$280,000 respectively.

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

The following table summarizes the activity related to our restricted shares during the six months ended September 30, 2012:

	Number of Shares	Weighted average grant date fair value	Weighted average remaining life in years	Aggregate intrinsic value
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Balance at March 31, 2012	70,000	\$	6.30		
Shares granted	142,000		3.69		
Shares vested	(20,000 )		6.09	\$	127,000
Balance at September 30, 2012	192,000	\$	4.38	1.37	\$ 840,000

The aggregate intrinsic value shown above for the restricted shares represents the total pre-tax value based on the closing price of our Company's common stock on the grant date.

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As of September 30, 2012, we had approximately \$1,368,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to stock options and restricted shares that we expect to recognize over a weighted-average period of approximately 2.2 years.

## 9. Savings and Retirement Plans

We sponsor various plans for eligible employees in the United States, the United Kingdom (UK), and The Netherlands. Our retirement savings plan in the United States conforms to Section 401(k) of the Internal Revenue Code and participation is available to substantially all employees. We may also make discretionary contributions ratably to all eligible employees. We made discretionary contributions to the U.S. plan of \$121,000 and \$117,000 for the six months ended September 30, 2012 and 2011, respectively.

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.

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

	Three Months Ended September 30		Six Months Ended September 30	
	2012	2011	2012	2011
Gross service cost	\$19,000	\$20,000	\$37,000	\$40,000
Interest cost	30,000	31,000	61,000	63,000
Expected return on assets	(5,000 )	(5,000 )	(9,000 )	(10,000 )
Amortization	1,000	1,000	2,000	3,000
Net periodic retirement cost	\$45,000	\$47,000	\$91,000	\$96,000

## 10. Business Segment Information

We aggregate our operating segments into one reportable segment in accordance with the objectives and principles of the applicable guidance.

Net sales to customers outside the United States for the three months ended September 30, 2012 and 2011 represented 26% and 31%, respectively, of our consolidated net sales. Net sales to customers outside the United States for the six months ended September 30, 2012 and 2011 represented 27% and 34%, respectively, of our consolidated net sales. Information regarding net sales to customers by geographic area for the three and six months ended September 30 is as follows:

	United States	All Other Foreign Countries (1)	Consolidated
Three months ended September 30, 2012	\$ 4,219,000	\$ 1,491,000	\$ 5,710,000
Three months ended September 30, 2011	3,433,000	1,535,000	4,968,000
Six months ended September 30, 2012	8,280,000	3,007,000	11,287,000

Six months ended September 30, 2011	6,324,000	3,297,000	9,621,000
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(1) No country accounts for 10% or more of the consolidated net sales

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Information regarding geographic area in which we maintain long-lived assets is as follows:

	United States	All Other Foreign Countries	Consolidated
September 30, 2012	\$ 466,000	\$ 621,000	\$ 1,087,000

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

## 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, 2012.

### 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 our ability to achieve the results implied by our forward looking statements is subject to changes in general economic conditions, competition, reimbursement levels, customer and market preferences, government regulation, the impact of tax regulation, foreign exchange rate fluctuations, the degree of market acceptance of products, the uncertainties of potential litigation, as well as other risks and uncertainties detailed elsewhere herein and in our Annual Report filed on Form 10-K for the year ended March 31, 2012.

We do not undertake, nor assume any 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 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, 2012. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and six

months ended September 30, 2012, and we have made no changes to these policies during fiscal 2013.

#### Overview

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

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Our sales during the past four years have been significantly influenced by the availability of third-party reimbursement for PTNS treatments. Sales of our Urgent PC System grew rapidly during fiscal 2007 and 2008 with rapid market acceptance of PTNS treatments that were reimbursed under a listed Current Procedure Technology (CPT®) code. However, during the first quarter of our fiscal 2009 the American Medical Association (AMA) advised the medical community that the previously recommended listed CPT code for reimbursement for PTNS treatments should be replaced with an unlisted CPT code. As a result, many third-party insurers delayed or denied reimbursement for PTNS treatments, and sales of our Urgent PC System in the U.S. declined from a peak of \$2.2 million in the first quarter of our fiscal 2009 to a range of \$0.9 million to \$1 million per quarter in the six subsequent fiscal quarters ended December 2010.

We responded by sponsoring several randomized, controlled clinical studies over the following two years, and supported by publication of these clinical studies in U.S. peer-reviewed journals, we applied for, and effective January 2011 the AMA granted, a Category 1 CPT code for PTNS treatments. The AMA advised us of this decision prior to the effective date and we began to expand our sales organization in anticipation of increased interest in our Urgent PC. We have expanded our U.S. field sales and support organization from 15 employed sales representatives and six independent manufacturer's representatives on April 1, 2010 to 41 employed sales representatives and one independent manufacturer's representative on September 30, 2012.

We also focused our efforts on expanding reimbursement coverage with the Medicare carriers and private payers by instituting a comprehensive program to educate their medical directors regarding the clinical effectiveness, cost effectiveness and patient benefits of PTNS treatments using our Urgent PC System. As of September 30, 2012, eleven regional Medicare carriers representing 39 states and the District of Columbia, with approximately 36 million covered lives, provide coverage for PTNS treatments. In addition, we estimate that private payers providing insurance to approximately 99 million lives cover PTNS treatments.

With the availability of a CPT Category 1 code and expanded reimbursement coverage from third-party payers, as well as an expanded sales organization, our U.S. Urgent PC sales of \$5.3 million during the six-month period ended September 30, 2012 grew 49% over sales during the six-month period ended September 30, 2011. In addition, because of the discontinuation in the marketplace of a competing product and our expanded sales organization, sales of our Macroplastique product in the U.S. of \$2.9 million during the six-month period ended September 30, 2012 grew 10% over sales during the six-month period ended September 30, 2011.

At September 30, 2012, two regional Medicare carriers representing 11 states, with approximately 12 million covered lives, continued to decline reimbursement coverage for PTNS treatments. We are participating with a Medicare beneficiary who filed an administrative appeal for reconsideration of the decision of one of those regional Medicare carriers. That appeal remains pending.

The Centers for Medicare and Medicaid Services expects to continue to consolidate the regional Medicare claims administrators and there is no guarantee that Medicare beneficiaries in a region with reimbursement coverage will continue to be reimbursed when consolidated into a regional Medicare carrier with a negative reimbursement policy, or, if reimbursed, that coverage will remain unchanged. We continue to work with the medical directors of both Medicare and private payers to expand coverage of PTNS treatments, and to ensure that coverage continues after the number of Medicare regions is decreased and regional Medicare administrators are transitioned.

Results of Operations

Three and six months ended September 30, 2012 compared to three and six months ended September 30, 2011



Net Sales: During the three months ended September 30, 2012, consolidated net sales of \$5.7 million represented a \$742,000, or a 15% increase, over net sales of \$5.0 million for the three months ended September 30, 2011. During the six months ended September 30, 2012, consolidated net sales of \$11.3 million represented a \$1.7 million, or a 17% increase, over net sales of \$9.6 million for the six months ended September 30, 2011.

The increase in consolidated net sales for the three and six months ended September 30, 2012 is attributed to the growth in U.S. sales.

Net sales to customers in the U.S. of \$4.2 million during the three months ended September 30, 2012, represented an increase of \$786,000, or 23%, over net sales of \$3.4 million for the three months ended September 30, 2011. Net sales to customers in the U.S. of \$8.3 million during the six months ended September 30, 2012, represented an increase of \$2.0 million, or 31%, over net sales of \$6.3 million for the six months ended September 30, 2011.

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Net sales in the U.S. of our Urgent PC product increased 38% to \$2.7 million for the three months ended September 30, 2012, from \$2.0 million for the same period last year. Net sales in the U.S. of our Urgent PC product increased 49% to \$5.3 million for the six months ended September 30, 2012, from \$3.5 million for the same period last year. Net sales increased because of expanded reimbursement coverage by third-party payers, and because of the impact of our expanded direct sales organization and programs to support continued use of our Urgent PC products.

In the fiscal second quarter ended September 30, 2012 we had 648 customers purchasing 3,576 lead set boxes, compared to 509 customers purchasing 2,579 lead set boxes in the second fiscal quarter of last year. In the fiscal first quarter ended June 30, 2012 we had 577 customers purchasing 3,283 lead set boxes. We are expanding the customer base and the customers have ramped-up their practice in light of the decision by several Medicare carriers and private payers to cover PTNS treatments using our Urgent PC.

Net sales in the U.S. of our Macroplastique product increased 4% to \$1.4 million for the three months ended September 30, 2012 compared to the same period last year. Net sales in the U.S. of our Macroplastique product increased 10% to \$2.9 million for the six months ended September 30, 2012, from \$2.7 million for the same period last year. Net sales of our Macroplastique product increased over the corresponding periods last year because of our increased sales and marketing focus on this product and the discontinuation in the marketplace of a competing product.

Net sales to customers outside the U.S. for the three months ended September 30, 2012 decreased 3% to \$1.5 million compared to the three months ended September 30, 2011. Excluding the translation impact of fluctuations in foreign currency exchange rates, net sales increased by approximately 6%. Net sales to customers outside the U.S. for the six months ended September 30, 2012 were \$3.0 million compared to \$3.3 million for the six months ended September 30, 2011, a decrease of 9%. Excluding the translation impact of fluctuations in foreign currency exchange rates, net sales decreased by approximately 1%. Urgent PC sales increased in each quarter of the current fiscal year over the corresponding year ago quarters. Macroplastique sales declined in the first fiscal quarter and were about flat in the second fiscal quarter over the corresponding year ago quarters. The decline in first quarter Macroplastique sales is primarily caused by one-time sales last year to one of our distributors.

Urgent PC sales to customers outside of the U.S. of \$510,000 for the three months ended September 30, 2012 increased 31% from \$389,000 for the same period last year. Excluding the translation impact of fluctuations in foreign currency exchange rates, Urgent PC sales increased by approximately 40%. Urgent PC sales of \$1.1 million for the six months ended September 30, 2012 increased 29% from \$826,000 for the same period last year. Excluding the translation impact of fluctuations in foreign currency exchange rates, Urgent PC sales increased by approximately 39%. The increase in sales for both periods is attributed to the increase in adoption of the product by our customers, primarily in the United Kingdom.

Gross Profit: Gross profit was \$4.9 million or 86.4% on net sales during the three months ended September 30, 2012, and \$4.2 million, or 84.7% of net sales for the three months ended September 30, 2011. The increase in the gross profit percentage is attributed primarily to a favorable impact of approximately 1.1 percentage points from an increase in capacity absorption and reduced overhead costs, a favorable impact of approximately 0.8 percentage points from product mix, offset partially by an unfavorable impact of the changes in the currency exchange rates on our foreign currency-denominated sales.

Gross profit was \$9.8 million or 86.4% on net sales during the six months ended September 30, 2012, and \$8.2 million, or 84.7% of net sales for the six months ended September 30, 2011. The increase in the gross profit percentage is attributed primarily to a favorable impact of approximately 1.0 percentage points from an increase in capacity absorption and reduced overhead costs, a favorable impact of approximately 1.1 percentage points from product mix, offset partially by an unfavorable impact of the changes in the currency exchange rates on our foreign

currency-denominated sales.

General and Administrative Expenses (G&A): G&A expenses of \$1.0 million during the three months ended September 30, 2012, increased \$85,000 from \$943,000 during the same period in 2011. G&A expenses of \$2.1 million during the six months ended September 30, 2012, increased \$155,000 from \$2.0 million during the same period in 2011. G&A expenses for both periods increased primarily because of an increase in compensation costs.

Research and Development Expenses (R&D): R&D expenses of \$599,000 during the three months ended September 30, 2012, increased \$142,000 from \$457,000 during the same period in 2011. R&D expenses of \$1.2 million during the six months ended September 30, 2012, increased \$249,000 from \$913,000 during the same period in 2011. The increase is attributed primarily to a \$203,000 charge in the three-month period and a \$309,000 charge in the six-month period for product testing and validation of the planned replacement of components for one of our products.

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**Selling and Marketing Expenses (S&M):** S&M expenses of \$3.7 million during the three months ended September 30, 2012, decreased \$136,000 from \$3.9 million during the same period in 2011. S&M expenses during the three months ended September 30, 2012, decreased primarily because of a \$230,000 decrease in bonus incentive related costs, offset by a \$56,000 increase in travel costs and a \$64,000 increase in marketing related costs. S&M expenses of \$7.7 million during the six months ended September 30, 2012, increased \$235,000 from \$7.5 million during the same period in 2011. S&M expenses during the six months ended September 30, 2012, increased primarily because of a \$113,000 increase in compensation-related costs and a \$205,000 increase in travel costs resulting from the increase in personnel in our U.S field sales and support organization, and an \$84,000 increase in marketing related costs, offset partially by a \$222,000 decrease in bonus incentive related costs.

**Amortization of Intangibles:** Amortization of intangibles was \$216,000 and \$214,000 for the three months ended September 30, 2012 and 2011, respectively. Amortization of intangibles was \$431,000 and \$426,000 for the six months ended September 30, 2012 and 2011, respectively.

**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 \$17,000 and \$5,000 for the three months ended September 30, 2012 and 2011, respectively. Other income increased as a result of a \$6,000 foreign currency exchange gain for the three months ended September 30, 2012 compared with a \$9,000 foreign currency exchange loss for the three months ended September 30, 2011, offset by a 3,000 decrease in interest income. Net other income was \$20,000 and \$28,000 for the six months ended September 30, 2012 and 2011, respectively. Other income decreased primarily as the result of an \$8,000 decrease in interest income on lower cash balances and interest rates.

**Income Tax Expense:** During the three months ended September 30, 2012 and 2011, we recorded income tax expense of \$15,000 and \$8,000, respectively. During the six months ended September 30, 2012 and 2011, we recorded income tax expense of \$23,000 and \$22,000, respectively.

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

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

Our non-GAAP operating loss during the three months ended September 30, 2012 and 2011 was approximately \$163,000 and \$837,000, respectively. Our non-GAAP operating loss during the six months ended September 30, 2012 and 2011 was approximately \$724,000 and \$1.8 million, respectively. The decrease in non-GAAP operating loss for the three and six months ended September 30, 2012 over the corresponding period a year ago is attributed to

the increase in net sales and gross profit percent, which more than offset the increase in operating spending.

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## Expense Adjustments

Three-Months Ended September 30, 2012	GAAP	Expense Adjustments			Non-GAAP
		Share-based Expense	Depreciation	Amortization of Intangibles	
Gross Profit	\$ 4,935,000	\$ 8,000	\$ 9,000		\$ 4,952,000
% of net sales	86.4	%			86.7 %
Operating Expenses					
General and administrative	1,028,000	(108,000 )	(50,000 )		870,000
Research and development	599,000	(14,000 )	(1,000 )		584,000
Selling and marketing	3,734,000	(60,000 )	(13,000 )		3,661,000
Amortization	216,000			\$ (216,000 )	-
	5,577,000	(182,000 )	(64,000 )	(216,000 )	5,115,000
Operating Loss	\$ (642,000 )	\$ 190,000	\$ 73,000	\$ 216,000	\$ (163,000 )
September 30, 2011					
Gross Profit	\$ 4,208,000	\$ 6,000	\$ 8,000		\$ 4,222,000
% of net sales	84.7	%			85.0 %
Operating Expenses					
General and administrative	942,000	(90,000 )	(40,000 )		812,000
Research and development	457,000	(11,000 )	(3,000 )		443,000
Selling and marketing	3,870,000	(53,000 )	(13,000 )		3,804,000
Amortization	214,000			\$ (214,000 )	-
	5,483,000	(154,000 )	(56,000 )	(214,000 )	5,059,000
Operating Loss	\$ (1,275,000)	\$ 160,000	\$ 64,000	\$ 214,000	\$ (837,000 )

## Expense Adjustments

Six-Months Ended September 30, 2012	GAAP	Expense Adjustments			Non-GAAP
		Share-based Expense	Depreciation	Amortization of Intangibles	
Gross Profit	\$9,756,000	\$15,000	\$ 18,000		\$9,789,000
% of net sales	86.4	%			86.7 %
Operating Expenses					
General and administrative	2,120,000	(194,000 )	(96,000 )		1,830,000
Research and development	1,162,000	(26,000 )	(2,000 )		1,134,000
Selling and marketing	7,699,000	(120,000 )	(30,000 )		7,549,000
Amortization	431,000			\$ (431,000 )	-
	11,412,000	(340,000 )	(128,000 )	(431,000 )	10,513,000
Operating Loss	\$(1,656,000 )	\$355,000	\$ 146,000	\$ 431,000	\$(724,000 )
September 30, 2011					
Gross Profit	\$8,152,000	\$11,000	\$ 15,000		\$8,178,000
% of net sales	84.7	%			85.0 %
Operating Expenses					
General and administrative	1,965,000	(164,000 )	(80,000 )		1,721,000

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Research and development	913,000	(19,000 )	(6,000 )		888,000
Selling and marketing	7,464,000	(98,000 )	(25,000 )		7,341,000
Amortization	426,000			\$ (426,000 )	-
	10,768,000	(281,000 )	(111,000 )	(426,000 )	9,950,000
Operating Loss	\$(2,616,000 )	\$292,000	\$ 126,000	\$ 426,000	\$(1,772,000 )

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Liquidity and Capital Resources

Cash Flows.

At September 30, 2012, our cash and cash equivalents and short-term investments balances totaled \$15.2 million. Our long-term investments at September 30, 2012 were \$240,000.

At September 30, 2012, we had working capital of approximately \$16.5 million.

For the six months ended September 30, 2012, we used \$892,000 of cash in operating activities, compared to \$2.3 million of cash used during the six months ended September 30, 2011. We used this cash primarily to fund the operating loss, net of non-cash charges for depreciation, amortization of intangibles and equity compensation, of \$724,000 during the six months ended September 30, 2012, and \$1,772,000 during the six months ended September 30, 2011. We have continued to show an operating loss because we have continued to invest, primarily in sales and marketing and research and development, to grow our U.S. business. We also used approximately \$142,000 of cash to finance working capital necessary to support increased net sales in the six months ended September 30, 2012, compared to \$453,000 in the six months ended September 30, 2011.

For the six months ended September 30, 2012, we used \$94,000 to purchase property, plant and equipment compared with approximately \$106,000 for the same period a year ago.

For the six months ended September 30, 2012, we generated \$150,000 of cash from exercise of stock options, compared with \$207,000 for the six months ended September 30, 2011.

Sources of Liquidity.

Uroplasty BV, our subsidiary in the Netherlands, has an agreement with Rabobank of The Netherlands for a €500,000 (approximately \$643,000) credit line secured by our facility in Geleen, The Netherlands. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (4.0% base rate on September 30, 2012), subject to a minimum interest rate of 3.5% per annum. We had no borrowings outstanding on this credit line at September 30, 2012.

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

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

Commitments and Contingencies.

We discuss our commitments and contingencies in our Annual Report on Form 10-K for the year ended March 31, 2012. There have been no significant changes in our commitments for capital expenditure and contractual obligations



since March 31, 2012.

We expect to continue to incur costs for clinical studies to support our ongoing marketing efforts and to meet regulatory requirements. We also expect to continue to incur significant expenses to support our U.S. sales and marketing organization, and for regulatory activities. In fiscal 2013 we started two multiyear studies: a pilot clinical study in the U.S, for the use of our Urgent PC for the treatment of fecal incontinence and a clinical study and product design for a minimally invasive implantable product for treatment of OAB. We estimate that in the remaining 6 months of the current fiscal year, we will spend approximately \$600,000 for these two clinical studies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We discuss quantitative and qualitative disclosures about market risk in our Annual Report on Form 10-K for the year ended March 31, 2012. There have been no significant changes since March 31, 2012.

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ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures.

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

Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

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ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended March 31, 2012.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None during the quarter ended September 30, 2012.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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”)

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99.1 Press Release dated October 25, 2012

101 Financial statements from the Quarterly Report on Form 10-Q for the quarter ended September 30, 2012, formatted in Extensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheet, (ii) the Condensed Consolidated Statement of Operations, (iii) the Condensed Consolidated Statement of Comprehensive Loss, (iv) the Condensed Consolidated Statement of Shareholders' Equity, (v) the Condensed Consolidated Statement of Cash Flows and (vi) the Notes to Condensed Consolidated Financial Statements.

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 25, 2012

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

Date: October 25, 2012

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