UROPLASTY INC
Form 10-Q
January 26, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

xQuarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended December 31, 2011

oTransition 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.	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)

(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 x NO o

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 x NO o

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 o	Accelerated Filer x	Non-Accelerated Filer o	Smaller Reporting Company o

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

As of January 24, 2012 the registrant had 20,808,532 shares of common stock outstanding.

Table of Contents
INDEX

UROPLASTY INC. AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

PART II. OTHER INFORMATION

INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2011	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 5,560,570	$ 6,063,573
Short-term investments	6,742,425	8,020,577
Accounts receivable, net	2,397,799	2,085,262
Inventories	810,120	677,960
Other	450,608	348,100
Total current assets	15,961,522	17,195,472
Property, plant, and equipment, net	1,180,095	1,210,542
Intangible assets, net	1,161,339	1,725,136
Long-term investments	4,437,070	5,508,701
Deferred tax assets	84,292	87,031
Total assets	$ 22,824,318	$ 25,726,882

See accompanying notes to the condensed consolidated financial statements.

INDEX

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2011	March 31, 2011
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 565,764	$ 658,107
Current portion – deferred rent	35,000	35,000
Income tax payable	11,865	6,901
Accrued liabilities:		
Compensation	1,693,502	1,597,657
Other	488,344	247,451
Total current liabilities	2,794,475	2,545,116
Deferred rent – less current portion	50,851	77,272
Accrued pension liability	416,114	475,845
Total liabilities	3,261,440	3,098,233
Commitments and Contingencies	-	-
Shareholders' equity:		
Common stock $.01 par value; 40,000,000 shares authorized, 20,808,532 and 20,664,332 shares issued and outstanding at December 31, 2011 and March 31, 2011, respectively	208,085	206,643
Additional paid-in capital	54,724,782	54,014,368
Accumulated deficit	(34,942,796)	(31,265,464)
Accumulated other comprehensive loss	(427,193)	(326,898)
Total shareholders' equity	19,562,878	22,628,649
Total liabilities and shareholders' equity	$ 22,824,318	$ 25,726,882

See accompanying notes to the condensed consolidated financial statements.

INDEX

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2011	2010	2011	2010
Net sales	$5,344,188	$3,492,067	$14,964,932	$9,772,389
Cost of goods sold	776,538	604,566	2,245,440	1,709,731
Gross profit	4,567,650	2,887,501	12,719,492	8,062,658
Operating expenses				
General and administrative	924,524	861,183	2,888,939	2,609,060
Research and development	586,439	423,794	1,499,070	1,296,431
Selling and marketing	3,902,952	2,871,456	11,366,969	6,877,402
Amortization	215,164	211,058	641,535	632,508
	5,629,079	4,367,491	16,396,513	11,415,401
Operating loss	(1,061,429)	(1,479,990)	(3,677,021)	(3,352,743)
Other income (expense)				
Interest income	14,268	21,135	45,818	52,762
Interest expense	-	(652)	(57)	(4,537)
Foreign currency exchange gain (loss)	(11,025)	503	(14,304)	12,867
	3,243	20,986	31,457	61,092
Loss before income taxes	(1,058,186)	(1,459,004)	(3,645,564)	(3,291,651)
Income tax expense	9,352	8,927	31,768	28,260
Net loss	$(1,067,538)	$(1,467,931)	$(3,677,332)	$(3,319,911)
Basic and diluted loss per common share	$(0.05)	$(0.07)	$(0.18)	$(0.18)
Weighted average common shares outstanding:				
Basic and diluted	20,718,347	20,514,530	20,678,865	18,314,157

See accompanying notes to the condensed consolidated financial statements.

INDEX

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Nine Months Ended December 31, 2011
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2011	20,664,332	$206,643	$54,014,368	$(31,265,464)	$ (326,898)	$22,628,649
Share-based consulting and compensation	50,200	502	502,529	-	-	503,031
Proceeds from exercise of stock options	94,000	940	207,885	-	-	208,825
Comprehensive loss	-	-	-	(3,677,332)	(100,295)	(3,777,627)
Balance at December 31, 2011	20,808,532	$208,085	$54,724,782	$(34,942,796)	$ (427,193)	$19,562,878

See accompanying notes to the condensed consolidated financial statements.

INDEX

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended December 31 2011	2010
Cash flows from operating activities:		
Net loss	$(3,677,332)	$(3,319,911)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	832,309	848,385
Loss on disposal of equipment	6,475	192
Amortization of premium on marketable securities	27,210	7,226
Share-based consulting expense	4,125	9,739
Share-based compensation expense	498,906	279,083
Deferred income taxes	(4,698)	(5,863)
Deferred rent	(26,421)	(26,421)
Changes in operating assets and liabilities:		
Accounts receivable, net	(374,068)	(261,136)
Inventories	(146,058)	(248,656)
Other current assets	(106,156)	(48,492)
Accounts payable	(82,491)	4,474
Accrued liabilities	356,589	616,036
Accrued pension liability, net	(25,428)	(16,109)
Net cash used in operating activities	(2,717,038)	(2,161,453)
Cash flows from investing activities:		
Proceeds from maturity of marketable securities	13,018,252	4,000,000
Purchases of marketable securities	(10,686,270)	(16,311,352)
Purchases of property, plant and equipment	(222,826)	(128,935)
Purchase of intangible assets	(77,738)	(11,300)
Net cash provided by (used in) investing activities	2,031,418	(12,451,587)
Cash flows from financing activities:		
Net proceeds from public offering of common stock	-	14,917,059
Net proceeds from exercise of warrants and options	208,825	2,467,007
Net cash provided by financing activities	208,825	17,384,066
Effect of exchange rate changes on cash and cash equivalents	(26,208)	(37,554)
Net (decrease) increase in cash and cash equivalents	(503,003)	2,733,472
Cash and cash equivalents at beginning of period	6,063,573	2,311,269
Cash and cash equivalents at end of period	$5,560,570	$5,044,741
Cash paid during the period for interest	$57	$-
Cash paid during the period for income taxes	31,307	9,633

See accompanying notes to the condensed consolidated financial statements.

INDEX

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, 2011.

The condensed consolidated financial statements presented herein as of December 31, 2011 and for the three- and nine- month periods ended December 31, 2011 and 2010 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, 2011. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and nine months ended December 31, 2011 and we have made no changes to these policies during fiscal 2012.

2. Cash Equivalents and Marketable Securities

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. We classify marketable securities having original maturities of one year or less, but more than three months, as short-term investments and marketable securities with maturities of more than one year as long-term investments. We further classify marketable securities as either held-to-maturity or available-for-sale. We classify marketable securities as held-to-maturity when we believe we have the ability and intent to hold such securities to their scheduled maturity dates. All other marketable securities are classified as available-for-sale. We have not designated any of our marketable securities as trading securities.

We carry held-to-maturity marketable securities at their amortized cost and available-for-sale marketable securities at their fair value and report any unrealized appreciation or depreciation in the fair value of available-for-sale marketable securities in accumulated other comprehensive net loss. We monitor our investment portfolio for any decline in fair value that is other-than-temporary and record any such impairment as an impairment loss. We recorded no impairment losses for other-than-temporary declines in the fair value of marketable securities for the nine months ended December 31, 2011 and 2010.

Cash and cash equivalents include highly liquid money market funds of $4.4 million and $5.8 million as of December 31, 2011 and March 31, 2011, respectively. Money market funds present negligible risk of changes in value due to changes in interest rates, and their cost approximates their fair market value.

Short-term and long-term investments include held-to-maturity certificates of deposit with maturities of six to twenty-four months of $7.6 million as of December 31, 2011 and $3.5 million as of March 31, 2011. Due to the negligible risk of changes in value due to changes in interest rates and the short-term nature of these investments, their cost approximates their fair market value.

INDEX

The amortized cost and fair value of our marketable securities classified as available-for-sale are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$ 1,502,000	$ -	$ -	$ 1,502,000
Long-term investments:				
U.S. Government and Agency debt securities	2,037,000	-	-	2,037,000
Total	$ 3,539,000	$ -	$ -	$ 3,539,000
March 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$ 4,520,000	$ 1,000	$ -	$ 4,521,000
Long-term investments:				
U.S. Government and Agency debt securities	5,518,000	-	10,000	5,508,000
Total	$ 10,038,000	$ 1,000	$ 10,000	$ 10,029,000

All our available-for-sale marketable securities mature within two years from the date of purchase.

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.

- 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.

INDEX

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)
December 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$1,502,000	$-	$1,502,000	$ -
Long-term investments:				
U.S. Government and Agency debt securities	2,037,000	-	2,037,000	-
March 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	4,521,000	-	4,521,000	-
Long-term investments:				
U.S. Government and Agency debt securities	5,508,000	-	5,508,000	-

U.S. Government and U.S. Government Agency debt securities. Our debt securities consist of bonds, notes and treasury bills with risk ratings of AAA/Aaa and maturity dates within two years from date of purchase. The estimated fair value of these securities represent 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 December 31, 2011 and March 31, 2011 we had no remeasurements of such assets to fair value.

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, inventories, accounts payable and other payables, and their carrying values approximate their fair values based on the short-term nature of these instruments.

4. Accounts Receivable

We grant credit to our customers in the normal course of business and, generally, do not require collateral or any other security to support amounts due. If necessary, we have an outside party assist us with performing credit and reference checks and establishing credit limits for the customer. Account balances outstanding longer than the contractual payment terms are considered past due. We carry our accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. We determine the allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivables are past due, customer financial condition and ability to pay the obligation, historical and expected credit loss experience, and the condition of the general economy and the industry as a whole. We write off accounts receivable when deemed uncollectible. We record recoveries of accounts receivable previously written off when received. We are not always able to timely anticipate changes in the financial condition of our customers and if circumstances related to these customers deteriorate, our estimates of the recoverability of accounts receivable could be materially affected and we may be required to record additional allowances. Alternatively, if more allowances are provided than are ultimately required, we may reverse a portion of such provisions in future periods based on the actual collection experience. Historically, the accounts receivable balances we have written off have generally been within our expectations. The allowance for doubtful accounts and sales returns was $102,000 at December 31, 2011 and $82,000 at March 31, 2011.

INDEX

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:

	December 31, 2011	March 31, 2011
Raw materials	$ 182,000	$ 233,000
Work-in-process	27,000	9,000
Finished goods	601,000	436,000
	$ 810,000	$ 678,000

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
December 31, 2011	$ 5,586,000	$ (4,425,000)	$ 1,161,000
March 31, 2011	5,508,000	(3,783,000)	1,725,000

At December 31, 2011, we estimate the following annual amortization for these assets in subsequent fiscal years:

Remainder of 2012	$215,000
2013	862,000
2014	24,000
2015	22,000
2016 and beyond	38,000
	$1,161,000

7. Deferred Rent and Leasehold Improvements

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

INDEX

8. Comprehensive Loss

Comprehensive loss includes our net loss, accumulated translation adjustment, unrealized gain (loss) on available for sale investments, and change in minimum pension obligation as follows:

	Three Months Ended December 31		Nine Months Ended December 31	
	2011	2010	2011	2010
Net loss	$(1,068,000)	$(1,468,000)	$(3,677,000)	$(3,320,000)
Items of other comprehensive income (loss):				
Translation adjustment	(62,000)	(39,000)	(122,000)	(39,000)
Unrealized gain (loss) on available for sale investments	(1,000)	(17,000)	9,000	(17,000)
Pension related	6,000	9,000	12,000	(2,000)
Comprehensive loss	$(1,125,000)	$(1,515,000)	$(3,778,000)	$(3,378,000)

Accumulated other comprehensive net loss at December 31, 2011 totaled $427,000 and consists of a $182,000 loss for accumulated translation adjustment and a $245,000 loss, net of income tax, for accumulated additional pension liability.

9. Net Loss per Common Share

Basic net loss per common share excludes dilution and is computed by dividing net loss applicable to common shareholders by the weighted average number of common shares outstanding during the three- and nine- month periods ended December 31, 2011 and 2010. The following options outstanding and unvested restricted stock at December 31, to purchase shares of common stock, were excluded from diluted 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 exercise prices
December 31, 2011	2,177,866	$ 0.77 to $8.93
December 31, 2010	2,155,200	$ 0.71 to $5.64

10. Credit Facilities

Uroplasty BV, our subsidiary in the Netherlands, has an agreement with Rabobank of The Netherlands for a €500,000 (approximately $648,000 as of December 31, 2011) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (4.25% base rate on December 31, 2011), subject to a minimum interest rate of 3.50% per annum. We had no borrowings outstanding on this credit line at December 31, 2011 and March 31, 2011.

11. Share-based Compensation

As of December 31, 2011, 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 December 31, 2011, we had 1,135,000 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.

INDEX

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 $503,000 and $289,000 in share-based compensation and consulting expense (inclusive of $4,000 and $10,000, respectively, for option grants to consultants) for the nine months ended December 31, 2011 and 2010, respectively.

We determined the fair value of our option awards using the Black-Scholes option pricing model. We used the following weighted-average assumptions to value the options granted during the nine months ended December 31:

	2011	2010
Expected life in years	5.35	5.33
Risk-free interest rate	1.59 %	1.76 %
Expected volatility	90.05 %	90.89 %
Expected dividend yield	0	0
Weighted-average grant date fair value	$ 4.76	$ 3.45

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 nine months ended December 31, 2011:

	Number of shares	Weighted average exercise price	Weighted average remaining life in years	Aggregate intrinsic value
Outstanding at March 31, 2011	2,066,000	$ 3.39		
Options granted	137,000	6.73		
Options exercised	(94,000)	2.22		$ 430,000
Options surrendered	(20,000)	5.04		
Outstanding at December 31, 2011	2,089,000	$ 3.65	3.21	$ 2,225,000
Exercisable at December 31, 2011	1,835,000	$ 3.33	2.81	$ 2,223,000

The total fair value of stock options that vested during the nine months ended December 31, 2011 and 2010 was $380,000 and $218,000 respectively.

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

INDEX

The following table summarizes the activity related to our restricted shares during the nine months ended December 31, 2011:

	Number of Shares	Weighted average grant date fair value	Weighted average remaining life in years	Aggregate intrinsic value
Balance at March 31, 2011	55,000	$ 4.96		
Shares granted	50,000	6.80		
Shares vested	(16,000)	5.00		$ 79,000
Balance at December 31, 2011	89,000	$ 5.99	1.15	$ 534,000

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.

As of December 31, 2011, we had approximately $1,196,000 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 2.1 years.

12. Savings and Retirement Plans

We sponsor various plans for eligible employees in the United States, the United Kingdom (UK), and The Netherlands. Our retirement savings plan in the United States conforms to Section 401(k) of the Internal Revenue Code and participation is available to substantially all employees. We may also make discretionary contributions ratably to all eligible employees. We made discretionary contributions to the U.S. plan of $157,000 for the nine months ended December 31, 2011. No discretionary contributions were made to the U.S. plan for the nine months ended December 31, 2010.

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

The cost for our defined benefit retirement plans in The Netherlands and the United Kingdom includes the following components for the three and nine month periods ended December 31:

	Three Months Ended December 31		Nine Months Ended December 31	
	2011	2010	2011	2010
Gross service cost	$19,000	$25,000	$58,000	$71,000
Interest cost	30,000	29,000	93,000	84,000
Expected return on assets	(5,000)	(13,000)	(15,000)	(37,000)
Amortization	1,000	4,000	5,000	13,000
Net periodic retirement cost	$45,000	$45,000	$141,000	$131,000

INDEX

Major assumptions used in the above calculations for the nine month periods ended December 31 include:

	2011	2010
Discount rate	5.50-6.20%	4.70-5.50%
Expected return on assets	5.00-6.20%	4.70-5.00%
Expected rate of increase in future compensation:		
General	3.00 %	3.00 %
Individual	0.00-3.00%	0.00-3.00%

Both the Netherlands and United Kingdom pension plans are in an underfunded position and the funded status of the plans is shown as accrued pension liability. We made aggregate contributions of approximately $163,000 and $144,000, respectively, during the nine months ended December 31, 2011 and 2010 to the two defined benefit plans.

13. 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 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 December 31, 2011 and 2010, we recognized foreign currency exchange (loss) gain of $(11,000) and $1,000 respectively. For the nine months ended December 31, 2011 and 2010, we recognized foreign currency exchange (loss) gain of $(14,000) and $13,000 respectively.

14. Business Segment Information

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

Sales to customers outside the United States for the three months ended December 31, 2011 and 2010 represented 33% and 42%, respectively, of our consolidated sales. Sales to customers outside the United States for the nine months ended December 31, 2011 and 2010 represented 34% and 44%, respectively, of our consolidated sales. Information regarding sales to customers by geographic area for the three and nine months ended December 31 is as follows:

	United States	United Kingdom	All Other Foreign Countries (1)	Consolidated
Three months ended December 31, 2011	$3,576,000	$524,000	$1,244,000	$5,344,000
Three months ended December 31, 2010	2,010,000	379,000	1,103,000	3,492,000

Nine months ended December 31, 2011	9,901,000	1,399,000	3,665,000	14,965,000
Nine months ended December 31, 2010	5,476,000	1,115,000	3,181,000	9,772,000

(1) No country accounts for 10% or more of the consolidated sales

Page 15

INDEX

Information regarding geographic area long-lived assets is as follows:

	United States	United Kingdom	The Netherlands	Consolidated
December 31, 2011	$ 548,000	$ 3,000	$ 629,000	$ 1,180,000

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

15. Income Tax Expense

As of March 31, 2011, we have generated U.S. net operating loss (NOL) carryforwards of approximately $27 million for U.S. income tax purposes, which expire in 2012 through 2031, and NOLs in the U.K. of approximately $174,000, which we can carry forward indefinitely. U.S. NOL carryforwards cannot be used to offset taxable income in foreign jurisdictions.

In addition, future utilization of U.S. 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 public offering resulted in an “ownership change” under Section 382. Accordingly, our ability to use NOL tax attributes generated prior to December 2006 is limited to approximately $750,000 per year. We also believe that the issuance of our common stock in the July 2010 public offering resulted in an additional "ownership change" under Section 382. Accordingly, our ability to use NOL tax attributes generated after December 2006 and prior to July 2010 is limited to approximately $2,350,000 per year.

We provide for a valuation allowance when it is more likely than not that we will not realize a portion of the deferred tax assets. We have established a valuation allowance for all U.S. and certain foreign deferred tax assets due to the uncertainty that enough taxable income will be generated in those taxing jurisdictions to utilize the assets.

During both the three months ended December 31, 2011 and 2010, we recorded income tax expense of $9,000. During the nine months ended December 31, 2011 and 2010, we recorded income tax expense of $32,000 and $28,000, respectively. Income tax expense is attributed to our Netherlands subsidiary and U.S. State minimum taxes.

On December 31, 2011, we had a deferred tax asset of $84,000 attributed to our Netherlands subsidiary. 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.

It is management’s responsibility to determine whether it is “more-likely-than-not” that a taxing authority will sustain a tax position upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. We have reviewed all income tax positions taken or that we expect to take for all open tax years and determined that our income tax positions are appropriately stated and supported for all open years. Accordingly, we have no reserve for uncertain tax positions recorded in our consolidated financial statements.

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

The tax returns for fiscal years ended March 31, 2009 through March 31, 2011 remain open to examination by the Internal Revenue Service and tax returns for fiscal years ended March 31, 2008 through March 31, 2011 remain open to examination by 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 2009 through 2011 remain open for examination.

INDEX

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, 2011.

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, 2011.

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 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, 2011. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three-month period ended December 31, 2011, and we have made no changes to these policies during fiscal 2012.

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 the associated symptoms of urinary urgency, urinary frequency, and urge incontinence; and Macroplastique®, 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, fecal incontinence and vesicoureteral reflux.

Our primary focus is on growth in the U.S. market, which we entered in 2005 with our Urgent PC System. Prior to that time, essentially all of our business involved the sale of Macroplastique and other products outside of the U.S. We believe the U.S. market presents a significant opportunity for growth in sales of our products.

The Urgent PC Neuromodulation System uses percutaneous tibial nerve stimulation (PTNS) to deliver to the tibial nerve an electrical pulse that travels to the sacral nerve plexus, a control center for bladder function. We have received regulatory clearances 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. We have intellectual property rights relating to key aspects of our neuromodulation therapy.

INDEX

We have sold Macroplastique 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 adult female stress urinary incontinence. We began marketing Macroplastique in the United States in 2007.

We believe physicians prefer our products because they allow physicians to offer patients effective therapies that can be administered in office- or outpatient surgical-based settings and, to the extent reimbursement is available, provide the physicians a revenue stream to justify the use of our products. We believe patients prefer our products because they are minimally invasive treatment alternatives that do not have the side effects associated with pharmaceutical treatment options nor the morbidity associated with surgery.

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 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.

Subsequent to AMA's advice to use an unlisted CPT code, we sponsored several clinical studies. Supported by publication of the positive results from these clinical studies in U.S. peer-reviewed journals, we applied for, and the AMA granted us, a new listed Category I CPT code for PTNS treatments effective in January 2011, the fourth quarter of our fiscal 2011. The AMA advised us of this decision prior to the effective date and we began to expand our sales organization in the second half of fiscal 2011 in anticipation of increased growth resulting from expanded reimbursement coverage. With the availability of the new Category I CPT code since January 2011, and expansion of reimbursement coverage and our employed sales organization, the use of Urgent PC and our sales from this product have increased.

In order for our business to continue to grow, there needs to be expanded third-party reimbursement coverage for PTNS treatments and we need to expand our sales coverage for Urgent PC. Our initial focus for expanding reimbursement coverage has been on Medicare carriers, but we also continue to target selected private-payers.

To date, ten regional Medicare carriers representing 35 states, with approximately 31 million covered lives, have indicated they will provide coverage for PTNS treatments. Three regional Medicare carriers representing 15 states, with approximately 17 million covered lives, continue to decline reimbursement coverage for PTNS treatments. We continue to work to have the decision to deny coverage reversed by meeting with the Medical Directors of these carriers to present additional data that we believe justifies a change in their coverage decision. We are participating with two Medicare beneficiaries who have filed appeals for reconsideration of the decisions of two Medicare carriers. The appeals are pending resolution by administrative law judges.

We estimate that private payers providing insurance to approximately 84 million lives have elected to provide coverage for PTNS treatments. We are working with the Medical Directors of a number of other private payers to provide coverage for PTNS treatments.

We expanded our U.S. field sales and support organization in fiscal 2011 from 16 to 31 employed representatives, and continued this expansion in fiscal 2012 to 42 employed representatives and two independent representatives on December 31, 2011. Our employed sales representatives generated approximately 96% of our U.S. sales in the third quarter of fiscal 2012 compared with 89% in fiscal 2011.

We expect to further expand our U.S. field sales organization in the future, depending upon the pace of market acceptance and the expansion of third-party reimbursement coverage of our Urgent PC System.

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

INDEX

Results of Operations

Three and nine months ended December 31, 2011 compared to three and nine months ended December 31, 2010

Net Sales: During the three months ended December 31, 2011, consolidated net sales of $5.3 million represented a $1.9 million, or a 53% increase, over net sales of $3.5 million for the three months ended December 31, 2010.

During the nine months ended December 31, 2011, consolidated net sales of $15.0 million represented a $5.2 million, or a 53% increase, over net sales of $9.8 million for the nine months ended December 31, 2010. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 50%.

The increase in consolidated net sales for the three and nine months ended December 31, 2011 is attributed primarily to the growth in U.S. sales.

Sales to customers in the U.S. of $3.6 million during the three months ended December 31, 2011, represented an increase of $1.6 million, or 78%, over net sales of $2.0 million for the three months ended December 31, 2010.

Sales to customers in the U.S. of $9.9 million during the nine months ended December 31, 2011, represented an increase of $4.4 million, or 81%, over net sales of $5.5 million for the nine months ended December 31, 2010.

Sales in the U.S. of our Urgent PC product increased 89% to $2.0 million for three months ended December 31, 2011, from $1.0 million for the same period last year. Sales in the U.S. of our Urgent PC product increased 86% to $5.5 million for nine months ended December 31, 2011, from $3.0 million for the same period last year. Sales increased because adoption and usage of the Urgent PC increased with the assignment of a new listed Category I CPT code effective January 2011 and expanded reimbursement coverage by third-party payors as well as the impact of our expanded direct sales organization.

During the quarter ended December 31, 2011 we sold 2,531 Urgent PC lead set boxes to 500 customers in the US compared to 1,379 lead set boxes to 236 customers during the quarter ended December 31, 2010. We have experienced an increase in the number of customers and sale of the lead sets over the prior fiscal quarter as customers have ramped-up their practice in light of the decision by several Medicare carriers and private payers to cover PTNS treatments. In the quarter ended September 30, 2011, we sold 2,579 Urgent PC lead set boxes to 509 customers. Sequentially, sales of our lead set boxes and the number of customers we sold to in the quarter ended December 31, 2011 were relatively flat compared with the quarter ended September 30, 2011. We have now implemented changes in our sales process, sales representatives' incentives and customer training which we anticipate will shorten the customer reorder interval, increase usage of lead sets and also promote addition of new customers.

Sales in the U.S. of our Macroplastique product increased 71% to $1.6 million for the three months ended December 31, 2011, from $925,000 for the same year-ago period. Sales in the U.S. of our Macroplastique product increased 75% to $4.3 million for the nine months ended December 31, 2011, from $2.4 million for the same year-ago period. 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.

Sales to customers outside the U.S. for the three months ended December 31, 2011 were $1.8 million compared to $1.5 million for the three months ended December 31, 2010, an increase of 19%. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 20%. Sales for the three months ended December 31, 2011 include $581,000 of Urgent PC sales, which increased 69% from $344,000 for the same period last year. Excluding the translation impact of fluctuations in foreign currency exchange rates, Urgent PC sales increased by approximately 70%.

Sales to customers outside the U.S. for the nine months ended December 31, 2011 were $5.1 million compared to $4.3 million for the nine months ended December 31, 2010, an increase of 18%. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 11%. Sales for the nine months ended December 31, 2011 include $1.4 million of Urgent PC sales, which increased 58% from $890,000 for the same period last year. Excluding the translation impact of fluctuations in foreign currency exchange rates, Urgent PC sales increased by approximately 51%.

Gross Profit: Gross profit was $4.6 million or 85.5% on net sales during the three months ended December 31, 2011, and $2.9 million, or 82.7% of net sales for the three months ended December 31, 2010. Gross profit was $12.7 million, or 85.0% of net sales for the nine months ended December 31, 2011 and $8.1 million, or 82.5% for the nine months ended December 31, 2010. The increase in the gross profit percentage for both periods is attributed primarily to a favorable impact of approximately 1.2 percentage points from an increase in capacity absorption, a favorable impact of approximately 1.0 percentage points from product mix, and a favorable impact from changes in the currency exchange rates from our foreign currency-denominated sales.

INDEX

General and Administrative Expenses (G&A): G&A expenses of $925,000 during the three months ended December 31, 2011, increased $63,000 from $861,000 during the same period in 2010. Included in the three-month period ended December 31, 2011 is $132,000 of non-cash, share-based compensation expense, compared with $100,000 in the three-month period ended December 31, 2010. Excluding share-based compensation charges, G&A expenses increased by $31,000.

G&A expenses of $2.9 million during the nine months ended December 31, 2011, increased $280,000 from $2.6 million during the same period in 2010. Included in the nine-month period ended December 31, 2011 is $296,000 of non-cash, share-based compensation expense, compared with $168,000 in the nine-month period ended December 31, 2010. Excluding share-based compensation charges, G&A expenses increased by $152,000, primarily because of an increase in compensation costs and travel expenses.

Research and Development Expenses (R&D): R&D expenses of $586,000 during the three months ended December 31, 2011, increased $163,000 from $424,000 during the same period in 2010. The increase is attributed primarily to a $129,000 charge for expected payment to a third party for costs it incurred in developing tooling for a product we no longer plan to commercialize.

R&D expenses of $1.5 million during the three months ended December 31, 2011, increased $203,000 from $1.3 million during the same period in 2010. The increase is attributed primarily to the $129,000 expected payment to the third party for the tooling development noted above, and a $76,000 increase in compensation costs, due to an increase in personnel.

Selling and Marketing Expenses (S&M): S&M expenses of $3.9 million during the three months ended December 31, 2011, increased $1.0 million from $2.9 million during the same period in 2010. S&M expenses during the three months ended December 31, 2011, increased primarily because of a $769,000 increase in compensation and commission costs as a result of the increase in our U.S. field sales organization, an increase in travel expense of $103,000, and an increase of $112,000 related to marketing activities.

S&M expenses of $11.4 million during the nine months ended December 31, 2011, increased $4.5 million from $6.9 million during the same period in 2010. S&M expenses during the nine months ended December 31, 2011, increased primarily because of a $3.2 million increase in compensation and commission costs as a result of the increase in our U.S. field sales organization, an increase in travel expense of $553,000, an increase in consulting expense of $116,000, and an increase of $434,000 related to marketing activities.

We expanded our U.S. field sales and support organization starting in our fiscal 2011 third quarter to capitalize on increased interest in our Urgent PC product after the new CPT code became effective in January 2011, and we continued with that expansion in fiscal 2012. Accordingly, we incurred increased S&M expenses in our current fiscal year compared to last year and expect to incur increased expenses during the remainder of our current fiscal year.

Amortization of Intangibles: Amortization of intangibles was $215,000 and $211,000 for the three months ended December 31, 2011 and 2010, respectively. Amortization of intangibles was $642,000 and $633,000 for the nine months ended December 31, 2011 and 2010, 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 $3,000 and $21,000 for the three months ended December 31, 2011 and 2010, respectively. Other income decreased as a result of a $7,000 decrease in interest income, a $12,000 decrease in foreign currency exchange gain, and a $1,000 decrease in interest expense.

Net other income was $31,000 and $61,000 for the nine months ended December 31, 2011 and 2010, respectively. Other income decreased as a result of a $7,000 decrease in interest income, a $27,000 decrease in foreign currency exchange gain, and a $4,000 decrease in interest expense.

Income Tax Expense: During each of the three months ended December 31, 2011 and 2010, we recorded income tax expense of $9,000. During the nine months ended December 31, 2011 and 2010, we recorded income tax expense of $32,000 and $28,000, 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.

INDEX

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 December 31, 2011 and 2010 was approximately $570,000 and $1,059,000, respectively. Our non-GAAP operating loss during the nine months ended December 31, 2011 and 2010 was approximately $2.3 million and $2.2 million, respectively. The decrease in non-GAAP operating loss for the three months ended December 31, 2011 over the corresponding period a year ago is attributed to the increase in sales and gross profit percent, which more than offset the increase in spending, primarily in selling and marketing.

		Expense Adjustments			
Three-Months Ended	GAAP	Share-based Expense	Depreciation	Amortization	Non-GAAP
December 31, 2011					
Gross Profit	$4,568,000	$6,000	$ 9,000		$4,583,000
% of sales	85.5 %				85.8 %
Operating Expenses					
General and administrative	925,000	(132,000)	(40,000)		753,000
Research and development	586,000	(11,000)	(2,000)		573,000
Selling and marketing	3,903,000	(62,000)	(14,000)		3,827,000
Amortization	215,000			$ (215,000)	-
	5,629,000	(205,000)	(56,000)	(215,000)	5,153,000
Operating Loss	$(1,061,000)	$211,000	$ 65,000	$ 215,000	$(570,000)
December 31, 2010					
Gross Profit	$2,888,000	$4,000	$ 12,000		$2,904,000
% of sales	82.7 %				83.2 %
Operating Expenses					
General and administrative	861,000	(100,000)	(38,000)		723,000
Research and development	424,000	(7,000)	(3,000)		414,000
Selling and marketing	2,872,000	(29,000)	(17,000)		2,826,000
Amortization	211,000			$ (211,000)	-
	4,368,000	(136,000)	(58,000)	(211,000)	3,963,000
Operating Loss	$(1,480,000)	$140,000	$ 70,000	$ 211,000	$(1,059,000)

INDEX

		Expense Adjustments			
Nine-Months Ended	GAAP	Share-based Expense	Depreciation	Amortization	Non-GAAP
December 31, 2011					
Gross Profit	$12,720,000	$16,000	$ 25,000		$12,761,000
% of sales	85.0 %				85.3 %
Operating Expenses					
General and administrative	2,889,000	(296,000)	(119,000)		2,474,000
Research and development	1,499,000	(30,000)	(8,000)		1,461,000
Selling and marketing	11,367,000	(161,000)	(39,000)		11,167,000
Amortization	642,000			$ (642,000)	-
	16,397,000	(487,000)	(166,000)	(642,000)	15,102,000
Operating Loss	$(3,677,000)	$503,000	$ 191,000	$ 642,000	$(2,341,000)
December 31, 2010					
Gross Profit	$8,063,000	$13,000	$ 43,000		$8,119,000
% of sales	82.5 %				83.1 %
Operating Expenses					
General and administrative	2,609,000	(168,000)	(114,000)		2,327,000
Research and development	1,297,000	(20,000)	(8,000)		1,269,000
Selling and marketing	6,877,000	(88,000)	(51,000)		6,738,000
Amortization	633,000			$ (633,000)	-
	11,416,000	(276,000)	(173,000)	(633,000)	10,334,000
Operating Loss	$(3,353,000)	$289,000	$ 216,000	$ 633,000	$(2,215,000)

Liquidity and Capital Resources

Cash Flows.

At December 31, 2011, our cash and cash equivalents and short-term investments balances totaled $12.3 million. Our long-term investments at December 31, 2011 were $4.4 million.

At December 31, 2011, we had working capital of approximately $13.2 million. For the nine months ended December 31, 2011, we used $2.7 million of cash in operating activities, compared to $2.2 million of cash used in the same period a year ago. We used cash of $2.3 million during the nine months ended December 31, 2011 to fund the $3.7 million operating loss net of $1.4 million of depreciation, equity compensation and other non-cash items. We also used approximately $520,000 of cash to finance working capital for increased receivables and inventory necessary to support increased sales, offset in part by increased payables related to compensation.

For the nine months ended December 31, 2011, we used $223,000 in investing activities to purchase property, plant and equipment compared with approximately $129,000 for the same period a year ago.

For the nine months ended December 31, 2011 we generated proceeds from financing activities of approximately $209,000 from the exercise of stock options, compared with $17.4 million for the same period a year ago primarily from the net proceeds of $14.9 million from a public offering of our common stock and $2.2 million from the exercise of warrants we had issued in previous financing transactions.

INDEX

Sources of Liquidity.

Uroplasty BV, our subsidiary in the Netherlands, has an agreement with Rabobank of The Netherlands for a €500,000 (approximately $648,000) 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 (4.25% base rate on December 31, 2011), subject to a minimum interest rate of 3.50% per annum. We had no borrowings outstanding on this credit line at December 31, 2011.

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 to-date 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 establishing broad reimbursement coverage for our Urgent PC product and successfully demonstrating the superiority of our Macroplastique product to clinicians. We cannot guarantee that we will be entirely successful in either of these pursuits. 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, 2011. There have been no significant changes in our commitments for capital expenditure and contractual obligations since March 31, 2011.

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.

Payments of our contractual obligations as of March 31, 2011, consisting of royalties, purchase commitments, and operating leases, are summarized by fiscal period below:

	Total	Fiscal 2012	Fiscal 2013 and 2014	Fiscal 2015 and 2016
Minimum royalty payments	$ 131,000	$ 14,000	$ 108,000	$ 9,000
Minimum purchase agreement	443,000	306,000	137,000	-
Operating lease commitments	455,000	49,000	363,000	43,000
Total contractual obligations	$ 1,029,000	$ 369,000	$ 608,000	$ 52,000

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We are subject to exposures resulting from foreign currency exchange fluctuations in the normal course of business because of the global nature of our operations. Our primary exchange rate exposures are with the Euro and the British pound. The direct financial impact of foreign currency exchange includes the effect of translating operating results from local currencies to U.S. dollars, the impact of currency fluctuations on the transfer of goods between our operations in the United States and abroad and transaction gains and losses. A stronger dollar generally has a negative impact on results from operations outside the United States, while a weaker dollar generally has a positive effect because our products are currently manufactured or sourced primarily from the United States.

In addition to the direct financial impact, foreign currency exchange has an indirect financial impact on our results, including the effect on sales volumes within local economies and the impact of any pricing actions we may take as a result of foreign exchange rate fluctuations. When the U.S. dollar weakens against foreign currencies, the dollar value of sales denominated in foreign currencies increases. When the U.S. dollar strengthens against foreign currencies, the dollar value of sales denominated in foreign currencies decreases. A hypothetical 10% change in the value of the U.S. dollar in relation to our foreign currency exposures would have had an impact of approximately $506,000 on our fiscal 2012 nine months sales. This amount is not indicative of the hypothetical net earnings impact due to the partially offsetting impacts on the related cost of sales and operating expenses in the applicable foreign currencies.

INDEX

Interest Rate Risk

Because we have no indebtedness, we have only limited interest rate risk. Our primary market risk with financial instruments results from fluctuations in interest rates. Our cash is invested in bank deposits, certificate of deposits, money market funds, and U.S. Government and Agency debt securities denominated in U.S. dollars, Euros and British pounds. These investments are subject to interest rate risk and their value could be adversely affected by movements in interest rates.

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 December 31, 2011 that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors set forth in our Annual Report on Form 10-K for the fiscal year ended March 31, 2011.

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

None during the quarter ended December 31, 2011.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

As part of an informal policy to rotate committee and other roles among independent directors, effective November 30, 2011, R. Patrick Maxwell resigned as Chairman of the Board and James Stauner was appointed Chairman of the Board of the Company.

We issued our earnings release with respect to the quarter ended December 31, 2011 on January 26, 2012. A copy of that earnings release is furnished (but not filed) as an exhibit to this Quarterly Report on Form 10-Q.

INDEX

ITEM 6. EXHIBITS

Exhibits

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

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

99.1 Press Release dated January 26, 2012

101 Financial statements from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2011, formatted in Extensible Business Reporting Language: (i) the Condensed Consolidated Balance Sheet, (ii) the Condensed Consolidated Statement of Income, (iii) the Condensed Consolidated Statement of Shareholders’ Equity, (iv) the Condensed Consolidated Statement of Cash Flows and (v) 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: January 26, 2012	By: /s/ DAVID B. KAYSEN David B. Kaysen President and Chief Executive Officer
Date: January 26, 2012	By: /s/ MAHEDI A. JIWANI Mahedi A. Jiwani Chief Financial Officer