

UROPLASTY INC  
Form 10-Q  
February 06, 2014

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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 December 31, 2013

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. 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  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 February 4, 2014 the registrant had 21,635,890 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)

	December 31, 2013	March 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$8,164,251	\$3,533,864
Short-term investments	4,452,234	7,936,605
Accounts receivable, net	2,534,929	2,553,447
Inventories	469,094	718,933
Other	554,412	566,536
Total current assets	16,174,920	15,309,385
Property, plant, and equipment, net	1,051,857	1,033,085
Intangible assets, net	119,455	100,502
Long-term investments	-	3,451,711
Deferred tax assets	153,347	146,052
Total assets	\$ 17,499,579	\$ 20,040,735

See accompanying notes to the Condensed Consolidated Financial Statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	December 31, 2013	March 31, 2013
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$645,170	\$618,916
Current portion – deferred rent	12,351	35,000
Income taxes payable	18,242	7,729
Accrued liabilities:		
Compensation	1,836,589	1,550,846
Other	354,719	476,287
Total current liabilities	2,867,071	2,688,778
Deferred rent	-	5,141
Accrued pension liability	666,818	660,580
Total liabilities	3,533,889	3,354,499
Commitments and contingencies		
Shareholders' equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 21,572,390 and 21,005,582 shares issued and outstanding at December 31, 2013 and March 31, 2013, respectively	215,274	210,056
Additional paid-in capital	57,243,806	55,866,338
Accumulated deficit	(43,028,585)	(38,820,981)
Accumulated other comprehensive loss	(464,805 )	(569,177 )
Total shareholders' equity	13,965,690	16,686,236
Total liabilities and shareholders' equity	\$17,499,579	\$20,040,735

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		Nine Months Ended	
	December 31		December 31	
	2013	2012	2013	2012
Net sales	\$6,398,675	\$5,590,431	\$18,216,391	\$16,877,394
Cost of goods sold	778,267	734,171	2,268,156	2,264,721
Gross profit	5,620,408	4,856,260	15,948,235	14,612,673
Operating expenses				
General and administrative	1,194,882	1,058,558	5,166,255	3,178,239
Research and development	526,224	533,867	1,434,647	1,695,841
Selling and marketing	4,546,100	3,725,530	13,496,593	11,424,407
Amortization	7,873	215,681	22,347	646,971
	6,275,079	5,533,636	20,119,842	16,945,458
Operating loss	(654,671 )	(677,376 )	(4,171,607 )	(2,332,785 )
Other income (expense)				
Interest income	3,836	12,315	18,576	35,824
Foreign currency exchange gain (loss)	(506 )	445	(4,540 )	(3,432 )
	3,330	12,760	14,036	32,392
Loss before income taxes	(651,341 )	(664,616 )	(4,157,571 )	(2,300,393 )
Income tax expense	19,491	12,708	50,033	35,812
Net loss	\$(670,832 )	\$(677,324 )	\$(4,207,604 )	\$(2,336,205 )
Basic and diluted net loss per common share	\$(0.03 )	\$(0.03 )	\$(0.20 )	\$(0.11 )
Weighted average common shares outstanding:				
Basic and diluted	21,258,736	20,798,997	21,035,874	20,768,632

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		Nine Months Ended	
	December 31		December 31	
	2013	2012	2013	2012
Net loss	\$(670,832)	\$(677,324)	\$(4,207,604)	\$(2,336,205)
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	35,979	28,262	129,398	(16,372 )
Unrealized gain (loss) on available-for-sale investments	(1,337 )	(60 )	1,480	2,091
Pension adjustments	(6,951 )	(1,159 )	(26,506 )	(1,623 )
Total other comprehensive income (loss), net of tax	27,691	27,043	104,372	(15,904 )
Comprehensive loss	\$(643,141)	\$(650,281)	\$(4,103,232)	\$(2,352,109)

See accompanying notes to the Condensed Consolidated Financial Statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Nine Months Ended December 31, 2013

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2013	21,005,582	\$ 210,056	\$ 55,866,338	\$(38,820,981)	\$ (569,177)	) \$ 16,686,236
Share-based compensation	331,676	3,317	1,206,884	-	-	1,210,201
Proceeds from exercise of stock options, net of shares exchanged	190,132	1,901	170,584	-	-	172,485
Comprehensive loss	-	-	-	(4,207,604)	104,372	(4,103,232)
Balance at December 31, 2013	21,527,390	\$ 215,274	\$ 57,243,806	\$(43,028,585)	\$ (464,805)	) \$ 13,965,690

See accompanying notes to the Condensed Consolidated Financial Statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Nine Months Ended December 31	
	2013	2012
Cash flows from operating activities:		
Net loss	\$(4,207,604)	\$(2,336,205)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	267,369	864,227
(Gain) loss on disposal of equipment	(5,000 )	3,035
Amortization of premium on marketable securities	7,562	39,551
Share-based consulting expense	-	1,623
Share-based compensation expense	1,210,201	608,953
Deferred income tax expense	3,245	5,473
Deferred rent	(27,790 )	(27,638 )
Changes in operating assets and liabilities:		
Accounts receivable, net	79,428	228,768
Inventories	255,207	(138,862 )
Other current assets	16,868	(70,401 )
Accounts payable	21,724	(82,514 )
Accrued compensation	274,139	199,936
Accrued liabilities, other	(120,881 )	67,147
Accrued pension liability, net	(39,011 )	5,074
Net cash used in operating activities	(2,264,543)	(631,833 )
Cash flows from investing activities:		
Proceeds from maturity of available-for-sale investments	2,750,000	3,200,000
Proceeds from maturity of held-to-maturity investments	4,180,000	5,000,000
Purchases of available-for-sale investments	-	(4,921,036)
Purchases of held-to-maturity investments	-	(2,500,000)
Purchases of property, plant and equipment	(221,769 )	(137,101 )
Proceeds from sale of property, plant and equipment	6,773	7,038
Payments for intangible assets	(41,300 )	(4,440 )
Net cash provided by investing activities	6,673,704	644,461
Cash flows from financing activities:		
Proceeds from exercise of options	172,485	150,000
Net cash provided by financing activities	172,485	150,000
Effect of exchange rate changes on cash and cash equivalents	48,741	(6,313 )
Net increase in cash and cash equivalents	4,630,387	156,315
Cash and cash equivalents at beginning of period	3,533,864	4,653,226
Cash and cash equivalents at end of period	\$8,164,251	\$4,809,541
Cash paid during the period for income taxes	\$34,640	\$42,319

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, 2013 as amended by Form 10-K/A.

The Condensed Consolidated Financial Statements presented herein as of December 31, 2013 and for the three- and nine-month periods ended December 31, 2013 and 2012 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.

All amounts included in the Notes to Consolidated Condensed Financial Statements are in thousands, except for share and per share data, and as specified otherwise.

2. Newly Adopted Accounting Pronouncements

In February 2013, the FASB issued Accounting Standards Update (“ASU”) No. 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The guidance is effective for annual and interim periods beginning after December 15, 2012. The Company adopted ASU 2013-02 effective April 1, 2013 and its adoption did not have a material impact on the Company’s financial position, results of operations or liquidity.

In July 2013, the FASB issued ASU No. 2013-11, “Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU No. 2013-11 provides financial statement presentation guidance on whether an unrecognized tax benefit must be presented as either a reduction to a deferred tax asset or separately as a liability. ASU No. 2013-11 will be effective for fiscal years and interim periods within those years, beginning after December 15, 2013. We do not believe the adoption of this update will have a material impact on our financial statements.

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.

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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.

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, 2013				
Short-term investments:				
U.S. Government and Agency debt securities	\$4,452	\$ -	\$ 4,452	\$ -
Long-term investments:				
U.S. Government and Agency debt securities	-	-	-	-
March 31, 2013				
Short-term investments:				
U.S. Government and Agency debt securities	3,757	-	3,757	-
Long-term investments:				
U.S. Government and Agency debt securities	3,452	-	3,452	-

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.

The carrying amounts reported in the Condensed Consolidated Balance Sheets for short-term and long-term investments include certificates of deposit of \$4,180 at March 31, 2013 for which, due to the negligible risk of changes in value resulting from changes in interest rates and the short-term nature of these investments, cost approximates 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 accrued liabilities approximate fair market value.

#### 4. Accounts Receivable

The allowance for doubtful accounts was \$55 at December 31, 2013 and \$87 at March 31, 2013.

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## 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, 2013	March 31, 2013
Raw materials	\$ 141	\$ 219
Work-in-process	39	21
Finished goods	289	479
	\$ 469	\$ 719

## 6. Net Loss per Common Share

The following potentially dilutive options to purchase shares of common stock and unvested restricted common stock at December 31 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
December 31, 2013	1,518,068	\$0.77 to \$2.65
December 31, 2012	1,240,085	\$0.77 to \$3.19

## 7. Share-based Compensation

As of December 31, 2013, we had one active 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, as of December 31, 2013 we had reserved 3,450,000 shares of our common stock for share-based grants, which includes 750,000 shares as approved by the shareholders at our annual meeting on September 12, 2013. As of December 31, 2013, we had 814,575 shares remaining that were available for grant.

On July 23, 2013, and in connection with the commencement of his employment, our new CEO received a stock grant of 300,000 shares under the 2006 Stock and Incentive Plan that did not carry vesting restrictions.

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 \$1,210 and \$611 in share-based compensation and consulting expense for the nine months ended December 31, 2013 and 2012, respectively.

As of December 31, 2013, we had approximately \$1,953 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 2.4 years.

Options. 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.

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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 nine months ended December 31:

	2013	2012
Expected life in years	4.51	5.42
Risk-free interest rate	1.35 %	0.93 %
Expected volatility	89.32 %	91.31 %
Expected dividend yield	0 %	0 %
Weighted-average grant date fair value	\$1.67	\$2.60

The expected life selected for options granted during the nine-months represents the period of time that we expect our options to be outstanding based on management's expectation 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 an average forfeiture rate for stock awards of 6.3% based on our historical experience.

The following table summarizes the activity related to our stock options during the nine months ended December 31, 2013:

	Number of shares	Weighted average exercise price	Weighted average remaining life in years	Aggregate intrinsic value
Outstanding at March 31, 2013	2,015,889	\$ 3.51	2.64	\$ 598
Options granted	908,625	2.51		
Options exercised	(190,132 )	1.14		
Options surrendered	(293,807 )	3.99		
Outstanding at December 31, 2013	2,440,575	\$ 3.26	3.87	\$ 716
Exercisable at December 31, 2013	1,383,840	\$ 3.74	1.88	\$ 426

The total fair value of stock options that vested during the nine months ended December 31, 2013 and 2012 was \$379 and \$472, respectively.

**Restricted Stock.** Our 2006 Stock and Incentive Plan also permits 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 three to four years.

The following table summarizes the activity related to our restricted shares during the nine months ended December 31, 2013:

	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, 2013	180,085	\$ 4.39	1.50	\$ 790
Shares granted	121,750	3.06		
Shares vested	(31,693 )	4.59		
Shares forfeited	(90,074 )	4.38		
Balance at December 31, 2013	180,068	\$ 3.45	2.32	\$ 622

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

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## 8. Savings and Retirement Plans

We sponsor various retirement 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 \$42 and \$43 for the three months ended December 31, 2013 and 2012, respectively. We made discretionary contributions to the U.S. plan of \$155 and \$164 for the nine months ended December 31, 2013 and 2012, 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 nine-month periods ended December 31:

	Three Months Ended December 31 2013		Nine Months Ended December 31 2012	
Gross service cost	\$32	\$ 19	\$95	\$55
Interest cost	36	31	104	92
Expected return on assets	(21)	(5 )	(61 )	(14 )
Amortization	2	1	5	4
Net periodic retirement cost	\$49	\$ 46	\$143	\$137

## 9. 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 December 31, 2013 and 2012 represented 26% and 27%, respectively, of our consolidated net sales. Net sales to customers outside the United States for the nine months ended December 31, 2013 and 2012 represented 26% and 27%, respectively, of our consolidated net sales.

Information regarding net sales to customers by geographic area for the three and nine months ended December 31 is as follows:

	United States	All Other Foreign Countries (1)	Consolidated
Three months ended December 31, 2013	\$4,753	\$ 1,646	\$ 6,399
Three months ended December 31, 2012	\$4,105	\$ 1,485	\$ 5,590

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Nine months ended December 31, 2013    \$13,516    \$ 4,700    \$ 18,216

Nine months ended December 31, 2012    \$12,384    \$ 4,493    \$ 16,877

(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 (1)	Consolidated
December 31, 2013	\$ 426	\$ 626	\$ 1,052
March 31, 2013	\$ 434	\$ 599	\$ 1,033

(1) Substantially all maintained in The Netherlands

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, 2013 as amended by Form 10-K/A.

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 our products, 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, 2013 as amended by Form 10-K/A.

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 in our Annual Report on Form 10-K for the year ended March 31, 2013 as amended by Form 10-K/A, our "critical accounting policies," which are certain accounting policies that we consider important to 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. Management made no

significant changes to the Company's critical accounting policies during the nine months ended December 31, 2013.  
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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<sup>®</sup> Neuromodulation System, which we believe is the only commercially available 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<sup>®</sup> 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.

Our results of operations during the three and nine months ended December 31, 2013 reflect growth in our Urgent<sup>®</sup> PC sales due to new sales strategies, and a refocused sales organization. In addition, our results of operations for the nine months ended December 31, 2013 reflect the administrative costs of a detailed review of our internal control over financial reporting and of significant changes in executive management. As disclosed in our Annual Report on Form 10-K for the year ended March 31, 2013, and although there were no material errors in the amounts reported in our financial statements, we concluded that we had material weaknesses in our internal controls over financial reporting as of March 31, 2013, and devoted significant resources to identifying and remediating those weaknesses during the quarter ended June 30, 2013. In April 2013, our Chief Executive Officer resigned and we appointed Robert Kill as our interim Chief Executive Officer. Mr. Kill became our permanent CEO and President in July. In July 2013, our Chief Financial Officer retired, and in August 2013, Brett Reynolds became our new Senior VP and CFO.

As of January 31, 2014, we had Medicare coverage for Urgent PC in 40 states covering approximately 40 million lives, and we estimate private payers insuring approximately 107 million lives provide coverage for Urgent PC.

Medicare reimbursement coverage for PTNS is determined by regional Medicare Administrative Contractors (MAC), each of which cover certain states. Currently, there are eight MACs with seven providing reimbursement coverage for PTNS. National Government Services (NGS) is the lone MAC that does not provide coverage. NGS had jurisdiction over two states at April 1, 2013, but due to consolidation of certain MACs, now has jurisdiction over ten states. In November 2013, NGS re-affirmed its non-coverage policy for PTNS. We plan to continue to educate NGS Medical Directors about the benefits and positive outcomes of PTNS therapy.

It is expected that the Centers for Medicare and Medicaid Services (CMS) will continue to consolidate the regional Medicare Administrative Contractors, 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 have a comprehensive program to educate the medical directors of both Medicare and private payers regarding the clinical effectiveness, cost effectiveness and patient benefits of using our Urgent PC System. We continue to work with the medical directors to expand coverage of Urgent PC, and to ensure that coverage continues after the number of Medicare regions are consolidated and regional Medicare administrators are transitioned.

In November 2013, CMS released the final 2014 Physician Fee Schedule, and the Relative Value Units (RVUs) for PTNS reimbursement are substantially the same as the proposed reimbursement published in July. The RVUs are multiplied by a standard conversion factor to arrive at the dollar amount of reimbursement. The conversion factor for 2014 has temporarily been set at \$35.82 by Congress, but this conversion factor is in effect only through March 31, 2014. At that time the final reimbursement amount for 2014 is subject to any potential Congressional action as it relates to the Medicare Sustainable Growth Rate (SGR) formula.

The code under which PTNS is reimbursed was one of several hundred codes that CMS noted as a potentially misvalued code earlier this year. In November 2013, CMS indicated further review of PTNS is warranted, and as a result, CMS will be gathering additional feedback before a final decision is made. The final decision could result in an increase, a decrease or no change in the reimbursement rate for PTNS. Any change to the reimbursement rate due to this review is not expected to be published until November 2014 and will become effective beginning in January 2015.

In December, the Blue Cross and Blue Shield Association Medical Advisory Panel concluded that use of PTNS for the treatment of voiding dysfunction meets their Technology Evaluation Center criteria. This panel is responsible for assessing medical technologies through a comprehensive review of clinical evidence. This positive assessment concluded that PTNS improves net health outcomes as much as, or more than, other established therapies and is strong validation of the acceptance of Urgent PC as an important treatment option for OAB. Currently, there are approximately 100 million lives covered by the 37 BCBS companies across the United States, with 21 million lives currently having access to PTNS through positive coverage from their local plan. This decision can now be used by the remaining BCBS companies as an important tool in assessing positive coverage for PTNS for the treatment of overactive bladder.

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Results of Operations

Three and nine months ended December 31, 2013 compared to three and nine months ended December 31, 2012 (dollars in thousands except for per share data)

Net Sales: During the three months ended December 31, 2013, consolidated net sales of \$6,399 represented a \$808, or a 14% increase, over net sales of \$5,590 for the three months ended December 31, 2012. During the nine months ended December 31, 2013, consolidated net sales of \$18,216 represented a \$1,339, or a 8% increase, over net sales of \$16,877 for the nine months ended December 31, 2012.

The increase in consolidated net sales for the three and nine months ended December 31, 2013 is mainly attributed to the sales growth of our Urgent PC product.

Net sales to customers in the U.S. of \$4,753 during the three months ended December 31, 2013, represented an increase of \$649, or 16%, over net sales of \$4,105 for the three months ended December 31, 2012. Net sales to customers in the U.S. of \$13,516 during the nine months ended December 31, 2013, represented an increase of \$1,132, or 9%, over net sales of \$12,384 for the nine months ended December 31, 2012.

Net sales in the U.S. of our Urgent PC product increased 19% to \$3,184 for the three months ended December 31, 2013, from \$2,684 for the same period last year. Net sales in the U.S. of our Urgent PC product increased 13% to \$9,009 for the nine months ended December 31, 2013, from \$7,959 for the same period last year. Net sales increased as a result of improved sales execution of our Urgent PC products within the U.S. in addition to new account conversions and improved customer retention rates.

Net sales in the U.S. of our Macroplastique product increased 11%, or \$152, to \$1,539 for the three months ended December 31, 2013, compared to the same period last year. Net sales in the U.S. of our Macroplastique product increased 1%, or \$59 to \$4,382 for the nine months ended December 31, 2013, compared to the same period last year.

Net sales to customers outside the U.S. for the three months ended December 31, 2013 increased 11% to \$1,645, compared to \$1,486 for the three months ended December 31, 2012. Net sales to customers outside the U.S. for the nine months ended December 31, 2013 increased 5% to \$4,700 compared to \$4,493 for the nine months ended December 31, 2012. The increase in sales is attributed to the increase in adoption of the Urgent PC product by our customers, primarily in the United Kingdom.

Urgent PC sales to customers outside of the U.S. of \$677 for the three months ended December 31, 2013 increased 22% from \$556 for the same period last year. Urgent PC sales to customers outside of the U.S. of \$1,870 for the nine months ended December 31, 2013 increased 15% from \$1,622 for the same period last year. The increase in sales is attributed to the increase in adoption of the product by our customers, primarily in the United Kingdom.

Macroplastique sales to customers outside of the U.S. increased 12% to \$755 in the third fiscal quarter over the corresponding year ago period, and declined \$8 for the nine months ended December 31, 2013, over the corresponding year ago period.

Gross Profit: Gross profit was \$5,620, or 87.8% of net sales during the three months ended December 31, 2013, and \$4,856, or 86.9% of net sales for the three months ended December 31, 2012. Gross profit was \$15,948, or 87.5% of net sales during the nine months ended December 31, 2013, and \$14,613, or 86.6% of net sales for the nine months ended December 31, 2012. The increase in gross profit percentage of 0.9% for the three and nine month periods is attributed primarily to the favorable impact from product mix, capacity utilization, and reduced royalty payments. Starting with fiscal year 2014, we no longer pay royalties on sales of our bulking agent products in markets outside of the U.S.



General and Administrative Expenses (G&A): G&A expenses of \$1,195 during the three months ended December 31, 2013, increased \$136 from \$1,059 during the same period in 2012. This change is primarily due to increased personnel costs.

G&A expenses of \$5,166 during the nine months ended December 31, 2013, increased \$1,988 from \$3,178 during the same period in 2012. \$1,069 of this increase is attributed to changes in executive management, of which \$696 is non-cash, share based compensation expense. Further, we incurred \$1,100 in legal and accounting fees pertaining to the review of certain internal control issues in the first and second quarter of this fiscal year.

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Research and Development Expenses (R&D): R&D expenses of \$527 during the three months ended December 31, 2013, decreased \$8 from \$533 during the same period in 2012. The decrease for the three-month period is attributed primarily to expense in the prior fiscal year for costs incurred for product testing and validation of the planned replacement of components for one of our products.

R&D expenses of \$1,436 during the nine months ended December 31, 2013, decreased \$260 from \$1,696 during the same period in 2012. The decrease is attributed primarily to a \$389 expense in the prior fiscal year for product testing and validation of the planned replacement of components for one of our products, offset by a \$137 increase in costs attributed to clinical studies, and a \$32 increase in personnel costs.

Selling and Marketing Expenses (S&M): S&M expenses of \$4,546 during the three months ended December 31, 2013, increased \$821, from \$3,726, during the same period in 2012. The increase is attributed primarily to a \$627 increase in personnel and travel costs due to the expansion and reorganization of our selling and marketing team, an \$89 increase in marketing costs related to product promotion and education, advertising, trade shows and conventions, \$80 for the newly introduced Medical Device Tax, and an increase of \$20 for computer support, maintenance and depreciation for the purchase of tablets.

S&M expenses of \$13,497 during the nine months ended December 31, 2013, increased \$2,072 from \$11,424 during the same period in 2012. The increase is attributed primarily to an \$1,526 increase in personnel and travel costs due to the expansion and reorganization of our selling and marketing team, \$225 for the newly introduced Medical Device Tax, a \$196 increase in marketing costs related to product promotion and education, advertising, trade shows and conventions, and an increase of \$41 for computer support, maintenance and depreciation for the purchase of tablets.

Amortization of Intangibles: Amortization of intangibles was \$8 and \$216 for the three months ended December 31, 2013 and 2012, respectively. Amortization of intangibles was \$22 and \$647 for the nine months ended December 31, 2013 and 2012, respectively. In April 2007, we acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC system for \$4,700, which became fully amortized in fiscal 2013.

Other Income (Expense): Other income (expense) includes interest income and foreign currency exchange gains and losses. Net other income was \$3 and \$13 for the three months ended December 31, 2013 and 2012, respectively. Net other income was \$14 and \$32 for the nine months ended December 31, 2013 and 2012, respectively. Other income decreased primarily as the result of a decrease in interest income on lower cash and investment balances and interest rates.

Income Tax Expense: During the three months ended December 31, 2013 and 2012, we recorded income tax expense of \$19 and \$13, respectively. During the nine months ended December 31, 2013 and 2012, we recorded income tax expense of \$50 and \$36, respectively. Income tax expense is attributed to our European subsidiaries and to the payment of minimum state taxes in the U.S.

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, nor 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 because we believe such measures are important indicators 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.

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Our non-GAAP operating loss during the three months ended December 31, 2013 and 2012 was approximately \$277 and \$135, respectively. The increase in non-GAAP operating loss for the three months ended December 31, 2013 over the corresponding period a year ago is attributed to the increase in operating spending, offset slightly by the increase in net sales and gross profit percent. Our non-GAAP operating loss during the nine months ended December 31, 2013 and 2012 was approximately \$2,695 and \$858, respectively. The increase in non-GAAP operating loss for the nine months ended December 31, 2013 over the corresponding period a year ago is attributed to the increase in operating spending (including \$1.4 million of cash costs related to our review of internal control over financial reporting and executive management changes), offset slightly by the increase in net sales and gross profit percent.

Three-Months Ended December 31, 2013	GAAP	Expense Adjustments			Non-GAAP
		Share-based Expense	Depreciation	Amortization of Intangibles	
Gross profit	\$5,620	\$6	\$ 8		\$ 5,634
% of net sales	87.8 %				88.1 %
Operating expenses					
General and administrative	1,195	(197)	(50)		948
Research and development	526	(11)	(1)		514
Selling and marketing	4,546	(75)	(22)		4,449
Amortization	8			\$ (8)	-
	6,275	(283)	(73)	(8)	5,911
Operating loss	\$(655)	\$289	\$ 81	\$ 8	\$(277)
December 31, 2012					
Gross profit	\$4,856	\$8	\$ 8		\$ 4,872
% of net sales	86.9 %				87.2 %
Operating expenses					
General and administrative	1,059	(146)	(50)		863
Research and development	534	(14)	(1)		519
Selling and marketing	3,725	(87)	(13)		3,625
Amortization	216			\$ (216)	-
	5,534	(247)	(64)	(216)	5,007
Operating loss	\$(678)	\$255	\$ 72	\$ 216	\$(135)
Nine-Months Ended December 31, 2013					
Gross profit	\$15,948	\$20	\$ 26		\$ 15,994
% of net sales	87.5 %				87.8 %
Operating expenses					
General and administrative	5,166	(952)	(153)		4,061
Research and development	1,435	(36)	(3)		1,396
Selling and marketing	13,497	(202)	(63)		13,232
Amortization	22			\$ (22)	-
	20,120	(1,190)	(219)	(22)	18,689

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Operating loss	\$ (4,172 )	\$ 1,210	\$ 245	\$ 22	\$ (2,695 )
December 31, 2012					
Gross profit	\$ 14,613	\$ 23	\$ 26		\$ 14,662
% of net sales	86.6 %				86.9 %
Operating expenses					
General and administrative	3,178	(340 )	(146 )		2,692
Research and development	1,696	(40 )	(2 )		1,654
Selling and marketing	11,425	(208 )	(43 )		11,174
Amortization	647			\$ (647 )	-
	16,946	(588 )	(191 )	(647 )	15,520
Operating loss	\$ (2,333 )	\$ 611	\$ 217	\$ 647	\$ (858 )

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Liquidity and Capital Resources

Cash Flows.

At December 31, 2013, our cash and cash equivalents and short-term investments balances totaled \$12,616.

At December 31, 2013, we had working capital of approximately \$13,308.

For the nine months ended December 31, 2013, we used \$2,265 of cash in operating activities, compared to \$632 of cash used during the nine months ended December 31, 2012. We used this cash primarily to fund the operating loss, net of non-cash charges for depreciation, amortization of intangibles and share-based compensation, of \$2,695 during the nine months ended December 31, 2013, and \$858 during the nine months ended December 31, 2012. The nine-month net loss for our current fiscal year includes nonrecurring cash expenses of \$348 attributed to changes in executive management and \$1,100 for legal and audit fees pertaining to the review of certain internal control issues.

During the nine months ended December 31, 2013, and 2012, we generated \$6,930, and \$5,779 respectively of net cash from the maturity of marketable securities.

For the nine months ended December 31, 2013, we used \$222 to purchase property, plant and equipment compared with approximately \$137 for the same period a year ago. The increase is related to the purchase of new computer equipment for our sales force.

Sources of Liquidity.

We believe the \$12,616 of cash and short-term investments we maintained at December 31, 2013, is adequate to meet our needs for the next twelve months, and depending upon our profitability, substantially longer. 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 quarter 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. 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, 2013. Our operating lease commitments include a long-term lease with Liberty Property Limited Partnership for an 18,258 square foot facility for our U.S. headquarters located at 5420 Feltl Road, Minnetonka, Minnesota. The lease, effective May 1, 2006, has a term of 96 months and expires on April 1, 2014. On January 24, 2014 we signed a 62 month lease extension which includes minimum annual lease payments ranging from \$153,000 to \$169,000 over the course of the lease.

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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, 2013. There have been no significant changes since March 31, 2013.

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 (“CEO and CFO”), 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 CEO and CFO 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 CEO and CFO, in a manner that allows timely decisions regarding required disclosure.

Changes In Internal Control Over Financial Reporting.

As disclosed in our Annual Report on Form 10-K for the year ended March 31, 2013, we concluded that we did not have adequate internal controls over financial reporting as of March 31, 2013. Although there were no material errors in the amounts that we had previously reported in our financial statements, we believe that we had a material weakness in our internal controls such that a material error in our financial statements could have occurred.

During the quarter ended June 30, 2013, and in addition to management changes we experienced, we updated our internal attestations procedures and provided increased education for sales, accounting, customer service and shipping personnel relative to procedures for, and their responsibilities for internal controls.

Despite the remedial measures that have been implemented, the material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

Reference is made to Item 1A of our Annual Report on Form 10-K for the year ended March 31, 2013.

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

None during the quarter ended December 31, 2013.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 5. OTHER INFORMATION

None.

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ITEM 6. EXHIBITS

Exhibits

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

32.1 Certification by the Chief Executive Officer and 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”)

101 Financial statements from the Quarterly Report on Form 10-Q for the quarter ended December 31, 2013, 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.

By: /s/ ROBERT KILL

Date: February 6, 2014 Robert Kill  
President and Chief Executive Officer

By: /s/ BRETT REYNOLDS

Date: February 6, 2014 Brett Reynolds  
SVP and Chief Financial Officer