UROPLASTY INC
Form 424B4
November 20, 2007

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-146787

PROSPECTUS

1,466,400 SHARES

Common Stock

We are selling 1,250,000 shares of common stock. Our common stock is traded on the American Stock Exchange under the symbol UPI. On November 19, 2007, the closing price of our common stock on the American Stock Exchange was $3.96 per share.

This investment is speculative and involves a high degree of risk. See Risk Factors on page 5 to read about factors you should consider before buying shares of the common stock.

	Per Share	Total
Public offering price	$ 3.50	$ 5,132,400
Underwriting commission	$ .21	$ 307,944
Proceeds to Uroplasty before expenses	$ 3.29	$ 4,824,456

We have granted the underwriters a 30-day option to purchase up to an additional 219,960 shares of common stock to cover over-allotments, if any.

The underwriters expect to deliver the shares of common stock to purchasers on or about November 26, 2007.

Neither the SEC nor any state securities commission has approved or disapproved these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

Craig-Hallum Capital Group **Noble International Investments, Inc.**

Prospectus dated November 19, 2007

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information that is different from that contained in this prospectus. This prospectus may be used only where it is legal to sell these securities. The information in this prospectus is complete and accurate only as of the date on the front cover regardless of the time of any sale of shares.

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PROSPECTUS SUMMARY

This summary highlights the key information contained in this prospectus. Because it is a summary, it does not contain all the information you should consider before investing in our common stock. You should read carefully this entire prospectus. In particular, you should read the section entitled Risk Factors and the consolidated financial statements and the notes relating to those statements included elsewhere in this prospectus.

Overview

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

Market

The field of neurostimulation, a form of therapy in which a low-voltage electrical current is used to treat medical conditions affecting parts of the nervous system, has grown dramatically in recent years. According to Medtech Insight, the U.S. market for neurostimulation devices is expected to grow from approximately $628 million in 2006 to approximately $2 billion in 2012, representing a compound annual growth rate in excess of 20%. FDA-approved neurostimulation devices are currently utilized to treat a range of indications, including voiding dysfunctions, chronic pain, epilepsy, essential tremor, Parkinson s disease, hearing loss and depression. These devices are implanted in the body or used in a non-invasive manner to stimulate different parts of the nervous system, including the spinal cord, sacral nerves and vagus nerve, among other areas. We believe the neurostimulation market represents a significant opportunity for us in the treatment of overactive bladder symptoms.

Voiding dysfunctions affect urinary control and can result in uncontrolled bladder sensations (overactive bladder) or unwanted leakage (urinary incontinence). Overactive bladder (OAB) is a prevalent and challenging urologic problem affecting an estimated 34 million Americans. The Agency for Health Care Policy and Research (AHCPR), a division of the Public Health Service, U.S. Department of Health and Human Services, estimates that urinary incontinence affects about 13 million people in the United States, of which 85% (11 million) are women. AHCPR estimates the total cost of treating incontinence (management and curative approaches) of all types in the United States is $16 billion. Historically, only a small percentage of the patients suffering from these disorders have sought treatment. In recent years, however, the number of people seeking treatment has grown as a result of the publicity associated with new minimally invasive treatment alternatives.

When patients seek treatment, physicians generally assess the severity of the symptoms as mild, moderate or severe. Regardless of the degree of severity, however, patients will often consider drug therapy and minimally invasive treatment first. We believe that our company is uniquely positioned because we offer office-based, minimally invasive solutions.

Our Strategy

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

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independent sales representatives and distributors to grow revenue. The key elements of our strategy are to:

Educate physicians about the benefits of our Urgent PC neurostimulation system.

Build patient awareness of office-based solutions

Focus on office-based solutions for physicians.

Increase market coverage in the United States sales and internationally.

Develop, acquire or license new products.

Our Products

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

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

Sales and Marketing

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

Corporate Information

Our company was incorporated in Minnesota in 1992. Our headquarters are located at 5420 Feltl Road, Minnetonka, Minnesota, 55343. Our telephone number is (952) 426-6140. We maintain a web site at www.uroplasty.com. Information contained on our web site is not part of this prospectus.

Urgent® PC, Macroplastique®, Bioplastique®, PTQ®, VOX® and I-Stop™ are trademarks we own or license. This prospectus also refers to trademarks and tradenames of other organizations.

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The Offering

Common stock offered:	1,466,400 shares
Common stock outstanding before offering:	13,450,140 shares as of October 5, 2007
Common stock to be outstanding after offering:	14,916,540 shares
Overallotment option:	219,960 shares
Use of proceeds:	We expect to use the net proceeds from this offering to expand our sales and marketing organization in the United States, to conduct clinical studies to support our marketing efforts and for working capital purposes. Our management will have broad discretion in determining the specific timing and uses of the offering proceeds.
Risk factors:	Our business is subject to a number of risks which you should consider before investing in our company. For a discussion of the significant risks associated with our business, please read the section entitled Risk Factors beginning on page 5.
Trading symbol:	Our common stock is traded on the American Stock Exchange under the symbol UPI.

The number of shares of common stock outstanding as of October 5, 2007 and to be outstanding after this offering exclude:

- 2,033,100 shares of common stock subject to outstanding options, at a weighted average exercise price of $4.01 per share;
- 2,116,478 shares of common stock issuable upon the exercise of outstanding warrants, at a weighted average exercise price of $3.81 per share; and
- 529,500 shares of common stock reserved for issuance under our 2006 Stock and Incentive Plan.

Except as otherwise indicated, all information in this prospectus assumes no exercise of the underwriters overallotment option.

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Summary Financial Data

The following tables present our summary consolidated financial data for our fiscal years ended March 31, 2007 and 2006, which have been derived from our audited consolidated financial statements. The financial data for our six months ended September 30, 2007 and 2006 have been derived from our unaudited consolidated financial statements which, in management s opinion, have been prepared on the same basis as the audited consolidated financial statements and include all normal and recurring adjustments and accruals necessary for a fair presentation of such information. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	Fiscal Year Ended March 31,		Six Months Ended September 30,	
	2006	2007	2006	2007
			(Unaudited)	
Consolidated Statements of Operations Data:				
Net sales	$ 6,142,612	$ 8,311,001	$ 3,524,980	$ 5,988,217
Cost of goods sold	1,837,716	2,590,535	1,008,372	1,263,253
Gross profit	4,304,896	5,720,466	2,516,608	4,724,964
Operating expenses:				
General and administrative	2,856,486	3,095,989	1,658,287	1,955,806
Research and development	3,324,201	2,276,526	1,333,363	933,122
Selling and marketing	3,399,896	5,216,765	2,536,283	3,607,372
Amortization of intangibles	102,496	103,511	53,112	423,003
Total operating expenses	9,683,079	10,692,791	5,581,045	6,919,303
Operating loss	(5,378,183)	(4,972,325)	(3,064,437)	(2,194,339)
Other income (expense)	788,597	141,771	(317,781)	106,952
Loss before income taxes	(4,589,586)	(4,830,554)	(3,382,218)	(2,087,387)
Income tax expense (benefit)	(46,873)	146,336	17,911	137,940
Net loss	$ (4,542,713)	$ (4,976,890)	$ (3,400,129)	$ (2,225,327)
Basic and diluted net loss per common share	$ (0.67)	$ (0.58)	$ (0.46)	$ (0.17)
Basic and diluted weighted average common shares	6,746,412	8,591,454	7,376,900	13,162,862

	March 31,		September 30,
	2006	2007	2007
			(Unaudited)

Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 1,563,433	$ 3,763,702	$ 3,309,747
Short-term investments	1,137,647	3,000,000	2,400,000
Net working capital	2,667,053	7,207,175	6,529,958
Property, plant and equipment, net	1,079,438	1,431,749	1,510,722
Total assets	6,401,244	11,046,444	14,961,804
Long-term debt, less current maturities	389,241	427,382	413,064
Shareholders equity	3,407,050	7,803,047	11,842,886

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the risk factors set forth below and all other information contained in this prospectus before purchasing our common stock. If the following risks actually occur, our business, financial condition and results of operations could be seriously harmed, the price of our common stock could decline and you could lose part or all of your investment.

Risks Relating to Our Company and Industry

We continue to incur losses and may never reach profitability.

We have incurred net losses in each of the last five fiscal years. As of September 30, 2007, we had an accumulated deficit of approximately $18.2 million primarily as a result of costs relating to the development, including seeking regulatory approvals, and commercialization of our products. We expect our operating expenses relating to sales and marketing activities, product development and clinical trials, including for FDA-mandated post-market clinical study for our Macroplastique product will continue to increase during the foreseeable future. To achieve profitability, we must generate substantially more revenue than we have in prior years. Our ability to achieve significant revenue growth will depend, in large part, on our ability to achieve widespread market acceptance for our products and successfully expand our business in the U.S., which we cannot guarantee will happen. We may never realize sufficient revenue from the sale of our products to be profitable.

If we are not able to attract, retain and motivate our sales force and expand our distribution channels, our sales and revenues will suffer.

In the U.S., we have a sales organization consisting of direct sales personnel and a network of independent sales representatives. In the United Kingdom, we have direct sales personnel. Our marketing organization supports our U.S. and U.K. sales and international distributor organizations. We anticipate continuing to expand our sales and marketing organization, as needed to support our growth. We have and will continue to incur significant additional expenses to support this organization. We may not be able to recruit, train, motivate or retain qualified sales and marketing personnel or independent sales representatives. Our ability to increase product sales in the U.S. will largely depend upon our ability to develop and maintain the sales organization. Outside of the U.S. and the U.K., we sell our products primarily through a network of independent distributors. Our ability to increase product sales in foreign markets will largely depend on our ability to develop and maintain relationships with our existing and additional distributors. We may not be able to retain distributors who are willing to commit the necessary resources to market and sell our products to the level of our expectations. Failure to expand our distribution channels or to recruit, retain and motivate qualified personnel could have a material adverse effect on our product sales and revenues.

We are unable to predict how quickly or how broadly the market will accept our products. If demand for our products fails to develop as we expect, our revenues may decline or we may be unable to increase our revenues and be profitable.

Our failure to achieve sufficient market acceptance of our products in the U.S., particularly for the Urgent PC system, will limit our ability to generate revenue and be profitable. Market acceptance of our products will depend on our ability to demonstrate the safety, clinical efficacy, perceived benefits, cost-effectiveness and third party reimburseability of our products compared to products or treatment options of our competitors, and to train physicians in the proper application of our products. We cannot assure you that we will be successful in educating the marketplace about the benefits of using our products. Even if customers accept our products, this acceptance may not translate into sales if our competitors have developed similar products that our customers prefer. Furthermore, if our

products do not achieve increasing market acceptance in the U.S. and internationally, our revenues may decline or we may be unable to increase our revenues and be profitable.

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To date, we have been primarily dependent on sales of one product line and our business may suffer if sales of this product line decline.

To date, we have been dependent on sales of our products that contain our Macroplastique bulking agent. Our Macroplastique product line accounted for 51% and 67%, respectively, of total net sales during fiscal 2007 and 2006. If demand for our Macroplastique products declines, our revenues and business prospects may suffer.

We may require additional financing in the future which may not be available to us when required, or may be available only on unfavorable terms.

Our future liquidity and capital requirements will depend on numerous factors including: the timing and cost involved in manufacturing scale-up and in expanding our sales, marketing and distribution capabilities in the United States markets; the cost and effectiveness of our marketing and sales efforts with respect to our existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting our proprietary rights. Because we have yet to achieve profitability and generate positive cash flows, we may need to raise additional financing to support our operations and planned growth activities in the future. Any equity financing could substantially dilute your equity interests in our company and any debt financing could impose significant financial and operational restrictions on us. There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We cannot assure you that we will obtain additional financing on acceptable terms, or at all.

The size and resources of our competitors may allow them to compete more effectively than we can, which could adversely affect our potential profitability.

Our products compete against similar medical devices and other treatment methods, including drugs, for treating voiding dysfunctions. Many of our competitors have significantly greater financial, research and development, manufacturing and marketing resources than we have. Our competitors could use these resources to develop or acquire products that are safer, more effective, less invasive, less expensive or more readily accepted than our products. Their products could make our technology and products obsolete or noncompetitive. Our competitors could also devote greater resources to the marketing and sale of their products and adopt more aggressive pricing policies than we can. If we are not able to compete effectively, then we may not be profitable.

Our products and facilities are subject to extensive regulation, with which compliance is costly and which exposes us to penalties for non-compliance.

The production and marketing of our products and our ongoing research and development, preclinical testing and clinical trial activities are subject to extensive regulation and review by numerous governmental authorities both in the United States and abroad. U.S. and foreign regulations applicable to medical devices are wide-ranging and govern, among other things, the testing, marketing and pre-market review of new medical devices, in addition to regulating manufacturing practices, reporting, advertising, exporting, labeling and record keeping procedures. We are required to obtain regulatory approval or clearance before we can market our products in the United States and certain foreign countries. The regulatory process requires significant time, effort and expenditures to bring our products to market. We cannot assure you that we will obtain approval for any future products or that we will maintain approval to sell any of our existing products. Any failure to obtain or retain regulatory approvals or clearances could prevent us from successfully marketing our products, which could adversely affect our business and results of operations. Our failure to comply with applicable regulatory requirements could result in governmental agencies:

- imposing fines and penalties on us;

preventing us from manufacturing or selling our products;

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bringing civil or criminal charges against us;

delaying the introduction of our new products into the market;

enforcing operating restrictions;

recalling or seizing our products; or

withdrawing or denying approvals or clearances for our products.

If any or all of the foregoing were to occur, we may not be able to meet the demands of our customers and our customers may cancel orders or purchase products from our competitors, which could adversely affect our business and results of operations.

Even if we receive regulatory approval or clearance of a product, the approval or clearance could limit the uses for which we may label and promote the product, which may limit the market for our products. Further, for a marketed product, its manufacturer and manufacturing facilities are subject to periodic reviews and inspections by FDA and foreign regulatory authorities. Subsequent discovery of problems with a product, manufacturer or facility may result in restrictions on the product, manufacturer or facility, including withdrawal of the product from the market or other enforcement actions. In addition, regulatory agencies may not agree with the extent or speed of corrective actions relating to product or manufacturing problems.

If additional regulatory requirements are implemented in the foreign countries in which we sell our products, the cost of developing or selling our products may increase. In addition, we may rely on our distributors outside the United States in seeking regulatory approval to market our devices in particular countries. To the extent we do so, we are dependent on persons outside of our direct control to make regulatory submissions and secure approvals, and we do or will not have direct access to health care agencies in those markets to ensure timely regulatory approvals or prompt resolution of regulatory or compliance matters. If our distributors fail to obtain the required approvals or do not do so in a timely manner, our revenues from our international operations and our results of operations may be adversely affected.

In addition, our business and properties are subject to federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety and the use, management, storage, and disposal of hazardous substances, wastes, and other regulated materials. The costs of complying with these various environmental requirements, as they now exist or may be altered in the future, could adversely affect our financial condition and results of operations.

The marketing of our products requires a significant amount of time and expense and we may not have the resources to successfully market our products, which would adversely affect our business and results of operations.

The marketing of our products requires a significant amount of time and expense in order to identify the physicians who may use our products, invest in training and education and employ a sales force that is large enough to interact with the targeted physicians. We may not have adequate resources to market our products successfully against larger competitors who have more resources than we do. If we cannot market our products successfully, our business and results of operations would be adversely affected.

If third parties claim that we infringe upon their intellectual property rights, we may incur liabilities and costs and may have to redesign or discontinue selling the affected product.

The medical device industry is litigious with respect to patents and other intellectual property rights. Companies operating in our industry routinely seek patent protection for their product designs, and many of our principal competitors have large patent portfolios. Companies in the medical device industry have used intellectual property litigation to gain a competitive advantage. Whether a product infringes a patent involves complex legal and factual issues, the determination of which is often

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uncertain. We face the risk of claims that we have infringed on third parties intellectual property rights. Our efforts to identify and avoid infringing on third parties intellectual property rights may not always be successful. Any claims of patent or other intellectual property infringement, even those without merit, could:

- be expensive and time consuming to defend;
- result in us being required to pay significant damages to third parties;
- cause us to cease making or selling products that incorporate the challenged intellectual property;
- require us to redesign, reengineer or rebrand our products, if feasible;
- require us to enter into royalty or licensing agreements in order to obtain the right to use a third party s intellectual property, which agreements may not be available on terms acceptable to us or at all;
- divert the attention of our management; and/or
- result in our customers or potential customers deferring or limiting their purchases or use of the affected products until resolution of the litigation.

In addition, new patents obtained by our competitors could threaten a product s continued life in the market even after it has already been introduced.

If we are unable to adequately protect our intellectual property rights, we may not be able to compete effectively and we may not be profitable.

Our success depends in part on our ability to protect our proprietary rights to the technologies used in our products. We rely on patent protection, as well as a combination of trademark laws and confidentiality, noncompetition and other contractual arrangements to protect our proprietary technology. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our patents and patent applications, if issued, may not be broad enough to prevent competitors from introducing similar products into the market. Our patents, if challenged or if we attempt to enforce them, may not necessarily be upheld by the courts of any jurisdiction. In addition, patent protection in foreign countries may be different from patent protection under U.S. laws and may not be favorable to us. As a result, we may not be able to compete effectively.

We also rely on unpatented proprietary technology. We cannot assure you that we can meaningfully protect all of our rights in our unpatented proprietary technology or that others will not independently develop substantially equivalent products or processes or otherwise gain access to our unpatented proprietary technology. We attempt to protect our trade secrets and other unpatented proprietary technology through the use of confidentiality and noncompetition agreements with our current key employees and with other parties to whom we have divulged trade secrets. However, these agreements may not be enforceable or may not provide meaningful protection for our proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements or in the event competitors discover or independently develop similar proprietary information.

Product liability claims could adversely affect our business and results of operations.

The manufacture and sale of medical devices exposes us to significant risk of product liability claims, some of which may have a negative impact on our business. Our existing products were developed relatively recently and defects or risks that we have not yet identified may give rise to product liability claims. Our existing $2 million of worldwide

product liability insurance coverage would likely be inadequate to protect us from any liabilities we may incur or we may not be able to maintain adequate product liability insurance at acceptable rates. If a product liability claim or series of claims is brought

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against us for uninsured liabilities or in excess of our insurance coverage and it is ultimately determined that we are liable, our business could suffer. Additionally, we could experience a material design or manufacturing failure in our products, a quality system failure, other safety issues or heightened regulatory scrutiny that would warrant a recall of some of our products. A recall of any of our products likely would be costly, would be uninsured and could also result in increased product liability claims. Further, while we train our physician customers on the proper usage of our products, we cannot ensure that they will implement our instructions accurately. If our products are used incorrectly by our customers, injury may result and this could give rise to product liability claims against us. Any losses that we may suffer from any liability claims, and the effect that any product liability litigation may have upon the reputation and marketability of our products, may divert management s attention from other matters and may have a negative impact on our business and our results of operations.

If we are not able to successfully scale-up production of our products, our sales and revenues will suffer.

In order to commercialize our products in the United States and international markets, we need to be able to produce, or subcontract the production of, our products in a cost-effective way on a large scale to meet demand, while maintaining high standards for quality and reliability. If we fail to successfully commercialize our products, we will not be profitable.

We may experience manufacturing and control problems as we continue to scale-up our manufacturing operations, and we may not be able to scale-up manufacturing in a timely manner or at a reasonable cost to enable production in sufficient quantities. If we experience any of these problems, we may not be able to have our products manufactured and delivered in a timely manner.

The loss or interruption of products or materials from any of our key suppliers could slow down the manufacture and distribution of our products, which would limit our ability to generate sales and revenues.

We currently purchase several products, and key materials used in our products, from single source suppliers. Our reliance on a limited number of suppliers subjects us to several risks, including an inability to obtain an adequate supply of required products and materials, price increases, untimely delivery and difficulties in qualifying alternative suppliers. We cannot be sure that acceptable alternative arrangements could be made on a timely basis. Additionally, the qualification of materials and processes as a result of a supplier change could be deemed as unacceptable to regulatory authorities and cause delays and increased costs due to additional test requirements. A significant interruption in the supply of products or materials, for any reason, could delay the manufacture and sale of our products, which would limit our ability to generate revenues.

If we are not able to maintain sufficient quality controls, regulatory approvals of our products by the FDA, European Union or other relevant authorities could be delayed or denied and our sales and revenues will suffer.

Approval of our products could be delayed by the FDA, European Union or other related authorities if our manufacturing facilities do not comply with applicable manufacturing requirements. The FDA s Quality System Regulations impose extensive testing, control, documentation and other quality assurance requirements. Canada and the European Union also impose requirements on quality systems of manufacturers, which are inspected and certified on a periodic basis and may be subject to additional unannounced inspections. Further, our suppliers are also subject to these regulatory requirements. Failure by any of our suppliers or us to comply with these requirements could prevent us from obtaining or retaining approval for and marketing of our products. We cannot assure you that our suppliers or our manufacturing facilities will comply with applicable regulatory requirements on a timely basis or at all.

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Even with approval to market our products in the United States, European Union and other countries, we must continue to comply with relevant manufacturing and distribution requirements. If violations of applicable requirements are noted during periodic inspections of our manufacturing facilities, we may not be able to continue to market our products and our revenues could be materially adversely affected.

The loss of our key customers could result in a material loss of revenues.

Our two largest customers each accounted for approximately 10% of our net sales in fiscal 2007. During fiscal 2006, the same two customers accounted for approximately 14% and 11% of our net sales. We face the risk that one or both of our key customers may decrease business or terminate relationships with us. If we are unable to replace any decrease in business from these customers, it could result in a material decrease in our revenue. This could adversely affect our results of operations and financial condition.

If we are unable to continue to develop and market new products and technologies, we may experience a decrease in demand for our products or our products could become obsolete, and our business would suffer.

We expect new products to represent a significant component of our future business. We may not be able to compete effectively with our competitors unless we can keep up with existing or new products and technologies in the urinary and fecal incontinence market. If we do not continue to introduce new products and technologies, or if those products and technologies are not accepted, we may not be successful and our business would suffer. Moreover, our clinical trials have durations of several years and it is possible that competing therapies, such as drug therapies, may be introduced while our products are still undergoing clinical trials. This could reduce the potential demand for our products and negatively impact our business prospects. Additionally, our competitors new products and technologies may beat our products to market, may be more effective or less expensive than our products or render our products obsolete.

We are dependent on the availability of third-party reimbursement for our revenues.

Our success depends on the availability of reimbursement for the cost of our products from third-party payors, such as government health authorities, private health insurance plans and managed care organizations. There is no uniform policy for reimbursement in the United States and foreign countries. As a relatively new therapy, PTNS using the Urgent PC system has not been assigned a reimbursement code unique to the technology. A number of practitioners are using an existing reimbursement code that closely describes the procedure. In addition, Aetna and Blue Cross Blue Shield of Minnesota, Delaware, Northern Virginia, District of Columbia and Maryland have published policies providing coverage for PTNS under an existing reimbursement code. However, we cannot assure you that adequate coverage and reimbursement will be provided for the Urgent PC system in the future by third-party payors. Accordingly, changes in the extent or type of coverage or a reduction in reimbursement rates under any or all third-party reimbursement programs may cause a decline in purchases of our products, which would materially adversely affect the market for our products. Alternatively, we might respond to reduced reimbursement rates by reducing the prices of our products, which could also reduce our revenues.

If physicians do not recommend and endorse our products, our sales may decline or we may be unable to increase our sales and profits.

In order for us to sell our products, physicians must recommend and endorse them. We may not obtain the necessary recommendations or endorsements from physicians. Acceptance of our products depends on educating the medical community as to the distinctive characteristics, perceived benefits, safety, clinical efficacy, cost-effectiveness and third party reimburseability of our products compared to products of our competitors, and on training physicians in the proper application of our products. If we

are not successful in obtaining the recommendations or endorsements of physicians for our products, our sales may decline or we may be unable to increase our sales and profits.

Our business strategy relies on assumptions about the market for our products, which, if incorrect, would adversely affect our business prospects and profitability.

We are focused on the market for minimally invasive therapies used to treat voiding dysfunctions. We believe that the aging of the general population will continue and that these trends will increase the need for our products. However, the projected demand for our products could materially differ from actual demand if our assumptions regarding these trends and acceptance of our products by the medical community prove to be incorrect or do not materialize. Actual demand for our products could also be affected if drug therapies gain more widespread acceptance as a viable alternative treatment, which in each case would adversely affect our business prospects and profitability.

Negative publicity regarding the use of silicone material in medical devices could harm our business and result in a material decrease in revenues.

Macroplastique is comprised of medical grade, heat-vulcanized polydimethylsiloxane, which results in a solid, flexible silicone elastomer. In the early 1990 s, the United States breast implant industry became the subject of significant controversies surrounding the possible effects upon the human body of the use of semi-liquid silicone gel in breast implants, resulting in product liability litigation and leading to the bankruptcy of several companies, including our former parent, Bioplasty, Inc. We use only medical grade solid silicone material in our tissue bulking products and not semi-liquid silicone gel, as was used in breast implants. Negative publicity regarding the use of silicone materials in our products or in other medical devices could have a significant adverse affect on the overall acceptance of our products. We cannot assure you that the use of solid silicone in medical devices implanted in the human body by us and others will not result in negative publicity.

The risks inherent in operating internationally and the risks of selling and shipping our products and of purchasing our components and products internationally may adversely impact our net sales, results of operations and financial condition.

We still derive a substantial portion of our revenues from customers and operations in international markets. We expect non-United States sales to continue to represent a significant portion of our revenues until we achieve sufficient market acceptance from United States customers of the already FDA-approved products, and in particular the Urgent PC system. The sale and shipping of our products and services across international borders, as well as the purchase of components and products from international sources, subject us to extensive U.S. and foreign governmental trade regulations. Compliance with such regulations is costly and exposes us to penalties for non-compliance. Any failure to comply with applicable legal and regulatory obligations could impact us in a variety of ways that include, but are not limited to, significant criminal, civil and administrative penalties, including imprisonment of individuals, fines and penalties, denial of export privileges, seizure of shipments, restrictions on certain business activities, and exclusion or debarment from government contracting. Also, the failure to comply with applicable legal and regulatory obligations could result in the disruption of our shipping and sales activities.

In addition, many of the countries in which we sell our products are, to some degree, subject to political, economic and/or social instability. Our international sales operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- the imposition of additional U.S. and foreign governmental controls or regulations;

- the imposition of costly and lengthy new export licensing requirements;

the imposition of U.S. and/or international sanctions against a country, company, person or entity with whom the company does business that would restrict or prohibit continued business with the sanctioned country, company, person or entity;

political and economic instability;

fluctuations in the value of the U.S. dollar relative to foreign currencies;

a shortage of high-quality sales people and distributors;

loss of any key personnel that possess proprietary knowledge, or who are otherwise important to our success in certain international markets;

changes in third-party reimbursement policies that may require some of the patients who receive our products to directly absorb medical costs or that may necessitate the reduction of the selling prices of our products;

changes in duties and tariffs, license obligations and other non-tariff barriers to trade;

the imposition of new trade restrictions;

the imposition of restrictions on the activities of foreign agents, representatives and distributors;

scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on us;

pricing pressure that we may experience internationally;

laws and business practices favoring local companies;

longer payment cycles;

difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;

difficulties in enforcing or defending intellectual property rights; and

exposure to different legal and political standards due to our conducting business in approximately 40 countries.

We cannot assure you that one or more of these factors will not harm our business. Any material decrease in our international sales would adversely impact our net sales, results of operations and financial condition. Our international sales are predominately in Europe. In Europe, health care regulation and reimbursement for medical devices vary significantly from country to country. This changing environment could adversely affect our ability to sell our products in some European countries.

Fluctuations in foreign exchange rates could negatively impact our results of operations.

Because our international sales are denominated primarily in euros, currency fluctuations in countries where we do business may render our products less price competitive than those of competing companies whose sales are

denominated in weaker currencies. We report our financial results in U.S. dollars, and fluctuations in the value of either the dollar or the currencies in which we transact business can have a negative impact on our results of operations and financial condition. Consequently, we have exposure to foreign currency exchange risks. We do not hedge any of our foreign currency risk.

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Proposals to modify the health care system in the U.S. or other countries could affect the pricing of our products. If we cannot sell our products at the prices we plan to, our margins and profitability could be adversely affected.

Proposals to modify the current health care system in the United States to improve access to health care and control its costs are continually being considered by the federal and state governments. We anticipate that the U.S. Congress and state legislatures will continue to review and assess alternative health care reform proposals. We cannot predict whether these reform proposals will be adopted, when they may be adopted or what impact they may have on us if they are adopted. Any spending decreases or other significant changes in government programs such as Medicare could adversely affect the pricing of our products.

Like the United States, foreign countries have considered health care reform proposals and could materially alter their government-sponsored health care programs by reducing reimbursement rates. Any reduction in reimbursement rates under United States or foreign health care programs could negatively affect the pricing of our products. If we are not able to charge a sufficient amount for our products, our margins and our profitability will be adversely affected.

If our information systems fail or if we experience an interruption in their operation, our business and results of operations could be adversely affected.

The efficient operation of our business is dependent on our management information systems. We rely on our management information systems to effectively manage accounting and financial functions, order entry, order fulfillment and inventory replenishment processes, and to maintain our research and development and clinical data. The failure of our management information systems to perform as we anticipate could disrupt our business and product development and could result in decreased sales, increased overhead costs, excess inventory and product shortages, causing our business and results of operations to suffer. In addition, our management information systems are vulnerable to damage or interruption from:

earthquake, fire, flood and other natural disasters;

terrorist attacks and attacks by computer viruses or hackers; and

power loss or computer systems, Internet, telecommunications or data network failure.

Any such interruption could adversely affect our business and results of operations.

If we lose the services of our chief executive officer or other key personnel, we may not be able to manage our operations and meet our strategic objectives.

Our future success depends, in large part, on the continued service of our senior management. We have no key person insurance with respect to any of our senior managers, and any loss or interruption of their services could significantly reduce our ability to effectively manage our operations and implement our strategy. Also, we depend on the continued service of key managerial, scientific and technical personnel. Further, we depend on our ability to continue to attract and retain additional highly qualified medical device sales personnel. Any loss or interruption of the services of our other key personnel could also significantly reduce our ability to effectively manage our operations and meet our strategic objectives because we cannot assure you that we would be able to find an appropriate replacement should the need arise.

If we are not able to acquire or license other products, our business and future growth prospects could suffer.

As part of our growth strategy, we intend to acquire or license additional products and product candidates for development and commercialization. The success of this strategy depends upon our ability to identify, select and acquire the right products.

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Any product candidate we license or acquire may require additional development efforts prior to sale, including clinical testing and approval by the FDA and other regulatory bodies. Product candidates may fail to receive or experience a significant delay in receiving the necessary approvals. In addition, we cannot assure you that any approved products that we acquire or license will be manufactured economically, successfully commercialized or widely accepted in the marketplace. Other companies, including those with greater financial, marketing and sales resources, may compete with us for the acquisition or license of product candidates or approved products. We may not be able to acquire or license the right to other products on terms that we find acceptable, or at all.

To finance any acquisitions, we may choose to issue shares of our common stock as consideration, which would dilute your interest in us. If the price of our common stock is low or volatile, we may not be able to acquire other products or companies for stock. Alternatively, it may be necessary for us to raise additional funds for acquisitions through public or private financings. Additional funds may not be available on terms that are favorable to us, or at all.

Even if we complete future acquisitions, our business, financial condition and the results of operations could be negatively affected because:

- we may be unable to integrate the acquired business successfully and realize anticipated economic, operational and other benefits in a timely manner; and/or
- the acquisition may disrupt our ongoing business, distract our management and divert our resources.

Risks Relating to Our Common Stock and This Offer

You may be unable to sell the common stock you purchase in this offering.

There is only a limited trading market for our common stock, which is quoted on the AMEX. Transactions in our common stock may lack the volume, liquidity and orderliness necessary to maintain a liquid and active trading market. Accordingly, an investor should consider the potential lack of liquidity before investing in our common stock.

Our stock price may fluctuate and be volatile.

The market price of our common stock may be subject to significant fluctuation due to the following factors, among others:

- variations in our quarterly financial results;
- developments regarding regulatory clearances or approvals of our products;
- market acceptance of our products;
- the success of our efforts to acquire or license additional products;
- announcements of new products or technologies by us or our competitors;
- developments regarding our patents and proprietary rights or those of our competitors;
- developments in U.S. or international reimbursement systems;
- changes in accounting standards, policies, guidance or interpretations;

sales of substantial amounts of our stock by existing shareholders; and

general economic or market conditions.

The stock market in recent years has experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of affected companies. These broad market fluctuations may cause the price of our common stock to fall abruptly or remain significantly depressed.

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Future sales of our common stock in the public market could lower our share price.

The market price of our common stock could decline due to sales by our existing shareholders of a large number of shares of our common stock or the perception that these sales could occur. These sales could also make it more difficult for us to raise capital through the sale of common stock at a time and price we deem appropriate.

We have a significant number of equity instruments outstanding subject to conversion to our common stock. As of October 5, 2007, we had 2,033,100 shares of our common stock subject to outstanding options (of which 1,558,263 are exercisable) and 2,116,478 shares of our common stock subject to outstanding warrants. Further, in April 2007, we issued 1,417,144 shares of our common stock to purchase from CystoMedix, Inc. certain intellectual property assets related to the Urgent PC system. The shares issued to CystoMedix will become eligible for public resale beginning in April 2008.

We will be exposed to risks relating to evaluations of controls required by Section 404 of the Sarbanes-Oxley Act.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and related regulations implemented by the SEC, are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. We are evaluating our internal controls systems to allow management to report on, and our independent auditors to attest to, our internal controls. We will be performing the system and process evaluation and testing (and any necessary remediation) required to comply with the management certification and auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. While we anticipate being able to fully implement management attestation requirements relating to internal controls and all other aspects of Section 404 by our March 31, 2008 deadline and auditor attestation requirements by March 31, 2009, we cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or the impact of the same on our operations. If we are not able to implement the requirements of Section 404 in a timely manner or with adequate compliance, we may be subject to sanctions or investigation by regulatory authorities, including the SEC. This type of action could adversely affect our financial results or investors confidence in our company and our ability to access capital markets and could cause our stock price to decline. In addition, the controls and procedures that we will implement may not comply with all of the relevant rules and regulations of the SEC. If we fail to develop and maintain effective controls and procedures, we may be unable to provide the required financial information in a timely and reliable manner. Further, if we acquire any company in the future, we may incur substantial additional costs to bring the acquired company s systems into compliance with Section 404.

Our corporate documents and Minnesota law contain provisions that could discourage, delay or prevent a change in control of our company.

Provisions in our articles of incorporation may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our articles of incorporation provide for a staggered board of directors, whereby directors serve for three year terms, with approximately one third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

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We are also subject to the anti-takeover provisions of Section 302A.673 of the Minnesota Business Corporation Act. Under these provisions, if anyone becomes an interested shareholder, we may not enter into a business combination with that person for four years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 302A.673, interested shareholder means, generally, someone owning 10% or more of our outstanding voting stock or an affiliate of ours that owned 10% or more of our outstanding voting stock during the past four years, subject to certain exceptions.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. All statements other than statements of historical facts are forward-looking statements, including statements regarding our future financial position, business strategy, and plans and objectives for future operations and products. The words may, will, believe, expect, estimate, continue, intend and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe may affect our financial condition, results of operations, business strategy, business operations and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including, among other things:

- the highly competitive nature of the markets in which we sell our products;
- regulatory hurdles that may prevent, delay or make more expensive our introduction of products;
- the failure to continue developing innovative products;
- the loss of our customers;
- increases in prices for raw materials or the loss of key supplier contracts;
- employee slowdowns, strikes or similar actions;
- product liability claims exposure;
- risks in connection with our operations outside the United States;
- conditions and changes in the medical device industry generally;
- the failure in protecting our intellectual property;
- exposure to competitors assertions of intellectual property claims;
- the failure to retain senior management or replace lost senior management;
- changes in U.S. generally accepted accounting principles;
- changes in general economic and business conditions;
- changes in currency exchange rates and interest rates;
- introduction of competing products;
- lack of acceptance of new products;
- competitive pressures on the transactional sales and margins, and competition from new market participants for our sales;
- adverse changes in applicable laws or regulations;

the incurrence of additional debt, contingent liabilities and expenses in connection with future acquisitions;

the failure to integrate effectively newly acquired operations; and

the absence of expected returns from the amount of intangible assets we have recorded.

We believe that the above factors are important, but not necessarily all of the important factors that could cause actual results to differ materially from those expressed in any forward-looking statement. Unpredictable or unknown factors could also have material adverse effects on us. Since our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements, we cannot give any assurance that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our

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results of operations and financial condition. All forward-looking statements included in this prospectus are expressly qualified in their entirety by the foregoing cautionary statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus. We do not undertake any obligation to update any of the forward-looking statements, except as may be required under federal securities laws.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $4.7 million (or $5.4 million if the underwriters over-allotment option is exercised in full), based on the public offering price of $3.50 per share, after deducting the underwriting commissions and estimated offering expenses payable by us.

We intend to use the net proceeds from this offering primarily to expand our sales and marketing organization in the United States, to conduct clinical studies to support our marketing efforts and for working capital purposes. We have not made a specific allocation for the use of the net proceeds, and we will have broad discretion in determining the specific timing and use of any offering proceeds. The exact amount and timing of our expenditures will depend on several factors, including the amount of proceeds raised in this offering. Investors will be relying on the judgment of our management regarding the application of the net proceeds in this offering.

Until we use our net proceeds of the offering, we will invest the funds in short-term, investment grade, interest-bearing instruments or securities.

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PRICE RANGE OF COMMON STOCK

Our common stock has been traded on the American Stock Exchange under the symbol UPI since October 3, 2005. On November 19, 2007, the closing price of our common stock on the American Stock Exchange was $3.96 per share. Previously, our common stock was quoted on the OTC Bulletin Board under the symbol UPST.OB.

The following table sets forth the high and low closing prices for our common stock as reported on the American Stock Exchange and the high and low bid prices for our common stock as reported by the OTC Bulletin Board, as applicable, for the periods indicated. The OTC quotations represent interdealer prices, without retail markup, mark down or commission, and do not necessarily represent actual transactions.

Fiscal Year 2008	**Low**	**High**
April 1 June 30, 2007	$ 3.20	$ 5.00
July 1 September 30, 2007	$ 3.70	$ 4.50
October 1 November 19, 2007	$ 3.57	$ 4.26

Fiscal Year 2007	**Low**	**High**
April 1 June 30, 2006	$ 1.70	$ 2.60
July 1 September 30, 2006	$ 1.62	$ 3.80
October 1 December 31, 2006	$ 2.05	$ 3.40
January 1 March 31, 2007	$ 2.36	$ 3.48

Fiscal Year 2006	**Low**	**High**
April 1 June 30, 2005	$ 3.91	$ 4.90
July 1 September 30, 2005	$ 2.60	$ 5.80
October 1 December 31, 2005	$ 2.60	$ 3.80
January 1 March 31, 2006	$ 2.30	$ 3.14

As of October 5, 2007, we had 512 holders of record of our common stock. Record ownership includes nominees who may hold securities on behalf of multiple beneficial owners.

DIVIDEND POLICY

We have never paid cash dividends on our common stock, and we do not anticipate paying any cash dividends in the foreseeable future. We intend to retain future earnings, if any, for the development and expansion of our business.

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SELECTED FINANCIAL DATA

The following tables present our summary consolidated financial data for our fiscal years ended March 31, 2007 and 2006, which have been derived from our audited consolidated financial statements. The financial data for our six months ended September 30, 2007 and 2006 have been derived from our unaudited consolidated financial statements which, in management s opinion, have been prepared on the same basis as the audited consolidated financial statements and include all normal and recurring adjustments and accruals necessary for a fair presentation of such information. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes appearing elsewhere in this prospectus.

	Fiscal Year Ended March 31,		Six Months Ended September 30,	
	2006	2007	2006	2007
			(Unaudited)	
Consolidated Statements of Operations Data:				
Net sales	$ 6,142,612	$ 8,311,001	$ 3,524,980	$ 5,988,217
Cost of goods sold	1,837,716	2,590,535	1,008,372	1,263,253
Gross profit	4,304,896	5,720,466	2,516,608	4,724,964
Operating expenses:				
General and administrative	2,856,486	3,095,989	1,658,287	1,955,806
Research and development	3,324,201	2,276,526	1,333,363	933,122
Selling and marketing	3,399,896	5,216,765	2,536,283	3,607,372
Amortization of intangibles	102,496	103,511	53,112	423,003
Total operating expenses	9,683,079	10,692,791	5,581,045	6,919,303
Operating loss	(5,378,183)	(4,972,325)	(3,064,437)	(2,194,339)
Other income (expense)	788,597	141,771	(317,781)	106,952
Loss before income taxes	(4,589,586)	(4,830,554)	(3,382,218)	(2,087,387)
Income tax expense (benefit)	(46,873)	146,336	17,911	137,940
Net loss	$ (4,542,713)	$ (4,976,890)	$ (3,400,129)	$ (2,225,327)
Basic and diluted net loss per common share	$ (0.67)	$ (0.58)	$ (0.46)	$ (0.17)
Basic and diluted weighted average common shares	6,746,412	8,591,454	7,376,900	13,162,862

	March 31,		September 30,
	2006	2007	2007

			(Unaudited)
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 1,563,433	$ 3,763,702	$ 3,309,747
Short-term investments	1,137,647	3,000,000	2,400,000
Net working capital	2,667,053	7,207,175	6,529,958
Property, plant and equipment, net	1,079,438	1,431,749	1,510,722
Total assets	6,401,244	11,046,444	14,961,804
Long-term debt, less current maturities	389,241	427,382	413,064
Shareholders equity	3,407,050	7,803,047	11,842,886

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and the results of operations in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those suggested by our forward-looking statements due to various reasons, including those discussed in the section entitled Risk Factors.

Overview

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

Strategy

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

Educate physicians about the benefits of Urgent PC.

Build patient awareness of office-based solutions.

Focus on office-based solutions for physicians

Increase market coverage in the United States and internationally.

Develop, license or acquire new products.

Our Products

The Urgent PC neurostimulation system is a minimally invasive device designed for office-based treatment of overactive bladder symptoms of urge incontinence, urinary urgency and urinary frequency. The treatment can be administered by qualified office-based staff under the supervision of a physician. The system uses percutaneous tibial nerve stimulation to deliver an electrical pulse that travels to the sacral nerve plexus, a control center for bladder function. We received regulatory approvals for sale of the Urgent PC system in the United States and Canada in October 2005, and in Europe in November 2005. Subsequently, we have launched the Urgent PC system for sale in those markets. We launched our second generation Urgent PC system in late 2006.

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

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Sales and Marketing

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

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 our consolidated financial statements, we have made our best estimates and judgments of certain amounts, giving due consideration to materiality. We believe that of our significant accounting policies, the following are particularly important to the portrayal of our results of operations and financial position. They may require the application of a higher level of judgment by our management, and as a result are subject to an inherent degree of uncertainty.

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

Accounts Receivable. We carry our accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. We determine the allowance for doubtful accounts based on customer financial health, and both historical and expected credit loss experience. We write off our accounts receivable when we deem them uncollectible. We record recoveries of accounts receivable previously written off when received.

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

Foreign Currency Translation/Transactions. The financial statements of our foreign subsidiaries were translated in accordance with the provisions of SFAS No. 52 Foreign Currency Translation. Under

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this Statement, we translate all assets and liabilities using period-end exchange rates, and we translate statements of operations items using average exchange rates for the period. We record the resulting translation adjustment within accumulated other comprehensive loss, a separate component of shareholders equity. We recognize foreign currency transaction gains and losses in the statement of operations, including unrealized gains and losses on short-term intercompany obligations using period-end exchange rates, resulting in an increase in the volatility of our consolidated statements of operations. We recognize unrealized gains and losses on long-term intercompany obligations within accumulated other comprehensive loss, a separate component of shareholders equity.

Impairment of Long-Lived Assets. Long-lived assets at June 30, 2007 consist of property, plant and equipment and intangible assets. We review our long-lived assets for impairment whenever events or business circumstances indicate that the carrying amount of an asset may not be recoverable. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of assets to future undiscounted net cash flows expected to be generated by the assets. If we consider such assets impaired, we measure the impairment to be recognized by the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets to be disposed of at the lower of the carrying amount or fair value less costs to sell.

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

SFAS 123(R) requires us to measure the cost of employee services received in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period we require our employee to provide services for the award. We adopted FAS 123(R) on April 1, 2006 using the modified prospective transition method. We calculated the pro forma compensation costs presented previously and in our prior filings using a Black-Scholes option pricing model.

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

Income Taxes. We recognize deferred tax assets and liabilities for future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred tax assets and liabilities using enacted tax rates we expect to apply to taxable income in the years in which we expect to recover or settle those temporary differences. As of March 31, 2007, we had generated approximately $18 million in U.S. net operating loss carryforwards that we cannot use to offset taxable income in foreign jurisdictions. We recognize a valuation allowance when we determine it is more likely than not that we will not realize all or a portion of our deferred tax assets. We have established a valuation allowance for United States and certain foreign deferred tax assets due to the uncertainty that we will generate enough income in those taxing jurisdictions to utilize the assets.

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In addition, future utilization of NOL carryforwards is subject to certain limitations under Section 382 of the Internal Revenue Code. This section generally relates to a 50 percent change in ownership of a company over a three-year period. We believe that the issuance of our common stock in prior public offerings and stock issuances has resulted in an ownership change under Section 382. Accordingly, our ability to use NOL tax attributes generated prior to December 2006 will likely be limited.

Results of Operations

Six Months Ended September 30, 2007 Compared to Six Months Ended September 30, 2006

Net Sales: During the six months ended September 30, 2007, net sales were $6.0 million, representing a $2.5 million or a 70% increase compared to net sales of $3.5 million for the six months ended September 30, 2006. Excluding the translation impact of fluctuations in foreign currency exchange rates, sales increased by approximately 64%. We attribute the vast majority of this growth in sales to our customers in the U.S. as a result of our expanded U.S. sales organization, and the continued growth in sales of our Urgent PC system. Also, in the six months ended September 30, 2007, sales of our Macroplastique product outside of the U.S. increased, which we attribute to our increased marketing focus.

Sales to customers in the U.S. increased to $2.2 million during the six months ended September 30, 2007, from $357,000 in the same period last year. We attribute this growth primarily to the Urgent PC system and the expanded sales organization. During the six months ended September 30, 2007, we had minimal sales of our Macroplastique product in the U.S., which we launched in the U.S. early in 2007, and the I-Stop product, which we discontinued selling in the United States.

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

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

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

consulting fees, offset by a reduction in rent expense for our leased facilities in the United Kingdom and the U.S.

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

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

Amortization of Intangibles: Amortization of intangibles increased from $53,000 during the six months ended September 30, 2006 to $423,000 during the same period in 2007. In April 2007, we acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC system for $4.7 million. We began amortizing the intellectual property assets acquired over six years starting in April 2007.

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

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

We recognize exchange gains and losses primarily as a result of fluctuations in currency rates between the U.S. dollar (the functional reporting currency) and the Euro and British pound (currencies of our subsidiaries), as well as their effect on the dollar denominated short-term intercompany obligations between us and our foreign subsidiaries. We recognized foreign currency gains (losses) of $(16,000) and $30,000 for the six months ended September 30, 2007 and 2006, respectively.

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

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Non-GAAP Financial Measures. The following table reconciles our financial results calculated in accordance to U.S. generally accepted accounting principles (GAAP) to non-GAAP financial measures that exclude non cash charges attributed to stock options under SFAS 123(R), and depreciation and amortization expenses from gross profit, operating expenses and operating loss. The non-GAAP financial measures used by management and disclosed by us are not a substitute for, or superior to, financial measures and consolidated financial results calculated in accordance with GAAP, and you should carefully evaluate our reconciliations to non-GAAP. We may calculate our non-GAAP financial measures differently from similarly titled measures used by other companies. Therefore, our non-GAAP financial measures may not be comparable to those used by other companies. We have described the reconciliations of each of our non-GAAP financial measures above to the most directly comparable GAAP financial measures.

Management uses our non-GAAP financial measures, and in particular non-GAAP operating loss, for internal managerial purposes because we believe such measures are one important indicator of the strength and the performance of our business because they provide a link to operating cash flow. We also believe that analysts and investors use such measures to evaluate the overall operating performance of companies in our industry, including as a means of comparing period-to-period results and as a means of evaluating our results with those of other companies.

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

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

Year Ended March 31, 2007 Compared to Year Ended March 31, 2006

Net Sales. In fiscal 2007, net sales were $8.3 million, representing a $2.2 million or 35% increase compared to net sales of $6.1 million for fiscal 2006. Excluding the impact of fluctuations in foreign currency exchange rates, net sales increased by approximately 29%. Sales to customers in all our major geographic areas recorded an increase. We attribute approximately 63% of the $2.2 million increase to the growth in sales to our customers in the U.S.

We attribute the increase in sales primarily to our U.S. sales organization, which we fully established during the quarter ended December 31, 2006, and the second generation Urgent PC system, which we introduced in September 2006 outside of the U.S., and October 2006 in the U.S. Also, growth in sales in the fourth quarter of fiscal 2007 of our Macroplastique product, which we attribute to our increased marketing focus, reversed the decline in sales in the earlier quarters to an overall increase in sales for fiscal 2007.

Sales to customers in the U.S. for fiscal 2007 increased to $1.5 million from $95,000 in fiscal 2006. We attribute this growth primarily to the Urgent PC system and the fully established sales organization. During fiscal 2007 we had minimal sales of our Macroplastique product in the U.S., which we launched in early 2007, and the I-Stop product, which we discontinued selling in the United States.

Gross Profit. Gross profit was $5.7 million and $4.3 million for the fiscal years ended March 31, 2007 and 2006, respectively, or 69% and 70% of net sales in the respective periods. In the third quarter of fiscal 2007, we incurred approximately $107,000 of charges related to rework, scrap and warranty for one of our new products. In the fourth quarter of fiscal 2007, we incurred $16,000 of restructuring charges (consisting of $221,000 of cash charges, related to severance payments, offset by $205,000 of non cash benefits, related to pension curtailment), $187,000 of inventory write-off charges relating to the discontinuance of the I-Stop product sales in the U.S., and an estimated $60,000 of benefits from increased manufacturing capacity utilization as we stepped up production to meet our product

needs during our production transition from our Eindhoven, The Netherlands facility, which we plan to close, to our Minnesota facility. We expect to complete this manufacturing transition in late 2007, at which time we expect to incur an additional $120,000 of restructuring charges primarily related to exiting our leased Eindhoven facility.

General and Administrative Expenses. General and administrative (G&A) expenses increased from $3.0 million in fiscal 2006 to $3.2 million in fiscal 2007. During fiscal 2007 we incurred a $594,000 non-cash, SFAS 123(R) charge for share-based employee compensation. Excluding this charge, G&A expenses in fiscal 2007 declined by $394,000, in part due to a $250,000 decrease in personnel-related costs, offset by an increase in rent expense. In addition, in fiscal 2006 we incurred $170,000 of charges to install our new information system, offset by a $145,000 reversal of bad debt expense.

Research and Development Expenses. Research and development (R&D) expenses decreased from $3.3 million in fiscal 2006 to $2.3 million in fiscal 2007. During fiscal 2007, we incurred a $28,000 non-cash, SFAS 123(R) charge for share-based employee compensation. During fiscal 2007, our personnel-related and consulting costs declined by $360,000 and $760,000, respectively. Offsetting these reductions was a $130,000 increase in clinical costs, primarily related to a trial comparing the efficacy of our Urgent PC system against a leading drug therapy for treatment of overactive bladder symptoms. Personnel-related costs declined because in fiscal 2007 we had fewer employees and in fiscal 2006 we incurred a $205,000 expense related to severance compensation for our former Vice President of R&D and Managing Director of our United Kingdom subsidiary. In fiscal 2006, we incurred consulting expense primarily for the development of our second generation Urgent PC system.

Selling and Marketing Expenses. Selling and marketing expenses increased from $3.4 million in fiscal 2006 to $5.2 million in fiscal 2007. During fiscal 2007, we incurred a $61,000 non-cash, SFAS 123(R) charge for share-based employee compensation. We attribute the increase to a $760,000 rise in compensation-related costs, a $430,000 increase in commissions for sales agents and independent sales representatives, primarily for our U.S. direct sales force and marketing organization, and a $330,000 increase in travel-related and other costs to support our expanding marketing activities.

Other Income (Expense). Other income (expense) includes interest income, interest expense, warrant expense or benefit, foreign currency exchange gains and losses and other non-operating costs when incurred. Our other income (expense) is subject to material fluctuations based on changes in currency exchange rates and fluctuations in our stock price, as that affects the fair value of certain, now exercised, warrants. Other income was $142,000 and $789,000 for fiscal 2007 and 2006, respectively.

In May 2002, we conducted a public rights offering. In the rights offering, we issued to those shareholders who exercised their rights three shares of our common stock and a warrant, exercisable through July 2004, to purchase an additional share of our common stock. We registered with the SEC the issuance of the shares, the warrants and the shares underlying the warrants. In July 2004, we suspended the right to exercise the warrants shortly before their scheduled expiration date because we announced a planned restatement of our fiscal 2004 financial statements. In November 2004, we became current with our SEC filings. In April 2005, we chose to issue like-kind replacement warrants to the holders of the expired warrants. The terms for the replacement warrants required that we issue shares covered by a registration statement and maintain the effectiveness of the registration (by making timely SEC filings) for the warrant holders to receive registered shares upon exercise of the warrants. In April 2005, we recognized a liability and equity charge of $1.4 million associated with the grant of these warrants, and subsequently recognized in other income (expense) the change in fair value of the warrants due to the change in the value of our common stock issuable upon exercise of these warrants. We determined the fair value of the warrants using the Black-Scholes option-pricing model. The period to exercise the warrants ended in March 2007, 90 days after the effective date of the registration statement we filed with SEC. We recognized a net warrant (expense) benefit of $(29,000) and $707,000 in fiscal 2007 and 2006, respectively.

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We recognize exchange gains and losses primarily as a result of fluctuations in currency rates between the U.S. dollar (the functional reporting currency) and the euro and British pound (currencies of our subsidiaries), as well as their effect on the dollar denominated short-term intercompany obligations between our foreign subsidiaries and us. We recognized foreign currency gain (loss) of $27,000 and $(31,000) in fiscal 2007 and 2006, respectively.

Income Tax Expense. Our Dutch subsidiary recorded income tax (expense) benefit of $(146,000) and $47,000 in fiscal 2007 and 2006, respectively. We cannot use the U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. The maximum Dutch income tax rate was 29.6% and 31.5%, respectively, in fiscal 2007 and 2006, for taxable income in excess of 22,689 (approximately $30,000). Effective January 1, 2007, the maximum tax rate is 25.5% for taxable income in excess of 60,000.

Liquidity and Capital Resources

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

At September 30, 2007, we had working capital of approximately $6.5 million. For the six months ended September 30, 2007, we used $1.7 million of cash in operating activities, compared to $2.7 million of cash used in the same period a year ago. We attribute the decrease in cash used in operating activities primarily to the increase in sales and an improvement in gross margin rate, offset partially by moderate increase in cash operating expenses.

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

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

In May 2007, we amended our business loan agreement with Venture Bank. The agreement, expiring in May 2008, provides for a credit line of up to $1 million secured by our assets. We may borrow up to 50% (to a maximum of $500,000) of the value of our eligible inventory on hand in the U.S. and 80% of our eligible U.S. accounts receivable value. To borrow any amount, we must maintain consolidated net equity of at least equal to $3.5 million as well as maintain certain other financial covenants on a quarterly basis. The bank charges interest on the loan at a per annum rate of the greater of 7.5% or one percentage point over the prime rate (7.75% on September 30, 2007). In addition, Uroplasty BV, our subsidiary, entered into an agreement with Rabobank of The Netherlands for a 500,000 (approximately $714,000) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (5.25% on September 30, 2007), subject to a minimum interest rate of 3.5% per annum. At September 30, 2007, we had no borrowings under any of our credit lines.

Because we have yet to achieve profitability and generate positive cash flows, we will need to raise additional debt or equity financing to continue funding for product development, continued expansion of our sales and marketing activities and planned growth activities beyond fiscal 2008. To this end, we have filed a registration statement relating to our proposed public offering of up to 3,000,000 shares (excluding an over-allotment option) of our common stock. There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. If we are unable to raise the needed funds, we will need to curtail our operations including product development, clinical studies and sales and marketing activities. This

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would adversely impact our future business and prospects. Ultimately, we will need to achieve profitability and generate positive cash flows from operations to fund our operations and grow our business.

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

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

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

In January 2006, we entered into a long-term lease with Liberty Property Limited Partnership for an 18,258 square foot facility for our U.S. headquarters located at 5420 Feltl Road, Minnetonka, Minnesota. The lease effective date was May 1, 2006, has a term of 96 months, requires average annual minimum rent payments of approximately $140,000 and requires payments for operating expenses we estimated at approximately $82,000 over 12 months.

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

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

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

Recent Accounting Pronouncements

In February 2007, the FASB issued Statement 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS 159. This statement allows all entities to choose, at specified election dates, to measure eligible items at fair value. Under this option, an entity will report in earnings unrealized gains and losses on items for which it has elected the fair value option. This statement is effective as of the beginning of the first fiscal year beginning after November 15, 2007. Early adoption

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is permitted as of the beginning of the fiscal year that begins on or before November 15, 2007, provided the company has also elected to apply the provisions of FASB Statement No. 157, Fair Value Measurements. We are currently evaluating the impact, if any, of adopting SFAS 159 on our consolidated financial statements.

In September 2006, FASB issued Statement No. 157, *Fair Value Measurements*, or SFAS 157, which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. More precisely, SFAS 157 sets forth a standard definition of fair value as it applies to assets or liabilities, the principal market (or most advantageous market) for determining fair value (price), the market participants, inputs and the application of the derived fair value to those assets and liabilities. The effective date of this pronouncement is for all full fiscal and interim periods beginning after November 15, 2007. We are currently evaluating the impact, if any, of adopting SFAS 157 on our financial statements.

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BUSINESS

Overview

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

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

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

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

We believe we are the only company offering a non-surgical neurostimulation therapy for the treatment of OAB symptoms. We have intellectual property rights relating to key aspects of our neurostimulation therapy, and we believe our intellectual property portfolio provides a significant competitive advantage.

Market

Neurostimulation Market

Neurostimulation, a form of therapy in which a low-voltage electrical current is used to treat medical conditions affecting parts of the nervous system, has grown dramatically in recent years. According to Medtech Insight, the U.S. market for neurostimulation devices is expected to grow from approximately $628 million in 2006 to approximately $2 billion in 2012, representing a compound annual growth rate in excess of 20%. FDA-approved neurostimulation devices are currently utilized to treat a range of indications, including voiding dysfunctions, chronic pain, epilepsy, essential tremor, Parkinson s disease, hearing loss and depression. These devices are implanted in the

body or used in a non-invasive manner to stimulate different parts of the nervous system, including the spinal cord, sacral nerves and vagus nerve, among other areas. We believe the neurostimulation market represents a significant opportunity for us in the treatment of OAB symptoms.

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Voiding Dysfunction Market

Voiding dysfunctions affect urinary or fecal control and can result in uncontrolled bladder sensations (overactive bladder) or unwanted leakage (urinary or fecal incontinence). OAB is a prevalent and challenging urologic problem affecting an estimated 34 million Americans. In 1996, the Agency for Health Care Policy and Research (AHCPR), a division of the Public Health Service, U.S. Department of Health and Human Services, estimated that urinary incontinence affected about 13 million people in the United States, of which 85% (11 million) were women. AHCPR estimated the total cost of treating incontinence (management and curative approaches) of all types in the United States as $16 billion. Historically, we believe only a small percentage of the patients suffering from these disorders have sought treatment. In recent years, however, we believe the number of people seeking treatment has grown as a result of the publicity associated with new minimally invasive treatment alternatives.

When patients seek treatment, physicians generally assess the severity of the symptoms as mild, moderate or severe. Regardless of the degree of severity, however, patients will often consider drug therapy and minimally invasive treatment first. We believe that our company is uniquely positioned because we offer office-based minimally invasive treatment solutions.

We believe that over the next several years a number of key demographic and technological factors will accelerate growth in the market for medical devices to treat OAB symptoms and urinary incontinence. These factors include the following:

Technology advances and patient awareness. Patients often weigh the clinical benefits against the invasiveness of the procedures when choosing a treatment alternative. In recent years, with the publicity associated with new technology and minimally invasive treatment alternatives, we believe the number of patients visiting their physicians to seek treatment for voiding dysfunctions has increased. As a result, we believe more patients will begin to choose treatments other than drug therapy, which may have adverse side effects, or other alternatives, which simply manage their disorder.

Emphasis on quality of life. Patients have placed an increased emphasis on quality of life issues and maintaining active lifestyles. Their desire to improve quality of life is usually an important factor in selecting a treatment for their disorder. We believe patients seeking treatment are increasingly considering alternatives designed to cure or treat a voiding dysfunction rather than simply manage it. As a result, we believe patients will increasingly choose minimally invasive surgical treatments or other effective treatments such as neurostimulation.

Aging population. The number of individuals developing voiding dysfunctions will increase significantly as the population ages and as life expectancies continue to rise.

Background of Overactive Bladder Symptoms

For individuals with overactive bladder symptoms, the nervous system control for bladder filling and urinary voiding is incompetent. Signals to indicate a full bladder are sent early and frequently, triggers to allow the bladder to relax for filling are ineffective and nervous control of the urethral sphincter, to keep the bladder closed until an appropriate time, is inadequate. An individual with OAB may exhibit one or all of the symptoms that characterize overactive bladder: urinary urgency, urinary frequency and urge incontinence. Urgency is the strong, compelling need to urinate and frequency is a repetitive need to void. For most individuals, normal urinary voiding is eight times per day while individuals with an overactive bladder may seek to void over 20 times per day and at least two times during the night. Urge incontinence is an immediate, compelling need to urinate that typically results in an accident before the individual can reach the restroom.

Treatment of Overactive Bladder Symptoms

Drug Therapy. The most common treatment for OAB is drug therapy using an anticholinergic agent. However, for some individuals, the drugs are ineffective or the side effects so bothersome that the

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patient discontinues the medications. Common side effects include dry mouth, constipation and headaches.

Biofeedback and Behavioral Modification. Bladder training and scheduled voiding techniques, often accompanied by the use of voiding diaries, are non-invasive approaches to managing OAB. Because these techniques rely on the diligence and compliance of the individual, these techniques are seldom effective. In addition, these techniques may not affect the underlying cause of the condition.

Neurostimulation. Normal urinary control is dependent upon properly functioning neural pathways and coordination among the central and peripheral nervous systems, the nerve pathways, bladder and sphincter. Unwanted, uncoordinated or disrupted signals along these pathways can lead to OAB symptoms. Therapy using neurostimulation incorporates electrical stimulation to target specific neural tissue and jam the pathways transmitting unwanted signals. To alter bladder function, stimulation must be delivered to the sacral nerve plexus, the neural tissue affecting bladder activity. Neurostimulation for OAB is presently conducted through an implantable sacral nerve stimulation device or a non-surgical percutaneous tibial nerve stimulation (PTNS).

Surgical. The sacral nerve stimulation device is surgically implanted under the skin in the lower back to deliver mild electrical pulses to the sacral nerve. We believe that most office-based physicians will first recommend to patients drug therapy or PTNS treatments over the invasive, surgically implanted procedure. We believe that patients are also more inclined to elect a less invasive treatment option for OAB symptoms instead of an invasive surgery.

Non-Surgical. PTNS delivers stimulation to the sacral nerve plexus by temporarily applying electrical pulses to the tibial nerve, accessed through a non-surgical approach on the lower leg. Neurostimulation using PTNS has a therapeutic effect similar to that of the implantable sacral nerve stimulator. Because PTNS is non-surgical, it has a low risk of complication and is typically performed in a physician s office.

Uroplasty Solution for Overactive Bladder Symptoms

Urgent PC Non-Surgical Neurostimulation System

The Urgent PC system is a minimally invasive nerve stimulation device designed for office-based treatment of urge incontinence, urinary urgency and urinary frequency symptoms of an overactive bladder. Using PTNS near the ankle, the Urgent PC system delivers an electrical pulse that travels to the sacral nerve plexus, a control center for bladder function.

We believe that the Urgent PC system is the only non-surgical PTNS device in the United States market for treatment of overactive bladder symptoms. Components of the Urgent PC system include a hair-width needle electrode, a lead set and an external, handheld, battery-powered stimulator. For each 30-minute office-based therapeutic session, the physician or other qualified person temporarily inserts the needle electrode in the patient s lower leg and connects the electrode to the stimulator. Typically, a patient undergoes 12 treatment sessions at one-week intervals, with follow-up treatments as required to maintain symptom reduction.

In late 2005, we received regulatory approvals for sale of the Urgent PC system in the United States, Canada and Europe. Subsequently, we launched the system for sale in those markets. We launched our second generation Urgent PC system in late 2006.

Background of Urinary Incontinence

Causes of Urinary Incontinence

The mechanisms of urinary continence are complicated and involve the interaction among several anatomical structures. In females, urinary continence is controlled by the sphincter muscle and pelvic floor support structures that maintain proper urethral position. The sphincter muscle surrounds the urethra and provides constrictive pressure to prevent urine from flowing out of the bladder. Urination

occurs when the sphincter relaxes as the bladder contracts, allowing urine to flow through the urethra. Incontinence may result when any part of the urinary tract fails to function as intended. Incontinence may be caused by damage during childbirth, pelvic trauma, spinal cord injuries, neurological diseases (e.g., multiple sclerosis and poliomyelitis), birth defects (e.g., spina bifida) and degenerative changes associated with aging.

Types of Urinary Incontinence

There are four types of urinary incontinence:

Stress Urinary Incontinence Stress urinary incontinence, or SUI, refers to the involuntary loss of urine due to an increase in intra-abdominal pressure from ordinary physical activities, such as coughing, sneezing, laughing, straining or lifting. We believe at least 9 million women suffer with SUI. SUI is caused by urethral hypermobility and/or intrinsic sphincter deficiency. Urethral hypermobility abnormal movement of the bladder neck and urethra occurs when the anatomic supports for the bladder neck and urethra have weakened. This anatomical change is often the result of childbirth. Stress urinary incontinence can also be caused by intrinsic sphincter deficiency, or the inability of the sphincter valve or muscle to function properly. Intrinsic sphincter deficiency, or ISD, can be due to congenital sphincter weakness or can result from deterioration of the urethral muscular wall due to aging or damage following trauma, spinal cord lesion or radiation therapy. SUI is the most common form of incontinence in women.

Urge Incontinence Urge incontinence refers to the involuntary loss of urine associated with an abrupt, strong desire to urinate. Urge incontinence often occurs when neurologic problems cause the bladder to contract and empty with little or no warning.

Overflow Incontinence Overflow incontinence is associated with an over-distention of the bladder. This can be the result of an under-active bladder or an obstruction in the bladder or urethra.

Mixed Incontinence Mixed incontinence is the combination of both urge and stress incontinence (and, in some cases, overflow). Since prostate enlargement often obstructs the urethra, older men often have urge incontinence coupled with overflow incontinence.

There are two general approaches to dealing with urinary incontinence. One approach is to manage symptoms, such as through absorbent products, catheters, behavior modification and drug therapy. The other approach is to undergo curative treatments in an attempt to restore continence, such as injection of urethral bulking agents or surgery. We believe that patients prefer less invasive treatments that provide the most benefit and have little or no side effects.

Curative Treatment of Urinary Incontinence

Injectable Bulking Agents. Urethral bulking agents are inserted with a needle into the area around the urethra, augmenting the surrounding tissue for increased capacity to control the release of urine. Hence, these materials are often called bulking agents or injectables. Urethral bulking agents may be either synthetic or biologically derived and are an attractive alternative to surgery because they are considerably less invasive and do not require use of an operating room for placement; urethral bulking agents can be implanted in an office or out-patient facility. Additionally, the use of a urethral bulking agent does not preclude the subsequent use of more invasive treatments if required. Furthermore, for patients who have had more invasive treatments, such as slings which do not completely resolve their stress urinary incontinence conditions, bulking agents may be used to bring together any remaining urethral opening that may exist.

Surgery. In women, stress urinary incontinence can be corrected through surgery with a sling which provides a hammock-type support for the urethra to prevent its downward movement and the associated leakage of urine.

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Uroplasty Solution for Urinary Incontinence

Macroplastique

Macroplastique is used to treat stress urinary incontinence, the most common form of urinary incontinence in women. It is designed to restore the patient s urinary continence immediately following treatment. Macroplastique is a soft-textured, permanent implant placed endoscopically around the urethra distal to the bladder neck. It is a proprietary composition of heat vulcanized, solid, soft, irregularly shaped polydimethylsiloxane (solid silicone) implants suspended in a biocompatible carrier gel. We believe our compound is better than other commercially available bulking agents because, with its unique composition, shape and size, it does not degrade, is not absorbed into surrounding tissues and does not migrate from the implant site. This reduces the need for follow-up treatments.

We have sold Macroplastique for urological indications in over 40 countries outside the United States since 1991. In October 2006, we received FDA pre-market approval for the use of Macroplastique to treat adult female stress incontinence. We began marketing Macroplastique in the United States in early 2007.

Other Uroplasty Products

I-Stop is a biocompatible, polypropylene, tension-free sling for the treatment of female urinary incontinence. Our I-Stop sling can correct stress urinary incontinence by providing tension-free hammock-type support for the urethra to prevent its downward movement and the associated leakage of urine. We have an exclusive distribution agreement with CL Medical to sell this product in the United Kingdom.

We have, and are developing additional, minimally invasive products to address fecal incontinence. Our PTQ Implants offer a minimally invasive treatment for patients with fecal incontinence. They are soft-textured, permanent implants. For treatment of fecal incontinence, PTQ Implants are implanted circumferentially into the submucosa of the anal canal. Injection creates a bulking and supportive effect similar to that of Macroplastique injection for the treatment of stress urinary incontinence. The product is CE marked and currently sold outside the United States in various international markets.

In addition to urological applications, we market our proprietary tissue bulking material outside the United States for reconstructive and cosmetic plastic surgery under the trade name Bioplastique Implants and for otolaryngology vocal cord rehabilitation applications under the trade name VOX Implants.

In The Netherlands and United Kingdom only, we distribute certain wound care products in accordance with a distributor agreement. Under the terms of the distributor agreement, we are not obligated to purchase any minimum level of wound care products.

Uroplasty Strategy

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

Educate physicians about the benefits of Urgent PC. We believe education of physicians and patients regarding the benefits of the Urgent PC system is critical to the successful adoption of this system. To this end, we have initiated a United States multi-center randomized prospective clinical trial comparing the Urgent PC

system to the most commonly prescribed pharmaceutical treatment of OAB symptoms. We believe the results of this and other studies, if successful, will allow us to expand our marketing and clinical sales efforts. These sales and marketing efforts

may include physician training and education programs which will emphasize the clinical efficacy and ease of use of our Urgent PC system.

Build patient awareness of office-based solutions. Patients often weigh the quality of life benefits of electing to undergo a surgical procedure against the invasiveness of the procedure. We intend to continue to expand our marketing efforts to build patient awareness of these treatment alternatives and encourage patients to see physicians. These marketing efforts may include patient-oriented marketing materials for physicians to use to inform patients of the availability and potential benefits of our Urgent PC system. Increasing patient awareness of our treatment alternatives will help physicians build their practices and simultaneously increase sales of our products

Focus on office-based solutions for physicians. We believe that our company is uniquely positioned to provide a broad product offering of office-based solutions for physicians. By expanding our United States presence, we intend to develop long-standing relationships with leading physicians treating overactive bladder and incontinence symptoms. These relationships will provide us with a source of new product ideas and a conduit through which to introduce new products. We also intend to develop marketing programs to assist physicians in marketing their practices and to provide innovative programs focused on helping physicians attract patients and develop referral networks. Building these relationships is an important part of our growth strategy, particularly for the development and introduction of new products.

Increase market coverage in the United States and internationally. We believe that in addition to the international market, the United States presents a significant opportunity for future sales of our products. In order to grow our United States business, we have expanded our sales organization, consisting of direct field sales personnel and independent sales representatives, marketing organization and reimbursement department to market our products directly to our customers. We anticipate further increasing our sales and marketing organization in the United States, as needed, to support our sales growth. In addition, we intend to expand our European presence by creating new distribution partnerships.

Develop, license or acquire new products. We believe that our office-based solutions are an important competitive advantage because they allow us to address the various preferences of doctors and patients, as well as the quality of life issues presented by voiding dysfunctions. An important part of our growth strategy is to broaden our product line further to meet customer needs by developing new products.

Sales, Distribution and Marketing

We are focusing our sales and marketing efforts primarily on urologists, urogynecologists and gynecologists with significant office-based and outpatient surgery-based patient volume.

In order to grow our United States business, we have expanded our sales organization, consisting of direct field sales personnel and independent sales representatives, marketing organization and reimbursement department to market our products directly to our customers. Our current field sales organization consists of 17 direct field sales personnel and 11 independent sales representatives groups. We anticipate further increasing our sales and marketing organization in the United States, as needed, to support our sales growth.

Outside of the United States, we sell our products primarily through a direct sales organization in the United Kingdom and in all other markets primarily through distributors. Each of our distributors has a territory-specific distribution agreement, including requirements indicating they may not sell products that compete directly with ours. Collectively, our distributors accounted for approximately 52% and 65% of total net sales for fiscal 2007 and 2006, respectively. We intend to expand our European presence by creating new distribution partnerships.

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We use clinical studies and scientific community awareness programs to demonstrate the safety and efficacy of our products. This data is important to obtain regulatory approval and to support our sales staff and distributors in securing product reimbursement in their territories. Publications of clinical data in peer-reviewed journals add to the scientific community awareness of our products, including patient indications, treatment technique and expected outcomes. We provide a range of activities designed to support surgeons in their clinical evaluation study design, abstract preparation, manuscript creation and review and submission.

Third-Party Reimbursement

In the United States as well as in foreign countries, sales of our products will depend in part on the availability of reimbursement from third-party payors. In the United States, third-party payors consist of government programs, such as Medicare, private health insurance plans, managed care organizations and other similar programs. For any product, three factors are critical to reimbursement:

coding, which ensures uniform descriptions of procedures, diagnoses and medical products;

coverage, which is the payor s policy describing the clinical circumstances under which it will pay for a given treatment; and

payment processes and amounts.

As a relatively new therapy, PTNS using the Urgent PC system has not been assigned a reimbursement code unique to the technology. However, a number of practitioners are using an existing reimbursement code that closely describes the procedure. In addition, Aetna and Blue Cross Blue Shield of Minnesota, Delaware, Northern Virginia, District of Columbia and Maryland have published policies providing coverage for PTNS under an existing reimbursement code. We will need to continue to work with third-party payers for coverage policies, as well as educating medical directors, customers and patient advocates to secure broader acceptance of this therapy.

We believe there are appropriate codes available to describe use of Macroplastique to treat female SUI in the United States. We will need to foster coverage policies and payor acceptance to increasingly support sales in the United States.

Outside of the United States, government managed health care systems and private insurance control reimbursement for devices and procedures. Reimbursement systems in international markets vary significantly by country. In the European Union, reimbursement decision-making is neither regulated nor integrated at the European Union level. Each country has its own system, often closely protected by its corresponding national government. Reimbursement for Macroplastique has been successful in multiple international markets where hospitals and physicians have been able to get budgets approved by fund-holder trusts or global hospital budgets.

Manufacturing and Suppliers

We have two manufacturing facilities: a facility in Eindhoven, The Netherlands, which we plan to close in late 2007, and a facility in Minnetonka, Minnesota. The FDA qualified our Minnesota facility in October 2007.

We subcontract the manufacturing of the Urgent PC system and its related components.

Beginning in October 2007, we manufacture all of our tissue bulking products at our Minnesota facility. Our facility uses dedicated heating, ventilation and high efficiency particulate air (HEPA) filtration systems to provide cleanroom and other controlled working environments. Our trained technicians perform all critical manufacturing processes in

qualified environments according to validated written procedures. We use qualified vendors to sterilize our products using validated methods.

Our manufacturing facility and systems are periodically audited by regulatory agencies and other authorities to ensure compliance with ISO 13485 (medical device quality management systems),

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applicable European and Canadian medical device requirements, as well as FDA s Quality Systems Regulations. We also are subject to additional state, local, and federal government regulations applicable to the manufacture of our products. While we believe we are compliant with all applicable regulations, we cannot guarantee that we will pass each regulatory audit.

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

Competition

The market for voiding dysfunction products is intensely competitive. Competitors offer management and curative treatments, including neurostimulation devices, tissue bulking agents and urethral sling products. Indirect and future competitors include drug companies and firms developing new or improved treatment methods. We believe the principal decision factors among treatment methods include physician and patient acceptance of the treatment method, cost, availability of third-party reimbursement, marketing and sales coverage and the existence of meaningful patent protection. In addition to adequately addressing the decision factors, our ability to compete in this market will also depend on the consistency of our product quality as well as delivery and product pricing. Other factors affecting our success include our product development and innovation capabilities, clinical study results, ability to obtain required regulatory approvals, ability to protect our proprietary technology, manufacturing and marketing capabilities and ability to attract and retain skilled employees.

The Urgent PC neurostimulation system is an alternative to the more invasive Medtronic InterStim® device. The Medtronic unit, which stimulates the sacral nerve, requires surgical implantation in the upper buttocks or abdomen. In contrast, the Urgent PC system allows minimally invasive stimulation of the sacral nerve plexus in an office-based setting without surgical intervention. Neotonus markets a non-surgical device to deliver extracorporeal magnetic neurostimulation. In addition, Boston Scientific s Bion® Microstimulator, a device implanted with a needle-like instrument to stimulate the pudendal nerve, is CE mark approved for the treatment of urinary urge incontinence and is undergoing clinical studies in the United States.

Many medications treat symptoms of overactive bladder, some by preventing unwanted bladder contractions, and others by tightening the bladder or urethra muscles or by relaxing bladder muscles. Sometimes, these drugs have unwanted side effects such as dry mouth, vision problems or constipation. Among these medications are Detrol® (Pfizer Inc.), Ditropan® (Alza Corporation), Enablex® (Novartis), Vesicare® (GlaxoSmithKline) and Flomax® (Abbott Laboratories).

Soft-tissue injectable bulking agents competing directly with Macroplastique both outside and in the United States include FDA-approved Contigen® bulking agents manufactured by C.R. Bard, Inc.; Zuidex® and Deflux® (Deflux is FDA-approved for vesico-ureteric reflux use only) manufactured by Q-Med AB; Durasphere® (FDA-approved for female SUI) manufactured by Carbon Medical Technologies; and Coaptite® manufactured by BioForm, Inc. for Boston Scientific. In contrast to the competitive products currently approved for sale, Macroplastique is a synthetic material that will not degrade, resorb or migrate, has no special preparation or storage requirements and does not require the patient to have a skin test prior to the procedure. The silicone-elastomer material has been studied for over 50 years in medical use for such urological applications as artificial urinary sphincters, penile implants, stents and catheters.

Many of our competitors and potential competitors have significantly greater financial, manufacturing, marketing and distribution resources and experience than us. In addition, many of our competitors offer broader product lines within

the urology market, which may give these competitors the ability to negotiate exclusive, long-term supply contracts and to offer comprehensive pricing for their products. It is possible other large health care and consumer products companies may enter this industry in the

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future. Furthermore, smaller companies, academic institutions, governmental agencies and other public and private research organizations will continue to conduct research, seek patent protection and establish arrangements for commercializing products. These products may compete directly with any products that we may offer in the future.

Government Regulation

The testing, manufacturing, promotion, marketing and distribution of our products in the United States, Europe and other parts of the world are subject to regulation by numerous governmental authorities, including the U.S. Food and Drug Administration, or FDA, the European Union and other analogous agencies.

United States

Our products are regulated in the United States as medical devices by FDA under the Food, Drug and Cosmetic Act, or FDC Act. Noncompliance with applicable requirements can result in, among other things:

fines, injunctions, and civil penalties;

recall or seizure of products;

operating restrictions, or total or partial suspension of production;

denial of requests for 510(k) clearance or pre-market approval of new products;

withdrawal of existing approvals; and

criminal prosecution.

Depending on the degree of risk posed by the medical device and the extent of controls needed to ensure safety and effectiveness, there are two pathways for FDA marketing clearance of medical devices. For devices deemed by FDA to pose relatively less risk (Class I or Class II devices), manufacturers, in most instances, must submit a pre-market notification requesting permission for commercial distribution; known as 510(k) clearance. Devices deemed by FDA to pose the greatest risk (Class III devices), such as life-sustaining, life-supporting or implantable devices, or a device deemed not to be substantially equivalent to a previously cleared 510(k) device, require the submission of a pre-market approval application. FDA can also impose restrictions on the sale, distribution or use of devices at the time of their clearance or approval, or subsequent to marketing.

In October 2005, our initial version of the Urgent PC system received 510(k) clearance for sale within the United States. In July 2006, our second generation Urgent PC system received 510(k) clearance for sale within the United States.

In October 2006, we received pre-market approval for the use of Macroplastique to treat female stress urinary incontinence. As part of the FDA-approval process, we are conducting a customary post-market study.

After a device is placed on the market, numerous regulatory requirements apply. These include:

Quality System Regulations, which require manufacturers to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process;

labeling regulations, which govern product labels and labeling, prohibit the promotion of products for unapproved or off-label uses and impose other restrictions on labeling and promotional activities;

medical device reporting regulations, which require that manufacturers report to FDA if their device may have caused or contributed to a death or serious injury or malfunctioned in a way that would likely cause or contribute to a death or serous injury if it were to recur; and

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notices of correction or removal, and recall regulations.

The FDC Act requires that medical devices be manufactured in accordance with FDA s current Quality System Regulations, which require, among other things, that we:

regulate our design and manufacturing processes and control them by the use of written procedures;

investigate any deficiencies in our manufacturing process or in the products we produce;

keep detailed records and maintain a corrective and preventative action plan; and

allow FDA to inspect our manufacturing facilities on a periodic basis to monitor our compliance with Quality System Regulations.

Our manufacturing facility and processes have been inspected and certified in compliance with ISO 13485, applicable European medical device directives and Canadian Medical Device Requirements.

European Union and Other Regions

The European Union has adopted rules that require that medical products receive the right to affix the CE mark, which stands for Conformité Européenne. The CE mark demonstrates adherence to quality assurance standards and compliance with relevant European medical device directives. Products that bear the CE mark can be imported to, sold or distributed within, the European Union.

Our initial version of the Urgent PC system received CE marking approval in November 2005. Our second generation Urgent PC system received CE marking approval and approval from the Canadian Therapeutic Products Directorate of Health in June 2006.

We received CE marking approval for Macroplastique in 1996 for the treatment of male and female stress urinary incontinence and vesicoureteral reflux; for VOX in 2000 for vocal cord rehabilitation applications; for PTQ in 2002 for the treatment of fecal incontinence; and for Bioplastique in 1996 for dermal augmentation applications. Our manufacturing facilities and processes have been inspected and certified by AMTAC Certification Services, a recognized Notified Body, testing and certification firm based in the United Kingdom. The I-Stop sling received CE marking approval in July 2002.

We currently sell our products in approximately 40 foreign countries, including those within the European Union. Requirements pertaining to medical devices vary widely from country to country, ranging from no health regulations to detailed submissions such as those required by FDA. We have obtained regulatory approval where required for us to sell our products in the country. We believe the extent and complexity of regulations for medical devices such as those produced by us are increasing worldwide. We anticipate that this trend will continue and that the cost and time required to obtain approval to market in any given country will increase.

Patents, Trademarks and Licenses

Our success depends in part on our ability to obtain and maintain patent protection for our products, preserve our trademarks and trade secrets and operate without infringing the proprietary rights of third parties. We seek to protect our technology by filing patent applications for patentable technologies we consider important to the development of our business based on an analysis of the cost of obtaining a patent, the likely scope of protection and the relative

benefits of patent protection compared to trade secret protection, among other considerations.

We acquired one granted and several pending patents related to the Urgent PC system when we purchased certain intellectual property assets from CystoMedix in April 2007. In addition, we hold multiple patents covering our Macroplastique materials, processes and applications. As of the date of this prospectus, we have four issued patents in the United States and 20 granted patents in the United Kingdom, Japan, Germany, France, Spain, Italy, Portugal, The Netherlands and Canada. Our patents will expire in the United States at various times between 2011 and 2016 and in other countries

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between 2009 and 2017. There can be no assurance any of our issued patents are of sufficient scope or strength to provide meaningful protection of our products. In addition, there can be no assurance any current or future United States and foreign patents of ours will not be challenged, narrowed, invalidated or circumvented by competitors or others, or that our patents will provide us with any competitive advantage. Any legal proceedings to maintain, defend or enforce our patent rights could be lengthy and costly, with no guarantee of success.

We also seek to protect our trade secrets by requiring employees, consultants, and other parties to sign confidentiality agreements and noncompetition agreements, and by limiting access by outside parties to confidential information. There can be no assurance, however, these measures will prevent the unauthorized disclosure or use of this information or that others will not be able to independently develop this information.

We acquired the Urgent trademark in April 2007 from CystoMedix. We have registered Macroplastique, VOX, PTQ and Bioplastique as trademarks with the U.S. Patent and Trademark Office. In addition, Macroplastique is registered throughout the European Union. CL Medical has licensed its non-registered trademark for the I-Stop sling to us for use in the United Kingdom for purposes of exercising our rights under our agreement with CL Medical.

We have certain royalty agreements under which we pay royalties on sales of Macroplastique, Bioplastique and Macroplastique Implantation System.

Research and Development

We have a research and development program to develop, enhance and evaluate potential new incontinence products. This program incurs costs for regulatory submissions, regulatory compliance and clinical research. Clinical research includes studies for new applications or indications for existing products, post-approval regulatory and marketing and reimbursement approval by third-party payors. Our expenditures for research and development totaled approximately $2.3 million for fiscal 2007 and approximately $3.3 million for fiscal 2006. None of these costs were borne directly by our customers.

Product Liability

The medical device industry is subject to substantial litigation. We face an inherent risk of liability for claims alleging adverse effects to the patient. We currently carry $2 million of worldwide product liability insurance. There can be no assurance, however, our existing insurance coverage limits are adequate to protect us from any liabilities we might incur. Product liability insurance is expensive and in the future may not be available to us on acceptable terms, if at all. Furthermore, we do not expect to be able to obtain insurance covering our costs and losses as a result of any product recall. A successful claim in excess of our insurance coverage could materially deplete our assets. Moreover, any claim against us could generate negative publicity, which could decrease the demand for our products and our ability to generate revenues.

Dependence on Major Customers

During fiscal 2007, two customers each accounted for approximately 10% of our net sales. During fiscal 2006, the same two customers individually accounted for approximately 14% and 11% of our net sales.

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Employees

As of October 5, 2007, we had 66 employees, of which 63 were full-time. No employee has a collective bargaining agreement with us. We believe we maintain good relations with our employees.

Properties

Our corporate headquarters are located at an 18,258 square foot facility in Minnetonka, Minnesota pursuant to a lease that expires in 2014. We own 9,774 square feet of office and warehouse space in Geleen, The Netherlands. We also lease 5,800 square feet of office, warehouse, laboratory and manufacturing space through June 2012 in Eindhoven, The Netherlands. We plan to close the Eindhoven facility in late 2007.

Legal Proceedings

We are not currently a party to any material pending legal proceeding.

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MANAGEMENT

Executive Officers and Directors

The following table sets forth the name, age and position of each of our executive officers and directors:

Name	Age	Position
David B. Kaysen	58	President, Chief Executive Officer and Director
R. Patrick Maxwell	63	Chairman
Thomas E. Jamison	47	Director
Lee A. Jones	50	Director
James P. Stauner	53	Director
Sven A. Wehrwein	56	Director
Mahedi A. Jiwani	59	Vice President, Chief Financial Officer and Treasurer
Susan Hartjes Holman	53	Chief Operating Officer and Secretary
Larry Heinemann	55	Vice President of Global Sales
Arie J. Koole	43	Controller and Managing Director Dutch subsidiaries
Marc M. Herregraven	42	Vice President of Manufacturing

David B. Kaysen has served as our President and Chief Executive Officer and as a director since May 2006. From July 2005 to May 2006, Mr. Kaysen served as President, Chief Executive Officer and a director of Advanced Duplications Services, LLC, a privately-held replicator and duplicator of optical media, such as CDs and DVDs. Between December 2002 and June 2005, he served as President, Chief Executive Officer and a director of Diametrics Medical, Inc., then a publicly-traded manufacturer and marketer of critical care blood analysis systems that provide continuous diagnostic results at point of care. From 1992 to 2002, Mr. Kaysen served as Chief Executive Officer, President and a director of Rehabilicare Inc., since renamed Compex Technologies, Inc., a publicly-traded manufacturer and marketer of electromedical rehabilitation and pain management products for clinician, home and industrial use. Mr. Kaysen currently serves on the board of directors of MedicalCV, Inc.

R. Patrick Maxwell has served as Chairman of our Board since June 2006 and has served as a director of our company since April 1994. Mr. Maxwell has over 30 years of experience as a turn around management specialist, an entrepreneur and executive in both the business and non-profit sectors. From November 2005 to February 2007, Mr. Maxwell served as CEO of Entronix Inc. Mr. Maxwell has served as Chief Financial Officer of Tele Resources, Inc. since October 1996 and Chief Financial Officer of Magnum Tire Corporation since March 2003. Mr. Maxwell has served on numerous boards of directors of both business and charitable organizations.

Thomas E. Jamison became a director of our company in August 2000. Mr. Jamison is a shareholder of Fruth, Jamison & Elsass, P.A., a business litigation firm in Minneapolis, Minnesota. From 1996 to 1999, Mr. Jamison served as an investment banker in the Corporate Finance Department of R.J. Steichen & Company. From 1991 to 1996, Mr. Jamison practiced law at Fruth & Anthony, P.A. in Minneapolis.

Lee A. Jones has been a director of our company since August 2006. Ms. Jones has more than 20 years of healthcare and medical device industry experience. Since 1997, she has served as President and Chief Executive Officer of Inlet Medical, Inc. (a Cooper Surgical company since November 2005), specializing in minimally interventional laparoscopic products. Prior to joining Inlet, she had a 14-year career at Medtronic, Inc., where she held various technical and operating positions, most recently serving as Director, General Manager of Medtronic Urology/Interstim

division. Ms. Jones currently serves as a member of the Board of Directors of Impres Medical, Inc.

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James P. Stauner has been a director of our company since August 2006. Mr. Stauner has over 27 years of experience in the healthcare industry. Since July 2005, he has been the Operating Principal with Roundtable Healthcare Partners, a private equity firm focused on the healthcare industry. Prior to joining Roundtable Healthcare Partners, Mr. Stauner held various positions between 1999 and 2005 at Cardinal Health, Inc., most recently as President of the Manufacturing Business Groups and a member of the Senior Management Operating Committee.

Sven A. Wehrwein has been a director of our company since August 2006. Mr. Wehrwein has over 30 years of experience in accounting, corporate finance and investment banking. Since 1999, he has provided financial-consulting services to emerging growth companies. He previously served as Chief Financial Officer of InStent Inc., a medical device company, and Digi International, a networking solutions company. Mr. Wehrwein also serves on the Board of Directors of Image Sensing Systems, Inc., Synovis Life Technologies, Inc., Vital Images, Inc. and Compellent Technologies. He is a Certified Public Accountant.

Mahedi A. Jiwani has served as our Vice President, Chief Financial Officer and Treasurer since November 2005. From 2003 to 2005, Mr. Jiwani served as Chief Financial Officer of M.A. Gedney Company, a Minnesota-based food products distributor. Between 1997 and 2003, he was employed by Telex Communications, Inc., most recently as Vice President of Finance.

Susan Hartjes Holman has served as our Chief Operating Officer since November 2002 and as Secretary since September 1996. She served as our Vice President of Operations and Regulatory Affairs from November 1994 to October 2002. She joined Bioplasty, Inc. in September 1991 as Director of Operations and served as Vice President of Operations and Regulatory Affairs from April 1993 until May 1996. Ms. Holman was Director of Operations at Bio-Vascular, Inc. in St. Paul, Minnesota from November 1989 to September 1991. Prior to that time, she served at various other pharmaceutical and medical device companies in management positions in manufacturing, quality assurance, and research. Ms. Holman is a Senior Member and a Certified Quality Auditor of the American Society for Quality, has served several years on its Executive Committee and subcommittees, and is a member of the Regulatory Affairs Professionals Society and its Ethics Task Force, and the Henrici Society for Microbiologists. She has served on several national and international scientific and regulatory committees, and is a cofounder for the Biomedical Focus Conference and the Biomedical Consortium, Minneapolis, Minnesota.

Larry Heinemann currently serves as our Vice President of Global Sales. He joined us in September 1998 as Director of Sales for North and South America and since then has served in a range of senior executive positions, primarily as a Vice President in the area of sales, marketing and business development. From May 1987 to January 1996, Mr. Heinemann was employed by Bard in various sales and marketing positions in the medical and urological divisions.

Arie J. Koole joined us in May 1993 and has served as our Managing Director and Controller of our operations in The Netherlands since January 2000. From 1987 to 1993, Mr. Koole was a financial auditor with the international accounting firm Deloitte & Touche in The Netherlands.

Marc M. Herregraven has served as our Vice President of Manufacturing since November 2002. He joined Bioplasty, Inc. in April 1992 as Plant Manager, and became Director of Manufacturing in 1994 and Director of Operations in 1999. Previously, he served with Advanced Bio-Surfaces, Inc., a Minnesota-based medical device developer, as Director of Manufacturing, and with Bio-Vascular, Inc., a Minnesota-based medical device manufacturer, in an engineering function. Mr. Herregraven has been a member of the American Society for Quality since 1996.

Board Composition

Our board of directors currently consists of six directors and is divided into three classes. The members of each class serve for a three-year term. At each annual meeting of shareholders, a class of directors will be elected for a three-year term.

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Director Independence

In June 2007, our board conducted an annual review of the independence of our directors and determined that no transactions or relationships existed that would disqualify any of our directors under applicable rules and listing standards of the American Stock Exchange or require disclosure under SEC rules, with the exception of Mr. Kaysen, who is our executive employee. Based upon that finding, our board determined that Messrs. Jamison, Maxwell, Stauner, and Wehrwein, and Ms. Jones are independent.

Committees of the Board of Directors

Our board of directors has established a Compensation Committee, an Audit Committee and a Nominating Committee. Our board of directors believes all members of the Compensation Committee, Audit Committee and Nominating Committee meet the American Stock Exchange s rule governing committee composition, including the requirement that committee members all be independent directors as that term is defined by the American Stock Exchange s rules.

Compensation Committee

The members of our Compensation Committee are Messrs. Jamison (Chair) and Stauner and Ms. Jones. The function of the Compensation Committee is to provide guidance to management and to assist the board in matters relating to the compensation of officers and senior executives, our organizational structure, our compensation and benefits programs, and to act on other matters relating to compensation as the committee deems appropriate.

Audit Committee

The members of our Audit Committee are Messrs. Wehrwein (Chair), Maxwell and Jamison. The Audit Committee assists the board by reviewing the integrity of our financial reporting processes and controls, the qualifications, independence and performance of our independent registered public accounting firm and our compliance with certain legal and regulatory requirements. Our Audit Committee has the sole authority to retain, compensate, oversee and terminate our independent registered public accounting firm. The Audit Committee reviews our annual audited financial statements, quarterly financial statements and filings with the SEC. The Audit Committee reviews reports on various matters, including our critical accounting policies, significant changes in our selection or application of accounting principles and our internal control processes. The Audit Committee also pre-approves all audit and non-audit services performed by our independent registered public accounting firm.

Our board of directors has determined that all members of the Audit Committee are independent directors under SEC rules and has determined that Mr. Wehrwein qualifies as an audit committee financial expert under the rules of the SEC.

Nominating Committee

The members of our Nominating Committee are Messrs. Maxwell (Chair) and Stauner and Ms. Jones. The purpose of the Nominating Committee is to identify qualified individuals for membership on the board and recommend to the board the nominees for election at our annual meetings of shareholders.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our directors, officers and employees, including our Chief Executive Officer, Chief Financial Officer, Controller and other finance organization employees. The Code of Ethics

is publicly available on the investor relations page of our website. We plan to disclose any substantive amendments to the Code of Ethics or grant of any waiver from a

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provision of it to the Chief Executive Officer, the Chief Financial Officer or the Controller in a report on Form 8-K.

Director Compensation

In the beginning of fiscal 2007, we paid non-employee independent board members $500 per board meeting and $500 per Audit Committee meeting attended. In addition, directors participated in our stock option plan.

On August 16, 2006, our board adopted a new compensation plan for non-employee directors. Under the new compensation plan, all non-employee directors receive an annual fee of $10,000 payable in cash in four equal quarterly installments of $2,500, and attendance fees of $1,000 per in-person board meeting, $500 per telephonic board meeting, and $500 per committee meeting. In addition, the Chairs of the board, Audit Committee and Compensation Committee are paid an additional quarterly fee of $1,500, $750 and $500.

All non-employee directors also receive an automatic grant of stock options upon such director s initial appointment or election to the board for 45,000 shares of common stock, one-third of which vests on the date of grant and the first and second anniversaries thereafter. Each non-employee director will be granted in conjunction with our annual shareholders meeting an annual stock option for 15,000 shares of common stock, all of which are vested on the date of grant, except that such annual grant does not commence for newly appointed or elected directors until one year following full vesting of the initial grant.

On August 28, 2006, in connection with their initial appointment to our board, we granted to each of Ms. Jones, Mr. Stauner and Mr. Wehrwein an option to purchase 45,000 shares of our common stock at an exercise price of $1.82 per share.

We pay no additional remuneration to Mr. Kaysen for serving as director.

Director Compensation Table

The following table shows, for each of our non-employee directors, information concerning annual compensation earned for services in all capacities during the fiscal year ended March 31, 2007. The table excludes Mr. Kaysen, who is our President and CEO and does not receive separate compensation for his services as a director.

Name	Fees Earned or Paid in Cash	Stock Option Awards(1)	Total
Lee A. Jones (Class I)	$ 14,000	$ 33,258	$ 47,258
Sven A. Wehrwein (Class II)	16,750	33,258	50,008
R. Patrick Maxwell (Class II)	20,500	29,153	49,653
James P. Stauner (Class III)	14,000	33,258	47,258
Thomas E. Jamison (Class III)	18,000	29,153	47,153
Daniel G. Holman(2)	500		500
Sam B. Humphries(3)	500		500
Joel R. Pitlor(4)	500		500

(1) Values expressed represent the actual compensation cost recognized in our financial statements for 2007 pursuant to SFAS No. 123(R), as discussed under Note 3 to our audited financial statements, which are included elsewhere in this propsectus.

(2) Mr. Holman served as a director until he passed away in June 2006.

(3) Mr. Humphries served as our President and Chief Executive Officer and a director from January 2005 until he resigned in April 2006 to join another company.

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(4) Mr. Pitlor served as a director until he resigned in August 2006.

The following table shows, for each of the Company s non-employee directors, information concerning equity-based awards granted during fiscal 2007 and the corresponding grant date fair value of those awards, as well as the aggregate number of equity-based awards outstanding as of March 31, 2007:

Name	Number of Stock Options Granted in 2007	Grant Date Fair Value of Stock Option Awards Granted in Fiscal 2007(a)	Aggregate Stock Option Awards Outstanding as of 3/31/07
Lee A. Jones (Class I)(b)	45,000	$ 33,258	45,000
Sven A. Wehrwein (Class II)(b)	45,000	33,258	45,000
R. Patrick Maxwell (Class II)(c)	15,000	26,475	95,000
James P. Stauner (Class III)(b)	45,000	33,258	45,000
Thomas E. Jamison (Class III)(c)	15,000	26,475	95,000

(a) Valuation of awards based on the grant date fair value of the awards determined pursuant to SFAS 123(R) as discussed under Note 3 to our audited financial statements, which are included elsewhere in this prospectus.

(b) In August 2006, in connection with their initial appointments to our board, we granted to each of Ms. Jones and Messrs. Wehrwein and Stauner an initial option to purchase 45,000 shares of common stock at an exercise price of $1.82, the closing price of our common stock on the grant date. These options vest in one-third installments on the grant date and each anniversary of the grant date.

(c) Represents our annual grant of fully vested stock options to directors (excluding newly appointed independent directors who receive an initial grant of 45,000 stock options in the first year of service) in conjunction with our annual shareholders meeting, at an exercise price of $2.75, the closing price of our common stock on the grant date.

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Executive Compensation

Summary Compensation Table

The following table contains information regarding all compensation earned during the fiscal year ended March 31, 2007 by our Chief Executive Officer, our Chief Financial Officer, our three other highly compensated executive officers serving at the end of fiscal year 2007, our former Chief Executive Officer and our interim Chief Executive Officer.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	Non-Equity Incentive Compensation Plans ($)(2)	All Other Compensation $(3)	Total ($)(4)
David Kaysen President and CEO(5)	2007	220,673		425,932	63,750	11,500	721,855
Mahedi A. Jiwani Vice President, Chief Financial Officer and Treasurer	2007	179,240		2,124	55,650		237,014
Susan Hartjes Holman COO	2007	181,800		5,088	48,672		235,560
Arie J. Koole Controller, Managing Director Dutch subsidiaries(6)	2007	153,365		4,178	24,983		182,526
Larry Heinemann Vice President Global Sales	2007	156,000		4,785	23,400		184,185
Sam B. Humphries Former President and CEO(7)	2007	18,732					18,732
Daniel G. Holman(8)	2007	26,389					26,389

(1) The amounts reflect the portion of the fair value of the options recognized as expense for financial statement reporting purposes for the fiscal year ended March 31, 2007 in accordance with SFAS No. 123(R), and may include amounts from awards granted in years prior to 2007. Details of the assumptions used in valuing these awards are set forth in Note 3 to our audited financial statements, which are included elsewhere in this prospectus.

(2) Represents cash bonuses earned during fiscal 2007 under our 2007 Management Incentive Plan executive cash incentive bonus plans, which were paid in June 2007.

(3) Represents reimbursement for premium for personal life and disability insurance. All other perquisites and benefits for each named executive officer were less than $10,000 in the fiscal year reported.

(4) Represents the aggregate of the total dollar value of each form of compensation quantified in the table.

(5) In May 2006, Mr. Kaysen became our Chief Executive Officer.

(6) Mr. Koole is compensated in Euros. Accordingly, the U.S. dollar amounts payable to him fluctuate with the fluctuation in the U.S. dollar-Euro exchange rate.

(7) In April 2006, Mr. Humphries, our former President and Chief Executive Officer, resigned to join another company.

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(8) As a result of Mr. Humphries resignation, Mr. Holman acted as our interim President and Chief Executive Officer under a special consulting agreement from April 26, 2006 until May 8, 2006 for which he was paid $9,722. In addition, Mr. Holman was paid $16,333 under the January 2005 consulting agreement.

Grants of Plan-Based Awards in 2007

The following table sets forth information regarding each grant of an award made to a named executive officer under any plan during the fiscal year ended March 31, 2007.

Name	Grant Date(1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(2)			All Other Option Awards: Number of Securities Underlying Options(3)	Exercise or Base Price of Options (Per Share)	Grant Date Fair Value of Stock and Option Awards(4)
		Threshold	Target	Maximum			
David B. Kaysen	5/17/2006	$ 63,750	$ 127,500	$ 127,500	300,000	$ 2.50	$ 684,300
Mahedi A Jiwani	2/02/2007	11,130	92,750	111,300	17,500	2.65	40,845
Susan Hartjes Holman	2/02/2007	11,232	93,600	112,320	12,500	2.65	29,175
Arie J. Koole	2/02/2007	0	15,945	23,918	5,000	2.65	11,670
Larry Heinemann	2/02/2007	7,800	78,000	93,600	10,000	2.65	23,340

(1) All equity-based awards were approved and granted on the date reported other than Mr. Kaysen s, which was approved on May 16, 2007.

(2) These amounts represent the potential cash bonus amounts for fiscal 2007 available to (a) Messrs. Kaysen and Jiwani, under their respective employment agreements, and (b) to the other executive officers under our 2007 Management Incentive Plan. 60% of the actual bonus amount is based upon the achievement of financial performance objectives and 40% of the actual bonus amount is based upon the achievement of business performance objectives. Both financial and business performance objectives are subject to a minimum threshold (90% level of achievement) and maximum threshold (120% level of achievement). Mr. Kaysen s bonus payout is based entirely on achievement of financial objectives and his employment agreement provides for a minimum guaranteed bonus of 25% of base salary for fiscal 2007. Mr. Koole s bonus payout is based entirely on achievement of his business objectives. For all the other named executives, the bonus payout is based on achievement of financial and business objectives. The threshold amount is based on the lower of the minimum guaranteed bonus, if applicable, or the lowest achievement and payout rate of the plan. The target and maximum amounts are based on the assumption that all the objectives of the plan are achieved, respectively, at the target or maximum achievement and payout rates. The actual amounts of the bonuses earned by the executives during fiscal 2007 are listed in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(3) Represents awards of stock options granted in fiscal 2007 to Mr. Kaysen under his employment agreement and to the other executive officers as approved by our Compensation Committee in February 2007. These options vest as described in the table on Outstanding Equity Awards at Fiscal 2007 Year End. The vesting of these awards is based solely on continued employment with us.

(4) Valuation of awards based on the grant date fair value determined pursuant to SFAS 123(R) as discussed under Note 3 to our audited financial statements, which are included elsewhere in this prospectus. The actual compensation cost recognized by us during fiscal 2007 for these awards are listed in the Option Awards column of the Summary Compensation Table.

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Outstanding Equity Awards at 2007 Fiscal Year End

The following table sets forth certain information concerning equity-based awards outstanding to the named executive officers at March 31, 2007.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Options Exercise Price (Per Share)	Option Expiration Date
David B. Kaysen(1)	100,000	200,000	$ 2.50	May 17, 2016
Mahedi A. Jiwani	100,000(2)		3.00	Nov. 14, 2015
		17,500(3)	2.65	Feb. 1, 2014
Susan Hartjes Holman	40,000		1.10	Sept. 4, 2007
	75,000		5.30	Dec. 21, 2009
		12,500(3)	2.65	Feb. 1, 2014
Arie J. Koole	40,000		1.10	Sept. 4, 2007
	50,000		5.30	Dec. 21, 2009
		5,000(3)	2.65	Feb. 1, 2014
Larry Heinemann	40,000		1.10	Sept. 4, 2007
	75,000		5.30	Dec. 21, 2009
		10,000(3)	2.65	Feb. 1, 2014
Sam B. Humphries	24,000(4)		2.25	Aug. 28, 2008
	400,000(5)		5.19	Dec. 31, 2014

(1) Stock option award of 300,000 shares granted in May 2006 under an employment agreement, vesting in one-third installments on the grant date and each anniversary of the grant date.

(2) Stock option award granted in November 2005 under an employment agreement, originally vesting in one-quarter installments on the grant date and each anniversary of the grant date and which was 100% accelerated in February 2006.

(3) Stock option award granted in February 2007, vesting in one-third installments on each anniversary of the grant date.

(4) Stock option award of 30,000 shares, granted in April 2003, vesting in one-fifth installments on the grant date and each anniversary of the grant date, except for the last installment which did not vest as Mr. Humphries resigned as our President and CEO prior to the vesting date.

(5) Stock option award, granted in January 2005 under an employment agreement, originally vesting in one-quarter installments on the grant date and each anniversary of the grant date and which was 100% accelerated in February 2006.

Fiscal 2007 Option Exercises and Stock Vested

The following table sets forth certain information concerning stock options exercised in fiscal 2007 for the named executive officers on an aggregated basis:

	Option Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise**
Susan Hartjes Holman	10,000	$ 6,300(1)

(1) Value realized is based on the number of shares acquired upon exercise times the excess of the per share exercise price over the closing price of our common stock on the option exercise date.

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Employment Agreements and Payments Upon Termination or Change in Control Provisions

Employment Agreements and Other Arrangements

Mr. Kaysen. Effective May 17, 2006, we entered into an employment agreement with David B. Kaysen, our President and Chief Executive Officer. The agreement provides him with an annual base salary of $255,000, which was recently increased to $285,000 effective July 1, 2007. For fiscal 2007, he was entitled to receive an annual cash bonus, not to exceed 50% of his base salary, based on achievement of certain financial objectives, subject to a minimum cash bonus of 25% of his base salary. For fiscal 2007, we paid Mr. Kaysen a cash bonus of $63,750 representing the minimum cash bonus of 25% of his base salary. We will reimburse him up to $11,500 annually for his personal life and disability insurance policies. On his start date, we granted him options, with a 10-year term, to acquire 300,000 shares of our common stock at an exercise price of $2.50 per share. The options vest in one-third installments on the start date of his employment and on the first and second anniversaries of his employment provided he is continually employed by us through the applicable vesting date.

The employment agreement has a one-year term, unless terminated earlier, and will continue to automatically renew on a year-to-year basis. If we terminate the agreement without good cause (as defined in the agreement), we will pay Mr. Kaysen an amount equal to 100% of his then annual base salary as severance pay. However, if we terminate his employment without good cause in connection with a change in control of us, we will pay him an amount equal to 160% of his then annual base salary as severance pay.

Mr. Jiwani. Effective November 14, 2005, we entered into an employment agreement with Mahedi A. Jiwani, our Vice President and Chief Financial Officer. The agreement provides him with an annual base salary of $175,000, which was recently increased to $194,000 effective July 1, 2007. He is also entitled to receive annual bonuses based on achievement of financial and business objectives to be agreed upon. For fiscal 2007, we paid Mr. Jiwani cash bonuses of $11,130 and $44,250 for achieving certain levels of financial and business objectives, respectively. On his start date, we granted him options, with a 10-year term, to purchase 100,000 shares of our common stock at an exercise price of $3.00 per share. His stock options were scheduled to vest 25% on his start date and on each of the first, second and third anniversaries of his employment. On February 2, 2006, the board approved a plan, accelerating the vesting of out-of-the-money options (which included Mr. Jiwani s options) to avoid the accounting charge to our earnings associated with the vesting of these options upon our adoption of FAS 123(R) (which requires the expensing of stock options).

The employment agreement has a one-year term, unless terminated earlier, and will continue to automatically renew on a year-to-year basis. If we terminate the agreement without good cause (as defined in the agreement) including if we do not annually renew his employment agreement, we will pay Mr. Jiwani an amount equal to 100% of his then annual base salary and a prorated share of his annual bonus earned as of the termination date assuming 100% milestone achievement as severance pay. We will pay this amount in twelve equal monthly installments provided Mr. Jiwani is not subsequently employed. He has agreed to a one-year non-competition agreement with us after any termination of employment.

Mr. Holman. Effective January 1, 2005, we entered into an employment and consulting agreement with Daniel G. Holman. Under this agreement, Mr. Holman agreed to serve as Chairman of our Board during the first year of the agreement and as a part-time consultant with the continuing title of Chairman during the second year of the agreement. He also served as our Chief Financial Officer. This agreement provided him with a base salary of $239,000 per year during the first year of the agreement, and a consulting fee of $100,000 per year during the second year of the agreement. We also granted him options to purchase 100,000 shares of our common stock at an exercise price equal to $5.19 per share. As with Mr. Jiwani s options, the options were out-of-the-money and accelerated in

February 2006 to avoid accounting charges to our earnings. On March 27, 2006, we amended Mr. Holman s employment agreement to allow him to pay the minimum statutory withholding taxes

upon the exercise of his options by canceling then-exercisable options in an amount equal to such withholding taxes.

On April 26, 2006, as a result of Mr. Humphries resignation as President and Chief Executive Officer, we amended Mr. Holman s employment and consulting agreement, pursuant to which he agreed to act as our interim President and Chief Executive Officer for a special consulting fee of $8,333 per month and a particular cash bonus upon certain events which did not occur. Due to illness, on May 8, 2006, we terminated this arrangement and paid his special consulting fees through the end of May 2006. Mr. Holman passed away on June 1, 2006.

Other Employment Agreements. We also have employment agreements with each of Susan Hartjes Holman and Larry Heinemann. The employment agreement of each executive specifies a base salary subject to annual adjustment in our discretion, and a severance payment to the employee upon employment termination without cause (as defined in the agreements). Any severance amounts payable under the agreement are limited to the employee s base salary for not less than four months and not longer than twelve months after employment termination, depending on the employee s years of service. Contemporaneously with the execution of their employment agreements, each of these executives executed an Employee Confidentiality, Inventions, Non-Solicitation and Non-Compete Agreement, under which the executive agreed not to disclose confidential information, to assign to us without charge all intellectual property relating to our business which is created or conceived during the term of employment, to not encourage employees to leave our employment for any reason and to not compete with us during the term of employment and for a period of eighteen months thereafter. Also, in connection with the execution of these agreements, we granted these executives varying amounts of stock options to purchase our common stock at the fair market value at date of grant of $7.50 per share. All of these options have lapsed without exercise.

Humphries Separation Agreement. On April 26, 2006, we entered into an agreement with Sam B. Humphries relating to his resignation as President and Chief Executive Officer. Under the terms of the agreement, Mr. Humphries received his base salary and company-provided benefits through April 26, 2006. He is not entitled to any severance payments. Mr. Humphries agreed to remain on our board, subject to the right of the remaining directors to remove him by a majority vote, and to recuse himself from any deliberations or votes relating to any future relationship between us and his new employer, HealthTronics, Inc. The agreement further outlines the scope of Mr. Humphries non-competition agreement with us, which includes prohibiting Mr. Humphries (and consequently HealthTronics, Inc.) from engaging in any business activities relating to the diagnosis or treatment of urinary and fecal voiding dysfunctions or initiating or entering into any agreement or other arrangement with a third party relating to the diagnosis or treatment of urinary or fecal voiding dysfunctions. Mr. Humphries resigned from our board effective August 28, 2006.

Potential Payments and Benefits Upon Termination or Change in Control

Payments Made Upon Termination Due to Death or Disability

Generally, in the event a named executive officer s employment is terminated due to death or disability, such officer is entitled to (a) salary and any earned, but unpaid, annual cash bonus, through the date of termination, and (b) exercise all vested options as of the termination date for a period of time as set forth in the applicable stock option plan or an award agreement for such options.

Acceleration of Stock Options Upon Change in Control

All stock option awards to our named executive officers which are currently 100% vested were granted under our prior plans. All stock option awards to our named executive officers which are not currently 100% vested were granted under our 2006 Stock and Incentive Plan. Under our 2006 Stock and Incentive Plan, in the event of a change in control, whether or not an executive officer s employment is terminated, 100% of the remaining unvested portion of

his or her stock options will immediately vest and be exercisable for the remaining term of the option.

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Payments Made Upon Termination Without Good Cause or Change of Control

The table below shows our reasonable estimates of potential severance payments payable to the named executive officers and the value of such executive s in-the-money vested stock options upon termination without good cause and termination without good cause as a result of a change in control of Uroplasty. The amounts shown assume that termination was effective as of March 30, 2007, the last business day of the fiscal year. Excluded are benefits payable to executive officers. The actual amounts to be paid can only be determined at the actual time of an executive officer s termination. Generally, severance payments are payable in equal monthly installments over a period not exceeding twelve months and are conditioned on the executive s compliance with applicable non-compete and confidentiality obligations under applicable agreements.

Name	Type of Payment	Payments Upon Termination Without Good Cause Non-Change of Control	Payments Upon Termination Without Good Cause Change of Control
David B. Kaysen(1)	Severance Pay	$ 255,000	$ 408,000
	Value of Stock Options(2)		142,000
	Total	255,000	540,000
Mahedi A. Jiwani(3)	Severance Pay	277,750	277,750
	Value of Stock Options(2)	9,800	9,800
	Total	287,550	287,550
Susan Hartjes Holman(4)	Severance Pay	187,200	187,200
	Value of Stock Options(2)		7,000
	Total	187,200	194,200
Arie J. Koole	Severance Pay		
	Value of Stock Options(2)		2,800
	Total		2,800
Larry Heinemann(5)	Severance Pay	104,000	104,000
	Value of Stock Options(2)		5,600
	Total	104,000	109,600

(1) Under his employment agreement, Mr. Kaysen is entitled to 100% and 160% of his then current annual salary for termination without good cause, and termination in connection with a change of control, respectively.

(2) Value computed based on the difference between $3.21, the closing price of our common stock on March 30, 2007 and the exercise price of stock options which would accelerate upon a change of control.

(3) Under his employment agreement, Mr. Jiwani is entitled to 100% of his then current annual salary ($185,000) for any termination without good cause including in connection with a change of control, a prorated amount of the annual cash incentive bonus he would have received assuming 100% target achievement ($92,750), and accelerated vesting of 100,000 stock options. If Mr. Jiwani is terminated for good cause , he is entitled to a pro-rated amount of his annual cash incentive bonus for achievement of the financial objective through the termination date.

(4) Under her employment agreement, Ms. Holman is entitled to her monthly base salary for each full year of employment. Represents twelve months of base salary.

(5) Under his employment agreement, Mr. Heinemann is entitled to his monthly base salary for each full year of employment. Represents eight months of base salary.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Since the beginning of our last fiscal year, we are not a party to a transaction in which a director, executive officer, holder of more than 5% of our common stock or any member of their immediate family had or will have a direct or indirect material interest in which the amount involved exceeds the lesser of

$120,000 or

one percent of the average of our total assets for the last three completed fiscal years.

PRINCIPAL SHAREHOLDERS

The following table sets forth the number and percentage of shares of our common stock beneficially owned as of October 5, 2007 and as adjusted to reflect the sale of shares in this offering by (i) each person known to us to be the beneficial owner of more than 5% of our common stock, (ii) each director, (iii) each of our named executive officers, and (iv) all directors and executive officers as a group.

The number of shares of our common stock outstanding on October 5, 2007 was 13,450,140. Unless otherwise indicated in the footnotes to the table, the address for each shareholder is c/o Uroplasty, Inc., 5420 Feltl Road, Minnetonka, Minnesota 55343, and to our knowledge, each shareholder identified in the table possesses sole voting and investment power over its shares of common stock, except for those jointly owned with that person s spouse.

		Percentage of Shares Beneficially Owned	
Name of Beneficial Owner	**Number of Shares Beneficially Owned**	**Before Offering**	**After Offering**
5% Shareholders			
SF Capital Partners Ltd(1)	1,390,014	10.3%	9.9%
CystoMedix, Inc.(2)	1,417,144	10.5%	9.5
Tapestry Investment Partners, LP(3)	1,092,600	8.1%	7.3
Heartland Advisors, Inc.(4)	1,188,332	8.8%	8.0
Perkins Capital Management(5)	902,102	6.6%	5.9
Officers and Directors			
R. Patrick Maxwell(6)	183,634	1.4%	1.2
David B. Kaysen(7)	216,667	1.6%	1.4
Thomas E. Jamison(8)	128,100	*	*
Lee A. Jones(9)	45,000	*	*
James P. Stauner(10)	45,000	*	*
Sven A. Wehrwein(11)	45,000	*	*
Mahedi A. Jiwani(12)	106,667	*	*
Susan Hartjes Holman(13)	518,042	3.8%	3.4
Larry Heinemann(14)	126,417	*	*
Arie J. Koole(15)	58,333	*	*
All directors and executive officers as group(16)	1,472,860	10.7%	9.8%

(1) The address of SF Capital Partners Ltd. is c/o Stark Offshore Management, LLC, 3600 South Lake Drive, St. Francis, Wisconsin 53235. Excludes 704,167 shares underlying warrants (before offering); and includes 96,250 shares underlying warrants and excludes 607,917 shares underlying warrants (after offering). The warrants are subject to exercise caps that preclude the holder thereof from utilizing its exercise rights to the extent that it would beneficially own in excess of 4.9% and 9.9% of our outstanding common stock, giving effect to such exercise. The holder may waive the 4.9% ownership

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cap, but such waiver will not be effective until the 61st day after delivery thereof. As a result, the holder is not deemed to be the beneficial owner of the shares underlying the warrants as of October 5, 2007. Michael A. Roth and Brian J. Stark are the managing members of Stark Offshore Management, LLC, which acts as investment manager and has sole power to direct the management of SF Capital Partners. Through Stark Offshore Management, Messrs. Roth and Stark possess voting and dispositive power over the shares held by SF Capital Partners and therefore may be deemed to be beneficial owners of the shares. Messrs. Roth and Stark disclaim such beneficial ownership. Based on a Schedule 13G/A filed February 14, 2007.

(2) The address of CystoMedix, Inc. is c/o Frank Harvey, Esq., Larkin, Hoffman, Daly & Lindquist, Ltd., 7900 Xerxes Avenue South, Suite 1500, Bloomington, MN 55435. Jeffrey M. Williams is President and CEO of CystoMedix. Based on a Schedule 13G filed April 18, 2007.

(3) The address of Tapestry Investment Partners, LP is 10 Weybosset Street, Suite 401, Providence, RI 02903. Eliot Rose Asset Management, LLC is deemed to be the beneficial owner of the shares pursuant to separate arrangements whereby it acts as investment adviser to certain persons. Each person for whom Eliot Rose Asset Management, LLC acts as investment adviser has the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the common stock purchased or held pursuant to such arrangements. Gary S. Siperstein is deemed to be the beneficial owner of the shares pursuant to his ownership interest in Eliot Rose Asset Management, LLC. Based on a Schedule 13G filed February 14, 2007.

(4) The address of Heartland Advisors, Inc. is 789 North Water Street, Milwaukee, Wisconsin 53202. Excludes 62,500 shares underlying warrants expiring in August 2011. The warrants are subject to exercise caps that preclude the holder thereof from utilizing its exercise rights to the extent that it would beneficially own in excess of 4.9% and 9.9% of our outstanding common stock, giving effect to such exercise. The holder may waive the 4.9% ownership cap, but such waiver will not be effective until the 61st day after delivery thereof. As a result, the holder is not deemed to be the beneficial owner of the shares underlying the warrants as of October 5, 2007. Heartland Advisors and William J. Nasgovitz, President and a principal shareholder of Heartland Advisors, may be deemed to have shared voting and investment power over the shares. Each disclaims beneficial ownership over the shares. The shares are held in an investment advisory account of Heartland Advisors for the benefit of Turn the Tide, LP, a Wisconsin limited partnership.

(5) The address of Perkins Capital Management is 730 East Lake Street, Wayzata, Minnesota 55391. Includes 85,000 shares underlying warrants expiring in April 2010 and 215,000 shares underlying warrants expiring in August 2011 that may be acquired upon the exercise of warrants within 60 days of October 5, 2007. Richard C. Perkins is Executive Vice President and Portfolio Manager of Perkins Capital Management.

(6) Includes 80,000 shares that Mr. Maxwell may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(7) Includes 216,667 shares that Mr. Kaysen may acquire upon the exercise of options that are exercisable within 60 days of October 5, 2007.

(8) Includes 80,000 shares that Mr. Jamison may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(9) Includes 45,000 shares that Ms. Jones may acquire upon the exercise of options that are exercisable within 60 days of October 5, 2007.

(10)

Includes 45,000 shares that Mr. Stauner may acquire upon the exercise of options that are exercisable within 60 days of October 5, 2007.

(11) Includes 45,000 shares that Mr. Wehrwein may acquire upon the exercise of options that are exercisable within 60 days of October 5, 2007.

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(12) Includes 106,667 shares that Mr. Jiwani may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(13) Includes 178,333 shares that Ms. Holman may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(14) Includes 81,667 shares that Mr. Heinemann may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(15) Includes 56,667 shares that Mr. Koole may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

(16) Includes 1,005,001 shares that our directors and executive officers may acquire upon exercise of options that are exercisable within 60 days of October 5, 2007.

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DESCRIPTION OF CAPITAL STOCK

General

Our authorized capital stock consists of 40,000,000 shares of common stock, $0.01 par value per share. As of October 5, 2007, we had outstanding 13,450,140 shares of common stock and 512 holders of records with respect to our common stock.

The following summary of provisions of our capital stock describes the material provisions of our restated articles of incorporation, as amended, and our bylaws, which are included as exhibits to the registration statement of which this prospectus forms a part.

Common Stock

Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of our shareholders. There is no cumulative voting. Holders of our common stock are entitled to share equally, share for share, if dividends are declared on our common stock. Upon liquidation, dissolution or winding up of our company, the holders of common stock are entitled to share equally, share for share, in our assets which are legally available for distribution, after payment of amounts payable to creditors. The shares of our common stock are not convertible and holders thereof have no preemptive rights. All issued and outstanding shares of common stock are fully paid and nonassessable.

Warrants

As of October 5, 2007, we had issued and outstanding warrants to purchase an aggregate of 2,116,478 common shares, at a weighted average exercise price of $3.81.

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

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

Stock Options

As of October 5, 2007, we had 2,033,100 shares of our common stock subject to outstanding options (of which 1,558,263 are exercisable).

CystoMedix Shares

In April 2007, we issued 1,417,144 shares of our common stock to purchase from CystoMedix, Inc. certain intellectual property assets related to the Urgent PC system. The shares issued to CystoMedix will become eligible for public resale beginning in April 2008.

Indemnification of Directors and Officers and Limitation on Liability

Our restated articles of incorporation, as amended, provide that our directors will not be liable to us or our shareholders for monetary damages for any breach of fiduciary duty, except to the extent otherwise not permitted under Section 302A.251 of the Minnesota Business Corporation Act. This provision will not prevent our shareholders from obtaining injunctive or other relief against our directors nor does it shield our directors from liability under federal or state securities laws.

Our bylaws require us to indemnify our directors and officers to the extent permitted by Section 302A.521 of the Minnesota Business Corporation Act.

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Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons in accordance with the provisions contained in our articles and bylaws, or otherwise, we have been advised that, in the opinion of the Securities and Exchange Commission, this indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Minnesota Anti-Takeover Law and Provisions of our Articles of Incorporation

We are subject to the anti-takeover provisions of Section 302A.673 of the Minnesota Business Corporation Act. Under these provisions, if anyone becomes an interested shareholder, we may not enter into a business combination with that person for four years without special approval, which could discourage a third party from making a takeover offer and could delay or prevent a change of control. For purposes of Section 302A.673, interested shareholder means, generally, someone owning 10% or more of our outstanding voting stock or an affiliate of ours that owned 10% or more of our outstanding voting stock during the past four years, subject to certain exceptions.

Provisions of our articles of incorporation may discourage, delay or prevent a merger or acquisition involving us that our stockholders may consider favorable. For example, our articles of incorporation provide for a staggered board of directors, whereby directors serve for three year terms, with approximately one third of the directors coming up for reelection each year. Having a staggered board will make it more difficult for a third party to obtain control of our board of directors through a proxy contest, which may be a necessary step in an acquisition of us that is not favored by our board of directors.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is StockTrans, Inc.

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UNDERWRITING

The underwriters named below have agreed to buy, subject to the terms of the underwriting agreement, the number of shares listed opposite their names below. The underwriters are committed to purchase and pay for all of the shares if any are purchased.

Underwriters	Number of Shares
Craig-Hallum Capital Group LLC	1,173,120
Noble International Investments, Inc	293,280
Total	1,466,400

The underwriters have advised us that they propose to offer the shares of our common stock to the public at $3.50 per share. The underwriters propose to offer the shares to certain dealers at the same price less a concession of not more than $.126 per share. The underwriters may allow and the dealers may reallow a concession of not more than $.10 per share on sales to certain other brokers and dealers. After the offering, these figures may be changed by the underwriters.

We have granted to the underwriters an option to purchase up to an additional 219,960 shares of common stock at the same price to the public, and with the same underwriting discount, as set forth in the table on the cover of this prospectus. The underwriters may exercise this option at any time during the 30-day period after the date of this prospectus, but only to cover over-allotments, if any. To the extent the underwriters exercise the option, each underwriter will become obligated, subject to the terms of the purchase agreement, to purchase approximately the same percentage of the additional shares as it was obligated to purchase under the purchase agreement.

The following table shows the underwriting fees to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the over-allotment option.

	No Exercise	Full Exercise
Per Share	$ 0.21	$ 0.21
Total	$ 307,944	$ 354,136

We estimate that our total expenses of this offering, excluding underwriting discounts and commissions, will be $150,000. The total offering price is $5,132,400 if the over-allotment option is not exercised and $5,902,260 if the over-allotment option is exercised. Total net proceeds will be $5,398,124 if the over-allotment option is exercised in full.

We have agreed to indemnify the underwriters against certain liabilities, including civil liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in respect of those liabilities.

We, and each of our directors and executive officers, have agreed to certain restrictions on our ability to sell additional shares of our common stock for a period of 90 days after the date of this prospectus. Notwithstanding the foregoing, if

(1) during the last 17 days of the initial 90-day lock-up period, we announce earnings or other material news or a material event relating to us occurs or (2) prior to the expiration of the initial 90-day lock-up period we announce that we will release earnings results during the 16-day period beginning on the last day of the initial 90-day lock-up period, then in each case the initial 90-day lock-up period will be extended until the expiration of the 18-day period beginning on the date of the earnings release or the occurrence of the material news or material event, as applicable, unless Craig-Hallum Capital Group waives, in writing, this extension.

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We have agreed for a period of 90 days from the date of this prospectus not to directly or indirectly offer for sale, sell, contract to sell, grant any option for the sale of, or otherwise issue or dispose of, any shares of common stock, options or warrants to acquire shares of common stock, or any related security or instrument, without the prior written consent of Craig-Hallum Capital Group. The agreements provide exceptions for (1) sales to the underwriters pursuant to the underwriting agreement, (2) our sales in connection with the exercise of options granted and the granting of options to purchase up to an additional 100,000 shares under our existing stock option plans and agreements and (3) certain other exceptions.

To facilitate the offering, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the common stock during and after the offering. Specifically, the underwriters may over-allot or otherwise create a short position in the common stock for their own account by selling more shares of common stock than have been sold to them by us. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriters option to purchase additional shares in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Naked short sales are sales in excess of this option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the underwriters purchases to cover short sales may have the effect of raising or maintaining the market price of our shares or preventing or retarding a decline in the market price of our shares. As a result of such transactions, the price of our shares may be higher than the price that might otherwise exist in the open market.

In addition, the underwriters may stabilize or maintain the price of the common stock by bidding for or purchasing shares of common stock in the open market and may impose penalty bids. If penalty bids are imposed, selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if shares of common stock previously distributed in the offering are repurchased, whether in connection with stabilization transactions or otherwise. The effect of these transactions may be to stabilize or maintain the market price of the common stock at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the common stock to the extent that it discourages resales of the common stock. The magnitude or effect of any stabilization or other transaction is uncertain. These transactions may be effected on the American Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

In connection with this offering, some underwriters and selling group members may also engage in passive market making transactions in the common stock on the American Stock Exchange. Passive market making consists of displaying bids on the American Stock Exchange limited by the prices of independent market makers and effecting purchases limited by those prices in response to order flow. Rule 103 of Regulation M promulgated by the SEC limits the amount of net purchases that each passive market maker may make and the displayed size of each bid. Passive market making may stabilize the market price of the common stock at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

At our request, the underwriters have reserved for sale to our directors and executive officers at the public offering price up to 5% of the shares being offered by this prospectus. The sale of the reserved shares to these purchasers will be made by the underwriters. The purchasers of these shares are subject to a lock-up agreement as described above. We do not know if our directors and executive officers will choose to purchase all or any portion of the reserved shares, but any purchases they do

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make will reduce the number of shares available to the general public. If all of these reserved shares are not purchased, the underwriters will offer the remainder to the general public on the same terms as the other shares offered by this prospectus.

Craig-Hallum Capital Group has acted as placement agent in connection with our private placements completed in April 2005 and August 2006 and a follow-on public offering completed in December 2006, for which it received customary compensation. From time to time in the ordinary course of their respective businesses, certain of the underwriters and their affiliates may in the future engage in investment banking transactions with us and our affiliates.

The underwriters may facilitate the marketing of this offering online directly or through their affiliates. In those cases, prospective investors may view the offering terms and a prospectus online and place orders online or through their financial advisors.

VALIDITY OF COMMON STOCK

The validity of the shares of common stock offered by this prospectus will be passed upon by Messerli & Kramer P.A. Certain legal matters in connection with this offering will be passed upon for the underwriters by Faegre & Benson LLP.

EXPERTS

Our consolidated financial statements as of and for the years ended March 31, 2007 and 2006 included in this prospectus have been so included in reliance upon the report of McGladrey & Pullen, LLP, independent registered public accounting firm, given on the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a Registration Statement on Form SB-2 under the Securities Act with the SEC with respect to this offering. This prospectus, which is included in the registration statement, does not contain all of the information included in the registration statement. Parts of the registration statement are omitted in accordance with the rules and regulations of the SEC. For further information about us and our common stock, we refer you to the registration statement.

We are subject to the informational requirements of the Exchange Act and file reports, proxy statements, and other information with the SEC. You can inspect and copy the registration statement as well as the reports, proxy statements and other information we have filed with the SEC at the public reference room maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public at the website maintained by the SEC at *http://www.sec.gov*.

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Uroplasty, Inc. and Subsidiaries

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Uroplasty, Inc.
Minneapolis, Minnesota

We have audited the consolidated balance sheets of Uroplasty, Inc. and Subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, shareholders equity and comprehensive loss, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Uroplasty, Inc. and subsidiaries as of March 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As disclosed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standard No. 123(R), Share-Based Payment on April 1, 2006, and also as disclosed in Note 1 to the consolidated financial statements on March 31, 2007, the Company adopted Statement of Financial Accounting Standard No. 158, Employers Accounting For Defined Benefit Pension and Other Postretirement Plans .

/s/ McGladrey & Pullen, LLP

Minneapolis, Minnesota
June 6, 2007

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UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
March 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,763,702	$ 1,563,433
Short-term investments	3,000,000	1,137,647
Accounts receivable, net	1,240,141	716,587
Income tax receivable	113,304	270,934
Inventories	823,601	757,062
Other	272,035	353,178
Total current assets	9,212,783	4,798,841
Property, plant, and equipment, net	1,431,749	1,079,438
Intangible assets, net of accumulated amortization of $431,097 and $327,586, respectively	308,093	411,604
Deferred tax assets	93,819	111,361
Total assets	$ 11,046,444 &n	$ 6,401,244