

MDC HOLDINGS INC
Form DEF 14A
March 02, 2005

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OMB APPROVAL

OMB Number: 3235-0059
Expires: February 28, 2006
Estimated average
burden
hours per response 12.75

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ☐
Filed by a Party other than the Registrant ☐

Check the appropriate box:

- ☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☐ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

M.D.C. Holdings, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- ☐ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

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M.D.C. HOLDINGS, INC.

**3600 South Yosemite Street, Suite 900
Denver, Colorado 80237**

March 4, 2005

To Our Shareowners:

You are invited to attend the 2005 Annual Meeting of Shareowners (the Meeting) of M.D.C. Holdings, Inc. (the Company) to be held at 3600 South Yosemite Street, Lower Level Conference Room, Denver, Colorado, on Thursday, April 21, 2005, at 8:00 a.m., Denver time.

Following this letter is the formal notice of the Meeting and a Proxy Statement describing the matters to be acted upon at the Meeting. Shareowners also are entitled to vote on any other matters which properly come before the Meeting.

While some of our shareowners have exercised their right to vote their shares in person, we recognize that most of you are unable to attend the Meeting. Accordingly, enclosed is a proxy card that enables shareowners to vote their shares on the matters to be considered at the Meeting, even if they are unable to attend. Please mark the proxy card to indicate your vote, date and sign the proxy card and return it to the Company in the enclosed postage-paid envelope as soon as conveniently possible. If you desire to vote in accordance with management's recommendations, you need not mark your vote on the proxy card, but need only sign, date and return it in the enclosed postage-paid envelope.

WHETHER YOU OWN FEW OR MANY SHARES OF STOCK, PLEASE BE SURE YOU ARE REPRESENTED AT THE MEETING BY ATTENDING IN PERSON OR BY RETURNING YOUR PROXY CARD AS SOON AS POSSIBLE.

Sincerely,

Larry A. Mizel
Chairman of the Board

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M.D.C. HOLDINGS, INC.

**3600 South Yosemite Street, Suite 900
Denver, Colorado 80237**

NOTICE OF ANNUAL MEETING OF SHAREOWNERS

To Our Shareowners:

The 2005 Annual Meeting of Shareowners (the Meeting) of M.D.C. Holdings, Inc. (the Company) will be held at 3600 South Yosemite Street, Lower Level Conference Room, Denver, Colorado, on Thursday, April 21, 2005, at 8:00 a.m., Denver time, to consider and act upon the following matters:

1. the election of Gilbert Goldstein and William B. Kemper as Class II Directors for three-year terms expiring in 2008; and
2. such other business as properly may come before the Meeting and any postponements or adjournments thereof.

Only shareowners of record at the close of business on February 22, 2005, the record date, will be entitled to vote at the Meeting.

Management and the Board of Directors desire to have maximum representation at the Meeting and respectfully request that you date, execute and timely return the enclosed proxy in the postage-paid envelope provided.

BY ORDER OF THE BOARD OF DIRECTORS,

Joseph H. Fretz
Secretary

March 4, 2005

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M.D.C. HOLDINGS, INC.

**3600 South Yosemite Street, Suite 900
Denver, Colorado 80237**

**PROXY STATEMENT
ANNUAL MEETING OF SHAREOWNERS**

April 21, 2005

To Our Shareowners:

This proxy statement (the **Proxy Statement**) is furnished in connection with the solicitation of proxies by the Board of Directors (the **Board of Directors** or the **Board**) of M.D.C. Holdings, Inc. (the **Company**) to be used at the Annual Meeting of Shareowners of the Company (the **Meeting**) to be held at 3600 South Yosemite Street, Lower Level Conference Room, Denver, Colorado, on Thursday, April 21, 2005, at 8:00 a.m., Denver time, and any postponements or adjournments thereof. The Meeting is being held for the purposes set forth in the accompanying Notice of Annual Meeting of Shareowners. This Proxy Statement, the accompanying proxy card and the Notice of Annual Meeting, collectively referred to as the **Proxy Materials**, are first being sent to shareowners on or about March 4, 2005.

GENERAL INFORMATION

Solicitation

The enclosed proxy is being solicited by the Board of Directors of the Company, which will pay the cost of solicitation. In addition to solicitations by mail, solicitations may be made in person, by telephone or by other means of communication by directors, officers and regular employees of the Company. The Company will reimburse bankers, brokers and others holding shares in their names or in the names of nominees or otherwise for reasonable out-of-pocket expenses incurred in sending the Proxy Materials to the beneficial owners of such shares. Although we presently do not intend to do so, in the event that we retain the services of a proxy solicitation firm to solicit proxies, we would pay all reasonable costs associated with such firm, which we anticipate would not exceed \$10,000 plus costs and expenses.

Householding

Only one Annual Report (as defined below) or Proxy Statement may be delivered to multiple shareowners sharing an address, unless the Company has received contrary instructions from one or more of the shareowners. The Company will deliver promptly, upon written or oral request, a separate copy of the Annual Report or Proxy Statement, as applicable, to a shareowner at a shared address to which a single copy of the proxy statement was delivered. To request a separate copy in the future, or to request delivery of a single copy if multiple copies are being received, the shareowner can direct the request to M.D.C. Holdings, Inc., Attn: Corporate Secretary, 3600 South Yosemite Street, Suite 900, Denver, CO 80237.

Voting Rights

Holders of shares of the Company's common stock, \$.01 par value (the "Common Stock") at the close of business on February 22, 2005 (the "Record Date") are entitled to notice of, and to vote at, the Meeting. As of January 31, 2005, approximately 43,328,000 shares of Common Stock were outstanding.* The presence, in person or by proxy, of the holders

* All share and per share amounts in this Proxy Statement reflect the Company's 10% stock dividend distributed on March 23, 2004 and the 1.3 for 1 stock split effective January 10, 2005.

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of one-third of the total number of shares of Common Stock outstanding constitutes a quorum for transacting business at the Meeting. Each share of Common Stock outstanding on the Record Date is entitled to one vote on each matter presented at the Meeting. The affirmative vote of the holders of a plurality of the shares of Common Stock present or represented and entitled to vote at the Meeting will be required for election to the Board of Directors. In general, approval of other matters requires the affirmative vote of the holders of a majority of the shares of Common Stock represented and entitled to vote at the Meeting.

If your shares are held by a broker, bank or other nominee (often referred to as holding in street name) and you wish to attend the meeting, you will need to bring a legal proxy from the nominee reflecting your share ownership as of the Record Date. All shareowners must check in at the registration desk at the meeting.

Voting Proxies

Shares of Common Stock represented by properly executed proxy cards received by the Company in time for the Meeting will be voted in accordance with the choices specified in the proxies. Unless contrary instructions are indicated on a proxy, the shares of Common Stock represented by such proxy will be voted **FOR** the election as Directors of the nominees named in this Proxy Statement. Abstentions and broker non-votes (proxies that do not indicate that brokers or nominees have received instructions from the beneficial owner of shares) will be counted for purposes of determining the presence or absence of a quorum for the transaction of business. Abstentions are counted in tabulating the total number of votes cast on matters presented to shareowners, whereas broker non-votes are not counted for purposes of determining the total number of votes cast.

Management and the Board of Directors of the Company know of no other matters to be brought before the Meeting. If other matters are properly presented to the shareowners for action at the Meeting and any adjournments or postponements thereof, it is the intention of the proxy holders named in the proxy to vote in their discretion on all matters on which the shares of Common Stock represented by such proxy are entitled to vote.

Revocability of Proxy

The giving of the enclosed proxy does not preclude the right of a shareowner to vote in person. A proxy may be revoked at any time prior to its exercise by notice of revocation in writing sent to the Secretary of the Company, by presenting to the Company a later-dated proxy card executed by the person executing the prior proxy card or by attending the Meeting and voting in person.

Annual Report

The Company's 2004 Annual Report to Shareowners, including the Company's 2004 audited financial statements (the Annual Report), was previously sent to shareowners on or about February 25, 2005, and also may be enclosed with these Proxy Materials. The Annual Report is not incorporated into this Proxy Statement by reference, nor is it a part of the Proxy Materials.

CORPORATE GOVERNANCE

Following enactment of the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), new rules of the Securities and Exchange Commission (the SEC) and amended listing standards of the New York Stock Exchange (the NYSE) implemented new corporate governance provisions. Prior to the adoption of these new requirements, the Company already had corporate governance measures in place. In addition, the Company adopted other measures designed to comply with the new requirements. Among the measures the Company already had in place, and other measures that

the Company has implemented to comply with the new requirements, are the following:

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Director Independence

The amended NYSE listing standards require that the Board of Directors be comprised of a majority of independent directors. The Sarbanes-Oxley Act, SEC rules and amended NYSE listing standards require that audit committees be comprised solely of independent directors. The amended NYSE listing standards also require that corporate governance/nominating committees be established, and that corporate governance/nominating committees and compensation committees be comprised solely of independent directors.

Prior to the adoption of these requirements, the Company's Board of Directors included a majority of independent directors and the Company's Audit Committee and Compensation Committee already were comprised solely of independent directors.

The Board of Directors has adopted the following standards for determining whether a director of the Company (Director) is independent:

Unless there exists a material relationship between the Company and a Director of the Company, such Director will be deemed independent if:

1. The Director has not been an employee of the Company, and no immediate family member of the Director has been an executive officer of the Company, within the last three years.
2. The Director has not received, and no immediate family member of the Director has received, during any twelve-month period within the last three years, more than \$100,000 per year in direct compensation from the Company, other than (a) director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), (b) compensation paid to the Director for former service as an interim chairman, chief executive officer or other executive officer of the Company, or (c) compensation paid to an immediate family member of the Director as an employee of the Company (other than an executive officer of the Company).
3. (a) Neither the Director nor an immediate family member of the Director is a current partner of a firm that is the Company's internal or external auditor; (b) the Director is not a current employee of such a firm; (c) the Director does not have an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or (d) neither the Director nor an immediate family member of the Director was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.
4. Neither the Director nor an immediate family member of the Director is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executives at the same time serves or served on the other company's compensation committee.
5. The Director is not a current employee, and no immediate family member of the Director is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues.

The Board of Directors also has adopted the following, additional standards of independence with respect to members of the Company's Audit Committee:

A Director will be deemed independent for purposes of Rule 10A-3 promulgated under the Securities Exchange Act of 1933, as amended, provided:

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1. The Director has not directly or indirectly accepted any consulting, advisory, or other compensatory fee from the Company, other than (1) in the Director's capacity as a member of the Board of Directors and any Board committee, (2) fixed amounts under a retirement plan for prior service or (3) dividends to shareowners.
2. The Director has not been an affiliated person of the Company, apart from his/her capacity as a member of the Board or any Board committee. An affiliated person means a person that directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, the Company.

The Company's Board of Directors has determined that each of Messrs. Herbert T. Buchwald, William B. Kemper, Steven J. Borick and David E. Blackford have no material relationship with the Company, whether directly or as a partner, shareowner or officer of an organization that has a relationship with the Company, and that each is independent under the rules of the SEC (including Rule 10A-3) and the NYSE listing standards, each meet the foregoing standards of independence adopted by the Board and each constitutes an outside director under Section 162(m) of the Internal Revenue Code and the regulations thereunder.

Frequent Meetings of the Board of Directors and Audit Committee

Even prior to the Sarbanes-Oxley Act and the new corporate governance standards required by the SEC and the NYSE, the Board of Directors and the Audit Committee held frequent meetings. In 2001, the Board held 12 regularly scheduled meetings and 6 special meetings, and the Audit Committee met 13 times. During 2002, the Board held 11 regularly scheduled meetings and 11 special meetings, and the Audit Committee met 11 times. In 2003, the Board held 11 regularly scheduled meetings and 10 special meetings, and the Audit Committee met 11 times. Most recently, in 2004, the Board held 12 regularly scheduled meetings and 10 special meetings, and the Audit Committee met 17 times.

Asset Management Committee

Also, prior to passage of the Sarbanes-Oxley Act and the new SEC and NYSE corporate governance requirements, the Company had in place an Asset Management Committee (AMC). As a result of the Company's continued growth of operations, the Company currently has three separate AMCs, primarily composed of members of our senior management. The AMCs generally meet weekly to review all proposed land acquisitions and review other proposed non-land transactions at or above certain thresholds. Land acquisitions and other transactions that exceed higher thresholds also are reviewed by an executive committee of senior officers and the Board of Directors.

Corporate Governance/Nominating Committee

In 2003, the Board of Directors established a Corporate Governance/Nominating Committee, consisting of Messrs. Kemper, Buchwald and Blackford, who serves as its Chairman. Each member of the Committee is independent as defined in the listing standards of the NYSE. The organization, functions and responsibilities of the Corporate Governance/Nominating Committee are described in the Corporate Governance/Nominating Committee charter.

Corporate Governance Guidelines

Upon the recommendation of the Corporate Governance/Nominating Committee, the Board of Directors adopted a set of corporate governance guidelines to implement the new requirements of the NYSE. These guidelines as amended are posted under the corporate governance documents on the investor relations section of the Company's website, www.richmondamerican.com and are available without charge to any shareowner who requests a copy by writing to

the Corporate Secretary at the address listed above.

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Regularly Scheduled Executive Sessions of Non-Management Directors

The Company's corporate governance guidelines provide for the non-management Directors to meet at regularly scheduled executive sessions without management present. At least once a year, the independent Directors are to meet in an executive session including only independent Directors. The non-management Directors must select a presiding Director for each executive session. In order that interested parties may be able to contact non-management Directors, such persons may use the procedures established by the Audit Committee for receipt of complaints and concerns. These procedures are posted under the corporate governance documents on the investor relations section of the Company's website, www.richmondamerican.com.

Committee Charters

Upon the recommendations of the Audit Committee and the Compensation Committee, respectively, the Board of Directors has adopted re-stated charters for those committees, designed to comply with the applicable requirements of the amended NYSE listing standards and SEC regulations. The Board of Directors also has adopted a charter for the Corporate Governance/Nominating Committee. These charters are posted under the corporate governance documents on the investor relations section of the Company's website, www.richmondamerican.com and are available without charge to any shareowner who requests a copy by writing to the Corporate Secretary at the address listed above.

Corporate Code of Conduct

Prior to passage of the Sarbanes-Oxley Act and the new requirements of the SEC and the NYSE, the Company already had in place a Corporate Code of Conduct designed to provide that all persons associated with the Company, including employees, officers and Directors, follow the Company's compliance program and legal and ethical obligations and conduct themselves accordingly. In 2004, the Company revised its Corporate Code of Conduct to include, among other things, a code of ethics for senior financial officers and Audit Committee complaint procedures, as required by the Sarbanes-Oxley Act and SEC regulations. The Corporate Code of Conduct, the code of ethics for senior financial officers and the Audit Committee complaint procedures for handling confidential complaints regarding accounting or auditing matters are posted under the corporate governance documents on the investor relations section of the Company's website, www.richmondamerican.com and are available without charge to any shareowner who requests a copy by writing to the Corporate Secretary at the address listed above.

ELECTION OF DIRECTORS

The Company's Certificate of Incorporation provides for three classes of Directors with staggered terms of office, to be divided as equally as possible. Nominees of each class serve for terms of three years (unless a nominee is changing to a different class) and until election and qualification of their successors or until their resignation, death, disqualification or removal from office.

The Board of Directors currently consists of seven members, including two Class II Directors whose terms expire in 2005, three Class III Directors whose terms expire in 2006 and two Class I Directors whose terms expire in 2007. At the Meeting, two Class II Directors are to be elected to three-year terms expiring in 2008. The nominees for the Class II Directors are Messrs. Gilbert Goldstein and William B. Kemper. Both of the nominees presently serve on the Board of Directors of the Company.

Unless otherwise specified, the enclosed proxy card will be voted **FOR** the election of Messrs. Goldstein and Kemper. Management and the Board of Directors are not aware of any reasons which would cause Messrs. Goldstein or Kemper to be unavailable to serve as Directors. If Messrs. Goldstein or Kemper become unavailable for election,

discretionary authority may be exercised by the proxy holders named in the enclosed proxy card to vote for a substitute nominee or nominees proposed by the Board of Directors.

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The Board of Directors recommends a vote **FOR** the election of Messrs. Goldstein and Kemper as Directors.

Certain information, as of February 22, 2005, with respect to Messrs. Goldstein and Kemper, the nominees for election, and the continuing Directors of the Company, furnished in part by each such person, appears below:

Name	Age	Positions and Offices with the Company and Other Principal Occupations	Shares Beneficially Owned as of the Record Date (1)(2)	Percentage of Class (3)
NOMINEES:				
Class II Terms Expire in 2005				
Gilbert Goldstein	86	Principal in the law firm of Gilbert Goldstein, P.C.	68,965	*
William B. Kemper	68	Private real estate investor	32,500	*
CONTINUING DIRECTORS:				
Class III Terms Expire in 2006				
Steven J. Borick	52	Director, President and Chief Executive Officer of Superior Industries International, Inc., President of Texakota, Inc. and a General Partner in Texakota Oil Company	32,531	*
David D. Mandarich	57	President and Chief Operating Officer of the Company	3,528,809(5)	8.02 %
David E. Blackford	56	President, Chief Executive Officer and Chairman of the Board of California Bank & Trust	32,500	*
Class I Terms Expire in 2007				
Herbert T. Buchwald	74	Principal in the law firm of Herbert T. Buchwald, P.A. and President and Chairman of the Board of Directors of BPR Management Corporation	134,431	*
Larry A. Mizel	62		7,650,633(4)	17.38 %

Chairman of the Board of Directors and Chief
Executive Officer of the Company

* Represents less than one percent of the outstanding shares of Common Stock.

- (1) Includes, where applicable, shares of Common Stock owned by such person's minor children and spouse and by other related individuals or entities over whose shares such person may be deemed to have beneficial ownership. Share amounts reflect the Company's March 23, 2004 10% stock dividend and the January 10, 2005 1.3 for 1 stock split.

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- (2) Includes the following shares of Common Stock subject to options that are exercisable or become exercisable within 60 days of the Record Date at prices ranging from \$15.35 to \$57.66 per share: Herbert T. Buchwald 117,032; Larry A. Mizel 685,331; Gilbert Goldstein 68,250; William B. Kemper 32,500; Steven J. Borick 32,500; David D. Mandarich 685,331; and David E. Blackford 32,500.
- (3) The percentage shown is based on the number of shares of Common Stock outstanding as of January 31, 2005 as reported in the Company's 2004 Annual Report on Form 10-K and includes shares of Common Stock actually owned and shares of Common Stock subject to options that are exercisable or become exercisable within 60 days of the Record Date. All shares of Common Stock which the person had the right to acquire within 60 days of the Record Date are deemed to be outstanding for the purpose of computing the percentage of shares of Common Stock owned by such person, but are not deemed to be outstanding for the purpose of computing the percentage of shares of Common Stock owned by any other person.
- (4) Includes 1,357,064 shares held by Mr. Mizel's wife and 515,009 shares of Common Stock with respect to which Mr. Mizel may be considered the beneficial owner, as defined under the Securities Exchange Act of 1934, because Mr. Mizel's wife owns all of the voting units in CLCD LLC, a limited liability company that owns these shares. In addition, he is the beneficiary of certain trusts which, together with Mr. Mizel, control all of the outstanding stock of CVentures, Inc., a corporation which is the sole manager of CLCD LLC. Mr. Mizel is a director and officer of CVentures, Inc.
- (5) Includes 1,887 shares owned by Mr. Mandarich's minor children.

Other Information Relating to Directors

The following is a brief description of the business experience during at least the past five years of each nominee for the Board of Directors of the Company and of the continuing members of the Board.

David E. Blackford has been employed with California Bank & Trust since 1998 and in May 2001 he was appointed Chairman, President and CEO. Previously he served as managing director and a member of the board of directors and Senior Loan Committee for Real Estate Finance. Prior to 1998, he served as an executive officer in different financial institutions, including Bank One and Chemical Bank. He was appointed to the Company's Board of Directors in April 2001. Mr. Blackford is Chairman of the Corporate Governance/Nominating Committee.

Steven J. Borick was named President and Chief Executive Officer of Superior Industries International, Inc. effective January 1, 2005. Mr. Borick had been named President and Chief Operating Officer effective January 1, 2003 and, prior to that date, he served as Executive Vice President of that company. Mr. Borick has been a director of that company since 1981. Superior Industries International, Inc. is a NYSE-listed manufacturer of automobile wheels and suspension parts. Mr. Borick has been President of Texakota, Inc., an oil and gas exploration and development company, and general partner in Texakota Oil Company, a private oil and gas partnership, for more than the past five years. Mr. Borick has been a Director since April 1987 and is Chairman of the Compensation Committee and a member of the Audit Committee.

Herbert T. Buchwald has been a principal in the law firm of Herbert T. Buchwald, P.A. and president and chairman of the board of directors of BPR Management Corporation, a property management company located in Denver, Colorado, for more than the past five years. Mr. Buchwald has been a practicing Certified Public Accountant and served as principal financial officer of a publicly held homebuilder in Florida. He is an attorney admitted to practice before federal and state trial and appellate courts in Florida and Colorado. In addition, Mr. Buchwald has been engaged for over 30 years in the real estate development of residential and commercial properties in Florida, New Jersey and Colorado, serving as chief executive officer of various entities. Mr. Buchwald was appointed to the Company's Board of Directors in March 1994 and is a member of the Audit, Compensation, Legal and Corporate

Governance/Nominating Committees. He also is a director of M.D.C. Land Corporation (MDC Land), a wholly owned subsidiary of the Company.

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Gilbert Goldstein has been engaged in private law practice for more than the past five years as the principal in the law firm of Gilbert Goldstein, P.C. See *Certain Relationships and Related Transactions* below. Mr. Goldstein has been a Director since January 1976. Mr. Goldstein is the Chairman of the Legal Committee.

William B. Kemper has been engaged in private real estate investments, real estate development and property management since May 1982. Prior to May 1982, he was president of Gold Crown, Inc., a real estate development company. He also is a director of HomeAmerican Mortgage Corporation (*HomeAmerican*), the Company's wholly owned mortgage lending subsidiary. Mr. Kemper has been a Director since January 1972. He is Chairman of the Audit Committee and a member of the Compensation and Corporate Governance/Nominating Committees.

David D. Mandarich was elected President of the Company in July 1999, Chief Operating Officer in March 1996, Co-Chief Operating Officer in September 1994 and Executive Vice President-Real Estate in April 1993. He was appointed a Director in March 1994. Mr. Mandarich also was a Director from September 1980 until April 1989.

Larry A. Mizel has served as Chairman of the Board of Directors and the Chief Executive Officer of the Company for more than five years and was elected President of the Company in March 1996. Mr. Mizel resigned as President of the Company in July 1999. Mr. Mizel has been a Director since founding the Company in January 1972. Mr. Mizel was a Trustee of the Marsico Investment Fund, an open-end investment company, and resigned that position on February 11, 2004. In 2003, Mr. Mizel was elected Chairman of the Board of the Simon Wiesenthal Center, an international human rights organization. Mr. Mizel is a member of the Legal Committee.

Information Concerning the Board of Directors

During 2004, the Board of Directors held 12 regularly scheduled meetings and 10 special meetings. The Directors also considered Company matters and had numerous communications with the Chairman of the Board of Directors and other officials of the Company wholly apart from the formal Board meetings. In 2004, all of the Company's Directors attended at least 75% of the total number of meetings of the Board of Directors and of the committees of the Board of Directors on which they served. Directors are expected to attend annual meetings and, to facilitate their attendance, annual meetings typically are scheduled the same day as a monthly Board meeting. All of the Directors attended the 2004 annual meeting.

Security Holder Communications to the Board of Directors

The Company has two sets of procedures by which security holders may send communications directly to the Board of Directors. Security holders may use the procedures that the Audit Committee has adopted for handling confidential complaints regarding accounting or auditing matters. These procedures are posted under the corporate governance documents on the investor relations section of the Company's website, www.richmondamerican.com. Alternatively, security holders may send communications directly to Mr. Blackford, Chairman of the Corporate Governance/Nominating Committee, at 1900 Main Street, 2nd Floor, Irvine, CA 92614.

Audit Committee

The Audit Committee of the Board of Directors currently consists of Messrs. Borick, Buchwald and Kemper, who serves as its Chairman. Each member of the Audit Committee is independent and financially literate in the judgment of the Board of Directors, as defined in the listing standards of the NYSE and the rules of the SEC. In addition, the Board of Directors has determined that Mr. Buchwald is an audit committee financial expert as defined by applicable SEC regulations. The Audit Committee met 17 times during 2004. The organization, functions and responsibilities of the Audit Committee are described in the re-stated charter for the Audit Committee. The Audit Committee's functions include oversight of the Company's external auditors, review of the Company's financial statements, review of the

annual audit plan and results of the audit, review of any significant modification in accounting policies and oversight of the duties of the Company's internal audit department.

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Compensation Committee

The Compensation Committee currently consists of Messrs. Buchwald, Kemper and Borick, who serves as its Chairman. During 2004, the Compensation Committee met 5 times. Each member of the Committee is independent in the judgment of the Board of Directors, as defined in the listing standards of the NYSE. The Compensation Committee is active in approving executive compensation plans, reviewing salaries, bonuses and other forms of compensation for officers and key employees of the Company, establishing salaries, benefits and other forms of compensation for new employees and in other compensation and personnel areas as the Board of Directors from time to time may request. For a discussion of the criteria utilized and factors considered by the Compensation Committee in reviewing, approving and making recommendations with respect to executive compensation, see the Report of the Compensation Committee below. The organization, functions and responsibilities of the Compensation Committee are described in the re-stated charter for the Compensation Committee adopted by the Board of Directors on January 26, 2004.

Corporate Governance/Nominating Committee

The Corporate Governance/Nominating Committee, consists of Messrs. Kemper, Buchwald and Blackford, who serves as its Chairman. Each member of the Committee is independent in the judgment of the Board of Directors, as defined in the listing standards of the NYSE. During 2004, the Committee met 7 times. The organization, functions and responsibilities of the Corporate Governance/Nominating Committee are described in the Committee's charter. The functions of the Corporate Governance/Nominating Committee include development and recommendations as to corporate governance principles and codes of conduct, identification of individuals qualified to become Board members, the selection or recommendation that the Board select the director nominees and oversight of the evaluation of the Board.

Procedures for nominating persons for election to the Board are contained in the Company's By-Laws and, accordingly, those procedures constitute the Company's policy with regard to the nomination and consideration of Director candidates recommended by shareowners. The By-Laws provide that only persons who are nominated in accordance with the procedures set forth in the By-Laws shall be eligible for election as Directors at any meeting of shareowners. In addition to nominations by or at the direction of the Board of Directors, by any nominating committee or person appointed by the Board, nominations of persons for election to the Board of Directors may be made at a meeting of shareowners by any shareowner entitled to vote for the election of Directors at the meeting who complies with the notice procedures set forth in the By-Laws.

Specifically, such nominations shall be made pursuant to timely notice in writing to the Secretary of the Company. To be timely, a shareowner's notice shall be delivered to, or mailed and received at, the principal offices of the Company not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 75 days' notice or prior public disclosure of the date of the meeting is given or made to shareowners, notice by the shareowner to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such shareowner's notice shall set forth in writing:

- (a) as to each person whom the shareowner proposes to nominate for election or re-election as a Director:
 - (i) the name, age, business address and residence address of such person,
 - (ii) the principal occupation or employment of such person,
 - (iii) the class and number of shares of the Company which are beneficially owned by such person and

- (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors pursuant to Rule 14(a) under the Securities Exchange Act of 1934 and any other applicable laws or rules or regulations of any governmental authority or of any national securities exchange or similar body overseeing any trading market on which shares of the Company are traded, and

- (b) as to the shareowner giving the notice:

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(i) the name and record address of the shareowner and

(ii) the class and number of shares of the Company beneficially owned by the shareowner.

The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the foregoing procedure, and, if so determined, shall so declare to the meeting and the defective nomination shall be disregarded.

The Corporate Governance/Nominating Committee believes that candidates for the Board should have experience in appropriate areas and disciplines and that the criteria that should be considered in selecting candidates for the Board include, in addition to applicable requirements of law and of the NYSE, business experience, specific expertise, strength of character, judgment, and other factors deemed appropriate in adding value to the composition of the Board. At such times as may be appropriate, the Corporate Governance/Nominating Committee will lead the search for individuals qualified to become members of the Board, seeking candidates who have experience in appropriate areas and disciplines. The Committee has authority to engage search firms to identify candidates for nomination to the Board.

Legal Committee

The Legal Committee currently consists of Messrs. Buchwald, Mizel and Goldstein, who serves as its Chairman. During 2004, the Legal Committee met 16 times. The Legal Committee has been active in reviewing legal issues affecting the Company's business with the Company's inside and outside counsel.

Director Compensation

During 2004, each Director who was not an officer of the Company (non-management Director) was paid \$3,000 per month as a retainer and \$1,500 for each Board meeting attended, and each respective Board committee member was paid \$2,500 for attending each meeting of the Audit Committee, \$2,000 for attending each meeting of the Compensation and the Corporate Governance/Nominating Committees, and \$2,000 per month for service on the Legal Committee. Pursuant to the M.D.C. Holdings, Inc. Stock Option Plan for Non-Employee Directors, approved by the shareowners in 2001, each non-management Director is granted options, vesting immediately, to purchase 25,000 shares of Common Stock annually. Each Director also is reimbursed for expenses related to his attendance at Board of Directors and committee meetings.

Mr. Kemper received fees of \$1,500 per month during 2004 for services as a director of HomeAmerican. Mr. Kemper attended ten meetings of the HomeAmerican board. In 2004, Mr. Buchwald was paid \$4,000 per month for service as chairman of the board of MDC Land. During 2004, Richmond American Homes of Colorado, Inc. (Richmond of Colorado) paid the outside directors on its board \$1,000 per month and \$500 per meeting attended, Mr. Borick attending two meetings and Mr. Blackford attending four meetings. Following the April 26, 2004 meeting, Messrs. Borick and Blackford no longer served as outside directors of the Richmond of Colorado board.

Messrs. Kemper and Buchwald and their spouses are covered by the Company's self-funded contributory medical plan, for which they pay 100% of the premiums.

EXECUTIVE OFFICERS

Set forth below are the names and offices held by the executive officers of the Company as of the Record Date. The executive officers of the Company hold office until their successors are duly elected and qualified or until their resignation, retirement, death or removal from office. Biographical information on Messrs. Mizel and Mandarich, who

serve as Directors and executive officers of the Company, is set forth under Election of Directors above. Biographical information for the other executive officers of the Company is set forth below.

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Name	Offices Held as of the Record Date
Larry A. Mizel	Chairman of the Board of Directors and Chief Executive Officer
David D. Mandarich	President, Chief Operating Officer and a Director
Paris G. Reece III	Executive Vice President, Chief Financial Officer and Principal Accounting Officer
Michael Touff	Senior Vice President and General Counsel

Paris G. Reece III, 50, was elected Executive Vice President of the Company in July 1999, Senior Vice President in September 1994, Treasurer in September 1993, Chief Financial Officer in June 1990, Secretary in February 1990 and a Vice President of the Company in August 1988. Mr. Reece resigned as Treasurer of the Company in November 1996 and as Secretary of the Company in May 1996. Mr. Reece also is an officer, director or both of most of the Company's subsidiaries.

Michael Touff, 60, was elected Senior Vice President and the General Counsel of the Company in July 1999 and as Vice President and General Counsel in December 1994. From August 1992 through December 1994, he was an officer in the law firm of Ireland, Stapleton, Pryor & Pascoe, P.C. Prior to August 1992, Mr. Touff was an officer in the law firm of Holmes & Starr, a Professional Corporation.

COMPENSATION OF EXECUTIVE OFFICERS

Summary Compensation Table

The following table sets forth the compensation received by the Chief Executive Officer and the three other named executive officers for each of the last three fiscal years.

Name and		Annual Compensation			Long-Term Compensation Awards		
		Year	Salary	Bonus	Other Annual Compensation	Shares	
Principal Position						Restricted Stock Awards(1)	All Other Compensation (3)
Larry A. Mizel, Chairman of the Board of Directors and Chief Executive Officer		2004	\$ 1,000,000	\$ 20,119,338(4)	\$ 92,196(5)	- 0 -	\$ 7,150
		2003	\$ 1,000,000	\$ 10,852,916(4)	\$ 107,793(5)	- 0 -	\$ 6,600
		2002	\$ 1,000,000	\$ 8,512,976(4)	\$ 89,251(5)	- 0 -	\$ 5,775
David D. Mandarich, President, Chief Operating Officer and a Director		2004	\$ 830,000	\$ 20,119,338(4)	\$ 53,013(6)	- 0 -	\$ 7,150
		2003	\$ 830,000	\$ 10,852,916(4)	\$ 58,256(6)	- 0 -	\$ 6,600
		2002	\$ 830,000	\$ 8,512,976(4)	N/A	- 0 -	\$ 5,775
Paris G. Reece III, Executive Vice President Chief Financial Officer and Principal Accounting		2004	\$ 378,778	\$ 800,000	N/A	\$ 150,000	\$ 7,150
		2003	\$ 315,000	\$ 590,000	N/A	\$ 150,000	\$ 6,600
		2002	\$ 300,000	\$ 470,000	N/A	\$ 150,000	\$ 5,775

Officer								
Michael Touff, Senior Vice President and General Counsel	2004	\$ 309,691	\$ 325,000	N/A	\$ 75,000	39,000(7)	\$ 7,150	
	2003	\$ 289,691	\$ 260,000	N/A	\$ 40,000	44,330	\$ 6,600	
	2002	\$ 281,232	\$ 205,000	N/A	\$ 40,000	23,595	\$ 5,775	

- (1) In 2004, the Company granted restricted stock awards to Messrs. Touff and Reece pursuant to Restricted Stock Agreements effective November 22, 2004. The awards were valued at \$59.18 per share, the closing price of the Common Stock on November 22, 2004. In 2003, the Company granted restricted stock awards to Messrs. Touff and Reece pursuant to Restricted Stock Agreements effective November 17, 2003. The awards were valued at \$44.68 per share, the closing price of the Common Stock on November 17, 2003. In 2002, the Company granted restricted stock awards to Messrs. Touff and Reece, pursuant to Restricted Stock Agreements effective November 18, 2002. The awards were valued at \$21.39 per share, the closing price of the Common Stock on November 18, 2002. The restrictions on the vesting of the shares awarded pursuant to the Restricted Stock Agreements lapse as to 25% of such shares each year, commencing on the first anniversary of the grant. The restrictions on vesting of the shares awarded in 2004 and 2003 may lapse in the event of a change in control transaction, will lapse in part in the event of the employee's death, disability or retirement, and will lapse in total in the event the employee's employment is terminated by the Company without cause. All of the restrictions on vesting of the restricted shares awarded in 2002

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- would lapse in the event of (1) the closing of a change in control transaction; (2) the employee's termination of employment as a result of death, disability or retirement; or (3) the employee's termination of employment by the Company other than for cause. As of December 31, 2004, Mr. Reece held 9,248 shares of unvested restricted stock with a value of \$614,900, and Mr. Touff held 2,955 shares of unvested restricted stock with a value of \$196,478. Dividends are paid on the restricted stock. The per share valuations throughout this footnote (1) and every other footnote included with this table have been adjusted to reflect the Company's May 27, 2003 10% stock dividend, March 23, 2004 10% stock dividend and January 10, 2005 1.3 for 1 stock split.
- (2) Pursuant to the stock option plan under which the options were granted, as a result of the 10% stock dividends, the number of shares that may be acquired upon exercise of the options increased by 10% and the exercise price of unexercised options decreased by dividing the exercise price by 1.1 for each of the 10% stock dividends. Also, as a result of the 1.3 for 1 stock split, the number of shares that may be acquired upon exercise of the options increased by 30% and the exercise price of unexercised options decreased by dividing the exercise price by 1.3.
 - (3) The amounts in this column consist of Company contributions allocated to the named executive officers' accounts pursuant to the Company's 401(k) Savings Plan. One hundred percent of the Company's 2004 contribution was funded with shares of Common Stock valued at \$71.77 per share, the closing price of the Common Stock on January 28, 2005, when the Company approved the contribution.
 - (4) These bonuses were paid in January following the year indicated in accordance with the terms of the M.D.C. Holdings, Inc. Executive Officer Performance-Based Compensation Plan approved by the Company's shareowners at the 1994 Annual Meeting (the "Executive Compensation Plan"). The amount of these bonuses is determined based on the Company's Adjusted Pre-Tax Return on Average Stockholder's Equity (as defined in the Executive Compensation Plan). Bonuses are not payable under the Executive Compensation Plan unless the Company's Adjusted Pre-Tax Return on Average Stockholders' Equity equals or exceeds 10%. All of the 2004 and 2003 bonuses were paid in cash. In 2002, 20% of these bonuses, or \$1,702,595 for each of the executives, was paid in the form of 73,134 shares of Common Stock in accordance with the Executive Compensation Plan.
 - (5) This includes \$75,115 of taxable income in 2004, \$80,000 of taxable income in 2003 and \$66,385 of taxable income in 2002 recognized for personal use of the Company aircraft as authorized by resolution of the Board of Directors.
 - (6) This includes \$34,461 of taxable income in 2004 and \$31,076 of taxable income in 2003 recognized for personal use of the Company aircraft as authorized by resolution of the Board of Directors.
 - (7) See "Option Grants in Last Fiscal Year," below.

N/A: Disclosure is not required under the SEC's rules.

Severance benefits for Messrs. Mizel and Mandarich are included in their employment agreements. Severance benefits for Messrs. Reece and Touff are included in their change in control agreements. See "Employment Agreements and Change in Control Agreements" below.

The Company's severance pay policy provides severance pay to eligible employees, including each of the named executive officers (other than Messrs. Mizel and Mandarich, whose severance pay is provided for in their employment agreements), whose employment is involuntarily terminated by the Company for reasons other than gross misconduct. Employees generally are eligible for severance pay under this policy if involuntarily terminated after 90 days of employment for reasons other than gross misconduct. The amount of severance pay under the policy generally is based on the length of service with the Company and other factors, and payment of severance is conditioned upon

execution of a release agreement with the Company.

Table of Contents**Option Grants In Last Fiscal Year**

The table below provides information on option grants in fiscal 2004 to the named executive officers. The number of shares, the exercise prices and the closing prices on the NYSE have been adjusted, as applicable, to reflect the March 23, 2004 10% stock dividend and the January 10, 2005 1.3 for 1 stock split.

Name	Individual Grants				Potential Realizable Value at Assumed Annual	
	Number of Shares	Percent of Total		Exercise Price (\$/Sh)	Rates of Stock Price	
		Options Granted to Employees in Fiscal Year (5)	Expiration Date		Appreciation for Option Term	
					5%	10%
Larry A. Mizel	78,000(1)	7.22%	\$ 62.14	11/22/14	\$ 2,672,123	\$ 7,125,899
	78,000(2)	7.22%	\$ 65.10	11/22/14	\$ 2,441,243	\$ 6,895,019
	78,000(3)	7.22%	\$ 68.06	11/22/14	\$ 2,210,363	\$ 6,664,139
David D. Mandarich	78,000(1)	7.22%	\$ 62.14	11/22/14	\$ 2,672,123	\$ 7,125,899
	78,000(2)	7.22%	\$ 65.10	11/22/14	\$ 2,441,243	\$ 6,895,019
	78,000(3)	7.22%	\$ 68.06	11/22/14	\$ 2,210,363	\$ 6,664,139
Paris G. Reece III	91,000(4)	8.42%	\$ 59.18	11/22/14	\$ 3,386,837	\$ 8,582,909
Michael Touff	39,000(4)	3.61%	\$ 59.18	11/22/14	\$ 1,451,501	\$ 3,678,389

- (1) This option granted on November 22, 2004 is exercisable as to 20% on its third anniversary date and an additional 20% on each of the fourth, fifth, sixth and seventh anniversary dates. The exercise price is 105% of the closing price of the Common Stock on the NYSE on the date of grant. The closing price on that date was \$59.18.
- (2) This option granted on November 22, 2004 is exercisable as to 20% on its third anniversary date and an additional 20% on each of the fourth, fifth, sixth and seventh anniversary dates. The exercise price is 110% of the closing price of the Common Stock on the NYSE on the date of grant. The closing price on that date was \$59.18.
- (3) This option granted on November 22, 2004 is exercisable as to 20% on its third anniversary date and an additional 20% on each of the fourth, fifth, sixth and seventh anniversary dates. The exercise price is 115% of the closing price of the Common Stock on the NYSE on the date of grant. The closing price on that date was \$59.18.
- (4) These options granted on November 22, 2004 are exercisable as to 20% on each of the third, fourth, fifth, sixth and seventh anniversary dates. The exercise price is the closing price of the Common Stock on the NYSE on the date of grant, which was \$59.18.
- (5) The Company granted options representing 1,080,755 shares of Common Stock to employees in fiscal 2004.

Table of Contents**Aggregate Option Exercises In Last Fiscal Year And Fiscal Year-End Option Values**

The table below provides information on option exercises in fiscal 2004 by the named executive officers and the value of such officers' unexercised options at December 31, 2004. The number of shares have been adjusted, as applicable, to reflect the January 10, 2005 1.3 for 1 stock split, the March 23, 2004 10% stock dividend and the Company's prior stock dividends.

Name	Shares Acquired on Exercise	Value Realized	Shares Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Larry A. Mizel	285,499	\$ 13,343,498	659,085	1,043,739	\$ 32,393,631	\$ 30,859,118
David D. Mandarich	249,749	\$ 11,752,900	659,085	1,043,739	\$ 32,393,631	\$ 30,859,118
Paris G. Reece III	97,483	\$ 4,241,483	237,836	317,728	\$ 11,795,051	\$ 9,160,784
Michael Touff	57,099	\$ 2,476,915	101,928	114,005	\$ 5,054,938	\$ 2,957,435

(1) The closing price of the Common Stock on December 31, 2004 on the NYSE was \$66.49.

Report of the Compensation Committee

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Report of the Compensation Committee and Performance Graph shall not be incorporated by reference into any such filing.

The Committee exercises oversight responsibility over all employee compensation of the Company, including benefits, as outlined in the Committee's charter adopted by the Board of Directors.

There are three principal objectives of the Company's executive compensation program. First, the program is designed to attract, retain and reward highly qualified executives. Second, the stock-based portion of the program is intended to create and maintain a significant and effective correlation between the level of executive compensation, the Company's financial performance and the totality of the returns realized by the shareowners. Third, the Company's executive compensation program addresses, among other factors, the Committee's concern that competitors might target its highly qualified and experienced executives.

The primary components of the executive compensation program are: a base salary, an annual performance-based incentive compensation and an equity-based, long-term incentive. Base salaries for the Company's executive officers are established with a view to attract and retain its experienced and skilled executives in an exceedingly competitive market. The Committee believes that the Company's overall management costs are reasonable and comparable to other major homebuilders, including those that are included in the peer group index shown on the performance graph below.

Base salaries are reviewed annually and adjusted, as deemed appropriate, depending on individual performance, the rate of annual salary increases experienced in the industry, local economic and employment conditions, the Company's over-all performance and the compensation being paid for similar positions at similar companies. The amount of the annual performance-based incentive compensation for Messrs. Mizel and Mandarich is determined by a

formula calculated under the Executive Compensation Plan adopted by the shareowners, as described in footnote 4 to the Summary Compensation Table above. Annual grants of stock options, restricted stock or bonuses are based on individual performance and the role played by the recipient in achieving the Company's results and objectives.

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2004 Compensation

The Committee considered numerous factors in establishing an appropriate level of total compensation for 2004 and the incentive compensation to be awarded. These factors included (1) the Company's record earnings per share, which increased by 79%; (2) the Company's status as one of the fastest growing companies in the homebuilding industry; (3) record levels of net income, total revenues, home closings, home orders and home gross margins; (4) achieving record returns on gross revenues, assets and equity, each of which ranks among the highest in the industry; (5) attaining a stockholders' equity exceeding \$1.4 billion for the first time in Company history; (6) the issuance of \$250 million of 10-year, 5.375% medium term senior notes; (7) increasing the Company's available cash and borrowing capacity at year-end to more than \$1 billion; (8) significantly reducing the year-end debt-to-capital ratio (net of cash) to 19% — one of the lowest in the homebuilding industry; and (9) maintaining a status enjoyed by only six companies in the entire homebuilding industry — an investment grade rating by all three of the major rating agencies.

Other than Messrs. Mizel and Mandarich, whose bonus compensation is computed pursuant to the Executive Compensation Plan approved by the Company's shareowners, the Company maintains an annual bonus program for other officers and key management employees to compensate them and other employees for the attainment of the Company's annual financial performance goals and other criteria, as determined by the Committee. Because the Company met or exceeded its 2004 performance goals, the Committee authorized the bonuses set forth in the summary compensation table for Messrs. Reece and Touff, the other named executive officers.

The Committee also awards long-term, equity-based incentives in the form of stock options and grants of restricted stock to executive officers and other key employees. In 2004, the Committee awarded stock options to acquire 1,080,755 shares of Common Stock to a total of 122 employees, including the named executive officers, and 13,391 shares of restricted stock to 19 employees, including Messrs. Reece and Touff. The long term vesting conditions contained in the option grants and restricted stock award agreements effectively provide additional long-term incentives to retain key officers and other employees. As a result, management and shareowner interests are linked and executives are motivated to develop decisions that will serve the long-term interests of the shareowners.

CEO Compensation

Mr. Mizel's base salary for 2004 of \$1,000,000 was based on his employment agreement, comparable industry wage levels, the financial condition of the Company and the salary paid to him in recent years, without an increase. The Committee reviewed and ratified a bonus for 2004 of \$20,119,338 for Mr. Mizel, calculated in accordance with the terms of the Executive Compensation Plan approved by the Company's shareowners. In taking these actions, the Committee considered the accomplishments of Mr. Mizel with respect to the extraordinary record breaking financial performance achieved by the Company as described above, both in regard to prior years and among the Company's peer group.

Also in view of these accomplishments, the Committee approved the award of a long term incentive grant of stock options for 180,000 shares (234,000 shares after the January 10, 2005 stock split) of stock in the Company in accordance with the 2001 Equity Incentive Plan, with the following terms, conditions and restrictions:

A vesting schedule that would provide for no vesting during the first three years and 20% vesting per year on the third through the seventh anniversary of the date of grant;

The price at which 60,000 shares (78,000 shares after the January 10, 2005 stock split) covered by the option may be purchased shall be equal to 105% of the Fair Market Value (as defined in the 2001 Equity Incentive Plan) of the Common Stock on November 22, 2004;

The price at which 60,000 shares (78,000 shares after the January 10, 2005 stock split) covered by the option may be purchased shall be equal to 110% of the Fair Market Value (as defined in the 2001 Equity Incentive Plan) of the Common Stock on November 22, 2004; and

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The price at which 60,000 shares (78,000 shares after the January 10, 2005 stock split) covered by the option may be purchased shall be equal to 115% of the Fair Market Value (as defined in the 2001 Equity Incentive Plan) of the Common Stock on November 22, 2004.

COMPENSATION COMMITTEE

Steven J. Borick, Chairman

William B. Kemper

Herbert T. Buchwald

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Set forth below is a graph comparing the yearly change in the cumulative total return of the Common Stock with the cumulative total return of the Standard & Poor's 500 Stock Index and with that of a peer group of other homebuilders over the five-year period ending on December 31, 2004.

It is assumed in the graph that \$100 was invested (1) in the Company's Common Stock; (2) in the stocks of the companies in the Standard & Poor's 500 Index; and (3) in the stocks of the peer group companies just prior to the commencement of the period and that all dividends received within a quarter were reinvested in that quarter. The peer group index is composed of the following companies: Beazer Homes USA, Inc., Centex Corporation, D.R. Horton, Inc., Hovnanian Enterprises, Inc., KB Home, Lennar Corporation, M/I Homes, Inc., NVR, Inc., Pulte Homes, Inc., The Ryland Group, Inc., Standard Pacific Corp. and Toll Brothers, Inc.

The stock price performance shown on the following graph is not indicative of future price performance.

**COMPARISON OF CUMULATIVE TOTAL RETURN
OF MDC COMMON STOCK, THE S&P 500 INDEX
AND A SELECTED PEER GROUP**

	FIVE YEAR PLOT POINTS					
	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003	12/31/2004
M.D.C. Holdings, Inc.	\$ 100.00	\$ 212.57	\$ 297.35	\$ 303.36	\$ 567.14	\$ 843.02
Weighted Avg. Peer Group	\$ 100.00	\$ 194.58	\$ 267.27	\$ 304.58	\$ 605.15	\$ 814.76
S&P500	\$ 100.00	\$ 89.86	\$ 78.14	\$ 59.88	\$ 75.68	\$ 82.49

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Report of the Audit Committee

Notwithstanding anything to the contrary set forth in any of the Company's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, that might incorporate future filings, including this Proxy Statement, in whole or in part, the following Report of the Audit Committee shall not be incorporated by reference into any such filing.

Management is responsible for the Company's internal controls and the financial reporting process. The Company's outside auditors, Ernst & Young LLP, are responsible for performing an independent audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and for issuing a report thereon. The Audit Committee's responsibility is to monitor and oversee these processes, as described in the Audit Committee Charter.

The Audit Committee reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2004 with the Company's management, the outside auditors and the Company's internal audit department. The Audit Committee has discussed with the Company's outside auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees).

The Audit Committee has received the written disclosures and the letter from the Company's outside auditors required by the Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and has discussed with the auditors their independence status.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the SEC.

AUDIT COMMITTEE

William B. Kemper, Chairman
Steven J. Borick
Herbert T. Buchwald

**EMPLOYMENT AGREEMENTS AND
CHANGE IN CONTROL AGREEMENTS**

Employment Agreements

Mr. Mizel and Mr. Mandarich (each an Executive or together the Executives) each entered into an Employment Agreement with the Company effective October 1, 1997, and restated as of February 26, 2003 (the Employment Agreements). The Employment Agreements provide for each Executive's continued employment by the Company: Mr. Mizel as Chairman and Chief Executive Officer, and Mr. Mandarich as President and Chief Operating Officer. The Initial Term of each Employment Agreement continued through September 30, 2002. The term of each Employment Agreement is extended automatically for two additional years unless either the Company on the one hand or either Executive on the other hand elects to terminate by notice in writing delivered to the other at least six months prior to the expiration of the then current term, subject to earlier termination as provided pursuant to the terms of the Employment Agreement (the Employment Term). Neither the Company nor either Executive has delivered notice to terminate an Employment Agreement.

Pursuant to the Employment Agreements, the Executives' base salaries (Base Salaries) are subject to annual review under the Company's normal policies and procedures for executive salary increases. Messrs. Mizel and Mandarich also are

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to be paid incentive compensation pursuant to the Executive Compensation Plan (Annual Incentive Compensation) and long-term incentive compensation pursuant to the Company's Employee Equity Incentive Plan and any successor or supplementary plans (the Equity Plans).

Each Executive will be entitled to a retirement benefit under the Employment Agreement. Mr. Mizel's retirement benefit required that he remained employed by the Company through September 30, 1999, and Mr. Mandarich's required that he remained employed by the Company through September 30, 2002, in each case unless such employment was terminated by the Company without cause, in the event of the Executive's death or total disability or if the Executive elected to terminate his employment upon a Change in Control or because of a Material Change (as those terms are described below). The retirement benefit shall be equal to 70% of the Executive's highest Base Salary during the final three years of the Employment Term and shall be payable for the duration of the Executive's life. In addition, the Employment Agreements provide for medical insurance benefits, reimbursement of certain expenses, and entitle each of the Executives to participate in the Company's benefit plans. If Mr. Mizel and Mr. Mandarich each retired at the end of 2004, their annual retirement benefits would approximate \$700,000 and \$581,000, respectively.

Messrs. Mizel and Mandarich may be terminated for cause, as defined in the Employment Agreements. If an Executive is terminated without cause (including the Company's election not to extend the term of the Employment Agreement) during the Employment Term, he will be entitled to receive (i) an amount equal to the aggregate Base Salary earned by the Executive during the three years prior to such termination, plus (ii) an amount equal to 300%, for Mr. Mizel, and 200%, for Mr. Mandarich, of the Annual Incentive Compensation paid for the year prior to termination, and (iii) the retirement benefits payable under the Employment Agreement commencing on the date of termination. In addition, in the event of termination without cause, each Executive's options and other rights under the Equity Plans shall vest immediately and the Executive and his spouse and dependents shall be entitled to continued medical benefits.

If a Change in Control occurs, all options, dividend equivalents and other rights granted to Executives under the Equity Plans and any other Company plans shall be accelerated and become exercisable immediately prior to the occurrence of the transaction giving rise to the Change in Control.

Within two years after a Change in Control or a Material Change, the Executive may terminate his employment, if not already terminated by the Company. In the event of such termination or a termination of employment by the Company without cause upon or within two years following a Change in Control, then (A) each Executive shall receive the amounts payable in the event the Executive's employment were terminated without cause as described above and (B) with respect to the retirement benefit, either (1) the Company shall establish and fund an irrevocable grantor trust in conformance with the model trust set forth in Internal Revenue Service Revenue Procedure 92-64, or (2) the Company shall, if it so elects, pay to the Executive, in a lump sum cash payment, the amount that otherwise would be required to be contributed to such trust.

If the amounts payable upon the occurrence of a Change in Control or Material Change, either alone or together with any other payments which the Executive has the right to receive, would be subject to an excise tax as an excess parachute payment under Section 4999 of the Internal Revenue Code, each Executive agrees in his Employment Agreement that such aggregate amounts shall be paid in annual installments over the shortest period of time over which such aggregate amounts may be paid and not be treated as excess parachute payments under Section 4999.

For purposes of this description of the Employment Agreements, a Change in Control shall occur if:

(i) a report on Schedule 13D is filed with the SEC disclosing that any person, other than the Company or any employee benefit plan sponsored by the Company, or any Director as of the date of the Employment Agreements, or affiliate of such Director, is the beneficial owner, directly or indirectly, of twenty percent (20%) or more of the

combined voting power of the then-outstanding securities of the Company;

(ii) any person, other than the Company or any employee benefit plan sponsored by the Company or any Director as of the date of the Employment Agreements, or affiliate of such Director, shall purchase securities pursuant to a

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tender offer or exchange offer to acquire any Common Stock (or securities convertible into Common Stock) for cash, securities or any other consideration, provided that after consummation of the offer, the person in question is the beneficial owner of twenty percent (20%) or more of the combined voting power of the then-outstanding securities of the Company;

(iii) the shareowners of the Company shall approve: (A) any consolidation or merger of the Company (1) in which the Company is not the continuing or surviving corporation; or (2) pursuant to which shares of Common Stock would be converted into cash, securities or other property; or (B) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all the assets of the Company; or

(iv) there shall have been a change in a majority of the members of the Board of Directors of the Company within a twelve month period, unless the election or nomination for election by the Company's shareowners of each new Director during such twelve month period was approved by the vote of two-thirds of the Directors then still in office who were Directors at the beginning of such twelve month period.

For purposes of the Employment Agreements, a Material Change shall occur if:

(i) the Company makes any of certain specified adverse changes in an Executive's reporting relationship, titles, functions, duties or responsibilities from those that the Executive occupied on the date of the last renewal or extension of the Executive's Employment Agreement;

(ii) the Company assigns or reassigns the Executive (without his written permission) to another place of employment;

(iii) the Company reduces the Executive's Base Salary, Annual Incentive Compensation or long-term incentive compensation or the manner in which such compensation is determined, or retirement benefits, unless such reduction similarly applies to all Senior Executive Officers of the Company, as defined in the Employment Agreements, or the Company breaches the terms of the Employment Agreements; provided, however, that nothing in this clause (iii) shall be construed to permit the Company to reduce either Executive's retirement benefit, as provided in the Employment Agreements, in any event, and regardless of whether such reduction would similarly apply to all Senior Executive Officers of the Company; or

(iv) a purchaser of all or substantially all of the Company's assets or any successor or assignee of the Company fails to assume the Employment Agreements.

Certain Other Change in Control Agreements

Messrs. Reece and Touff (each, the Employee) have entered into change in control agreements with the Company (the Agreements). The Agreements are effective January 26, 1998 and terminate on the earlier of termination of the employee's employment or December 31 of each year after 2004. Unless either party elects by notice in writing delivered to the other at least 90 days prior to December 31 of each year after 2004, the term of the Agreement will be renewed automatically for successive one-year terms. No notice has been delivered by either party. In addition, if an Agreement has not been terminated prior to a Change in Control (as defined below), upon a Change in Control, the term of an Agreement shall extend automatically for two years.

For purposes of the Agreements, the definition of Change in Control is generally the same as the definition of Change in Control in the description of the Employment Agreements above.

For purposes of the Agreements, a Change in Control Event occurs if a Change in Control is followed by a Material Change within two years. A Material Change is defined in the Agreements to occur if the Employee's employment is terminated without cause (as defined in the Agreements) or if any of the events set forth under the

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definition of Material Change described above with respect to the Employment Agreements takes place, taking into account the titles, positions and reporting relationships of the Employee.

Pursuant to the Agreements, if a Change in Control Event occurs, the Employee may elect within 90 days after the Change in Control Event to terminate the Employee's employment, if not previously terminated by the Company, and to receive a Change in Control payment. The Change in Control payment equals two times the sum of the Employee's base salary, in effect immediately prior to the Change in Control Event, plus the amount of the Employee's last regular annual bonus, provided that the amount of such annual bonus shall not exceed 50% of the Employee's annual base salary in effect immediately prior to the Change in Control Event.

If a Change in Control as defined above occurs, all options, dividend equivalents and other rights granted to the Employee under any Company equity incentive plan shall be accelerated and become exercisable immediately prior to the closing of the Change in Control. If the Change in Control is not consummated, the Employee's election to exercise such options and other rights shall be of no effect and the Employee's options shall remain subject to their original restrictions.

Any amounts payable pursuant to the Agreement are in addition to any payments otherwise payable to the Employee pursuant to any agreement, plan or policy of the Company. If the amounts payable upon the occurrence of a Change in Control Event, either alone or together with other payments which the Employee has the right to receive, would be subject to an excise tax as an excess parachute payment under Section 4999 of the Internal Revenue Code, each Employee agrees in the Agreement that such aggregate amounts shall be paid in annual installments over the shortest period of time over which such amounts may be paid and not be treated as excess parachute payments under Section 4999.

Certain other employees of the Company (the Covered Employees) have been provided change in control agreements containing substantially the same terms and conditions as the Agreements described above for Messrs. Reece and Touff, taking into account the respective titles, positions and reporting relationships of the other Covered Employees and with changes to certain other provisions. If the agreements for the Covered Employees have not been terminated prior to a Change in Control, upon a Change in Control, the term of the agreements for the other Covered Employees shall extend automatically for one year, rather than two years as in the cases of Messrs. Reece and Touff. The Change in Control payment for a Covered Employee would equal the sum of the Covered Employee's base salary in effect immediately prior to the Change in Control Event plus an amount equal to the Covered Employee's last regular annual bonus, provided that the amount of such bonus shall not exceed 50% of the Covered Employee's annual base salary in effect immediately prior to the Change in Control Event.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company leases its headquarters office space. Approximately 7,000 square feet in the Company's current Denver office building at 3600 S. Yosemite is subleased by various affiliates of Mr. Mizel, for which they collectively paid rent, including parking, to the Company of approximately \$134,331 in 2004. The Company has entered into a lease for new headquarters office space, and it is anticipated that the affiliates of Mr. Mizel will sublease space in the new building. In addition, Mr. Mizel owns a building that is leased to the Company, for which the Company paid Mr. Mizel rent and common area fees of \$62,664 in 2004.

Effective as of March 1, 2003, the Company entered into a new two-year agreement with Gilbert Goldstein, P.C., of which Gilbert Goldstein, a Director, is the sole shareholder. By amendment dated July 26, 2004, the term of the agreement was extended to February 28, 2006. Pursuant to the agreement, Mr. Goldstein acts as a consultant to the Company on legal matters. In return, the Company has agreed that, from March 1, 2003 through February 28, 2006,

the Company will pay Mr. Goldstein's firm \$21,000 per month for a minimum of 30 hours per week in legal services; and \$180 per hour for services performed in excess of 120 hours in any month. The Company also provides Mr. Goldstein's firm with office space in the Company's leased office space, which has an estimated annual rental value of \$17,100, provides one full-time secretary (in 2004, this secretary received a salary of approximately \$28,000 plus benefits), and reimburses actual expenses incurred related to services provided. In the event that Mr. Goldstein retires from the practice of law, becomes disabled or dies during

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the term of the agreement, the Company will pay to Mr. Goldstein or his estate \$10,000 per month during the remaining term of the agreement. Payment of \$252,000 was made directly to Mr. Goldstein's firm in 2004 for services performed.

During 2004, the Company paid a firm owned by Carol Mizel, Mr. Mizel's spouse, \$240,000 for consulting services in connection with corporate and consumer marketing, merchandising, design work, human resources development, product development, and such other matters as were requested by the Company's senior management. The firm, Mizel Design and Decorating Company, provided these services under an Independent Contractor Agreement with the Company, dated as of January 1, 2001, and has entered into a new agreement, dated as of January 1, 2005, reflecting reduced services and compensation.

On February 24, 2005, effective as of January 1, 2005, Larry A. Mizel, Chief Executive Officer, and David D. Mandarich, President and Chief Operating Officer, each entered into a Lease Agreement with the Company and M.D.C. Land Corporation for personal use of Company aircraft when the aircraft are not required for Company business. The Lease Agreements require payment of the Incremental Expenses, as defined in the Lease Agreements, incurred for each flight. Copies of the Lease Agreements are filed with the SEC on Form 8-K.

In the ordinary course of its business, HomeAmerican originates mortgage loans to Company employees, including officers. Substantially all of the mortgage loans originated by HomeAmerican are sold to investors within 45 days of origination. Mortgage loans originated for Company employees are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collection or present other unfavorable features.

During 2004, the Company contributed 115,296 shares (adjusted for the January 10, 2005 stock split and the prior stock dividends) of MDC common stock then valued at \$6.3 million to the M.D.C. Holdings, Inc. Charitable Foundation (the "Foundation"), a Delaware not-for-profit corporation that was incorporated on September 30, 2000. During 2003, the Company contributed 88,989 shares (adjusted for the January 10, 2005 stock split and the prior stock dividends) of MDC Common Stock, then valued at \$4.0 million to the Foundation. The Company made no contributions to the Foundation in 2002. The Foundation is a nonprofit organization operated exclusively for charitable, educational and other purposes beneficial to social welfare within the meaning of Section 501(c)(3) of the Internal Revenue Code. The following directors and/or officers of the Company are the trustees and/or officers of the Foundation:

Name	Title
Larry A. Mizel	Trustee, President and Assistant Secretary
Paris G. Reece III	Trustee, Vice President and Secretary
Steven J. Borick	Trustee
Gilbert Goldstein	Trustee
David D. Mandarich	Trustee

The authority to vote all securities that the Foundation is entitled to vote is vested in the five member board of trustees and voting of the securities is determined by majority vote of the board of trustees. Accordingly, none of the trustees should be considered to beneficially own such securities.

**HOLDERS OF FIVE PERCENT OR MORE OF VOTING SHARES
OF THE COMPANY AND OWNERSHIP OF MANAGEMENT**

The table below sets forth those persons known by the Company to have owned beneficially 5% or more of the outstanding shares of Common Stock individually and the number of shares beneficially owned by the Company's named officers individually and by all of the Company's officers and Directors as a group, each as of February 22, 2005. The information as to beneficial ownership is based upon statements furnished to the Company by such persons. Information with respect to the beneficial ownership of shares of Common Stock held by each of the Directors of the Company, two of whom beneficially own more than 5% of the outstanding shares of Common Stock, is set forth in Election of Directors above.

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Name and Address of Beneficial Owner (1)	Number of Shares of Common Stock Owned Beneficially (2)	Percent of Class (3)
Marsico Capital Management, LLC 1200 17 th Street, Suite 1600 Denver, CO 80202	3,668,605(4)	8.50%
Greenlight Capital, L.L.C. and affiliates 140 East 45 th Street, 24 th Floor New York, NY 10017	3,199,950(5)	7.39%
Paris G. Reece III 3600 South Yosemite St., Suite 900 Denver, CO 80237	498,133(6)	1.14%
Michael Touff 3600 South Yosemite St., Suite 900 Denver, CO 80237	217,131(7)	*
All executive officers and Directors as a group (9 persons)	12,195,633	26.90%

* Less than 1%.

- (1) The address of Messrs. Mizel and Mandarich, the Directors who beneficially own more than 5% of the outstanding shares of Common Stock, is 3600 South Yosemite Street, Suite 900, Denver, Colorado 80237. (See Election of Directors above).
- (2) The number of shares and the option prices set forth in this table and the footnotes to the table have been adjusted to reflect the March 23, 2004 10% stock dividend and the January 10, 2005 1.3 for 1 stock split.
- (3) Based on 43,328,000 shares outstanding at January 31, 2005, except as otherwise noted. In calculating the percentage of ownership, all shares of Common Stock the identified person or group had the right to acquire within 60 days of the Record Date by the exercise of options are deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by such person or group but are not deemed to be outstanding for the purpose of computing the percentage of the shares of Common Stock owned by any other person.
- (4) Schedule 13G/A filed with the SEC on February 11, 2005 disclosed beneficial ownership of 2,822,004 shares and that Marsico Capital Management, LLC exercises sole voting power over 2,236,320 of these shares and sole dispositive power over all such shares. Beneficial owner has confirmed that share amounts and percent of class are as of December 31, 2004 and do not reflect the January 10, 2005 1.3 for 1 stock split. 2,822,004 shares, as adjusted for the January 10, 2005 1.3 for 1 stock split, would be 3,668,605 shares.
- (5) Based upon information in Schedule 13G/A filed with the SEC on February 14, 2005. Beneficial owner has confirmed that share amounts are as of February 2004 and reflect the January 10, 2005 1.3 for 1 stock split. Percent of class has been recalculated based on shares outstanding at January 31, 2005. As disclosed in the Schedule 13G/A, Greenlight Capital, L.L.C. exercises sole voting power and sole dispositive power over 1,476,450 of these shares, Greenlight Capital, Inc. exercises sole voting power and sole dispositive power over 1,493,400 of these shares, Greenlight Capital Advisors, L.L.C. exercises sole voting power and sole dispositive power over 230,100 of

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these shares and David Einhorn exercises sole voting power and sole dispositive power over 3,199,950 of these shares.

- (6) Includes 244,914 shares of Common Stock that Mr. Reece has the right to acquire within 60 days of the Record Date by the exercise of stock options at prices ranging from \$15.36 to \$26.56 per share.
- (7) Includes 105,860 shares of Common Stock that Mr. Touff has the right to acquire within 60 days of the Record Date by the exercise of stock options at prices ranging from \$15.36 to \$26.56 per share.

No change in control of the Company has occurred since the beginning of the last fiscal year. The Company knows of no arrangement the operation of which, at a subsequent date, may result in a change in control of the Company.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company's executive officers and Directors and any beneficial owner of more than ten percent of the Company's Common Stock are required under Section 16(a) of the Securities Exchange Act of 1934, as amended, to file initial reports of ownership and reports of changes in ownership of Common Stock of the Company with the SEC, the NYSE and the Pacific Stock Exchange, Inc. Copies of those reports also must be furnished to the Company. Based solely upon a review of the copies of reports furnished to the Company and written representations that no other reports were required, the Company believes that during the year ended December 31, 2004, all such reports were filed on a timely basis, except for one report filed four days late by Mr. Mizel due to an administrative error.

INDEPENDENT PUBLIC ACCOUNTANTS

Ernst & Young LLP audited the Company's financial statements for the year ended December 31, 2004. The Company's audit engagement agreement with Ernst & Young LLP extends through the year ending December 31, 2005. A representative of Ernst & Young LLP currently is expected to be present at the Meeting and available to respond to appropriate questions. Although Ernst & Young LLP has indicated that no statement will be made, an opportunity for a statement will be provided.

INDEPENDENT ACCOUNTANT'S FEES

A summary of the fees of Ernst & Young LLP for the years ended December 31, 2004 and 2003 are set forth below:

	2004 Fees	2003 Fees
Audit Fees (1)	\$ 1,119,324	\$ 443,171
Audit-Related Fees (2)	16,650	39,640
Tax Fees (3)	34,992	39,246
All Other Fees	-0-	-0-

Total Fees	\$ 1,170,966	\$ 522,057
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- (1) Consists of fees and expenses for the audit of consolidated financial statements and SAS 100 interim reviews, the audit of internal control over financial reporting and services rendered in connection with SEC filings.

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(2) Consists of fees and expenses for employee benefit plan audits, Sarbanes-Oxley Act Section 404 consultation and other audit-related fees.

(3) Consists of fees and expenses for tax consulting and review services.

Under the procedures established by the Audit Committee, all auditing services and all non-audit services by the Company's auditors are to be pre-approved by the Audit Committee, subject to the de minimus exception provided under Section 202 of the Sarbanes-Oxley Act. The Committee has delegated to each of its members the authority to grant pre-approvals, such pre-approvals to be presented to the full Committee at the next scheduled meeting. All of the services provided by Ernst & Young LLP, for which that firm was engaged subsequent to August 19, 2002, were pre-approved by the Committee.

OTHER MATTERS

Management and the Board of Directors of the Company know of no matters to be brought before the Meeting other than as set forth above. However, if any other matters are properly presented to the shareowners for action, it is the intention of the proxy holders named in the enclosed proxy to vote in their discretion on all matters on which the shares represented by such proxy are entitled to vote.

SHAREOWNER PROPOSALS

Any proposal a shareowner desires to present at the 2006 Annual Meeting of Shareowners must be received in writing by the Secretary of the Company prior to November 4, 2005.

BY THE ORDER OF THE BOARD OF DIRECTORS,

Larry A. Mizel
Chairman of the Board

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

The undersigned hereby appoints PARIS G. REECE III and MICHAEL TOUFF, or either one of them, as proxies or proxy for the undersigned, each with full power of substitution and resubstitution, to attend the 2005 Annual Meeting of Shareowners and any adjournments or postponements thereof (the Meeting) and to vote as designated below, all the shares of Common Stock of M.D.C. HOLDINGS, INC. that the undersigned is entitled to vote. In their discretion, the proxies are hereby authorized to vote upon such other business as may properly come before the Meeting and any adjournments or postponements thereof.

X **Please mark your votes as in this example.**
THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF MESSRS. GOLDSTEIN AND KEMPER.

NOMINEES: Gilbert Goldstein and William B. Kemper

- o FOR _____ o WITHHELD _____
o FOR, except vote withheld from the following nominee:

(continued and to be signed and dated on the other side)

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Please sign exactly as your name appears on this proxy. Joint owners should each sign individually. If signing as attorney, executor, administrator, trustee or guardian, please include your full title. Corporate proxies should be signed by an authorized officer.

Signature(s):
_____Date:
_____Signature(s):
_____Date:

June 30, 2007 and 2006 has been derived from our unaudited consolidated financial statements which, in management's opinion, have been prepared on the same basis as our 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,		Three Months Ended June 30,	
	2006	2007	2006	2007
	(Unaudited)			
Consolidated Statements of Operations Data:				
Net sales	\$ 6,142,612	\$ 8,311,001	\$ 1,764,210	\$ 2,948,674
Cost of goods sold	1,837,716	2,590,535	555,516	594,212
Gross profit	4,304,896	5,720,466	1,208,694	2,354,462
Operating expenses:				
General and administrative	2,856,486	3,095,989	857,572	808,374
Research and development	3,324,201	2,276,526	674,954	506,125
Selling and marketing	3,399,896	5,216,765	1,232,587	1,632,789
Amortization of intangibles	102,496	103,511	26,537	216,521
Total operating expenses	9,683,079	10,692,791	2,791,650	3,163,809
Operating loss	(5,378,183)	(4,972,325)	(1,582,956)	(809,347)
Other income (expense)	788,597	141,771	372,468	64,868
Loss before income taxes	(4,589,586)	(4,830,554)	(1,210,488)	(744,479)
Income tax expense (benefit)	(46,873)	146,336	30,751	96,156
Net loss	\$ (4,542,713)	\$ (4,976,890)	\$ (1,241,239)	\$ (840,635)
	\$ (0.67)	\$ (0.58)	\$ (0.18)	\$ (0.06)

Basic and diluted net loss per common
share

Basic and diluted weighted average
common shares

6,746,412	8,591,454	6,952,167	12,981,466
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	March 31, 2006	2007	June 30, 2007 (Unaudited)
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Consolidated Balance Sheet Data:

Cash and cash equivalents	\$ 1,563,433	\$ 3,763,702	\$ 3,204,684
Short-term investments	1,137,647	3,000,000	2,400,000
Net working capital	2,667,053	7,207,175	7,061,510
Property, plant and equipment, net	1,079,438	1,431,749	1,459,165
Total assets	6,401,244	11,046,444	14,989,357
Long-term debt, less current maturities	389,241	427,382	411,935
Shareholders' equity	3,407,050	7,803,047	12,383,184

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

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 SFAS 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 \$18,000,000 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 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 may be limited.

Results of Operations

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Net Sales. During the three months ended June 30, 2007, net sales were \$2.9 million, representing a \$1.2 million or a 67% increase compared to net sales of \$1.8 million for the three months ended June 30, 2006. Excluding the impact of fluctuations in foreign currency exchange rates, sales increased by approximately 62%. We attribute approximately three-fourths of the \$1.2 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, and the continued growth in sales of our Urgent PC system. Also, in the first quarter of fiscal 2008, sales outside of the U.S. of our Macroplastique product increased, which we attribute to our increased marketing focus.

Sales to customers in the U.S. for the first quarter of fiscal 2008 increased to \$1.0 million from \$103,000 in the first quarter of fiscal 2007. Sales for the three months ended June 30, 2007, represent a sequential, quarter-to-quarter increase from \$705,000 in the previous quarter. We attribute this growth primarily to the Urgent PC system and the fully established sales organization. During the first quarter of fiscal 2008, 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 during the quarter.

Gross Profit. Gross profit was \$2.4 million and \$1.2 million for the three months ended June 30, 2007 and 2006, respectively, or 80% and 69% of net sales in the respective periods. We attribute the lower gross profit percentage in the first quarter of fiscal 2007 primarily to lower manufacturing capacity utilization due to decline in Macroplastique sales, duplicate manufacturing facilities in the U.S. pending completion of our relocation to our new corporate headquarters, higher costs for our new facility, write-off of our first generation Urgent PC system and an increase in personnel-related costs. We attribute the higher gross profit percentage in the first quarter of fiscal 2008 primarily to a favorable impact of approximately three percentage points due to increased manufacturing capacity utilization as a result of increased sales, savings of approximately \$90,000 due to the closing of our Eindhoven, The Netherlands manufacturing facility, and an increase in average selling price for our Urgent PC system. We expect the gross profit percentage to be in the range of 73% to 78%, excluding any unusual charges, in the remaining quarters of the current fiscal year, though change in the product mix we sell can shift the overall gross margin.

General and Administrative Expenses (G&A). G&A expenses decreased from \$858,000 during the three months ended June 30, 2006 to \$808,000 during the same period in 2007. Included in the first quarter of fiscal 2007 is a \$266,000 non-cash, SFAS 123(R) charge for share-based employee compensation, compared with a charge of \$93,000 in the first quarter of fiscal 2008. Excluding share based compensation charges, G&A expenses increased by \$123,000, primarily because of an increase in personnel-related costs and professional fees, offset by a reduction in rent expense for our leased facilities in the United Kingdom and the U.S.

Research and Development Expenses (R&D). R&D expenses decreased from \$675,000 during the three months ended June 30, 2006 to \$506,000 during the same period in 2007. We attribute the decrease primarily to reduced consulting expense of \$110,000. During the three months ended June 30, 2006, we incurred consulting expense associated with introducing our second generation Urgent PC system and regulatory expenses related to the relocation of our facility in Minnesota.

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Selling and Marketing Expenses (S&M). S&M expenses increased from \$1.2 million during the three months ended June 30, 2006 to \$1.6 million during the same period in 2007. We attribute the increase to a \$100,000 increase in compensation-related costs, primarily as a result of increased salaries and bonuses, and a \$230,000 increase in commissions for sales agents and independent sales representatives.

Amortization of Intangibles. Amortization of intangibles increased from \$27,000 during the three months ended June 30, 2006 to \$217,000 during the same period in 2007. In April 2007, we acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC neurostimulation system for \$4.7 million. We are 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 benefit, foreign currency exchange gains and losses and other non-operating costs when incurred. Other income was \$65,000 and \$372,000 for the three months ended June 30, 2007 and 2006, respectively, with \$328,000 of the change resulting from no warrant benefit in the three months ended June 30, 2007

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 benefit of \$328,000 in the first quarter of fiscal 2007.

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 \$(2,000) and \$26,000 for the three months ended June 30, 2007 and 2006, respectively.

Income Tax Expense. During the three months ended June 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense of \$95,856 and \$30,751, respectively. During the three months ended June 30, 2007 and 2006, our U.S. organization recorded income tax expense of \$300 and \$0, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2007, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 60,000.

Non-GAAP Financial Measures. In addition to disclosing the financial results for the three months ended June 30, 2007 and 2006, calculated in accordance with U.S. generally accepted accounting principles (GAAP), our discussion of the results of operations above contains non-GAAP financial measures that exclude the effects of share-based employee compensation under the requirements of FAS 123(R). The non-GAAP financial measures used by management and disclosed by us exclude the income statement effects of share-based employee compensation under the requirements of FAS 123(R). The non-GAAP financial measures disclosed by us should not be considered a substitute for, or superior to, financial measures calculated in accordance with GAAP, and the consolidated

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financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated. 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.

Because we excluded FAS 123(R) share-based employee compensation expense in some of our discussion above, these financial measures are treated as a non-GAAP financial measure under Securities and Exchange Commission rules. Management uses our non-GAAP financial measures for internal managerial purposes, including as a means to compare period-to-period results on a consolidated basis and as a means to evaluate our results on a consolidated basis compared to those of other companies.

We disclose this information to the public to enable investors who wish to more easily assess our performance on the same basis applied by management and to ease comparison on both a GAAP and non-GAAP basis among peer companies.

Years 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.

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, pending FDA qualification of our Minnesota facility, at which time we expect to incur an additional \$150,000 to \$200,000 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-

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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.

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

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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 June 30, 2007, our cash and cash equivalents balances totaled \$3.2 million and our short-term investments totaled \$2.4 million.

At June 30, 2007, we had net working capital of approximately \$7.1 million. For the three months ended June 30, 2007, we used \$1.6 million of cash in operating activities, compared to \$1.4 million of cash used in the same period a year ago. We attribute the increase in the use of cash for operating activities primarily to the increase in receivables due to our sales growth and to other investments in working capital.

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 (but 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 (8.25% on June 30, 2007). In addition, Uroplasty BV, our subsidiary, entered into an agreement with Rabobank of The Netherlands for a 500,000 (approximately \$667,000) 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 June 30, 2007), subject to a minimum interest rate of 3.5% per annum. At June 30, 2007, we had no borrowings outstanding under any of our credit lines.

Commitments and Contingencies. 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. There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. If we are unable to raise the needed funds, we will need to curtail our operations including product development, clinical studies and sales and marketing activities. This would adversely impact our future business and prospects. Ultimately, we will need to achieve profitability and generate positive cash flows from operations to fund our operations and grow our business.

For the balance of fiscal 2008, we expect to incur additional research and development expenses, including those in connection with clinical trials for the Urgent PC system 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.

We have an exclusive distribution agreement effective May 2005 (a one-year agreement with automatic renewal for up to two years) with CL Medical, allowing us to market and sell the I-Stop

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urethral sling in the United Kingdom. Under the agreement, we were required to purchase a minimum of \$350,000 of units in the first 12-month period following January 1, 2007, increasing to \$674,000 of units in the fourth year of the agreement, for an aggregate commitment of approximately \$2 million of units over the remaining agreement period, subject to periodic adjustment based on the value of the euro. In September 2007, we renegotiated the agreement to eliminate the minimum purchase requirements.

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 June 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	\$ 180,000	\$ 40,500	\$ 108,000	\$ 31,500	\$
Minimum purchase agreement	2,329,911	732,013	1,092,575	505,323	
Notes payable	600,403	77,420	161,230	103,606	258,147
Operating lease commitments	1,308,241	203,492	427,332	370,108	307,309
Total contractual obligations	\$ 4,418,555	\$ 1,053,425	\$ 1,789,137	\$ 1,010,537	\$ 565,456

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 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.

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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. 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 as \$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 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, 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 a non-invasive approach 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 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

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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. For 9 million of the 11 million women with SUI in the United States, incontinence is caused by urethral hypermobility. 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. SIU is the most common form of incontinence, accounting for almost one-half of the total worldwide prevalence of urinary incontinence.

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

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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 office-based and outpatient surgery-based urologists, urogynecologists and gynecologists with significant 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 Bio® 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® (Deflex 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:

finest, 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 serious 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 PC 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 as part of our agreement with it.

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.

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.

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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 pending legal proceeding.

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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 Rehabicare 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 Impress 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 prospectus.

- (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.

Table of Contents**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	All Other Compensation \$(3)	Total \$(4)
					Compensation Plans \$(2)		
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.

Table of Contents**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.

Name	Number of Securities Underlying Unexercised Options Exercisable	Option Awards		Option Expiration Date
		Number of Securities Underlying Unexercised Options Unexercisable	Options Exercise Price (Per Share)	
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:

Name	Option Awards	
	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

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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.

Table of Contents***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	Payments Upon
		Termination Without Good Cause Non- Change of Control	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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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.

Name of Beneficial Owner	Number of Shares Beneficially Owned	Percentage of Shares Beneficially Owned	
		Before Offering	After Offering
5% Shareholders			
SF Capital Partners Ltd(1)	1,390,014	10.3%	%
CystoMedix, Inc.(2)	1,417,144	10.5%	
Tapestry Investment Partners, LP(3)	1,092,600	8.1%	
Heartland Advisors, Inc.(4)	1,188,332	8.8%	
Perkins Capital Management(5)	902,102	6.6%	
Officers and Directors			
R. Patrick Maxwell(6)	183,634	1.4%	
David B. Kaysen(7)	216,667	1.6%	
Thomas E. Jamison(8)	128,100	1.0%	
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%	
Larry Heinemann(14)	126,417	*	
Arie J. Koole(15)	58,333	*	
All directors and executive officers as group(16)	1,472,860	10.2%	%

- (1) The address of SF Capital Partners Ltd. is c/o Stark Offshore Management, LLC, 3600 South Lake Drive, St. Francis, Wisconsin 53235. Excludes 500,000 shares underlying warrants expiring in April 2010 and 204,167 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

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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.
- (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.
- (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.

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- (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 935,001 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.

Table of Contents**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	
Noble International Investments, Inc	
Total	

The underwriters have advised us that they propose to offer the shares of our common stock to the public at \$ per share. The underwriters propose to offer the shares to certain dealers at the same price less a concession of not more than \$ per share. The underwriters may allow and the dealers may reallocate a concession of not more than \$ 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 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	\$	\$

In addition to the underwriting commissions described above, we will reimburse Craig-Hallum Capital Group for all reasonable travel, legal and other out-of-pocket expenses not to exceed \$.

We estimate that our total expenses of this offering, excluding underwriting discounts and commissions, will be \$. The total offering price is \$10,000,000 if the over-allotment option is not exercised and \$11,500,000 if the over-allotment option is exercised. Total proceeds will be \$ if the over-allotment option is exercised.

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.

Craig-Hallum Capital Group may, in its sole discretion, consent to the release of shares from the lock-up restrictions. This consent may be given at any time without public notice. In considering any request to release shares subject to the lock-up restrictions, Craig-Hallum Capital Group will consider

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the factors relating to a request, which may include, among other things, the likely effect on the market from the sale of the released shares, the likely effect on the trading price of the shares from the sale of the released shares, and the hardship to the requesting party if the consent is not granted. In considering any such request, Craig-Hallum Capital Group does not expect to consider its own position in the shares as a factor in determining whether to release any shares from the lock-up restrictions. However, the grant of any waiver from the lock-up restrictions will be made on a case by case basis. As such, the specific factors that will be considered are not necessarily known at this time. Craig-Hallum Capital Group has no current intention to release any shares from the lock-up restrictions.

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.

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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 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.

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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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

Table of Contents**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	\$ 6,401,244
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities long-term debt	\$ 78,431	\$ 41,658
Deferred rent current	35,000	
Accounts payable	544,507	506,793
Accrued liabilities:		
Compensation	887,253	411,708
Restructuring reserve	221,259	
Consulting fees and outside services	273	155,396
Warrant liability		665,356
Other	238,885	350,877
Total current liabilities	2,005,608	2,131,788
Long-term debt less current maturities	427,382	389,241
Deferred rent less current portion	214,381	
Accrued pension liability	596,026	473,165
Total liabilities	3,243,397	2,994,194
Commitments and Contingencies		
Shareholders equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 11,614,330 and 6,937,786 shares issued and outstanding at March 31, 2007 and 2006,	116,143	69,378

respectively

Additional paid-in capital	23,996,818	14,831,787
Accumulated deficit	(16,010,990)	(11,034,100)
Accumulated other comprehensive loss	(298,924)	(460,015)
Total shareholders' equity	7,803,047	3,407,050
Total liabilities and shareholders' equity	\$ 11,046,444	\$ 6,401,244

See accompanying notes to consolidated financial statements.

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****Years ended March 31, 2007 and 2006**

	2007	2006
Net sales	\$ 8,311,001	\$ 6,142,612
Cost of goods sold	2,590,535	1,837,716
Gross profit	5,720,466	4,304,896
Operating expenses		
General and administrative	3,199,500	2,958,982
Research and development	2,276,526	3,324,201
Selling and marketing	5,216,765	3,399,896
	10,692,791	9,683,079
Operating loss	(4,972,325)	(5,378,183)
Other income (expense)		
Interest income	119,534	142,379
Interest expense	(38,096)	(29,494)
Warrant benefit (expense)	(29,068)	707,320
Foreign currency exchange gain (loss)	26,610	(31,195)
Other, net	62,791	(413)
	141,771	788,597
Loss before income taxes	(4,830,554)	(4,589,586)
Income tax expense (benefit)	146,336	(46,873)
Net loss	\$ (4,976,890)	\$ (4,542,713)
Basic and diluted loss per common share	\$ (0.58)	\$ (0.67)
Weighted average common shares outstanding:		
Basic and diluted	8,591,454	6,746,412

See accompanying notes to consolidated financial statements.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS****Years ended March 31, 2007 and 2006**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2005	4,699,597	\$ 46,996	\$ 9,366,644	\$ (6,491,387)	\$ (130,357)	\$ 2,791,896
Proceeds from private placement, net of costs of \$934,679	2,147,142	21,471	6,558,847			6,580,318
Reissue of warrants plus registration costs of \$21,234			(1,394,000)			(1,394,000)
Liquidated damages settlement shares	57,381	574	150,403			150,977
Proceeds from exercise of stock options	33,666	337	45,362			45,699
Extension of employee options after termination			104,531			104,531
Comprehensive Loss				(4,542,713)	(329,658)	(4,872,371)
Balance at March 31, 2006	6,937,786	69,378	14,831,787	(11,034,100)	(460,015)	3,407,050
Proceeds from private placement, net of costs of \$275,305	1,389,999	13,900	1,795,844			1,809,744
Proceeds from follow-on offering, net of costs of \$562,872	2,430,000	24,300	4,272,878			4,297,178
Proceeds from exercise of warrants, net of registration costs of \$13,473	662,942	6,629	1,305,782			1,312,411
Reclassification of warrant liability to equity upon exercise of warrants			694,424			694,424
Proceeds from exercise of stock options	175,849	1,758	305,379			307,137
Employee Retirement Savings Plan Contribution	17,754	178	44,207			44,385
Share-Based Compensation			746,517			746,517
Comprehensive Loss				(4,976,890)	161,091	(4,815,799)
Balance at March 31, 2007	11,614,330	\$ 116,143	\$ 23,996,818	\$ (16,010,990)	\$ (298,924)	\$ 7,803,047

See accompanying notes to consolidated financial statements.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****Years ended March 31, 2007 and 2006**

	2007	2006
Cash flows from operating activities:		
Net loss	\$ (4,976,890)	\$ (4,542,713)
Adjustments to reconcile net loss to net cash used in operations:		
Depreciation and amortization	299,849	261,496
Loss (gain) on disposal of equipment	(3,568)	1,343
Warrant expense (benefit)	29,068	(707,320)
Stock-based consulting expense	61,972	
Stock-based compensation expense	684,545	
Stock-based severance expense		104,531
Deferred income taxes	20,230	(16,015)
Deferred rent	(32,083)	
Changes in operating assets and liabilities:		
Accounts receivable	(447,709)	163,701
Inventories	21,114	(280,505)
Other current assets and income tax receivable	278,394	(362,009)
Accounts payable	17,229	158,381
Accrued liabilities	429,919	585,992
Accrued pension liability, net	81,611	62,454
Net cash used in operating activities	(3,536,319)	(4,570,664)
Cash flows from investing activities:		
Purchases of short-term investments	(3,020,220)	(4,768,323)
Proceeds from sales of short-term investments	1,157,867	3,718,036
Purchases of property, plant and equipment	(196,417)	(252,238)
Proceeds from sales of equipment	4,294	
Payments for intangible assets		(454,167)
Net cash used in investing activities	(2,054,476)	(1,756,692)
Cash flows from financing activities:		
Proceeds from long-term obligations	211,000	
Repayment of long-term obligations	(177,838)	(41,847)
Proceeds from issuance of common stock and warrants and exercise of options	7,726,470	6,604,693
Net cash provided by financing activities	7,759,632	6,562,846
Effect of exchange rates on cash and cash equivalents	31,432	(77,381)
Net increase in cash and cash equivalents	2,200,269	158,109
Cash and cash equivalents at beginning of year	1,563,433	1,405,324

Cash and cash equivalents at end of year	\$ 3,763,702	\$ 1,563,433
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 31,693	\$ 21,299
Cash paid (received) during the year for income taxes	\$ (54,859)	\$ 94,442
Supplemental disclosure of non-cash financing and investing activities:		
Employee retirement savings plan contribution issued in common shares	\$ 44,385	\$
Shares issued for liquidated damages settlement		150,977
Property, plant and equipment additions funded by lessor allowance and classified as deferred rent	280,000	

See accompanying notes to consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2007 and 2006

1. Summary of Significant Accounting Policies

Nature of Business. Uroplasty, Inc. and subsidiaries (the Company) is a medical device company that develops, manufactures and markets innovative, proprietary products for the treatment of voiding dysfunctions. The Company offers minimally invasive products to treat urinary and fecal incontinence and overactive bladder symptoms. In addition, the Company markets its soft tissue bulking material for additional indications, including the treatment of vocal cord rehabilitation, fecal incontinence and soft tissue facial augmentation. The Company sells its products in and outside of the United States. In fiscal 2007, the Company expanded its sales, marketing and reimbursement organizations in the U.S. to market the products directly to the customers. The Company had minimal sales to customers in the U.S. in fiscal 2006.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly owned foreign subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition. The Company recognizes revenue when persuasive evidence of an arrangement exists, title and risk of ownership have passed, the sales price is fixed or determinable and collectibility is probable. Generally, these criteria are met at the time the product is shipped to the customer. Shipping and handling charges billed to customers are included in net sales, and shipping and handling costs incurred by the Company are included in cost of sales. There are no customer acceptance provisions. The Company sells its products to end users and to distributors who sell to other distributors and end users. Payment terms range from prepayment to 60 days. The distributor payment terms are not contingent on the distributor selling the product to other distributors or end users. Customers do not have the right to return unsold products to the Company except for warranty claims. The Company offers customary product warranties. Two customers accounted for approximately 10% each of the Company's net sales in fiscal 2007. During fiscal 2006, the same two customers accounted for approximately 14% and 11% of the Company's net sales.

Use of Estimates. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The Company's significant accounting policies and estimates include revenue recognition, accounts receivable, valuation of inventory, foreign currency translation/transactions, the determination of recoverability of long-lived and intangible assets, share-based compensation, defined benefit pension plans, and income taxes.

Disclosures About Fair Value of Financial Instruments. The Company used the following methods and assumption to estimate the fair value of each class of certain financial instruments for which it is practicable to estimate that value:

Cash equivalents and short-term investments: The carrying amount approximates fair value because of the short maturity of these instruments.

Notes payable: The Company has estimated the fair value of its notes payable based on the current rates offered to the Company for similar instruments with the same remaining maturities and similar collateral requirements. At March 31, 2007 and 2006, the fair value of the Company's notes payable approximated their carrying value.

Cash and Cash Equivalents. The Company considers highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

cash in bank accounts, which, at times, exceed federally insured limits. The Company has not experienced any losses in such accounts.

Short-term Investments. Short-term investments consist of certificates of deposit that mature within the next twelve months. Based on the short-term nature of these investments, their cost approximates their fair market value.

Accounts Receivable. The Company carries its accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. The Company determines the allowance for doubtful accounts based on customer financial condition and historical and expected credit loss experience. The Company writes off accounts receivable when deemed uncollectible. The Company records recoveries of accounts receivable previously written off when received. The allowance for doubtful accounts was \$7,000 and \$42,000 at March 31, 2007 and 2006, respectively.

Inventories. The Company states inventories at the lower of cost (first-in, first-out method) or market (net realizable value). The inventory reserve was \$229,000 and \$100,000 at March 31, 2007 and 2006, respectively. Inventories consist of the following at March 31, 2007 and 2006:

	2007	2006
Raw materials	\$ 254,988	\$ 340,268
Work-in-process	20,773	26,183
Finished goods	547,840	390,611
	\$ 823,601	\$ 757,062

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 supply sources 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.

Property, Plant, and Equipment. The Company carries property, plant, and equipment at cost, which consist of the following at March 31, 2007 and 2006:

	2007	2006
Land	\$ 163,383	\$ 148,402
Building	729,798	662,882
Leasehold improvements	690,413	369,741
Equipment	1,339,892	1,162,185
	2,923,486	2,343,210

Less accumulated depreciation	(1,491,737)	(1,263,772)
	\$ 1,431,749	\$ 1,079,438

The Company provides for depreciation using the straight-line method over useful lives of three to seven years for equipment and 40 years for the building. The Company charges maintenance and repairs to expense as incurred. The Company capitalizes renewals and improvements and depreciates them over the shorter of their estimated useful service lives or the remaining lease term.

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Intangible Assets. Intangible assets are comprised of patents and licensed technology which the Company amortizes on a straight-line basis over their estimated useful lives or contractual terms, whichever is less.

	Estimated Lives (Years)	Gross Carrying Amount	March 31, 2007	
			Accumulated Amortization	Net Value
Licensed technology	5	\$ 501,290	\$ 208,373	\$ 292,917
Patents and inventions	6	237,900	222,724	15,176
		\$ 739,190	\$ 431,097	\$ 308,093
March 31, 2006				
Licensed technology	5	\$ 501,290	\$ 111,183	\$ 390,107
Patents and inventions	6	237,900	216,403	21,497
		\$ 739,190	\$ 327,586	\$ 411,604

In April 2005, the Company entered into an exclusive manufacturing and distribution agreement with CystoMedix, Inc. for the Urgent PC system. Under this license agreement, the Company paid CystoMedix an aggregate of \$475,000 (an initial payment of \$225,000 and an additional payment of \$250,000 in 12 equal monthly installments) and agreed to pay a 7% royalty on product sales to the extent the cumulative royalty amount exceeds \$250,000. The Company has capitalized the aggregate payment as licensed technology. The Company did not owe any royalty payments to CystoMedix in fiscal 2007.

Estimated annual amortization for these assets for the years ending March 31, is as follows:

2008	\$ 101,000
2009	101,000
2010	98,000
2011	8,000
	\$ 308,000

Impairment of Long-Lived Assets. Long-lived assets at March 31, 2007 consist of property, plant and equipment and intangible assets. The Company reviews its long-lived assets for impairment whenever events or business circumstances indicate that the Company may not recover the carrying amount of an asset. The Company measures

recoverability of assets held and used by a comparison of the carrying amount of an asset to future undiscounted net cash flows the Company expects to generate by the asset. If the Company considers such assets impaired, the Company measures the impairment recognized by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

The Company recognized impairment of \$3,000 in relation to its announced plans to close its Eindhoven, The Netherlands manufacturing facility and transition the production to its facility in Minnesota.

Product Warranty. The Company warrants its new products to be free from defects in material and workmanship under normal use and service for a period of twelve months after date of sale. Under the terms of these warranties, the Company repairs or replaces products it deems defective due to

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UROPLASTY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

material or workmanship. The Company recognized warranty expense of \$26,000 and \$0 for the years ended March 31, 2007 and 2006, respectively.

Deferred Rent. The Company entered into an eight-year operating lease agreement, effective May 2006, for its corporate facility. As part of the agreement, the landlord provided an incentive of \$280,000 for leasehold improvements. The Company recorded this incentive as deferred rent and amortizes it as a reduction in lease expense over the lease term. The Company amortizes leasehold improvements and charges them to expense over the shorter of the asset life or the lease term.

Foreign Currency Translation. The Company translates all assets and liabilities using period-end exchange rates and statements of operations items using average exchange rates for the period. The Company records the resulting translation adjustment within accumulated other comprehensive loss, a separate component of shareholders' equity. The Company recognizes foreign currency transaction gains and losses currently in its consolidated statement of operations, including unrealized gains and losses on short-term inter-company obligations using period-end exchange rates. The Company recognizes unrealized gains and losses on long-term inter-company obligations within accumulated other comprehensive loss, a separate component of shareholders' equity.

The Company recognizes 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 the Company's subsidiaries), as well as on account of their effect on the dollar denominated intercompany obligations between the Company and its foreign subsidiaries. The Company recognized net foreign currency gain (loss) of \$27,000 and \$(31,000) for the years ended March 31, 2007 and 2006, respectively.

Stock-Based Compensation. On April 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment Revised 2004, or SFAS 123(R), using the modified prospective transition method. Prior to the adoption of SFAS 123(R), the Company accounted for stock option grants in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees (the intrinsic value method), and accordingly, recognized no compensation expense for stock option grants.

Under the modified prospective method, the Company recognized share-based employee compensation cost using the fair-value based method for all new awards granted on or after April 1, 2006 and to awards granted prior to April 1, 2006 that were subsequently modified, repurchased or canceled. The Company recognized compensation costs for unvested stock options and awards that were outstanding as of the April 1, 2006 adoption date, over the remaining requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures pursuant to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, or SFAS 123. The Company did not restate the prior period to reflect the impact of adopting SFAS 123(R). Also, see Note 3 to the consolidated financial statements for accelerated vesting of certain options in February 2006. As a result of adopting SFAS 123(R) on April 1, 2006, the net loss and net loss per common share for the year ended March 31, 2007 were \$685,000 and \$0.08 higher, respectively, than if the Company had continued to account for stock-based compensation under APB Opinion No. 25.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table illustrates the effect on net loss and net loss per common share had the Company accounted for stock-based compensation in accordance with SFAS 123 for fiscal 2006:

Net loss	As reported	\$ (4,542,713)
Deduct:	Pro forma stock-based employee compensation expense determined under fair value-based method	(3,062,324)
Net loss	Pro forma	\$ (7,605,037)
Net loss per common share	As reported:	
Basic and diluted		\$ (0.67)
Net loss per common share	Pro forma:	
Basic and diluted		\$ (1.13)

The above pro forma effects on net loss and net loss per common share are not likely to be representative of the effects on reported net loss for future years because options vest over several years and additional awards generally are made each year. The effects of future periods would also be affected by the February 2006 accelerated vesting of options (see Note 3 to the consolidated financial statements).

Income Taxes. The Company recognizes 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. The Company measures deferred tax assets and liabilities using enacted tax rates it expects to apply to taxable income in the years in which the Company expects to recover or settle those temporary differences. During fiscal 2007 and 2006 the Company's Dutch subsidiary recorded income tax expense (benefit) of approximately \$146,000 and \$(47,000) respectively. The Company's U.S. net operating loss carryforwards cannot be used to offset taxable income in foreign jurisdictions.

Basic and Diluted Net Loss per Common Share. The Company calculates basic per common share amounts by dividing net loss by the weighted-average common shares outstanding. The Company computes diluted per common share amounts similar to basic per common share amounts except that the Company increases weighted-average shares outstanding to include additional shares for the assumed exercise of stock options and warrants, if dilutive. Because the Company had a loss in fiscal 2007 and 2006, diluted shares were the same as basic shares since the effect on options and warrants would be anti-dilutive. The Company excluded the following options and warrants outstanding at March 31, 2007 and 2006 to purchase shares of common stock from diluted loss per share as their impact would be anti-dilutive:

	Number of Options/Warrants	Range of Exercise Prices
Years ended:		
March 31, 2007	4,336,344	\$ 1.10 - 5.30
March 31, 2006	3,875,473	\$ 0.90 - 10.50

New Accounting Pronouncements

In March 2006, the FASB released EITF Issue No. 06-3, How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement, or EITF Issue 06-3. EITF Issue 06-3 concluded that the presentation of sales, use, value-added and certain excise taxes on either a gross (included in revenues and costs) or a net (excluded from revenues) basis is an accounting policy decision that should be disclosed in the financial statements. In addition, for any such taxes that are reported on a gross basis, a company should disclose the amounts of

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UROPLASTY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

those taxes in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. EITF Issue 06-3 is effective for periods beginning after December 15, 2006. The Company's accounting policy is to present sales on a net basis, and accordingly, adoption of EITF Issue 06-3 did not have a material effect on its consolidated financial statements.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement 109*, or FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 provides that the tax effects from an uncertain tax position be recognized in financial statements, only if the position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective as of the beginning of the Company's 2008 fiscal year, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact, if any, of adopting FIN 48 on its consolidated financial statements.

In September 2006, the FASB issued Statement 157, *Fair Value Measurements*, or SFAS 157, which defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. 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. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued Statement 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, or SFAS 158. SFAS 158 amends SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88 *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* and SFAS 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*. The amendments retain most of the existing measurement and disclosure guidance and will not change the amounts recognized in the Company's statement of operations. SFAS 158 requires companies to recognize a net asset or liability with an offset to equity, for the amount by which the defined-benefit-postretirement obligation is over or under-funded. SFAS 158 requires prospective application, and the recognition and disclosure requirements became effective for the Company's annual consolidated financial statements for the fiscal year ended March 31, 2007. The Company adopted SFAS 158 as further discussed in Note 5, Savings and Retirement Plans, to the consolidated financial statements.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, or SAB 108. SAB 108 was issued in order to eliminate the diversity of practice in how public companies quantify misstatements of financial statements, including misstatements that were not material to prior years' financial statements. Adoption of SAB 108, effective for the Company's fiscal year ended March 31, 2007, did not have a material impact on the Company's consolidated financial statements.

In February 2007, 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 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

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Measurements. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

2. Notes Payable

Notes payable consist of the following at March 31, 2007 and 2006:

	2007	2006
\$100,000 secured note, monthly payments \$3,151, inclusive of interest, through June 2009, at a fixed interest rate of 8.25% per annum	\$ 77,280	\$
Mortgage note, monthly payments of \$3,234 plus interest through December 2017, at a fixed interest rate of 4.7% per annum from May 2006 through April 2011	418,565	415,422
Note payable, monthly payments of \$588 plus interest through August 2008 at a fixed rate of 4.4% per annum	9,968	15,477
	\$ 505,813	\$ 430,899
Less current maturities	78,431	41,658
	\$ 427,382	\$ 389,241

Approximate future amounts of principal payments of long-term debt for the years ended March 31, are as follows:

2008	\$ 78,000
2009	77,000
2010	48,000
2011	39,000
2012	39,000
Thereafter	225,000
	\$ 506,000

In October 2006, the Company amended its business loan agreement with Venture Bank. The amended agreement provided for a credit line of up to \$500,000 secured by the Company's assets and was set to expire in April 2007 if not renewed. Under this agreement, the Company could borrow up to 50% of the value of the inventory on hand in the U.S. and 75% of the U.S. accounts receivable value. The bank charged interest on the loan at the rate of one percentage point over the prime rate (8.25% on March 31, 2007), subject to a minimum interest rate of 7% per annum.

In addition, Uroplasty BV, the Company's subsidiary, entered into an agreement with Rabobank of The Netherlands for a \$500,000 (approximately \$667,000) 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 March 31, 2007), subject to a minimum interest rate of 3.5% per annum.

At March 31, 2007 and 2006, the Company had no outstanding balances under the credit agreements.

3. Shareholders Equity

Stock Options. The Company has outstanding 986,866 options to purchase shares of common stock granted under the 1995, 2002 and 2006 option plans. Options granted under these plans

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

generally expire over a period ranging from five to seven years from date of grant and vest at varying rates ranging up to five years. The Company froze the 1995 and 2002 plans and cannot grant any new options from these plans, upon adoption by the shareholders of the 2006 plan.

The Company has outstanding 1,183,000 options to purchase shares of common stock, not granted under the 1995, 2002 and 2006 plans, that expire up to ten years from date of grant and vest at varying rates ranging up to five years.

The Company grants options at the discretion of the directors. Holders may exercise options at a price equal to or greater than the fair market value of the Company's common stock at date of grant. The plans generally provide for the exercise of options during a limited period following termination of employment, death or disability.

The following table summarizes the activity related to the Company's stock options in fiscal 2007:

	Number of Shares	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
Balance at March 31, 2005	1,720,859	\$ 3.96	
Granted	330,000	3.20	
Exercised	(33,666)	1.36	
Cancelled	(128,866)	4.94	
Balance at March 31, 2006	1,888,327	3.80	
Options granted	686,000	2.46	
Options exercised	(175,849)	1.75	
Options surrendered	(228,612)	3.10	
Balance at March 31, 2007	2,169,866	\$ 3.62	\$ 1,125,000
Options exercisable at March 31, 2007	1,666,282	\$ 3.95	\$ 759,000

The weighted average fair value of stock options granted during 2007 and 2006 was \$2.02 and \$2.74, respectively. The weighted average fair value of stock options vested during 2007 and 2006 was \$3.24 and \$3.86, respectively. The total intrinsic value of options exercised during the years ended March 31, 2007 and 2006 was \$170,600 and \$56,000, respectively.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information about stock options outstanding at March 31, 2007:

Exercise Price	Number of Shares Outstanding	Weighted Average Remaining Life in Years	Number Exercisable
\$1.10	251,000	0.43	251,000
1.82	135,000	4.41	45,000
2.10	10,000	4.17	2,500
2.25	18,000	0.41	18,000
2.40	10,000	3.99	5,000
2.47	10,000	2.15	0
2.50	300,000	9.14	100,000
2.52	10,000	4.66	2,500
2.63	98,000	6.85	0
2.70	10,000	0.13	5,000
2.75	30,000	2.57	30,000
2.80	53,000	0.62	50,750
2.85	61,666	2.04	29,999
2.90	10,000	4.58	3,333
3.00	100,000	8.63	100,000
3.45	40,000	2.92	0
3.50	10,000	1.51	10,000
3.75	5,000	2.29	5,000
3.80	20,000	3.51	20,000
4.10	500	2.86	500
4.20	25,000	0.15	25,000
5.19	500,000	7.76	500,000
5.30	462,700	2.48	462,700
	2,169,866		1,666,282

The Company determines the fair value of the option awards using the Black-Scholes option pricing model. The Company used the following weighted-average assumptions to value the options granted in fiscal 2007 and 2006.

	2007	2006
Expected life in years	6.92	6.52
Risk-free interest rate(%)	4.92%	4.39%

Expected volatility(%)	102.5%	116%
Expected dividend yield	0%	0%

The expected life selected for options granted represents the period of time the Company expects options to be outstanding based on historical data of option holder exercise and termination behavior for similar grants. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatility is based upon historical volatility of the Company's stock. The Company estimated the forfeiture rate for stock awards to range from 0% to 8.7% in 2007 based on the historical employee turnover rates. The expected life of the options is based on the historical life of previously granted options which are generally held to maturity.

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UROPLASTY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of March 31, 2007 the Company had approximately \$693,000 of unrecognized compensation cost related to share-based payments projected to be recognized over a weighted-average period of approximately 1.8 years.

Proceeds from exercise of stock options were \$307,000 and \$45,700 in fiscal 2007 and 2006, respectively.

Accelerated Vesting. In February 2006, the Company's Board of Directors approved a plan to accelerate the vesting of out-of-the-money, unvested stock options previously granted to the Company's employees, officers and directors. The Company considered an option out-of-the-money if the stated exercise price exceeded \$2.85, the then closing price of the Company's common stock. Pursuant to this action, options to purchase approximately 0.4 million shares of the Company's common stock with a weighted average exercise price of \$4.49 per share became exercisable immediately.

The Company accelerated the vesting of options in fiscal 2006 to minimize the amount of compensation expense it would otherwise recognize upon adoption of SFAS No. 123(R) on April 1, 2006. None of these options had intrinsic value at the acceleration date under APB Opinion No. 25. The Company estimates that acceleration of the vesting of these options reduced the pre-tax stock option expense by approximately \$1.4 million, in the aggregate, calculated using the Black-Scholes option valuation model, that it would otherwise recognize over the next three fiscal years, upon adoption of SFAS No. 123(R). This amount is included in the fiscal 2006 pro forma net loss computation shown in Note 1 to the consolidated financial statements.

Warrants. As of March 31, 2007, the Company had issued and outstanding warrants to purchase an aggregate of 2,166,478 common shares, at a weighted average exercise price of \$3.79.

In connection with the equity offerings of April 2005 private placement, August 2006 private placement and December 2006 follow-on offering, the Company issued five-year warrants to purchase 1,180,928, 764,500, 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, the Company issued five-year warrants in April 2003 and November 2003, each to purchase 50,000 shares of common stock at a per share price of \$3.00 and \$5.00, respectively.

Proceeds from exercise of warrants were approximately \$1.3 million and \$0 in fiscal 2007 and 2006, respectively.

In April 2005, the Company recognized a liability and an equity charge of \$1.4 million associated with the reissue of certain warrants. At each subsequent reporting period, the Company recognized in other income (expense) the change in fair value of the warrants due to the change in the value of the Company's common stock issuable upon exercise of these warrants. In March 2007, upon exercise of the warrants and at the end of warrant exercise period, the Company reclassified a warrant liability of \$0.7 million to equity.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other Comprehensive Loss. Other comprehensive loss consists of accumulated translation adjustment, and pension related items as follows:

	Accumulated Translation Adjustment	Accumulated Additional Pension Liability	Total
Balance at March 31, 2005	\$ (64,573)	\$ (65,784)	\$ (130,357)
Translation adjustment	(206,356)		(206,356)
Pension related		(123,302)	(123,302)
Balance at March 31, 2006	\$ (270,929)	\$ (189,086)	\$ (460,015)
Translation adjustment	178,359		178,359
Pension related		(17,268)	(17,268)
Balance at March 31, 2007	\$ (92,570)	\$ (206,354)	\$ (298,924)

4. Commitments and Contingencies

Restructuring Reserve. In the fourth quarter of fiscal 2007, the Company announced plans to close its Eindhoven, The Netherlands manufacturing facility and transition the production to its facility in Minnesota. At March 31, 2007, the Company has provided a restructuring reserve of \$221,259, related to severance pay for three employees.

Royalties. The Company has received an absolute assignment of a patent relating to the Macroplastique Implantation System, in return for a royalty of 10 British Pounds for each unit sold during the life of the patent. Under the terms of an agreement with former officers and directors of the Company, the Company pays royalties equal to between three percent and five percent of the net sales of certain Macroplastique products, subject to a specified monthly minimum of \$4,500. The royalties payable under this agreement will continue until the patent referenced in the agreement expires in 2010. The Company recognized an aggregate of \$180,000 and \$168,000 of royalty expense, under these agreements in fiscal 2007 and 2006, respectively.

In April 2005, the Company entered into an exclusive manufacturing and distribution agreement with CystoMedix, Inc. for the Urgent PC system. The agreement required the Company to pay CystoMedix an aggregate of \$475,000 (an initial payment of \$225,000 and an additional payment of \$250,000 in 12 equal monthly installments) and a 7% royalty payment on product sales to the extent the cumulative royalty amount exceeds \$250,000. In April 2007, the Company acquired from CystoMedix certain intellectual property assets related to the Urgent PC system and terminated the April 2005 exclusive manufacturing and distribution agreement (see Note 9, Subsequent Events).

Purchase Requirements. The Company has an exclusive distribution agreement with CL Medical through December 2010, allowing the Company to market and sell the I-Stop urethral sling in the United Kingdom. Under the agreement, the Company is required to purchase a minimum of \$347,000 of units in calendar 2007, increasing to \$500,000 of units in calendar 2010, for an aggregate commitment of approximately \$2 million of units over the calendar period

2007 to 2010, subject to periodic adjustment based on the value of the euro. In addition, the Company has commitments, generally for periods of less than two years, to purchase from various vendors finished goods and manufacturing components under issued purchase orders.

Operating Lease Commitments. The Company leases office, warehouse, and production space under three operating leases and leases various automobiles for its European employees. At

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

March 31, 2007, approximate future minimum lease payments under noncancelable operating leases with an initial term in excess of one year are as follows:

2008	\$ 271,000
2009	239,000
2010	187,000
2011	185,000
2012	184,000
Thereafter	307,000
	\$ 1,373,000

Total operating lease expenses were \$392,000 and \$355,000 in fiscal 2007 and 2006, respectively.

Employment Agreements. The Company has entered into employment agreements with certain officers, the terms of which, among other things, specify a base salary subject to annual adjustment by mutual agreement of the parties, and a severance payment to the employee upon employment termination without cause. The Company provides for various severance amounts payable under the agreements after employment termination. Contemporaneously with the execution of their employment agreement, some of the officers executed an Employee Confidentiality, Inventions, Non-Solicitation, and Non-Compete Agreement. This agreement prohibits the employee from disclosing confidential information, requires the employee to assign to the Company without charge all intellectual property relating to the Company's business which is created or conceived during the term of employment, prohibits the employee from encouraging employees to leave the employment of the Company for any reason and prohibits competition with the Company during the term of employment and for a specified term thereafter.

Product Liability. The medical device industry is subject to substantial litigation. The Company faces an inherent risk of liability for claims alleging adverse effects to the patient. The Company currently carries \$2 million of worldwide product liability insurance. There can be no assurance, however, that the Company's existing insurance coverage limits are adequate to protect it from any liabilities it might incur.

5. Savings and Retirement Plans

The Company sponsors various plans for eligible employees in the United States, the United Kingdom (UK), and The Netherlands. The Company's retirement savings plan in the United States conforms to Section 401(k) of the Internal Revenue Code and participation is available to substantially all employees. The Company may also make discretionary contributions ratably to all eligible employees. The Company's contributions in fiscal 2007 and 2006 in the United States were made in the form of Company common stock and became fully vested when made. The total contribution expense associated with these plans in the United States was \$44,385 and \$0 for fiscal 2007 and 2006, respectively.

The Company's international subsidiaries have defined benefit retirement plans for eligible employees. These plans provide benefits based on the employee's years of service and compensation during the years immediately preceding

retirement, termination, disability, or death, as defined in the plans. The UK subsidiary's defined benefit plan was frozen on December 31, 2004. On March 10, 2005, the UK subsidiary established a defined contribution plan. The Netherlands defined benefit retirement plan was closed for new participants as of April 1, 2005. On April 1, 2005, The Netherlands subsidiary established a defined contribution plan for new employees. The total contribution expense associated

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

with the defined contribution plans in The Netherlands and the United Kingdom was \$52,704 and \$46,079 for fiscal 2007 and 2006, respectively.

On March 31, 2007, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, or SFAS 158. SFAS 158 requires companies to recognize a net asset or liability with an offset to equity, for the amount by which the defined-benefit-postretirement obligation is over or under-funded. The adoption of SFAS 158 had the following impact on individual captions in its consolidated balance sheet as of March 31, 2007:

	Before Adoption of SFAS 158	Adjustments	After Adoption of SFAS 158
Deferred Tax Assets, non current	\$ 59,250	\$ 34,570	\$ 93,820
Accrued Pension Liability	460,457	135,569	596,026
Accumulated additional pension liability	\$ (206,376)	\$ 22	\$ (206,354)

In the fourth quarter of fiscal 2007, the Company announced a plan to restructure its manufacturing operations. The restructuring resulted in a curtailment of \$98,146 in the projected benefit obligation and a curtailment gain, recognized as a reduction in net periodic benefit cost, of \$205,441 in fiscal 2007.

As of March 31, 2007 and 2006, the Company held all the assets of the U.K. and The Netherlands pension plans in Swiss Life Insured Assets.

The Company projects the following pension benefit payments, which reflect expected future service, for the U.K., and the Netherlands defined benefit plans, for the fiscal year ended March 31 2007:

2008	\$ 219
2009	469
2010	753
2011	1,077
2012	1,446
2013 to 2017	138,026
	\$ 141,990

The Company expects to contribute approximately \$299,396 to the U.K. and The Netherlands defined benefit pension plans during fiscal 2008. In The Netherlands no contributions were made to the plan in the year ended March 31, 2007.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes the change in benefit obligation and the change in plan assets for the years ended March 31, 2007 and 2006:

	2007	2006
Changes in benefit obligations:		
Projected benefit obligation, beginning of year	\$ 2,475,952	\$ 2,062,036
Service cost	185,494	170,319
Interest cost	124,605	99,773
Other	21,961	11,486
Actuarial result	(465,301)	278,123
Curtailment	(98,146)	
Plan amendment	(700,319)	
Foreign currency translation	226,107	(145,785)
Projected benefit obligation, end of year	\$ 1,770,353	\$ 2,475,952
Changes in plan assets:		
Plan assets, beginning of year	\$ 1,406,317	\$ 1,246,402
Contributions to plan	43,918	201,184
Benefits paid		
Management cost	(27,783)	(23,112)
Actual return on assets	(385,737)	70,681
Foreign currency translation	137,613	(88,838)
Plan assets, end of year	\$ 1,174,328	\$ 1,406,317

The funded status of the Company's pension retirement plans at March 31, 2007 and 2006, are as follows:

	2007	2006
Funded status	\$ (596,026)	\$ (1,069,635)
Unrecognized net transition obligation (assets)		
Unrecognized net actuarial loss (gain)	755,358	824,876
Unrecognized prior service costs (benefit)	(514,413)	(228,406)
Net amount recognized	\$ (355,081)	\$ (473,165)

The amount recognized in other comprehensive income at March 31, consists of:

	2007	2006
Unrecognized net transition cost	\$	\$
Unrecognized net prior service (benefit)/cost	(514,413)	
Unrecognized net (gains)/losses	755,359	228,406
Additional Other Comprehensive Income	\$ 240,946	\$ 228,406

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Information for the Company's plans with an accumulated benefit obligation in excess of plan assets at March 31, 2007 and 2006 is as follows:

	2007	2006
Projected benefit obligation	1,770,353	2,475,952
Accumulated benefit obligation	1,437,953	1,880,195
Fair value of plan assets	1,174,328	1,406,317

The cost of the Company's defined benefit retirement plans in The Netherlands and United Kingdom include the following components for the years ended March 31, 2007 and 2006:

	2007	2006
Gross service cost, net of employee contribution	\$ 185,494	\$ 170,319
Interest cost	124,605	99,773
Management cost	24,375	23,112
Expected return on assets	(71,557)	(57,730)
Curtailment gain	(205,441)	
Amortization	42,691	34,698
Net periodic retirement cost	\$ 100,167	\$ 270,172

Major assumptions used in the above calculations include:

	2007	2006
Discount rate	4.90 - 5.30%	4.25 - 5.00%
Expected return on assets	4.90 - 5.00%	4.00 - 5.00%
Expected rate of increase in future compensation:		
general	3%	3%
individual	0% - 3%	0% - 3%

6. Income Taxes

The components of income tax expense (benefit) for the years ended March 31, 2007 and 2006, consist of the following:

2007	2006
-------------	-------------

Income tax provision:		
Current:		
U.S. and state	\$	\$
Foreign	122,811	(36,744)
Deferred:		
U.S. and state		
Foreign	23,525	(10,129)
Total income tax expense (benefit)	\$ 146,336	\$ (46,873)

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Effective tax expense (benefit) differs from statutory federal income tax expense (benefit) for the year ended March 31, 2007 and 2006 as follows:

	2007	2006
Statutory federal income tax benefit	\$ (1,643,365)	\$ (1,560,459)
Foreign tax	(57,766)	26,822
Valuation allowance increase	1,363,043	1,437,790
Other	484,424	48,974
	\$ 146,336	\$ (46,873)

Deferred taxes as of March 31, 2007 and 2006 consist of the following:

	2007	2006
Deferred tax assets:		
Pension liability	\$ 106,828	\$ 93,368
Stock option	246,959	
Other reserves and accruals	105,209	39,201
Deferred profit on intercompany sales	202,590	99,350
Net operating loss carryforwards	6,515,226	5,599,391
	7,176,812	5,831,310
Less valuation allowance	(7,082,993)	(5,719,949)
	\$ 93,819	\$ 111,361

At March 31, 2007, the Company had U.S. net operating loss carryforwards (NOL) of approximately \$18 million for U.S. income tax purposes, which expire in 2014 through 2025, and NOLs in the U.K. of \$199,000, which the Company can carry forward indefinitely. U.S. net operating loss carryforwards cannot be used to offset taxable income in foreign jurisdictions. In addition, future utilization of NOL carryforwards are 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. The Company believes that the issuance of its common stock in the December 2006 follow-on public offering resulted in an ownership change under Section 382. Accordingly, the Company's ability to use NOL tax attributes generated prior to December 2006 may be limited.

The Company provides for a valuation allowance when it is more likely than not that the Company will not realize a portion of the deferred tax assets. The Company has established a valuation allowance for U.S. and certain foreign deferred tax assets due to the uncertainty that enough income will be generated in those taxing jurisdictions to utilize

the assets. Therefore, the Company has not reflected any benefit of such net operating loss carryforwards in the accompanying financial statements. The deferred tax asset increased by \$1,346,000 and \$1,447,000, respectively in fiscal 2007 and 2006. The related valuation allowance increased by \$1,363,000 and \$1,438,000, respectively, in fiscal 2007 and 2006.

The Company has not provided for U.S. deferred income taxes at March 31, 2007 for the undistributed earnings from non-U.S. subsidiaries. Those earnings are considered to be permanently reinvested in accordance with Accounting Principles Board (APB) Opinion 23 and will not be remitted to the U.S.

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Business Segment Information**

The Company is a medical device company that develops, manufactures and markets innovative, proprietary products for the treatment of voiding dysfunctions. The Company offers minimally invasive products to treat urinary incontinence and overactive bladder symptoms, as well as products to treat fecal incontinence. The Company markets its soft tissue bulking material for additional indications, including the treatment of vocal cord rehabilitation and soft tissue facial augmentation. In addition, the Company is a distributor of specialized wound care products in The Netherlands and United Kingdom. The Company sells its products in and outside of the United States. The Company recently expanded its sales, marketing and reimbursement organizations in the U.S.

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

Information regarding operations in different geographies for the years ended March 31, 2007 and 2006 is as follows:

	United States	The Netherlands	United Kingdom	Eliminations*	Consolidated
Fiscal 2007					
Sales to customers	\$ 2,910,941	\$ 5,933,773	\$ 2,089,537	\$ (2,623,250)	\$ 8,311,001
Income tax expense (benefit)		146,336			146,336
Net income (loss)	(5,161,613)	362,639	105,027	(282,943)	(4,976,890)
Long-lived assets at March 31, 2007	986,875	745,269	7,698		1,739,842
Fiscal 2006					
Sales to customers	\$ 871,151	\$ 4,830,203	\$ 1,711,585	\$ (1,270,327)	\$ 6,142,612
Income tax benefit		(46,873)			(46,873)
Net income (loss)	(4,572,337)	(99,012)	(107,828)	236,464	(4,542,713)
Long-lived assets at March 31, 2006	767,984	717,692	5,366		1,491,042

* Represents intercompany transactions.

8. Corporate Liquidity

The Company's future liquidity and capital requirements will depend on numerous factors including: the timing and cost involved in manufacturing scale-up and in expanding the sales, marketing and distribution capabilities in the United States markets; the cost and effectiveness of the marketing and sales efforts with respect to existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting proprietary rights. The Company believes it has sufficient cash on hand and access to existing

credit facilities to

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UROPLASTY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

meet its projected fiscal 2008 needs. However, because the Company has not yet achieved profitability and does generate positive cash flows, it will need to raise additional financing to support its operations and planned growth activities beyond fiscal 2008.

9. Subsequent Events

In April 2007, the Company acquired from CystoMedix, Inc., certain intellectual property assets related to the Urgent PC neurostimulation system. In consideration, the Company issued CystoMedix 1,417,144 shares of common stock valued at approximately \$4.7 million. The shares issued to CystoMedix will become eligible for public resale beginning in April 2008. With the closing of the April 2007 transaction, the April 2005 exclusive manufacturing and distribution agreement terminated, pursuant to which CystoMedix granted the Company the right to manufacture and sell the Urgent PC system in the United States and certain European countries.

In May 2007, the Company entered into an amended business loan agreement with Venture Bank. The agreement, expiring in May 2008, provides for a credit line of up to \$1 million secured by the assets of the Company. The Company may borrow up to 50% (to a maximum of \$500,000) of the value of the eligible inventory on hand in the U.S. and 80% of the eligible U.S. accounts receivable value. To borrow any amount, the Company must maintain consolidated net equity of at least equal to \$3.5 million, as well as maintain 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.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2007 (Unaudited)	March 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,204,684	\$ 3,763,702
Short-term investments	2,400,000	3,000,000
Accounts receivable, net	1,775,607	1,240,141
Income tax receivable	34,099	113,304
Inventories	821,577	823,601
Other	354,814	272,035
Total current assets	8,590,781	9,212,783
Property, plant, and equipment, net	1,459,165	1,431,749
Intangible assets, net	4,845,177	308,093
Deferred tax assets	94,234	93,819
Total assets	\$ 14,989,357	\$ 11,046,444
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current maturities long-term debt	\$ 161,696	\$ 78,431
Deferred rent current	35,000	35,000
Accounts payable	449,635	544,507
Accrued liabilities	882,940	1,347,670
Total current liabilities	1,529,271	2,005,608
Long-term debt less current maturities	411,935	427,382
Deferred rent less current portion	206,030	214,381
Accrued pension liability	458,937	596,026
Total liabilities	2,606,173	3,243,397
Shareholders equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 13,262,140 and 11,614,330 shares issued and outstanding at June 30 and March 31, 2007, respectively	132,621	116,143
Additional paid-in capital	29,382,285	23,996,818
Accumulated deficit	(16,851,625)	(16,010,990)
Accumulated other comprehensive loss	(280,097)	(298,924)
Total shareholders equity	12,383,184	7,803,047

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Total liabilities and shareholders' equity	\$ 14,989,357	\$ 11,046,444
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See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended June 30,	
	2007	2006
	(Unaudited)	
Net sales	\$ 2,948,674	\$ 1,764,210
Cost of goods sold	594,212	555,516
Gross profit	2,354,462	1,208,694
Operating expenses		
General and administrative	808,374	857,572
Research and development	506,125	674,954
Selling and marketing	1,632,789	1,232,587
Amortization of intangibles	216,521	26,537
	3,163,809	2,791,650
Operating loss	(809,347)	(1,582,956)
Other income (expense)		
Interest income	76,383	19,507
Interest expense	(11,365)	(5,982)
Warrant benefit		327,732
Foreign currency exchange gain (loss)	(2,029)	26,411
Other, net	1,879	4,800
	64,868	372,468
Loss before income taxes	(744,479)	(1,210,488)
Income tax expense	96,156	30,751
Net loss	\$ (840,635)	\$ (1,241,239)
Basic and diluted loss per common share	\$ (0.06)	\$ (0.18)
Weighted average common shares outstanding:		
Basic and diluted	12,981,466	6,952,167

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE LOSS
Three months ended June 30, 2007**

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital (Unaudited)	Accumulated Deficit (Unaudited)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at March 31, 2007	11,614,330	\$ 116,143	\$ 23,996,818	\$ (16,010,990)	\$ (298,924)	\$ 7,803,047
Issuance of common stock in connection with the purchase of intellectual property	1,417,144	14,171	4,644,690			4,658,861
Proceeds from exercise of warrants	50,000	500	149,500			150,000
Proceeds from exercise of stock options	180,666	1,807	424,191			425,998
Share-Based Compensation			167,086			167,086
Comprehensive Loss				(840,635)	18,827	(821,808)
Balance at June 30, 2007	13,262,140	\$ 132,621	\$ 29,382,285	\$ (16,851,625)	\$ (280,097)	\$ 12,383,184

See accompanying notes to the condensed consolidated financial statements.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****Three Months Ended June 30, 2007 and 2006**

	Three Months Ended June 30, 2007 2006 (Unaudited)	
Cash flows from operating activities:		
Net loss	\$ (840,635)	\$ (1,241,239)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	274,189	72,462
Gain on disposal of equipment	(2,771)	(4,800)
Warrant benefit		(327,732)
Stock-based consulting expense	14,067	11,007
Stock-based compensation expense	153,019	299,595
Deferred income taxes	572	(21,495)
Deferred rent	(8,750)	(5,833)
Changes in operating assets and liabilities:		
Accounts receivable	(524,327)	(178,338)
Inventories	10,651	76,937
Other current assets and income tax receivable	(926)	59,400
Accounts payable	(97,291)	35,354
Accrued liabilities	(472,737)	(207,646)
Accrued pension liability, net	(145,556)	27,025
Net cash used in operating activities	(1,640,495)	(1,405,303)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	600,000	1,137,647
Purchases of property, plant and equipment	(89,287)	(91,825)
Proceeds from sale of equipment	9,952	4,800
Payments for intangible assets	(89,725)	
Net cash provided by investing activities	430,940	1,050,622
Cash flows from financing activities:		
Proceeds from long-term obligations	178,374	210,999
Repayment of long-term obligations	(115,067)	(36,374)
Proceeds from issuance of common stock, warrants and option exercise	575,998	12,798
Net cash provided by financing activities	639,305	187,423
Effect of exchange rates on cash and cash equivalents	11,232	(1,869)
Net increase in cash and cash equivalents	559,018	(169,127)

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Cash and cash equivalents at beginning of period	3,763,702	1,563,433
Cash and cash equivalents at end of period	\$ 3,204,684	\$ 1,394,306
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 9,099	\$ 7,081
Cash paid during the period for income taxes	15,573	23,121
Supplemental disclosure of non-cash financing and investing activities:		
Employee retirement savings plan contribution issued in common shares		\$ 44,408
Property, plant and equipment additions funded by lessor allowance and classified as deferred rent		280,000
Purchase of intellectual property funded by issuance of stock	\$ 4,658,861	

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

**Notes to the Condensed Consolidated Financial Statements
(Unaudited)**

1. Basis of Presentation

We have prepared our condensed consolidated financial statements included in this prospectus, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to such rules and regulations. The consolidated results of operations for any interim period are not necessarily indicative of results for a full year. These condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this prospectus.

The condensed consolidated financial statements presented herein as of June 30, 2007 and for the three-month periods ended June 30, 2007 and 2006 reflect, in the opinion of management, all material adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods.

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, accounts receivable, inventories, foreign currency translation and transactions, impairment of long-lived assets, share-based compensation and income taxes, each of which is more fully described elsewhere in this prospectus. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three month period ended June 30, 2007, and we have made no changes to these policies during fiscal 2008.

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

We are a medical device company that develops, manufactures and markets innovative, proprietary products for the treatment of voiding dysfunctions. We offer minimally invasive products to treat urinary and fecal incontinence and overactive bladder symptoms. In addition, we market soft tissue bulking material for additional indications, including the treatment of vocal cord rehabilitation, fecal incontinence and soft tissue facial augmentation. We sell our products in and outside of the United States. In fiscal 2007, we expanded our sales, marketing and reimbursement organizations in the U.S. to market the products directly to the customers.

In October 2006, we received from the FDA pre-market approval for Macroplastique®, a minimally invasive, implantable soft tissue bulking agent for the treatment of urinary incontinence, sold in over 40 countries outside the United States since 1991. We began marketing this product in the United States in early 2007.

The majority of our revenue is from products sold outside of the United States. We have established a sales force in the United States to commercialize these products and anticipate increasing our sales and marketing organization. We expect our sales in the U.S. to grow faster than the overall sales growth in the next few years.

Our future liquidity and capital requirements will depend on numerous factors including: acceptance of our products, and the timing and cost involved in manufacturing scale-up and in expanding our sales, marketing and distribution capabilities in the United States markets; the cost and effectiveness of our marketing and sales efforts with respect to

our existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting our proprietary rights. Because we have yet to achieve profitability and generate positive cash flows,

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)**

we will need to raise additional debt or equity financing to continue funding for product development, to continue expansion of our sales and marketing activities and for planned growth activities beyond fiscal 2008. 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, aside from the recently established credit lines. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. Ultimately, we will need to achieve profitability and generate positive cash flow from operations to fund our operations and grow our business.

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 inventories 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 (8.25% on June 30, 2007). In addition, Uroplasty BV, our subsidiary, entered into an agreement with Rabobank of The Netherlands for a 500,000 (approximately \$667,000) 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 June 30, 2007), subject to a minimum interest rate of 3.5% per annum. At June 30, 2007, we had no borrowings outstanding under any of our credit lines.

3. Short-term Investments

At June 30, 2007, short-term investments consisted of certificates of deposit of which \$1,200,000 will mature in the second quarter of fiscal 2008 and \$1,200,000 will mature in the third quarter of fiscal 2008.

4. Inventories

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

	June 30, 2007	March 31, 2007
Raw materials	\$ 239,026	\$ 254,988
Work-in-process	26,249	20,773
Finished goods	556,302	547,840
	\$ 821,577	\$ 823,601

5. Intangible Assets

Intangible assets are comprised of patents, trademarks and licensed technology which are amortized on a straight-line basis over their estimated useful lives or contractual terms, whichever is less. In April 2007, we acquired from CystoMedix, Inc. certain intellectual property assets related to the Urgent PC® neurostimulation system, which was

previously licensed to us. In consideration, we issued CystoMedix 1,417,144 shares of our common stock. We have capitalized \$4.7 million of the acquisition costs as patents and inventions.

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)**

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

			June 30, 2007	
	Estimated Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Value
Licensed technology	5	\$ 26,290	\$ 26,290	\$
Patents and inventions	6	5,461,486	616,309	4,845,177
Totals		\$ 5,487,776	\$ 642,599	\$ 4,845,177

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

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

Remainder of fiscal 2008	\$ 634,505
2009	845,903
2010	843,619
2011 +	2,521,150
	\$ 4,845,177

6. Deferred Rent

We entered into an 8-year operating lease agreement, effective May 2006, for our corporate facility. As part of the agreement, the landlord provided an incentive of \$280,000 for leasehold improvements. This incentive was recorded as deferred rent and is being amortized as reduction in lease expense over the lease term in accordance to SFAS 13,

Accounting for Leases and FASB Technical Bulletin 88-1, Issues Relating to Accounting for Leases. The leasehold improvements are amortized and charged to expense over the shorter of asset life or the lease term.

7. Comprehensive Loss

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

	Three Months Ended June 30,	
	2007	2006
Net loss	\$ (840,635)	\$ (1,241,239)
Items of other comprehensive income (loss):		
Translation adjustment	22,127	96,589
Pension related	(3,300)	(11,403)
Comprehensive loss	\$ (821,808)	\$ (1,156,053)

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)****8. Net Loss per Common Share**

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

	Number of Options/ Warrants	Range of Exercise Prices
For the three months ended:		
June 30, 2007	4,131,178	\$1.10 to \$5.30
June 30, 2006	4,038,460	\$0.90 to \$10.50

9. Warrants

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

In connection with our 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, we have outstanding five-year warrants, issued in November 2003 to CCRI Corporation, to purchase 50,000 shares of common stock at a per share price of \$5.00.

Proceeds from the exercise of warrants were \$150,000 for the three months ended June 30, 2007.

10. Share-based Compensation

As of December 31, 2006, we had one active plan (2006 Stock and Incentive Plan) for share-based compensation awards. Under the plan, if we have a change in control, all outstanding awards, including those subject to vesting or other performance targets, fully vest immediately. We have reserved 1,200,000 shares of our common stock for stock-based awards under this plan, and as of June 30, 2007, we had granted awards for 401,000 options. We generally grant option awards with an exercise price equal to the closing market price of our stock at the date of the grant.

We account for share-based compensation costs under Statement of Financial Accounting Standards No. 123(R), Share-Based Payment Revised 2004. We incurred a total of approximately \$153,000 and \$300,000 in compensation expense for the three months ended June 30, 2007 and 2006, respectively.

Proceeds from the exercise of stock options were \$426,000 for the three months ended June 30, 2007.

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)**

We determined the fair value of our option awards using the Black-Scholes option pricing model. We used the following weighted-average assumptions to value the options granted during the three months ended June 30, 2007:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006
Expected life in years	4.35	8.97
Risk-free interest rate	4.67%	5.06%
Expected volatility	108.28%	100.26%
Expected dividend yield	0	0
Weighted-average fair value	3.34	2.18

The expected life selected for options granted during the quarter represents the period of time that we expect our options to be outstanding based on historical data of option holder exercise and termination behavior for similar grants. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatilities are based upon historical volatility of our stock. We estimate the forfeiture rate for stock awards of up to 10.9% in 2008 based on the historical employee turnover rates. The expected life of the options is based on the historical life of previously granted options, which are generally held to maturity.

As of June 30, 2007, we had approximately \$639,000 of unrecognized compensation cost related to share-based payments that we expect to recognize over a weighted-average period of 1.64 years.

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

	Number of Shares	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Options outstanding at beginning of period	2,169,866	\$ 3.62	4.93	
Options granted	35,000	4.40	4.87	
Options exercised	(180,666)	2.36		
Options surrendered	(9,500)	2.49		
Options outstanding at end of period	2,014,700	\$ 3.75	5.05	\$ 1,969,850
Exercisable at end of period	1,638,199	\$ 4.01	4.86	\$ 1,347,916

11. Savings and Retirement Plans

We sponsor various plans for eligible employees in the United States, the United Kingdom (UK), and The Netherlands.

Our retirement savings plan in the United States conforms to Section 401(k) of the Internal Revenue Code and participation is available to substantially all employees. We made no discretionary contributions in association with these plans in the United States for the quarter ended June 30, 2007. For the quarter ended June 30, 2006, we made a contribution of \$44,408 in the form of our fully vested common stock.

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Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)**

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

The cost for our defined benefit retirement plans in The Netherlands and the United Kingdom includes the following components for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,	
	2007	2006
Gross service cost	\$ 21,258	\$ 50,542
Interest cost	22,485	30,413
Expected return on assets	(16,578)	(17,444)
Amortization	1,590	10,431
Net periodic retirement cost	\$ 28,755	\$ 73,942

Major assumptions used in the above calculations include:

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

12. Foreign Currency Translation

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

intercompany obligations within accumulated other comprehensive loss, a separate component of shareholders' equity.

We recognize exchange gains and losses primarily as a result of fluctuations in currency rates between the U.S. dollar (the functional reporting currency) and the Euro and British pound (currencies of our subsidiaries), as well as their effect on the dollar denominated intercompany obligations between us and our foreign subsidiaries. All intercompany balances are revolving in nature and we do not deem them to be long-term balances. For the three months ended June 30, 2007 and 2006, we recognized foreign currency gain (loss) of \$(2,029) and \$26,411, respectively.

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UROPLASTY, INC. AND SUBSIDIARIES

Notes to the Condensed Consolidated Financial Statements (Continued)

13. Income Tax Expense

During the three months ended June 30, 2007 and 2006, our Dutch subsidiaries recorded income tax expense of \$95,856 and \$30,751, respectively. During the three months ended June 30, 2007 and 2006, our U.S. organization recorded income tax expense of \$300 and \$0, respectively. We cannot use our U.S. net operating loss carry forwards to offset taxable income in foreign jurisdictions. Effective January 1, 2007, the maximum Dutch income tax rate is 25.5% for taxable income in excess of 60,000.

Effective April 1, 2007, we adopted FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109, which prescribes a recognition threshold and a measurement attribute for financial statement recognition of tax positions taken or expected to be taken in a tax return. It is management's responsibility to determine whether it is more-likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. At the adoption date of April 1, 2007, we had no unrecognized tax benefits which needed to be adjusted for. As of June 30, 2007, we reviewed all income tax positions taken or expected to be taken for all open tax years and determined that our income tax positions are appropriately stated and supported for all open years and that the adoption of FIN 48 did not have a material effect on our financial statements for the three months ended June 30, 2007.

We would recognize interest and penalties accrued on unrecognized tax benefits as well as interest received from favorable tax settlements within income tax expense. At the adoption date of April 1, 2007, we recognized no interest or penalties related to uncertain tax positions. As of June 30, 2007, we recorded no accrued interest or penalties related to uncertain tax positions.

The fiscal tax years 2004 through 2007 remain open to examination by the Internal Revenue Service and various state taxing jurisdictions to which we are subject. In addition, we are subject to examination by certain foreign taxing authorities for which the fiscal years 2005 through 2007 remain open for examination.

We expect no significant change in the amount of unrecognized tax benefit, accrued interest or penalties within the next 12 months.

14. Business Segment and Geographic Information

We are a medical device company that develops, manufactures and markets innovative, proprietary products for the treatment of voiding dysfunctions. We offer minimally invasive products to treat urinary incontinence and overactive bladder symptoms, as well as products to treat fecal incontinence. We market our soft tissue bulking material for additional indications, including the treatment of vocal cord rehabilitation and soft tissue facial augmentation. In addition, we distribute specialized wound care products in The Netherlands and United Kingdom. We sell our products in and outside of the United States. We recently expanded our sales, marketing and reimbursement organizations in the U.S.

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

Table of Contents**UROPLASTY, INC. AND SUBSIDIARIES****Notes to the Condensed Consolidated Financial Statements (Continued)**

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

	United States	The Netherlands	United Kingdom	Eliminations*	Consolidated
Fiscal 2008					
Sales, three months ended June 30, 2007	\$ 1,350,794	\$ 1,736,778	\$ 515,653	\$ (654,551)	\$ 2,948,674
Income tax expense, three months ended June 30, 2007	300	95,856			96,156
Net income (loss), three months ended June 30, 2007	(1,197,344)	290,366	(62,735)	129,078	(840,635)
Long-lived assets At June 30, 2007	5,562,951	734,575	6,816		6,304,342
Fiscal 2007					
Sales, three months ended June 30, 2006	\$ 298,300	\$ 1,163,129	\$ 529,437	\$ (226,656)	\$ 1,764,210
Income tax expense, three months ended June 30, 2006		30,751			30,751
Net income (loss), three months ended June 30, 2006	(1,347,945)	107,927	(57,675)	56,454	(1,241,239)
Long-lived assets At June 30, 2006	1,079,198	747,365	4,282		1,830,845

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

15. Recently Issued Accounting Standards

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

On February 15, 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". Under SFAS No. 159, we may elect to report financial instruments and certain other items at fair value on a contract-by-contract basis with changes in value reported in earnings. This election is irrevocable. SFAS No. 159 provides an opportunity to mitigate volatility in reported earnings that is caused by measuring hedged assets and liabilities that were previously required to use a different accounting method than the related hedging contracts when the complex hedge accounting provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", are not met. SFAS No. 159 is effective for years beginning after November 15, 2007. If we adopt this

standard, we do not expect it to have a material effect on our financial statements.

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Table of Contents**PART II****INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 24. INDEMNIFICATION OF DIRECTORS AND OFFICERS**

Minnesota Statutes Section 302A.521 provides that a corporation shall indemnify any person made or threatened to be made a party to a proceeding by reason of the former or present official capacity of such person against judgments, penalties, fines (including, without limitation, excise taxes assessed against such person with respect to any employee benefit plan), settlements and reasonable expenses, including attorneys' fees and disbursements, incurred by such person in connection with the proceeding, if, with respect to the acts or omissions of such person complained of in the proceeding, such person (1) has not been indemnified therefor by another organization or employee benefit plan; (2) acted in good faith; (3) received no improper personal benefit and Section 302A.255 (with respect to director conflicts of interest), if applicable, has been satisfied; (4) in the case of a criminal proceeding, had no reasonable cause to believe the conduct was unlawful; and (5) reasonably believed that the conduct was in the best interests of the corporation in the case of acts or omissions in such person's official capacity for the corporation or reasonably believed that the conduct was not opposed to the best interests of the corporation in the case of acts or omissions in such person's official capacity for other affiliated organizations. Our Bylaws provide that we shall indemnify officers and directors to the extent permitted by Section 302A.521.

ITEM 25. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth the costs and expenses payable by us in connection with the registration of the common stock hereunder. All amounts are estimated, except for the SEC registration fee.

Item	Amount
SEC registration fee	\$ 353.05
Accountants' fees and expenses	*
Legal fees and expenses	*
Printing expenses	*
FINRA and AMEX Fees	*
Blue sky fees and expenses	*
Transfer Agent and Registrar fees and expenses	*
Miscellaneous	*
Total	*

* To be completed by amendment

ITEM 26. RECENT SALES OF UNREGISTERED SECURITIES

The following is a list of our securities sold within the past three years without registration under the Securities Act:

(1) In April 2007, the Company acquired from CystoMedix, Inc. certain intellectual property assets. In consideration, the Company issued 1,417,144 shares of common stock to CystoMedix.

(2) In August 2006, we issued and sold an aggregate of 1,389,999 shares of common stock, as well as five-year warrants exercisable at \$2.50 per share to purchase 764,500 shares of common stock, for an aggregate consideration of approximately \$2.1 million. The securities were sold pursuant to a securities purchase agreement dated August 7, 2006.

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(3) In April 2005, we granted new warrants to purchase a total of 706,218 shares of common stock to holders of unexercised warrants that expired in July 2004. The new warrants are exercisable at \$2.00 per share.

(4) In April 2005, we issued and sold an aggregate of 2,147,142 shares of common stock, as well as five-year warrants exercisable at \$4.75 per share to purchase 1,180,928 shares of common stock, for an aggregate consideration of approximately \$7.5 million. The securities were sold pursuant to a securities purchase agreement dated April 21, 2005.

There were no underwriters employed in connection with any of the transactions set forth in this Item 26. With respect to items (1), (2) and (4), each of the stock issuances was deemed exempt from registration under the Securities Act in reliance on Section 4(2) of the Securities Act. The recipients of securities represented that they were accredited investors and that their intentions were to acquire the securities for investment only and not with a view to or for distributing or reselling such securities, and appropriate legends were affixed to the share certificates and other instruments issued in such transactions. All recipients either received adequate information about us or had access to such information. The sales of these securities were made without general solicitation or advertising.

With respect to item (3), the grant of the new warrants did not involve a sale because we issued the new warrants at no charge and received no form of consideration from holders of the unexercised, expired warrants in exchange for the new warrants.

ITEM 27. EXHIBITS

Number	Description
1.1*	Form of Underwriting Agreement
2.1	First Amended Joint Plan of Reorganization (Modified) dated January 31, 1994 (Incorporated by reference to Exhibit 8.2 to Registrant's Registration Statement on Form 10SB)
3.1*	Restated Articles of Incorporation of Uroplasty, Inc., as amended to date
3.2	Bylaws of Uroplasty, Inc. (Incorporated by reference to Exhibit 2.2 to Registrant's Registration Statement on Form 10SB)
4.1	Form of Stock Certificate representing shares of our Common Stock (Incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form 10SB)
4.2	Form of Warrant (Incorporated by reference to Exhibit 4.2 to Registrant's Registration Statement on Form SB-2, Registration No. 333-128313)
5*	Legal Opinion of Messerli & Kramer P.A.
10.1	Settlement Agreement and Release dated November 30, 1993 by and between Bioplasty, Inc., Bio-Manufacturing, Inc., Uroplasty, Inc., Arthur A. Beisang, Arthur A. Beisang III, MD and Robert A. Ersek, MD (Incorporated by reference to Exhibit 6.1 to Registrant's Registration Statement on Form 10SB)
10.2	Purchase and Sale Agreement dated December 1, 1995 by and among Bio-Vascular, Inc., Bioplasty, Inc., and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.2 to Registrant's Registration Statement on Form 10SB)
10.3	License Agreement dated December 1, 1995 by and between Bio-Vascular, Inc. and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.3 to Registrant's Registration Statement on Form 10SB)
10.4	Unsecured \$640,000 Promissory Note dated March 30, 1994 by and between Bioplasty, Inc., Uroplasty, Inc. and Bioplasty Product Claimants' Trust (Incorporated by reference to Exhibit 6.5 to Registrant's Registration Statement on Form 10SB)

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Number	Description
10.5	Agreement and Satisfaction dated January 30, 1995 by and between Bioplasty Product Claimants Trust and Bioplasty, Inc. (Incorporated by reference to Exhibit 6.6 to Registrant's Registration Statement on Form 10SB)
10.6	Asset Sale and Satisfaction of Debt Agreement dated June 23, 1995 by and between Bioplasty, Inc. and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.7 to Registrant's Registration Statement on Form 10SB)
10.7	Executory Contract Assumption Stipulation dated December 28, 1993 by and between Bioplasty, Inc., Uroplasty, Inc., and Collagen Corporation (Incorporated by reference to Exhibit 6.8 to Registrant's Registration Statement on Form 10SB)
10.8	Settlement and License Agreement dated July 23, 1992 by and between Collagen Corporation, Bioplasty, Inc., and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.9 to Registrant's Registration Statement on Form 10SB)
10.9	Employment Agreement between Uroplasty, Inc. and Susan Holman dated December 7, 1999. (Incorporated by reference to Exhibit 10.13 to Registrant's Form 10-KSB for the year ended 03-31-2000.)
10.10	Employment Agreement between Uroplasty, Inc. and Larry Heinemann dated December 7, 1999. (Incorporated by reference to Exhibit 10.14 to Registrant's Form 10-KSB for the year ended 03-31-2000.)
10.11	Agreement, dated October 14, 1998, by and between Uroplasty, Inc. and Samir M. Henalla (pertaining to Macroplastique Implantation System). (Incorporated by reference to Exhibit 10.15 to Registrant's Form 10-KSB/A for the year ended 03-31-2001)
10.12	Employment Agreement between Uroplasty, Inc. and Mr. Marc Herregraven dated November 15, 2002. (Incorporated by reference to Exhibit 10.15 to Registrant's Form 10-KSB for the year ended 03-31-2003)
10.13	Consulting Agreement between Uroplasty, Inc. and CCRI Corporation dated April 1, 2003. (Incorporated by reference to Exhibit 10.18 to Registrant's Form 10-KSB for the year ended 03-31-2003)
10.14	Employment Agreement between Uroplasty, Inc. and Sam B. Humphries dated January 1, 2005 (Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-QSB for the period ended December 31, 2004)
10.15	Employment and Consulting Agreement between Uroplasty, Inc. and Daniel G. Holman dated January 1, 2005 (Incorporated by reference to Exhibit 10.2 to Registrant's Form 10-QSB for the period ended December 31, 2004)
10.16	Form of Securities Purchase Agreement dated as of April 21, 2005, by and among Uroplasty, Inc., and the investors identified on the signature pages thereto (Incorporated by reference to Exhibit 10.20 to Registrant's Form 8-K dated April 21, 2005)
10.17	Form of Warrant (Incorporated by reference to Exhibit 10.21 to Registrant's Form 8-K dated April 21, 2005)
10.18	Form of Registration Rights Agreement dated as of April 21, 2005, by and among Uroplasty, Inc., and the investors named therein (Incorporated by reference to Exhibit 10.22 to Registrant's Form 8-K dated April 21, 2005)
10.19	Employment Agreement between Uroplasty, Inc. and Mahedi A. Jiwani dated November 14, 2005 (Incorporated by reference to Exhibit 10.24 to Registrant's Form 10-QSB for the period ended September 30, 2005)
10.20	Lease Agreement between Uroplasty, Inc. and Liberty Property Limited Partnership dated January 20, 2006 (Incorporated by reference to Exhibit 10.25 to Registrant's Form 8-K dated January 24, 2006)

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Number	Description
10.21	Form of Distribution Agreement between Uroplasty, Inc. and CL Medical SARL, dated February 15, 2006 (Incorporated by reference to Exhibit 10.26 to Registrant's Form SB-2/A dated February 21, 2006)
10.22	Letter Agreement between Daniel G. Holman and Uroplasty, Inc., amending terms of Employment Agreement dated January 1, 2005 (Incorporated by reference to Exhibit 10.27 to Registrant's Form 8-K dated March 27, 2006)
10.23	Letter Agreement between Sam B. Humphries and Uroplasty, Inc., dated April 26, 2006 (Incorporated by reference to Exhibit 10.28 to Registrant's Amendment No. 1 to Form SB-2 dated April 27, 2006)
10.24	Letter Agreement between Uroplasty, Inc. and Daniel G. Holman dated April 26, 2006 (Incorporated by reference to Exhibit 10.29 to Registrant's Amendment No. 1 to Form SB-2 dated April 27, 2006)
10.25	Employment Agreement between Uroplasty, Inc. and David B. Kaysen dated May 17, 2006 (Incorporated by reference to Exhibit 10.30 to Registrant's Form 10-KSB for the fiscal year ended March 31, 2006)
10.26	Business Loan Agreement and related Promissory Note dated May 1, 2007 with Venture Bank (Incorporated by reference to Exhibit 10.37 to Registrant's Form 8-K dated May 1, 2007)
10.27	Form of Securities Purchase Agreement dated as of August 7, 2006, by and among Uroplasty, Inc., and the investors identified on the signature pages thereto (Incorporated by reference to Exhibit 10.32 to Registrant's Form 8-K dated August 8, 2006)
10.28	Form of Registration Rights Agreement dated as of August 7, 2006, by and among Uroplasty, Inc., and the investors named therein (Incorporated by reference to Exhibit 10.34 to Registrant's Form 8-K dated August 8, 2006)
10.29	Form of Warrant dated August 7, 2006 (Incorporated by reference to Exhibit 10.33 to Registrant's Form 8-K dated August 8, 2006)
10.30	Letter Agreement dated October 26, 2006 between Uroplasty, Inc. and Venture Bank (Incorporated by reference to Exhibit 10.34 to Registrant's Form SB-2 filed October 27, 2006)
10.31	Form of Exclusive Distribution Agreement (Incorporated by reference to Exhibit 10.26 to Registrant's Form 10-KSB for the year ended March 31, 2007)
10.32	Form of Asset Purchase Agreement, dated as of March 15, 2007, between Uroplasty, Inc. and CystoMedix, Inc. (Incorporated by reference to Exhibit 10.36 to Registrant's Form 8-K dated March 15, 2007)
21.1	List of Subsidiaries (Incorporated by reference to Exhibit 21 to Registrant's Form 10-KSB for the year ended March 31, 2007)
23.1*	Consent of McGladrey & Pullen, LLP
23.3*	Consent of Messerli & Kramer P.A. (included in Exhibit 5)
24.1*	Power of Attorney (included on signature page)

* Filed herewith

ITEM 28. UNDERTAKINGS.

The undersigned registrant hereby undertakes:

For purposes of determining any liability under the Securities Act of 1933,

(i) treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small

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business issuer under Rule 424(b)(1) or (4) or 497(h) under the Securities Act as part of this registration statement as of the time the Commission declared it effective.

(ii) treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and that offering of the securities at that time as the initial bona fide offering of those securities.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Table of Contents**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement on Form SB-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Minnetonka, State of Minnesota, on October 18, 2007.

UROPLASTY, INC.

By: /s/ DAVID B. KAYSEN

David B. Kaysen
President and Chief Executive Officer

Power of Attorney

KNOW ALL MEN BY THESE PRESENTS, each of the undersigned officers of Uroplasty, Inc. hereby severally constitutes each of David B. Kaysen and Mahedi A. Jiwani with full power of substitution, his or her true and lawful attorney with full power to him, to sign for the undersigned and in his or her name in the capacity indicated below, the registration statement filed herewith and any and all amendments to said registration statement (including amendments pursuant to Rule 462 and post-effective amendments), and generally to do all such things in his or her name and in his or her capacity as an officer or director to enable Uroplasty, Inc. to comply with the provisions of the Securities Act of 1933, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming his or her signature as it may be signed by his or her attorney, or any of them, to said registration statement and any and all amendments thereto.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title/Capacity	Date
/s/ DAVID B. KAYSEN David B. Kaysen	President, Chief Executive Officer and Director (Principal Executive Officer)	October 18, 2007
/s/ MAHEDI A. JIWANI Mahedi A. Jiwani	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer and Principal Accounting Officer)	October 18, 2007
/s/ R. PATRICK MAXWELL R. Patrick Maxwell	Chairman of the Board of Directors	October 18, 2007
/s/ THOMAS E. JAMISON Thomas E. Jamison	Director	October 18, 2007
/s/ LEE A. JONES	Director	October 18, 2007

Lee A. Jones

/s/ JAMES P. STAUNER

Director

October 18, 2007

James P. Stauner

/s/ SVEN A. WEHRWEIN

Director

October 18, 2007

Sven A. Wehrwein

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EXHIBIT INDEX

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4.1	Form of Stock Certificate representing shares of our Common Stock (Incorporated by reference to Exhibit 3.1 to Registrant's Registration Statement on Form 10SB)
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5*	Legal Opinion of Messerli & Kramer P.A.
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10.4	Unsecured \$640,000 Promissory Note dated March 30, 1994 by and between Bioplasty, Inc., Uroplasty, Inc. and Bioplasty Product Claimants' Trust (Incorporated by reference to Exhibit 6.5 to Registrant's Registration Statement on Form 10SB)
10.5	Agreement and Satisfaction dated January 30, 1995 by and between Bioplasty Product Claimants' Trust and Bioplasty, Inc. (Incorporated by reference to Exhibit 6.6 to Registrant's Registration Statement on Form 10SB)
10.6	Asset Sale and Satisfaction of Debt Agreement dated June 23, 1995 by and between Bioplasty, Inc. and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.7 to Registrant's Registration Statement on Form 10SB)
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10.8	Settlement and License Agreement dated July 23, 1992 by and between Collagen Corporation, Bioplasty, Inc., and Uroplasty, Inc. (Incorporated by reference to Exhibit 6.9 to Registrant's Registration Statement on Form 10SB)
10.9	Employment Agreement between Uroplasty, Inc. and Susan Holman dated December 7, 1999. (Incorporated by reference to Exhibit 10.13 to Registrant's Form 10-KSB for the year ended 03-31-2000.)
10.10	Employment Agreement between Uroplasty, Inc. and Larry Heinemann dated December 7, 1999. (Incorporated by reference to Exhibit 10.14 to Registrant's Form 10-KSB for the year ended 03-31-2000.)
10.11	Agreement, dated October 14, 1998, by and between Uroplasty, Inc. and Samir M. Henalla (pertaining to Macroplastique Implantation System). (Incorporated by reference to Exhibit 10.15 to Registrant's Form 10-KSB/A for the year ended 03-31-2001)

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Number	Description
10.12	Employment Agreement between Uroplasty, Inc. and Mr. Marc Herregraven dated November 15, 2002. (Incorporated by reference to Exhibit 10.15 to Registrant's Form 10-KSB for the year ended 03-31-2003)
10.13	Consulting Agreement between Uroplasty, Inc. and CCRI Corporation dated April 1, 2003. (Incorporated by reference to Exhibit 10.18 to Registrant's Form 10-KSB for the year ended 03-31-2003)
10.14	Employment Agreement between Uroplasty, Inc. and Sam B. Humphries dated January 1, 2005 (Incorporated by reference to Exhibit 10.1 to Registrant's Form 10-QSB for the period ended December 31, 2004)
10.15	Employment and Consulting Agreement between Uroplasty, Inc. and Daniel G. Holman dated January 1, 2005 (Incorporated by reference to Exhibit 10.2 to Registrant's Form 10-QSB for the period ended December 31, 2004)
10.16	Form of Securities Purchase Agreement, dated as of April 21, 2005, by and among Uroplasty, Inc., and the investors identified on the signature pages thereto (Incorporated by reference to Exhibit 10.20 to Registrant's Form 8-K dated April 21, 2005)
10.17	Form of Warrant (Incorporated by reference to Exhibit 10.21 to Registrant's Form 8-K dated April 21, 2005)
10.18	Form of Registration Rights Agreement dated as of April 21, 2005, by and among Uroplasty, Inc., and the investors named therein (Incorporated by reference to Exhibit 10.22 to Registrant's Form 8-K dated April 21, 2005)
10.19	Employment Agreement between Uroplasty, Inc. and Mahedi A. Jiwani dated November 14, 2005 (Incorporated by reference to Exhibit 10.24 to Registrant's Form 10-QSB for the period ended September 30, 2005)
10.20	Lease Agreement between Uroplasty, Inc. and Liberty Property Limited Partnership dated January 20, 2006 (Incorporated by reference to Exhibit 10.25 to Registrant's Form 8-K dated January 24, 2006)
10.21	Form of Distribution Agreement between Uroplasty, Inc. and CL Medical SARL, dated February 15, 2006 (Incorporated by reference to Exhibit 10.26 to Registrant's Form SB-2/A dated February 21, 2006)
10.22	Letter Agreement between Daniel G. Holman and Uroplasty, Inc., amending terms of Employment Agreement dated January 1, 2005 (Incorporated by reference to Exhibit 10.27 to Registrant's Form 8-K dated March 27, 2006)
10.23	Letter Agreement between Sam B. Humphries and Uroplasty, Inc., dated April 26, 2006 (Incorporated by reference to Exhibit 10.28 to Registrant's Amendment No. 1 to Form SB-2 dated April 27, 2006)
10.24	Letter Agreement between Uroplasty, Inc. and David G. Holman dated April 26, 2006 (Incorporated by reference to Exhibit 10.29 to Registrant's Amendment No. 1 to Form SB-2 dated April 27, 2006)
10.25	Employment Agreement between Uroplasty, Inc. and David B. Kaysen dated May 17, 2006 (Incorporated by reference to Exhibit 10.30 to Registrant's Form 10-KSB for the fiscal year ended March 31, 2006)
10.26	Business Loan Agreement and related Promissory Note dated May 1, 2007 with Venture Bank (Incorporated by reference to Exhibit 10.37 to Registrant's Form 8-K dated May 1, 2007)
10.27	Form of Securities Purchase Agreement dated as of August 7, 2006, by and among Uroplasty, Inc., and the investors identified on the signature pages thereto (Incorporated by reference to Exhibit 10.32 to Registrant's Form 8-K dated August 8, 2006)

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Number	Description
10.28	Form of Registration Rights Agreement dated as of August 7, 2006, by and among Uroplasty, Inc., and the investors named therein (Incorporated by reference to Exhibit 10.34 to Registrant's Form 8-K dated August 8, 2006)
10.29	Form of Warrant dated August 7, 2006 (Incorporated by reference to Exhibit 10.33 to Registrant's Form 8-K dated August 8, 2006)
10.30	Letter Agreement dated October 26, 2006 between Uroplasty, Inc. and Venture Bank (Incorporated by reference to Exhibit 10.34 to Registrant's Form SB-2 filed October 27, 2006)
10.31	Form of Exclusive Distribution Agreement (Incorporated by reference to Exhibit 10.26 to Registrant's Form 10-KSB for the year ended March 31, 2007)
10.32	Form of Asset Purchase Agreement, dated as of March 15, 2007, between Uroplasty, Inc. and CystoMedix, Inc. (Incorporated by reference to Exhibit 10.36 to Registrant's Form 8-K dated March 15, 2007)
21.1	List of Subsidiaries (Incorporated by reference to Exhibit 21 to Registrant's Form 10-KSB for the year ended March 31, 2007)
23.1*	Consent of McGladrey & Pullen, LLP
23.3*	Consent of Messerli & Kramer P.A. (included in Exhibit 5)
24.1*	Power of Attorney (included on signature page)

* Filed herewith