UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

R **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 31, 2015

£ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 001-10382

SYNERGETICS USA, INC.

(Exact name of registrant as specified in its charter)

Delaware	20-5715943
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3845 Corporate Centre Drive O'Fallon, Missouri	63368
(Address of principal executive offices)	(Zip Code)

(636) 939-5100

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large Accelerated Filer	☐	Accelerated Filer	R
Non-Accelerated Filer	☐	Smaller Reporting Company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £ No R

The number of shares outstanding of the issuer's common stock, $0.001 value per share, as of March 6, 2015 was 25,566,332 shares.

SYNERGETICS USA, INC.
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Part I — Financial Information
Item 1 — Financial Statements
Synergetics USA, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
As of January 31, 2015 (Unaudited) and July 31, 2014
(Dollars in thousands, except share data)

	January 31, 2015	July 31, 2014
Assets		
Current assets		
Cash and cash equivalents	**$ 8,866**	$ 15,443
Accounts receivable, net of allowance for doubtful accounts of $646 and $722, respectively	**13,188**	14,641
Inventories	**16,537**	15,134
Prepaid expenses	**1,075**	1,223
Deferred income taxes	**2,233**	2,042
Total current assets	**41,899**	48,483
Property and equipment, net	**10,337**	8,785
Intangible and other assets		
Goodwill	**17,429**	12,738
Other intangible assets, net	**19,574**	11,911
Deferred income taxes	**--**	1,219
Patents, net	**1,415**	1,472
Deferred financing costs, net	**122**	--
Cash value of life insurance	**107**	107
Total assets	**$ 90,883**	$ 84,715
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	**$ 3,672**	$ 2,530
Accrued expenses	**2,788**	2,845
Income taxes payable	**405**	386
Contingent acquisition liability	**561**	--
Current maturities of long-term debt	**550**	--
Deferred revenue	**1,288**	1,288
Total current liabilities	**9,264**	7,049
Long-Term liabilities		
Borrowings under term loan facility	**2,200**	--
Deferred income taxes	**130**	--
Contingent acquisition liability	**2,000**	--
Deferred revenue	**12,598**	13,242
Total long-term liabilities	**16,928**	13,242
Total liabilities	**26,192**	20,291
Commitments and contingencies (Note 9)		
Stockholders' equity		
Common stock at January 31, 2015 and July 31, 2014, $0.001 par value, 50,000,000 shares authorized; 25,566,332 and 25,364,608 shares issued and outstanding, respectively	**26**	25
Additional paid-in capital	**28,956**	28,594
Retained earnings	**37,880**	36,160
Accumulated other comprehensive loss:		
Foreign currency translation adjustment	**(2,171)**	(355)
Total stockholders' equity	**64,691**	64,424
Total liabilities and stockholders' equity	**$ 90,883**	$ 84,715

See Notes to Unaudited Condensed Consolidated Financial Statements.

Synergetics USA, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income (Unaudited)
Three and Six Months Ended January 31, 2015 and 2014
(Dollars in thousands, except share and per share data)

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	**Six Months Ended January 31, 2015**	Six Months Ended January 31, 2014
Net sales	**$ 18,189**	$ 15,096	**$ 34,836**	$ 30,626
Cost of sales	**8,605**	6,698	**15,982**	13,304
Gross profit	**9,584**	8,398	**18,854**	17,322
Operating expenses				
Research and development	**1,028**	1,513	**2,227**	2,710
Sales and marketing	**3,643**	3,630	**7,339**	7,205
Medical device excise tax	**116**	115	**244**	240
Exit costs	**657**	514	**719**	514
General and administrative	**2,942**	3,003	**5,970**	5,638
	8,386	8,775	**16,499**	16,307
Operating income (loss)	**1,198**	(377)	**2,355**	1,015
Other income (expense)				
Investment income	**1**	3	**2**	6
Interest expense	**(14)**	--	**(14)**	--
	(13)	3	**(12)**	6
Income (loss) from operations before provision (benefit) for income taxes	**1,185**	(374)	**2,343**	1,021
Provision (benefit) for income taxes	**233**	(149)	**623**	312
Net income (loss)	**$ 952**	$ (225)	**$ 1,720**	$ 709
Earnings (loss) per share:				
Basic earnings (loss) per share	**$ 0.04**	$ (0.01)	**$ 0.07**	$ 0.03
Diluted earnings (loss) per share	**$ 0.04**	$ (0.01)	**$ 0.07**	$ 0.03
Basic weighted average common shares outstanding	**25,364,574**	25,309,641	**25,352,279**	25,301,830
Diluted weighted average common shares outstanding	**25,424,835**	25,309,641	**25,407,508**	25,386,679
Net income (loss)	**$ 952**	$ (225)	**$ 1,720**	$ 709
Foreign currency translation adjustment	**(1,311)**	(35)	**(1,816)**	140
Comprehensive (loss) income	**$ (359)**	$ (260)	**$ (96)**	$ 849

See Notes to Unaudited Condensed Consolidated Financial Statements.

Synergetics USA Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
Six Months Ended January 31, 2015 and 2014
(Dollars in thousands)

	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Cash Flows from Operating Activities		
Net income	**$ 1,720**	$ 709
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation	**689**	571
Amortization	**543**	366
Provision for doubtful accounts receivable	**8**	6
Stock-based compensation	**388**	605
Deferred income taxes	**(67)**	(35)
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable	**1,638**	1,164
Inventories	**(36)**	(1,854)
Prepaid expenses	**177**	(254)
Income taxes refundable	**--**	254
Increase (decrease) in:		
Accounts payable	**730**	(213)
Accrued expenses	**(243)**	(940)
Deferred revenue	**(644)**	(644)
Income taxes payable	**(120)**	(37)
Net cash provided by (used in) operating activities	**4,783**	(302)
Cash Flows from Investing Activities		
Purchase of property and equipment	**(393)**	(735)
Acquisition of Sterimedix	**(13,177)**	--
Acquisition of patents and other intangibles	**(69)**	(139)
Net cash used in investing activities	**(13,639)**	(874)
Cash Flows from Financing Activities		
Deferred financing costs	**(123)**	--
Proceeds from borrowings under the Term Loan Facility	**2,750**	--
Proceeds from the issuance of common stock	**28**	36
Tax benefit associated with the exercise of non-qualified stock options	**16**	25
Net cash provided by financing activities	**2,671**	61
Foreign exchange rate effect on cash and cash equivalents	**(392)**	(133)
Net decrease in cash and cash equivalents	**(6,577)**	(1,248)
Cash and cash equivalents		
Beginning	**15,443**	12,470
Ending	**$ 8,866**	$ 11,222

See Notes to Unaudited Condensed Consolidated Financial Statements.

Synergetics USA, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular information reflects dollars in thousands, except share and per share information)

Note 1. General

Nature of business: Synergetics USA, Inc. ("Synergetics USA" or the "Company") is a Delaware corporation incorporated on June 2, 2005, in connection with the reverse merger of Synergetics, Inc. ("Synergetics") and Valley Forge Scientific Corp. ("Valley Forge") and the subsequent reincorporation of Valley Forge (the predecessor to Synergetics USA) in Delaware. Synergetics USA is a medical device company. Through continuous improvement and development of its people, the Company's **mission** is to design, manufacture and market innovative surgical devices, surgical equipment and consumables of the highest quality in order to assist and enable surgeons who perform surgery around the world to provide a better quality of life for their patients. The Company's primary focus is on the surgical disciplines of ophthalmology and neurosurgery. Its distribution channels include a combination of direct and independent vitreoretinal sales organizations and important strategic alliances with market leaders. The Company's product lines focus on precision engineered, disposable and reusable devices, surgical equipment, procedural kits and the delivery of various energy modalities for the performance of surgery including: (i) laser energy, (ii) ultrasonic energy, (iii) radio frequency energy for electrosurgery and lesion generation and (iv) visible light energy for illumination, and where applicable, simultaneous infusion (irrigation) of fluids into the operative field. The Company is located in O'Fallon, Missouri, King of Prussia, Pennsylvania, California, USA and Corby and Redditch, United Kingdom. During the ordinary course of its business, the Company grants unsecured credit to its domestic and international customers.

Basis of presentation: The unaudited condensed consolidated financial statements include the accounts of Synergetics USA and its wholly owned subsidiaries: Synergetics, Synergetics Delaware, Inc. and Synergetics IP, Inc. All significant intercompany accounts and transactions have been eliminated. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the six months ended January 31, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending July 31, 2015. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended July 31, 2014, and notes thereto included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on October 14, 2014 (the "Annual Report").

Note 2. Summary of Significant Accounting Policies

The Company's significant accounting policies are disclosed in the Annual Report. In the first six months of fiscal 2015, no significant accounting policies were changed.

Note 3. Exit Costs

On October 1, 2013, the Company announced plans to close its King of Prussia, Pennsylvania facility and consolidate the manufacturing operations into its existing facility in O'Fallon, Missouri. The Company completed the closure in February of 2015. Costs are recognized in "Exit costs" in the consolidated statements of operations and comprehensive (loss) income. As of January 31, 2015, the Company had a current liability of $126,000 for employee termination benefits in accrued expenses.

(dollars in thousands)	Three Months Ended January 31,		Six Months Ended January 31,		Cumulative as of January 31, 2015	Total Costs Incurred
	2015	2014	2015	2014		
Employee termination costs	$ 304	$ 499	$ 304	$ 499	$ 919	$ 919
Other associated costs	353	15	415	15	482	482
	$ 657	$ 514	$ 719	$ 514	$ 1,401	$ 1,401

	Termination Costs
Exit liabilities at August 1, 2014	$ 112
Additions	126
Payments	(112)
Exit liabilities at January 31, 2015	$ 126

Note 4. Acquisitions

On May 3, 2014, the Company acquired a private, original equipment manufacturing company incorporated in the United States for net cash consideration of $1.4 million.

The Company has allocated the purchase price to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition resulting in the recognition of $0.8 million of intellectual property and $0.4 million of goodwill, including the impact of deferred income taxes. The results of operations for the acquired company have been included in the Consolidated Statements of Operations and Comprehensive (Loss) Income from the date of acquisition.

On December 10, 2014, the Company entered into the Share Purchase Agreement (the "Agreement") with shareholders (the "Sellers") of Sterimedix Limited ("Sterimedix"), pursuant to which the Company purchased all of the outstanding share capital of Sterimedix for net cash consideration of $13.2 million (the "Sterimedix Acquisition"). Sterimedix is a private manufacturer of cannulas, needles and other disposable products for ophthalmic and aesthetic procedures incorporated in England and Wales.

Pursuant to the Agreement, the Sellers will be entitled to receive earn-out payments based on the gross profit attributable to the Sterimedix operations, calculated in accordance with the terms set forth in the Agreement, for each annual period from January 1, 2015 until December 31, 2017 as follows: (i) 136.7% of the amount by which Gross Profit exceeds £3,190,000 for 2015; (ii) 136.7% of the amount by which gross profit exceeds £3,767,500 for 2016; and (iii) 136.7% of the amount by which gross profit exceeds £4,400,000 for 2017. The Company has agreed not to transfer the Sterimedix shares for a period of one year and has also agreed after the one-year period, (i) to negotiate in good faith the assumption of the earn-out payments with the proposed transferee; (ii) at the discretion of the Company, to make modified earn-out payments to the Sellers as set forth in the Agreement and transfer certain Sterimedix assets to the Sellers upon arms' length negotiations; or (iii) if option (i) does not occur and option (ii) is not exercised, to remain obligated to pay the earn-out payments.

Pending the final valuations, the preliminarily recognized amounts of identifiable assets acquired and liabilities assumed as of December 10, 2014 are set forth below:

Accounts receivable	$ 706
Inventory	1,617
Other current assets	128
Long-lived assets	1,946
Intangible Assets	8,467
Goodwill	5,000
Total assets	17,864
Deferred tax liabilities	1,226
Current liabilities assumed	810
Contingent acquisition liability	2,651
Total liabilities	4,687
Net assets acquired	$ 13,177

The preliminary fair value of the contingent liability was determined utilizing a discounted cash flow model and this model primarily utilized Level 3 inputs as defined in Note 7. Goodwill mainly reflects strategic growth opportunities. It is not deductible for tax purposes.

During the period from December 10, 2014 through January 31, 2015, Sterimedix had $1.1 million of net sales which generated net income of approximately $42,000. In the second quarter and the first six months of fiscal year 2015, the Company incurred $204,000 and $290,000, respectively, in acquisition-related costs, which are included in general and administrative expenses in the consolidated statements of operations and comprehensive (loss) income.

The accompanying consolidated statements of income for the three and six months ended January 31, 2015 and 2014 do not include any revenues or expenses related to the acquisition prior to the respective closing date. The following unaudited pro forma consolidated financial information is presented as if the acquisition had occurred at the beginning of the periods presented. In addition, this unaudited pro forma financial information is provided for illustrative purposes only and should not be relied upon as necessarily being indicative of the historical results that would have been obtained if this acquisition had actually occurred during these periods, or the results that may have been obtained in the future as a result of this acquisition (in thousands).

	Three Months Ended January 31,		Six Months Ended January 31,	
Pro Forma (unaudited)	**2015**	2014	**2015**	2014
Net Sales	**$ 18,875**	$ 16,787	**$ 37,427**	$ 33,924
Net Income (Loss)	**$ 1,110**	$ (166)	**$ 2,028**	$ 791
Average shares outstanding – basic	**25,364,574**	25,309,641	**25,352,279**	25,301,830
Average shares outstanding – diluted	**25,424,835**	25,309,641	**25,407,508**	25,386,679
Basic earnings per share	**$ 0.04**	$ (0.01)	**$ 0.08**	$ 0.03
Diluted earnings per share	**$ 0.04**	$ (0.01)	**$ 0.08**	$ 0.03

The combined pro forma financial information has been adjusted to exclude non-recurring transaction-related expenses and includes purchase accounting adjustments for fair values impacting inventory, depreciation of fixed assets and amortization of intangible assets.

Note 5. OEM Neurosurgery Partner Agreements

The Company sells all of its generators and a majority of its neurosurgery instruments and accessories to two U.S.-based national and international original equipment manufacturer ("OEM") partners as described below:

Codman & Shurtleff, Inc. ("Codman")

In the neurosurgical market, the bipolar electrosurgical system manufactured by Valley Forge prior to the merger has been sold for over 30 years through a series of distribution agreements with Codman, an affiliate of Johnson & Johnson. On April 2, 2009, the Company executed a three-year distribution agreement with Codman for the continued distribution by Codman of certain bipolar generators and related disposables and accessories, effective January 1, 2009. In addition, the Company entered into a new, three-year license agreement, which provides for the continued licensing of the Company's Malis® trademark to Codman for use with certain Codman products, including those covered by the distribution agreement. In December 2010, Codman elected to exercise its option of exclusive distribution with respect to the bipolar generators and related disposables and accessories. On December 16, 2014, the Company executed an amendment to the agreements with DePuy Synthes Products, LLC, successor to Codman, effective as of December 9, 2014. This amendment extends the terms of the agreements until December 31, 2015. All other provisions of such agreements remain unchanged.

On November 16, 2009, the Company announced the signing of an addendum to its agreement with Codman. Under the terms of the revised agreement, Codman has the exclusive right to market and distribute the Company's Malis® branded disposable bipolar forceps produced by Synergetics. Codman began distribution of the disposable bipolar forceps on December 1, 2009, domestically, and on February 1, 2010, internationally.

Total sales to Codman and its respective percent of the Company's net sales in the three and six months ended January 31, 2015 and 2014, including the sales of generators, accessories, disposable bipolar forceps and cord tubing, were as follows:

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	**Six Months Ended January 31, 2015**	Six Months Ended January 31, 2014
Net Sales	**$ 5,010**	$ 3,090	**$ 8,818**	$ 7,191
Percent of net sales	**27.5%**	20.5%	**25.3%**	23.5%

Stryker Corporation ("Stryker")

The Company supplies a multi-channel ablation generator, used for minimally invasive pain treatment, to Stryker pursuant to a supply and distribution agreement dated as of October 25, 2004, as amended. The agreement expires on June 30, 2015.

On March 31, 2010, the Company entered into a supply agreement with Stryker pursuant to which the Company agreed to supply Stryker with disposable ultrasonic aspirator instrument tips and certain other consumable products used in conjunction with Stryker's ultrasonic aspirator console and handpieces. The agreement expires on March 31, 2016.

Total sales to Stryker and its respective percent of the Company's net sales in the three and six months ended January 31, 2015, and 2014, including the sales of ablation generators, disposable ultrasonic instrument tips and accessories, were as follows:

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	**Six Months Ended January 31, 2015**	Six Months Ended January 31, 2014
Net Sales	**$ 2,708**	$ 2,452	**$ 5,689**	$ 4,613
Percent of net sales	**14.9%**	16.2%	**16.3%**	15.1%

No other customer comprises more than 10 percent of sales in any given quarter.

Note 6. Stock-Based Compensation

Stock Option Plans

The following table provides information about stock-based awards outstanding at January 31, 2015:

	Shares	Weighted Average Exercise Price	Weighted Average Fair Value
Options outstanding beginning of period	**815,162**	**$ 4.25**	**$ 3.27**
For the period August 1, 2014 through January 31, 2015			
Granted	**340,000**	**$ 3.43**	**$ 2.51**
Forfeited	**--**	**--**	**--**
Exercised	**(22,500)**	**$ 1.27**	**$ 1.02**
Options outstanding, end of period	**1,132,662**	**$ 4.06**	**$ 3.09**
Options exercisable, end of period	**667,351**	**$ 4.21**	**$ 3.25**

There were options to purchase 40,000 shares of the Company's Common Stock granted in the second quarter of fiscal 2015. Each independent director receives an option to purchase 10,000 shares of the Company's Common Stock each year in which he or she is elected, appointed, or continues to serve as a director pursuant to the Amended and Restated 2005 Non-Employee Directors' Stock Option Plan. These options vest pro-ratably on a quarterly basis over the next year of service on the Board. These options also vest upon a change of control event. The Company recorded $40,000 and $79,000 of compensation expense for the three and six months ended January 31, 2015, respectively, and $42,000 and $84,000 of compensation expense for the three and six months ended January 31, 2014, respectively, with respect to the directors' options.

During the second quarter of fiscal 2015, there were options to purchase 300,000 shares of Common Stock granted to the officers and employees of the Company. These options were granted in conjunction with the Company's annual review of its long-term incentive compensation plan. These options will vest when the Company achieves $100 million of sales for an annual period. The Company recorded $24,000 of compensation expense for the three months ended January 31, 2015, related to these options. In addition, the Company recorded $66,000 and $132,000 of compensation expense for the three and six months ended January 31, 2015, respectively, and $166,000 and $232,000 of compensation expense for the three and six months ended January 31, 2014, respectively, for previously granted options. As a result of the King of Prussia facility closure, $101,000 of this compensation expense is included in exit costs for the three and six months ended January 31, 2014.

The Company expects to issue new shares as options are exercised. As of January 31, 2015, the future compensation cost expected to be recognized for currently outstanding stock options is approximately $278,000 for the remainder of fiscal 2015, $472,000 in fiscal 2016, $313,000 in fiscal 2017, $212,000 in fiscal 2018 and $40,000 in fiscal 2019.

The fair value of all options granted during the second quarter of fiscal 2015 was determined at the date of the grant using the Black-Scholes option-pricing model and the following assumptions:

Expected average risk-free interest rate	2.10 to 2.19%
Expected average life (in years)	10
Expected volatility	65.7%
Expected dividend yield	0.0%

The expected average risk-free rate is based on the 10-year U.S. treasury yield curve in December of 2014. The expected average life represents the period of time that the options granted are expected to be outstanding giving consideration to the vesting schedules, historical exercises and forfeiture patterns. Expected volatility is based on historical volatilities of the Company's Common Stock. The expected dividend yield is based on historical information and the Board of Directors' plan to reinvest available resources in the growth of the Company's business for the foreseeable future.

The intrinsic value of the in-the-money stock options outstanding was $1.5 million and $698,000 at January 31, 2015 and 2014, respectively. The intrinsic value of in-the-money exercisable stock options was $545,000 and $384,000 at January 31, 2015 and 2014, respectively.

Restricted Stock Plans

Under the Company's Second Amended and Restated Synergetics USA, Inc. 2001 Stock Plan (the "2001 Plan"), the Company's common stock may be granted at no cost to certain employees and consultants of the Company. Certain plan participants are entitled to cash dividends and voting rights for their respective shares. Restrictions limit the sale or transfer of these shares during a vesting period whereby the restrictions lapse either pro-ratably over a three-year or four-year vesting period. These shares also vest upon a change of control event. As of January 31, 2015, there was approximately $467,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Company's 2001 Plan, excluding the performance based awards discussed below. The cost is expected to be recognized over a weighted average period of four years, which is generally the vesting period. The following table provides information about restricted stock grants during the six month period ended January 31, 2015:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance as of July 31, 2014	**275,547**	**$ 3.42**
Granted	**207,000**	**$ 3.43**
Forfeited	**(2,834)**	**$ 4.74**
Vested	**(154,003)**	**$ 2.52**
Relinquished for taxes	**(27,014)**	**$ 2.52**
Balance as of January 31, 2015	**298,696**	**$ 3.96**

During the second quarter of fiscal 2015, 200,000 restricted shares of Common Stock were granted to the officers and employees of the Company in conjunction with the Company's annual review of its long-term incentive compensation plan. These shares will vest when the Company achieves $100 million of sales for an annual period. As of January 31, 2015, there was approximately $656,000 of total unrecognized compensation cost related to these non-vested share-based compensation arrangements granted under this performance based grant. The cost is expected to be recognized over a weighted average period of 3.8 years from the date of grant, which is the Company's estimate of when this goal will be achieved.

Note 7. Fair Value Information

For certain of the Company's financial instruments, including cash and equivalents, accounts receivable, accounts payable and accrued liabilities, the carrying amounts approximate their fair values due to their short maturities. Accounting Standards Codification ("ASC") Topic 820, "Fair Value Measurements and Disclosures," requires disclosure of the fair value of financial instruments held by the Company. ASC Topic 825, "Financial Instruments," defines fair value, and establishes a three-level valuation hierarchy for disclosures of fair value measurement that enhances disclosure requirements for fair value measures. The carrying amounts reported in the balance sheets for receivables, current liabilities and borrowings under the credit facilities each qualify as financial instruments and are a reasonable estimate of their fair values because of the short period of time between the origination of such instruments and their expected realization and their current market rate of interest. The three levels of valuation hierarchy are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company analyzes all financial instruments with features of both liabilities and equity under ASC 480, "Distinguishing Liabilities from Equity," and ASC 815, "Derivatives and Hedging."

As of January 31, 2015, the Company identified that the contingent acquisition liability is required to be presented on the balance sheet at fair value. Any future change required to the contingent acquisition liability will be reflected in the Consolidated Statement of Operations and Comprehensive (Loss) Income Statement.

Non-financial assets such as goodwill, intangible assets and property, plant and equipment are measured at fair value when there is an indicator of impairment or when tested for impairment at least annually and recorded at fair value only when impairment is recognized. No impairment indicators existed as of January 31, 2015.

Note 8. Supplemental Balance Sheet Information

Inventories: Inventories as of January 31, 2015 and July 31, 2014, respectively, were as follows:

	January 31, 2015	July 31, 2014
Raw material and component parts	$ 6,836	$ 5,900
Work in progress	2,834	2,077
Finished goods	6,867	7,157
	$ 16,537	$ 15,134

Property and Equipment: Property and equipment as of January 31, 2015 and July 31, 2014, respectively, were as follows:

	January 31, 2015	July 31, 2014
Land	**$ 1,688**	$ 984
Building and improvements	**6,667**	6,650
Machinery and equipment	**10,375**	9,023
Furniture and fixtures	**1,401**	1,182
Software	**1,116**	1,113
Construction in progress	**94**	153
	21,341	19,105
Less accumulated depreciation	**11,004**	10,320
	$ 10,337	$ 8,785

Other Intangible Assets: Information regarding the Company's other intangible assets as of January 31, 2015 and July 31, 2014, respectively, were as follows:

	Gross Carrying Value	Accumulated Amortization	Net
		January 31, 2015	
Proprietary know-how	**$ 4,208**	**$ 2,381**	**$ 1,827**
Customer relationships	**5,260**	**119**	**5,141**
Trademark	**5,944**	**--**	**5,944**
Tradename	**2,960**	**60**	**2,900**
Licensing agreement	**5,694**	**3,030**	**2,664**
Other intangibles	**1,123**	**25**	**1,098**
Patents	**2,444**	**1,029**	**1,415**
	$ 27,633	**$ 6,644**	**$ 20,989**
		July 31, 2014	
Proprietary know-how	$ 4,208	$ 2,208	$ 2,000
Customer relationships	806	61	745
Trademark	5,944	--	5,944
Tradename	447	44	403
Licensing agreement	5,694	2,895	2,799
Other intangibles	26	6	20
Patents	2,375	903	1,472
	$ 19,500	$ 6,117	$ 13,383

Goodwill of $4,871,000, other intangibles of $8,180,000 and a contingent payment obligation of $2,561,000 are the result of the Sterimedix Acquisition. Goodwill of $439,000 and other intangibles of $765,000 are the result of the acquisition of the private, OEM company completed on May 3, 2014. Goodwill of $1,459,000 and other intangibles of $936,000 are a result of the acquisition of M.I.S.S. Ophthalmics Limited completed on July 8, 2013. Goodwill of $10,660,000 and proprietary know-how of $3,707,000 are a result of the reverse merger transaction completed on September 21, 2005.

The Company did not incur costs to renew or extend the term of acquired intangible assets during the period ended January 31, 2015. Amortization expense is included in general and administrative expense and was $295,000 and $543,000 for the three and six months ended January 31, 2015, respectively, and $186,000 and $366,000 for the three and six months ended January 31, 2014, respectively. Amortization expense for the next five years is expected to approximate $1.3 million annually.

Pledged Assets; Short and Long-Term Debt: Short- and long-term debt as of January 31, 2015 consisted of the following:

Revolving Credit Facility: The Company has a credit facility with a bank which allows for borrowings of up to $9.5 million. There were no borrowings under this facility at January 31, 2015.

Equipment Line of Credit: Under this credit facility, the Company may borrow up to $1.0 million. There were no borrowings under this facility at January 31, 2015.

Term Loan Facility: The Company has a credit facility with a bank which allows for borrowings of up to $13.0 million with $6.5 million restricted for earn-out payments required under the Sterimedix Acquisition Agreement. There was $2.75 million borrowed under this facility at January 31, 2015. The advances under the term loan are amortized quarterly over five years.

These facilities bear interest based on either the one-, two- or three-month LIBOR plus 1.75 percent and adjusting each quarter based upon our total debt to earnings before interest, taxes, depreciation and amortization ("EBITDA). As of January 31, 2015, interest under the facilities was 1.90 percent. The unused portion of the facilities is charged at a rate of 0.20 percent. The termination date of the facilities is February 28, 2018. The facilities are collateralized by substantially all of the Company's assets

These facilities have two financial covenants: a maximum total debt to EBITDA ratio of 2.25 times and a minimum fixed charge coverage ratio of 1.25 times. As of January 31, 2015, the total debt to EBITDA ratio was 0.33 and the minimum fixed charge coverage ratio was 14.0 times. The facility restricts the payment of dividends if, following the distribution, the fixed charge coverage ratio would fall below the required minimum.

Deferred Revenue: Deferred revenue as of January 31, 2015 and July 31, 2014, respectively, consisted of the following:

	January 31, 2015	July 31, 2014
Deferred revenue – Alcon, Inc. settlement	**$ 13,886**	$ 14,530
Less: Short-term portion	**1,288**	1,288
Long-term portion	**$ 12,598**	$ 13,242

Note 9. Commitments and Contingencies

The Company has entered into change of control agreements with each of its President and Chief Executive Officer, Chief Financial Officer, Vice President of Domestic Sales and Vice President of Marketing and Technology. The change of control agreements with its executive officers provide that if employment is terminated within one year for cause or disability following a change in control (as each term is defined in the change in control agreements), as a result of the officers' death, or by the officer other than as an involuntary termination (as defined in the change in control agreements), the Company shall pay the officer all compensation earned or accrued through his or her employment termination date, including (i) base salary; (ii) reimbursement for reasonable and necessary expenses; (iii) vacation pay; (iv) bonuses and incentive compensation; and (v) all other amounts to which they are entitled under any compensation or benefit plan of the Company ("Standard Compensation Due").

If the officer's employment is terminated within one year following a change of control without cause and for any reason other than death or disability, including an involuntary termination, and provided the officer enters into a separation agreement within 30 days of his or her employment termination, he or she shall receive the following: (i) all Standard Compensation Due and any amount payable as of the termination date under the Company's objectives-based incentive plan, the sum of which shall be paid in a lump sum immediately upon such termination; and (ii) an amount equal to one times his or her annual base salary at the rate in effect immediately prior to the change in control, to be paid in 12 equal monthly installments beginning in the month following his or her employment termination. Furthermore, all of the officer's awards of shares or options shall immediately vest and be exercisable for one year after the date of his or her employment termination.

Various claims, incidental to the ordinary course of business, are pending against the Company. In the opinion of management, after consultation with legal counsel, resolution of these matters is not expected to have a material effect on the accompanying financial statements.

The Company is subject to regulatory requirements throughout the world. In the normal course of business, regulatory agencies may require companies in the medical industry to change their products or operating procedures, which could affect the Company. The Company regularly incurs expenses to comply with these regulations and may be required to incur additional expenses. Management is not able to estimate any additional expenditures outside the normal course of operations which will be incurred by the Company in future periods in order to comply with these regulations.

Note 10. Enterprise-wide Sales Information

The Company reviewed its sales presentation once it had completed the Sterimedix Acquisition and determined that a more comprehensive approach to its ophthalmic and neurosurgery sales is now required to more completely describe its revenues by market as compared to its method of distribution. The enterprise-wide sales presentation shown below incorporates both the revised presentation and the previous presentation for the three and six months ended January 31, 2015 and 2014, respectively:

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	**Six Months Ended January 31, 2015**	Six Months Ended January 31, 2014
Presentation based upon market				
Net Sales				
Ophthalmic [1]	**$ 9,985**	$ 9,165	**$ 19,510**	$ 18,129
Neurosurgery [2]	**7,894**	5,788	**14,912**	12,245
Other [3]	**310**	143	**414**	252
	$ 18,189	$ 15,096	**$ 34,836**	$ 30,626
Presentation based upon distribution				
Net Sales				
Ophthalmic[4]	**$ 8,228**	$ 8,739	**$ 16,958**	$ 17,237
OEM [5]	**9,784**	6,123	**17,470**	12,971
Other [6]	**177**	234	**408**	418
Total	**$ 18,189**	$ 15,096	**$ 34,836**	$ 30,626
Net Sales				
Domestic	**$ 12,887**	$ 11,050	**$ 25,041**	$ 22,919
International	**5,302**	4,046	**9,795**	7,707
	$ 18,189	$ 15,096	**$ 34,836**	$ 30,626

(1) Net sales from Ophthalmic represent all sales of ophthalmic devices from direct sales representatives, distribution partners and OEMs. Recognition of deferred revenue of $322,000 and $644,000 from Alcon, Inc. is included in this category for the three and six months ended January 31, 2015 and 2014, respectively.

(2) Net sales from Neurosurgery represent sales of electrosurgery generators, disposable bipolar forceps and related accessories and royalties from Codman, multi-channel generators, disposable ultrasonic tips and related accessories to Stryker and certain neurosurgery disposables sold through distribution. Many of the products that the Company sells to its neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in the Company's domestic revenues.

(3) Other net sales represent all sales of aesthetic devices and other miscellaneous revenues.
(4) Net sales from Ophthalmic represent sales of ophthalmic devices from direct sales representatives and distribution partners.
(5) Net sales from OEM represent sales of electrosurgery generators, disposable bipolar forceps and related accessories and royalties from Codman, multi-channel generators, disposable ultrasonic tips and related accessories to Stryker and sales of certain disposable products. Recognition of deferred revenues of $322,000 and $644,000 from Alcon, Inc. is included in this category for the three and six months ended January 31, 2015 and 2014, respectively. Many of the products that the Company sells to its neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in the Company's domestic revenues.
(6) Other net sales represent direct neurosurgery revenues and other miscellaneous revenues.

Note 11. Recent Accounting Pronouncements

In March 2013, the Financial Accounting Standards Board ("FASB") issued an accounting standard update requiring an entity to release into net income the entire amount of a cumulative translation adjustment related to its investment in a foreign entity when as a parent it either sells a part or all of its investment in the foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within the foreign entity. The Company has adopted this accounting standard update which had no impact on its consolidated financial statements.

In July 2013, the FASB issued an accounting standard update that provides explicit guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward or a tax credit carryforward exists. Under the new standard update, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, is to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward or a tax credit carryforward. The Company has adopted this accounting standard update which had no impact on its consolidated financial statements.

In April 2014, the FASB issued an accounting standard update increasing the threshold for a disposal to qualify as a discontinued operation and require new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The Company has adopted this accounting standard update, which had no impact on its consolidated financial statements.

In May 2014, the FASB issued an accounting standard update that provides explicit guidance on the recognition of revenue based upon the entity's contracts with customers to transfer goods or services. Under the new standard update, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This accounting standard update will be effective for the Company in the first quarter of fiscal 2018. The Company is currently evaluating the impact of this accounting standard update on its consolidated financial statements.

In June 2014, the FASB issued guidance clarifying that share-based compensation performance targets that could be achieved after the requisite service period should be treated as a performance condition that affects vesting, rather than a condition that affects the grant-date fair value of the award. This guidance is effective for the Company in the first quarter of fiscal 2017, with early adoption permitted. The adoption of the pronouncement may affect the Company's presentation of future performance-based stock compensation awards.

In August 2014, the FASB issued an accounting standard update that provides explicit guidance on whether there is substantial doubt about an entity's ability to continue as a going concern. Before the issuance of this update, there was no guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. This guidance is expected to reduce the diversity in the timing and content of footnote disclosures. The guidance requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards as specified in the guidance. The guidance becomes effective for the annual period ending after December 15, 2016 and for annual and interim periods thereafter. Early adoption is permitted. The Company is currently evaluating the effects of adopting this guidance on its consolidated financial statements, but the adoption is not expected to have a significant impact on the Company's consolidated financial statements.

In November 2014, the FASB issued an accounting standard update providing guidance for determining whether and at what threshold an acquired entity can reflect the acquirer's accounting and reporting basis (pushdown accounting) in its separate financial statements. The amendments in this update provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. The Company has adopted this accounting standard update, which had no impact on its consolidated financial statements.

In January 2015, the FASB issued an accounting standard update eliminating the concept of extraordinary items. The accounting standard update will be effective for the Company in the first quarter of fiscal 2016. The adoption of this guidance is not expected to have a significant impact upon the Company's consolidated financial statements.

The Company has reviewed all other recently issued, but not yet effective, accounting pronouncements and does not believe any such pronouncements will have a material impact on its financial statements.

Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Synergetics USA, Inc. ("Synergetics USA" or the "Company") is a leading supplier of precision surgical devices. The Company's primary focus is on the surgical disciplines of ophthalmology and neurosurgery. Our distribution channels include a combination of direct and independent vitreoretinal sales organizations, both domestically and internationally, kit packers and important strategic alliances with market leaders. The Company's product lines focus on precision engineered, disposable and reusable devices, surgical equipment, procedural kits and the delivery of various energy modalities for the performance of surgery including: (i) laser energy, (ii) ultrasonic energy, (iii) radio frequency energy for electrosurgery and lesion generation and (iv) visible light energy for illumination, and where applicable, simultaneous infusion (irrigation) of fluids into the operative field. Enterprise-wide sales information is included in Note 10 to the unaudited condensed consolidated financial statements.

The Company is a Delaware corporation incorporated on June 2, 2005 in connection with the reverse merger of Synergetics, Inc. ("Synergetics") and Valley Forge Scientific Corp. ("Valley Forge") and the subsequent reincorporation of Valley Forge (the predecessor to Synergetics USA) in Delaware. Synergetics was founded in 1991. Valley Forge was incorporated in 1980 and became a publicly-held company in November 1989. The Company's securities are listed on The NASDAQ Capital Market under the ticker symbol "SURG."

Recent Developments

Over the past few years, we have had several developments that we expect will contribute to the growth of our business in the foreseeable future, the most recent of which are as follows:

On June 27, 2012, the Company announced that it received 510(k) clearance from the Food and Drug Administration for VersaVIT™, a novel vitrectomy system for the retinal surgery market. On July 20, 2012, the VersaVIT™ vitrectomy system received clearance for the "CE" mark, allowing access to the European market.

On November 28, 2012, the Company announced the signing of the third amendment to its agreement with Stryker Corporation ("Stryker") for the supply and distribution of a multi-channel ablation generator and accessories, used for minimally invasive pain treatment, extending the termination date until June 30, 2015.

On July 9, 2013, the Company announced that it acquired M.I.S.S. Ophthalmics Limited ("M.I.S.S."), a private ophthalmology distribution company incorporated in England and Wales, for net cash consideration of $2.8 million.

On October 1, 2013, the Company announced plans to close its King of Prussia, Pennsylvania facility and consolidate the manufacturing operations into its existing facility in O'Fallon, Missouri. The Company expended approximately $1.4 million, of which $719,000 and $682,000 were expended during the first six months of fiscal 2015 and all of fiscal 2014, respectively. The closure was completed in February 2015. The Company expects the closure to result in a reduction in operating expense of more than $1.1 million on an annualized basis beginning in fiscal 2016.

On May 3, 2014, the Company acquired a private Original Equipment Manufacturing ("OEM") company incorporated in the United States for net cash consideration of $1.4 million.

On May 5, 2014, the Company announced the launch of the next generation Directional™ Laser Probe. The Directional™ II Laser Probe is a significant improvement as compared to the original Directional™ Laser Probe as it incorporates years of feedback from surgeons on the original design. The improvements include significant enhancements to the mechanism responsible for adjusting the fiber from a straight to curved position and an ergonomic, color-coded handle that emulates our Pinnacle™ instrument line.

On May 12, 2014, the Company announced the completion of a cooperative development agreement with Cleveland Clinic to develop the next generation of intraoperative devices. These devices are expected to lead to improved visualization of surgical sites leading to more precise tissue targeting and improved surgical outcomes.

On June 9, 2014, the Company announced the targeted launch of the next generation vitrectomy system, VersaVIT 2.0™, in the second-half of June. VersaVIT 2.0™ offers an improvement over the first generation system by providing high speed cutting in combination with active duty cycle control. Combined, both high speed cutting and duty cycle control provide surgeons with a more efficient way to remove vitreous while simultaneously increasing safety by decreasing traction on retinal tissues when shaving along the base of the retina. Additional features of the VersaVIT 2.0™ system and accessories include LED illumination, pressurized infusion and a silicone oil collection chamber.

On December 10, 2014, the Company acquired Sterimedix LTD ("Sterimedix"), a private manufacturing company incorporated in England and Wales, for net cash consideration of $13.2 million (the "Sterimedix Acquisition.") Sterimedix manufactures and supplies cannulas for ophthalmic and non-surgical aesthetics procedures. Sterimedix generated total revenue of approximately $7.9 million during its fiscal year ended December 31, 2014 and was solidly profitable on an operating basis. In connection with the acquisition, the Company and Sterimedix entered into the Stock Purchase Agreement, dated December 10, 2014 (the "Agreement"). In addition to the cash consideration, the Agreement provides for potential gross profit margin earn-outs through December 31, 2017.

On December 16, 2014, the Company executed an amendment to the agreements with DePuy Synthes Products, LLC, successor to Codman & Shurtleff, Inc. ("Codman"), effective as of December 9, 2014. This amendment extends the terms of the agreements until December 31, 2015. All other provisions of such agreements remain unchanged.

On December 16, 2014, the Company entered into a restated loan and security agreement to secure an additional $13.0 million term loan facility to finance the earn-out payments under the Sterimedix Agreement and to provide additional sources of financing for the Company.

Summary of Financial Information

The following tables present net sales in the Company's new presentation by category and our results of operations (dollars in thousands):

NET SALES BY CATEGORY

	Three Months Ended January 31, 2015	Mix	Three Months Ended January 31, 2014	Mix
Ophthalmic(1)	**$ 9,985**	**54.9%**	$ 9,165	60.7%
Neurosurgery (2)	**7,894**	**43.4%**	5,788	38.3%
Other (3)	**310**	**1.7%**	143	1.0%
Total	**$ 18,189**		$ 15,096	

	Six Months Ended January 31, 2015	Mix	Six Months Ended January 31, 2014	Mix
Ophthalmic (1)	**$ 19,510**	**56.0%**	$ 18,129	59.2%
Neurosurgery (2)	**14,912**	**42.8%**	12,245	40.0%
Other (3)	**414**	**1.2%**	252	0.8%
Total	**$ 34,836**		$ 30,626	

(1) Net sales from Ophthalmic represent all sales of ophthalmic devices from direct sales representatives, distribution partners and OEMs. Recognition of deferred revenue of $322,000 and $644,000 from Alcon, Inc. is included in this category for the three and six months ended January 31, 2015 and 2014, respectively.

(2) Net sales from Neurosurgery represent sales of electrosurgery generators, disposable bipolar forceps and related accessories and royalties from Codman, multi-channel generators, disposable ultrasonic tips and related accessories to Stryker and certain neurosurgery disposables sold through distribution. Many of the products we sell to our neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in our domestic revenues.

(3) Other net sales represent all sales of aesthetic devices and other miscellaneous revenues.

The increase in sales for the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to the increase of $2.1 million in neurosurgery sales, an $820,000 increase in ophthalmic sales and a $167,000 increase in other sales. Currently, disposable product sales account for approximately 85.4 percent of our total product sales. Overall sales of our disposable products grew $2.4 million, or 18.0 percent, in the second quarter of fiscal 2015 as compared to the comparable period of fiscal 2014. Sales of capital equipment increased by approximately $724,000, or 44.9 percent, in the second quarter of fiscal 2015 as compared to the comparable period of fiscal 2014.

RESULTS OF OPERATIONS
(Dollars in thousands, except for per share amounts)

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Increase (Decrease)
Net Sales	**$ 18,189**	$ 15,096	20.5%
Gross Profit	**9,584**	8,398	14.1%
Gross Profit Margin %	**52.7%**	55.6%	(5.2%)
Commercial Expenses			
Research and Development	**1,028**	1,513	(32.1%)
Sales and Marketing	**3,643**	3,630	0.4%
General and Administrative	**2,942**	3,003	(2.0%)
Exit Costs	**657**	514	27.8%
Medical Device Excise Tax	**116**	115	0.9%
Operating Income (Loss)	**1,198**	(377)	N/M
Operating Margin	**6.6%**	(2.5%)	N/M
EBITDA (1)	**1,874**	117	1,501.7%
Net Income (Loss)	**952**	(225)	N/M
Earnings (Loss) per Share	**$ 0.04**	$ (0.01)	N/M
Operating Return on Average Equity (1)	**1.5%**	(0.4%)	N/M
Operating Return on Average Assets (1)	**1.1%**	(0.3%)	N/M

	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014	Increase (Decrease)
Net Sales	**$ 34,836**	$ 30,626	13.7%
Gross Profit	**18,854**	17,322	8.8%
Gross Profit Margin %	**54.1%**	56.6%	(4.4%)
Commercial Expenses			
Research and Development	**2,227**	2,710	(17.8%)
Sales and Marketing	**7,339**	7,205	1.9%
General and Administrative	**5,970**	5,638	5.9%
Exit Costs	**719**	514	39.9%
Medical Device Excise Tax	**244**	240	1.7%
Operating Income	**2,355**	1,015	132.1%
Operating Margin	**6.8%**	3.3%	106.1%
EBITDA (1)	**3,589**	1,958	83.3%
Net Income	**1,720**	709	142.6%
Earnings per Share	**$ 0.07**	$ 0.03	133.3%
Operating Return on Average Equity (1)	**2.7%**	1.2%	125.0%
Operating Return on Average Assets (1)	**2.0%**	0.9%	122.2%

(1) EBITDA, operating return on average equity and operating return on average assets are not financial measures recognized by U.S. generally accepted accounting principles ("GAAP"). EBITDA is defined as income from continuing operations before interest expense, income taxes, depreciation and amortization. Operating return on equity is defined as net income divided by average equity. Operating return on assets is defined as net income plus interest expense divided by average assets. See disclosure following regarding the use of non-GAAP financial measures.

Reconciliation of Non-GAAP Financial Measures (dollars in thousands)

EBITDA Reconciliation	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014
Net income (loss)	**$ 952**	$ (225)
Interest	**14**	--
Income taxes	**233**	(149)
Depreciation	**380**	305
Amortization	**295**	186
EBITDA	**$ 1,874**	$ 117

EBITDA Reconciliation	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net income	**$ 1,720**	$ 709
Interest	**14**	--
Income taxes	**623**	312
Depreciation	**689**	571
Amortization	**543**	366
EBITDA	**$ 3,589**	$ 1,958

Operating Return on Average Equity Calculation	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014
Net income (loss)	**$ 952**	$ (225)
Average Equity		
January 31, 2015	**64,691**	
October 31, 2014	**64,849**	
January 31, 2014		61,667
October 31, 2013		61,445
Average Equity	**64,770**	61,556
Operating Return on Average Equity	**1.5%**	(0.4%)

Operating Return on Average Equity Calculation	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net income	**$ 1,720**	$ 709
Average Equity		
January 31, 2015	**64,691**	
October 31, 2014	**64,849**	
July 31, 2014	**64,424**	
January 31, 2014		61,667
October 31, 2013		61,445
July 31, 2013		60,152
Average Equity	**64,655**	61,088
Operating Return on Average Equity	**2.7%**	1.2%

Operating Return on Average Assets Calculation	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014
Net income (loss)	**$ 952**	$ (225)
Interest expense	**14**	--
Net Income (loss) + Interest expense	**966**	(225)
Average Assets		
January 31, 2015	**90,883**	
October 31, 2014	**86,696**	
January 31, 2014		82,389
October 31, 2013		83,334
Average Assets	**88,790**	82,862
Operating Return on Average Assets	**1.1%**	(0.3%)

Operating Return on Average Assets Calculation	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Net income	**$ 1,720**	$ 709
Interest expense	**14**	--
Net Income + Interest expense	**1,734**	709
Average Assets		
January 31, 2015	**90,883**	
October 31, 2014	**86,696**	
July 31, 2014	**84,715**	
January 31, 2014		82,389
October 31, 2013		83,334
July 31, 2013		82,693
Average Assets	**87,431**	82,805
Operating Return on Average Assets	**2.0%**	0.9%

We measure our performance primarily through our growth in revenue and our operating profit. In addition to our consolidated financial statements presented in accordance with GAAP, management uses certain non-GAAP measures, including EBITDA, operating return on average equity and operating return on average assets, to measure our operating performance. We provide a definition of the components of these measurements and reconciliation to the most directly comparable GAAP financial measure.

These non-GAAP measures are presented to enhance an understanding of our operating results and are not intended to represent cash flow or results of operations. The use of these non-GAAP measures provides an indication of our ability to service debt and measure operating performance. We believe these non-GAAP measures are useful in evaluating our operating performance compared to other companies in our industry, and are beneficial to investors, potential investors and other key stakeholders, including creditors who use this measure in their evaluation of performance.

These non-GAAP measures are not in accordance with, or an alternative to, measures prepared in accordance with GAAP and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. These measures should only be used to evaluate our results of operations in conjunction with the corresponding GAAP measures.

Results Overview

Product categories as a percentage of total sales under the new sales presentation were as follows:

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014
Ophthalmic	**54.9%**	60.7%	**56.0%**	59.2%
Neurosurgery	**43.4%**	38.3%	**42.8%**	40.0%
Other	**1.7%**	1.0%	**1.2%**	0.8%
Total	**100.0%**	100.0%	**100.0%**	100.0%

International revenues represent $5.3 million, or 29.1 percent, of our total revenues for the three months ended January 31, 2015, as compared to $4.0 million, or 26.8 percent, for the three months ended January 31, 2014. Many of the products we sell to our neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in our domestic revenues. The increase in the international sales percentage was due to the Sterimedix Acquisition, which will continue to drive the percentage of international sales higher during the remainder of fiscal 2015.

Our Business Strategy

The Company's strategy is to enhance shareholder value through profitable revenue growth in targeted segments of the ophthalmology and neurosurgery markets. This is accomplished through the identification and development of reusable and disposable devices in collaboration with leading surgeons and OEM partners. We are committed to establishing a strong operational infrastructure and financial foundation within which growth opportunities can be prudently evaluated, financed and pursued. We will remain vigilant and sensitive to new challenges which may arise from changes in the definition and delivery of appropriate healthcare in our fields of interest. In fiscal 2015 and beyond, our strategic priorities are to drive accelerating growth in the ophthalmology business, deliver improved profitability through our enterprise-wide continuous improvement initiatives, manage our neurosurgery and other OEM businesses for stable growth and strong cash flows, demonstrate consistent, solid financial performance and continued growth through strategic acquisitions.

Drive Accelerating Growth in our Ophthalmology Business

We are focused on expanding our product platform into larger and faster-growing segments of the vitreoretinal device market. Thus, we have focused our internal research and development efforts on developing innovative technologies that will enable the Company to enhance its value to the vitreoretinal community. We are implementing several focused initiatives to leverage our recent introduction of VersaVIT 2.0™ and other new products to capitalize on the current macroeconomic environment. In addition, we are also seeking business development opportunities to augment and complement our existing ophthalmic franchise. Finally, we are improving our sales force productivity. For example, we are focused on rigorous development of our sales force capabilities through enhanced training and customer relationship management. In the international markets, we are working to optimize our sales capabilities and distribution infrastructure. Our recent acquisition of M.I.S.S. demonstrates our commitment to enhancing our international distribution infrastructure.

Deliver Improved Profitability through our Enterprise-Wide Continuous Improvement Initiatives

We have developed comprehensive enterprise-wide continuous improvement initiatives aimed at creating a more efficient operating platform. We implemented our Enterprise Resource Planning ("ERP") system in August 2011 which brought us accurate, timely information to more effectively manage our cost savings initiatives. Prior to fiscal 2015, we believe we have taken over $3.1 million out of our cost basis since we implemented our cost savings efforts. Through reducing our scrap, more efficient use of our labor force and concentrating our efforts on less costly components, we believe we have saved another $427,000 in the first six months of fiscal 2015. Also, during fiscal 2014, we began our efforts to consolidate our manufacturing operations in O'Fallon, Missouri. These efforts were completed in February 2015. We believe these efforts will result in more than $1.1 million in operating savings on an annualized basis beginning in fiscal 2016.

Manage our Neurosurgery and OEM Businesses for Stable Growth and Strong Cash Flows

We have long-term relationships established with our two largest OEM partners, Codman and Stryker. These relationships provide high visibility within the neurosurgery and pain control markets. We provide best-in-class technologies with our electrosurgical generators and disposable bipolar forceps being distributed by Codman and our multi-channel ablation generator and ultrasonic aspirator disposables being distributed by Stryker. We are working with both of these OEM partners to provide product line iterations to maintain their technological advantages. We also work with a select number of other potential OEM customers to develop relationships to support our strategic goal.

Demonstrate Consistent, Solid Financial Performance

In the short and long-term, we expect to grow our revenues and increase our profitability. We also expect to enhance our working capital usage by employing both our enterprise-wide continuous improvement initiatives and our ERP system to derive increased cash flow from the business. We will prudently manage our capital structure to allow for additional growth opportunities and optimal cash deployment.

Growth through Strategic Acquisitions

We believe that we can generate substantial revenue and cost synergies through strategic acquisitions and have a history of successfully acquiring companies that expand our footprint, either geographically or in market sectors that are complementary to our existing operations. We intend to continue to grow our business and enhance our product offerings through acquisitions that either complement our existing products or provide additional resources or products that will enrich and increase our customer relationships. We regularly consider and enter into discussions regarding potential acquisitions. Any such transaction would be subject to negotiation of mutually agreeable terms and conditions, receipt of fairness opinions (if required) and approval of the parties' respective boards of directors; could be effected quickly; could occur at any time and could be significant in size relative to our existing assets or operations. Our recent acquisition of Sterimedix demonstrates our commitment to enhancing our ophthalmic market footprint.

Demand Trends

The Company's sales increased 13.7 percent during the first six months of fiscal 2015, compared to the first six months of fiscal 2014. The increase in sales for the first six months was primarily due to the increase of $2.7 million in neurosurgery sales, a $1.4 million increase in ophthalmic sales and a $162,000 increase in other sales. Currently, disposable product sales account for approximately 86.1 percent of our total product sales. Overall sales of our disposable products grew $3.3 million, or 12.0 percent, in the first six months of fiscal 2015, as compared to the comparable period of fiscal 2014. Sales of capital equipment increased by approximately $1.1 million, or 35.8 percent, in the first six of fiscal 2015, as compared to the comparable period of fiscal 2014.

A study performed by Market Scope in March 2012 predicts a steady growth of 2.4 percent per year in retinal procedures worldwide driven by an increase in emerging market demand, an increase in the worldwide elderly population, an increase in the number of surgeons, an increase in the number of diseases treated with vitrectomy and an increase in frequency of diabetic complications due to the obesity epidemic. Based upon this growth in procedures, sales of ophthalmology products worldwide are forecasted to increase by approximately 5.5 percent.

Neurosurgical procedures on a global basis continue to rise at an estimated 1 to 3 percent growth rate driven by an aging global population, new technologies, advances in surgical techniques and a growing global market resulting from ongoing improvements in healthcare delivery in emerging markets, among other factors. Based significantly upon this growth in procedures, sales of neurosurgical products worldwide are forecasted to increase by approximately 4.0 percent.

In addition, the Company believes that the demand for high quality, innovative products and new technologies consistent with the Company's devices and disposables will continue to favorably impact procedure growth in the ophthalmic and neurosurgical markets.

Pricing Trends

The Company has generally been able to maintain the average selling prices for its products in the face of downward pricing pressure in the healthcare industry. However, increased competition, in combination with customer budget constraints, capital scarcity and the transition of procedures to the ambulatory surgery center, has continued to pressure the Company's selling prices on certain devices. The Company has no major domestic group purchasing agreements.

Economic Trends

Economic conditions may continue to negatively impact capital expenditures at the hospital, ambulatory surgical center and physician level. Further, global economic conditions continue to negatively impact the average selling price of the Company's products in our global markets.

Results of Operations

Three-Month Period Ended January 31, 2015, Compared to Three-Month Period Ended January 31, 2014

Results Overview

During the second quarter ended January 31, 2015, the Company recorded net sales of $18.2 million, which generated $9.6 million in gross profit, operating income of $1.2 million and net income of approximately $952,000, or $0.04 earnings per share. The Company had $8.9 million in cash and $2.75 million in interest-bearing debt as of January 31, 2015. Management believes that cash flows from operations, together with available cash, will be sufficient to meet the Company's working capital and capital expenditure needs for the next 12 months.

Net Sales

The following table presents net sales under the new sales presentation by category (dollars in thousands):

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Increase (Decrease)
Ophthalmic (1)	**$ 9,985**	$ 9,165	8.9%
Neurosurgery (2)	**7,894**	5,788	36.4%
Other (3)	**310**	143	116.8%
Total	**$ 18,189**	$ 15,096	20.5%

(1) Net sales from Ophthalmic represent all sales of ophthalmic devices from direct sales representatives, distribution partners and OEMs. Recognition of deferred revenue of $322,000 from Alcon, Inc. is included in this category for the three months ended January 31, 2015 and 2014, respectively.

(2) Net sales from Neurosurgery represent sales of electrosurgery generators, disposable bipolar forceps and related accessories and royalties from Codman, multi-channel generators, disposable ultrasonic tips and related accessories to Stryker and certain neurosurgery disposables sold through distribution. Many of the products we sell to our neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in our domestic revenues.

(3) Other net sales represent all sales of aesthetic devices and other miscellaneous revenues.

Ophthalmic sales increased 8.9 percent in the second quarter of fiscal 2015, compared to the second quarter of fiscal 2014. Domestic ophthalmic sales decreased 5.0 percent in the second quarter of fiscal 2015, primarily due to the decreased sales of base business capital equipment and disposables, partially offset by increased sales of procedural kits (including $322,000 of deferred revenue recognized). International ophthalmic sales increased 27.2 percent in the second quarter of fiscal 2015, primarily due to the addition of Sterimedix sales from December 10, 2014 through January 31, 2015, partially offset by a 4.3 percent decrease in international ophthalmology direct and distributor sales. The decrease in international ophthalmology direct and distributor sales was primarily due to negative foreign currency adjustments.

Neurosurgery sales increased $2.1 million in the second quarter of fiscal 2015 as compared to the second quarter of fiscal 2014. Total neurosurgery sales rose 36.4 percent to $7.9 million in the second quarter of fiscal 2015, compared with $5.8 million in the second quarter of fiscal 2014. The increase in neurosurgery sales benefited from strong volumes of disposable products and generators sold to Codman and Stryker. Other sales increased $167,000 in the second quarter of fiscal 2015, or 116.8 percent, compared to the second quarter of fiscal 2014, primarily due to the addition of Sterimedix aesthetics sales from December 10, 2014 through January 31, 2015.

Currently, disposable product sales account for approximately 85.4 percent of our total product sales. Overall sales of our disposable products grew $2.4 million, or 18.0 percent, in the second quarter of fiscal 2015, as compared to the comparable period of fiscal 2014. Sales of capital equipment increased by approximately $724,000, or 44.9 percent, in the second quarter of fiscal 2015 as compared to the comparable period of fiscal 2014.

The following table presents domestic and international net sales (dollars in thousands):

	Three Months Ended January 31, 2015	Three Months Ended January 31, 2014	Increase (Decrease)
Domestic	**$ 12,887**	$ 11,050	16.6%
International	**5,302**	4,046	31.0%
Total	**$ 18,189**	$ 15,096	20.5%

Domestic sales increased 16.6 percent in the second quarter of fiscal 2015 due to the 36.4 percent increase in neurosurgery sales which are recorded as domestic sales, partially offset by the 5.0 percent decrease in domestic ophthalmology sales. International sales increased 31.0 percent in the second quarter of fiscal 2015 primarily due to addition of Sterimedix sales from December 10, 2014 through January 31, 2015, partially offset by the 4.3 percent decrease in international ophthalmology sales. The decrease in international ophthalmology direct and distributor sales was primarily due to negative foreign currency adjustments.

Gross Profit

Gross profit as a percentage of net sales was 52.7 percent in the second quarter of fiscal 2015 compared to 55.6 percent for the same period in fiscal 2014. Gross profit as a percentage of net sales for the second quarter of fiscal 2015 compared to the second quarter of fiscal 2014 decreased 2.9 percentage points due to many factors of which the largest contributors were: the 5.0 percent decrease in domestic ophthalmology sales; the impact of a larger mix of neurosurgery OEM revenue; the margins associated with the final production at our King of Prussia facility; the negative foreign currency adjustment; and the inventory purchase price accounting adjustment in connection with the Sterimedix Acquisition.

Operating Expenses (dollars in thousands)

	Three Months Ended January 31, 2015		Three Months Ended January 31, 2014	
	Dollars	**Percent of Sales**	Dollars	Percent of Sales
Research & Development expenses	**$ 1,028**	**5.7%**	$ 1,513	10.0%
Sales & Marketing expenses	**3,643**	**20.0%**	3,630	24.0%
General & Administrative expenses	**2,942**	**16.2%**	3,003	19.9%
Exit Costs	**657**	**3.6%**	514	3.4%
Medical Device Excise Tax	**116**	**0.6%**	115	0.8%

Research and development expenses ("R&D") as a percentage of net sales was 5.7 percent and 10.0 percent for the second quarter of fiscal 2015 and 2014, respectively. R&D costs decreased $485,000 in the second quarter of fiscal 2015 compared to the same period in fiscal 2014. The Company's pipeline included approximately 27 active projects in various stages of completion as of January 31, 2015. The Company's R&D investment is driven by the opportunities to develop new products to meet the needs of its surgeon customers and reflects the Company's R&D budget. This results in an investment rate that the Company believes is comparable to such spending by other medical device companies. The Company expects to invest in R&D at a rate of approximately 6.0 to 8.0 percent of net sales over the next few years.

Sales and marketing expenses increased $13,000 to approximately $3.6 million, or 20.0 percent of net sales, for the second quarter of fiscal 2015 compared to $3.6 million, or 24.0 percent of net sales, for the second quarter of fiscal 2014.

General and administrative expenses decreased by approximately $61,000 to $2.9 million, or 16.2 percent of net sales, in the second quarter of fiscal 2015 compared to $3.0 million, or 19.9 percent of net sales, for the second quarter of fiscal 2014, primarily due to the closure of the Company's King of Prussia facility and decreases in various other expenses, partially offset by the addition of Sterimedix Acquisition related expenses and Sterimedix general and administrative costs.

Exit costs increased $143,000 to $657,000, or 3.6% of net sales, in the second quarter of fiscal 2015, primarily due to the final expenses of the closure of the King of Prussia facility including severance costs, inventory write-down and final preparation costs of the Company's O'Fallon, Missouri facility.

Medical device excise tax increased $1,000 to $116,000, or 0.6 percent of net sales, in the second quarter of fiscal 2015 compared to $115,000, or 0.8 percent of net sales, for the second quarter of fiscal 2014.

Other Income/Expense

Other expense for the second quarter of fiscal 2015 increased to $13,000, compared to income of $3,000 in the second quarter of fiscal 2014, primarily due to interest on the $2.75 million term loan. The borrowings under the term loan were used to fund the Sterimedix Acquisition.

Operating Income, Income Taxes and Net Income

Operating income for the second quarter of fiscal 2015 increased $1.6 million to $1.2 million, as compared to the comparable 2014 fiscal period. The increase in operating income was primarily the result of a 20.5 percent increase in sales partially offset by a 28.5 percent increase in cost of sales, resulting in a $1.2 million increase in gross profit. The increase in gross profit was augmented by a 32.1 percent decrease in R&D expenses and a 2.0 percent decrease in general and administrative expenses, partially offset by a $143,000 increase in exit costs.

The Company recorded a $233,000 tax provision on pre-tax income of $1.2 million, a 19.7 percent tax provision, in the quarter ended January 31, 2015. The decrease in the effective tax rate for the quarter was primarily due to the re-enactment of the Research and Experimentation credit in December 2014. The Company recorded a $149,000 tax benefit on pre-tax loss of $374,000, a 39.8 percent tax benefit, in the quarter ended January 31, 2014.

Net income increased by $1.2 million to $952,000 for the second quarter of fiscal 2015 from a $225,000 net loss for the same period in fiscal 2014. The increase in net income was primarily from the increase in operating income discussed above. Basic and diluted earnings per share for the second quarter of fiscal 2015 were $0.04 as compared to a $0.01 net loss in the second quarter of fiscal 2014. Basic weighted average shares outstanding increased from 25,309,641 at January 31, 2014, to 25,364,574 at January 31, 2015.

Six-Month Period Ended January 31, 2015, Compared to Six-Month Period Ended January 31, 2014

Results Overview

During the first six months ended January 31, 2015, the Company recorded net sales of $34.8 million, which generated $18.9 million in gross profit, operating income of $2.4 million and net income of approximately $1.7 million, or $0.07 earnings per share.

Net Sales

The following table presents net sales under the new sales presentation by category (dollars in thousands):

	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014	Increase (Decrease)
Ophthalmic (1)	**$ 19,510**	$ 18,129	7.6%
Neurosurgery (2)	**14,912**	12,245	21.8%
Other (3)	**414**	252	64.3%
Total	**$ 34,836**	$ 30,626	13.7%

(1) Net sales from Ophthalmic represent all sales of ophthalmic devices from direct sales representatives, distribution partners and OEMs. Recognition of deferred revenue of $644,000 from Alcon, Inc. is included in this category for the six months ended January 31, 2015 and 2014, respectively.

(2) Net sales from Neurosurgery represent sales of electrosurgery generators, disposable bipolar forceps and related accessories and royalties from Codman, multi-channel generators, disposable ultrasonic tips and related accessories to Stryker and certain neurosurgery disposables sold through distribution. Many of the products we sell to our neurosurgery OEM customers are shipped to their non-U.S. customers in various countries around the world, but are included in our domestic revenues.

(3) Other net sales represent all sales of aesthetic devices and other miscellaneous revenues.

Ophthalmic sales increased 7.6 percent in the first six months of fiscal 2015, compared to the first six months of fiscal 2014. Domestic ophthalmic sales decreased 5.1 percent in the first six months of fiscal 2015, primarily due to the decreased sales of base business capital equipment and disposables, partially offset by increased sales of procedural kits (including $644,000 of deferred revenue recognized). International ophthalmic sales increased 25.2 percent in the first six months of fiscal 2015, primarily due to the addition of Sterimedix sales from December 10, 2014 through January 31, 2015 and by a 2.6 percent increase in international ophthalmology direct and distributor sales.

Neurosurgery sales increased $2.7 million in the first six months of fiscal 2015 as compared to the first six months of fiscal 2014. Total neurosurgery sales rose 21.8 percent to $14.9 million in the first six months of fiscal 2015, compared to $12.2 million in the first six months of fiscal 2014. The increase in neurosurgery sales benefited from strong volumes of disposable products and generators sold to Codman and Stryker. Other sales increased $162,000 in the first six months of fiscal 2015, or 64.3 percent, compared to the first six months of fiscal 2014, primarily due to the addition of Sterimedix aesthetics sales from December 10, 2014 through January 31, 2015.

Currently, disposable product sales account for approximately 86.1 percent of our total product sales. Overall sales of our disposable products grew $3.3 million, or 12.0 percent, in the first six months of fiscal 2015, as compared to the comparable period of fiscal 2014. Sales of capital equipment increased by approximately $1.1 million, or 35.8 percent, in the first six months of fiscal 2015 as compared to the comparable period of fiscal 2014.

The following table presents domestic and international net sales (dollars in thousands):

	Six Months Ended January 31, 2015	Six Months Ended January 31, 2014	Increase (Decrease)
Domestic	**$ 25,041**	$ 22,919	9.3%
International	**9,795**	7,707	27.1%
Total	**$ 34,836**	$ 30,626	13.7%

Domestic sales increased 9.3 percent in the first six months of fiscal 2015 due to the 21.8 percent increase in neurosurgery sales which are recorded as domestic sales, partially offset by the 5.1 percent decrease in domestic ophthalmology sales. International sales increased 27.1 percent in the first six months of fiscal 2015 primarily due to addition of Sterimedix sales from December 10, 2014 through January 31, 2015 and a 2.6 percent increase in international ophthalmology sales.

Gross Profit

Gross profit as a percentage of net sales was 54.1 percent in the first six months of fiscal 2015 compared to 56.6 percent for the same period in fiscal 2014. Gross profit as a percentage of net sales for the first six months of fiscal 2015 compared to the first six months of fiscal 2014 decreased 2.5 percentage points primarily due to many factors of which the largest contributors were: the 5.1 percent decrease in domestic ophthalmology sales; the impact of a larger mix of neurosurgery OEM revenue; the margins associated with the final production at our King of Prussia facility; the negative foreign currency adjustment; and the inventory purchase price accounting adjustment in connection with the Sterimedix Acquisition.

Operating Expenses (dollars in thousands)

	Six Months Ended January 31, 2015		Six Months Ended January 31, 2014	
	Dollars	**Percent of Sales**	Dollars	Percent of Sales
Research & Development expenses	**$ 2,227**	**6.4%**	$ 2,710	8.8%
Sales & Marketing expenses	**7,339**	**21.1%**	7,205	23.5%
General & Administrative expenses	**5,970**	**17.1%**	5,638	18.4%
Exit Costs	**719**	**2.1%**	514	1.7%
Medical Device Excise Tax	**244**	**0.7%**	240	0.8%

R&D as a percentage of net sales was 6.4 percent and 8.8 percent for the first six months of fiscal 2015 and 2014, respectively. R&D costs decreased $483,000 in the first six months of fiscal 2015 compared to the same period in fiscal 2014. The Company's pipeline included approximately 27 active projects in various stages of completion as of January 31, 2015.

Sales and marketing expenses increased $134,000 to approximately $7.3 million, or 21.1 percent of net sales, for the first six months of fiscal 2015 compared to $7.2 million, or 23.5 percent of net sales, for the first six months of fiscal 2014.

General and administrative expenses increased by approximately $332,000 to $6.0 million, or 17.1 percent of net sales, in the first six months of fiscal 2015 compared to $5.6 million, or 18.4 percent of net sales, for the first six months of fiscal 2014, primarily due to Sterimedix Acquisition related expenses and Sterimedix general and administrative costs.

Exit costs increased $205,000 to $719,000, or 2.1 percent of net sales, in the first six months of fiscal 2015 compared to $514,000, or 1.7 percent of net sales in the first six months of fiscal 2014, primarily due to the final expenses of the closure of the King of Prussia facility including severance costs, inventory write-down and final preparation costs of the Company's O'Fallon, Missouri facility.

Medical device excise tax increased $4,000 to $244,000, or 0.7 percent of net sales, in the first six months of fiscal 2015 compared to $240,000, or 0.8 percent of net sales, for the first six months of fiscal 2014.

Other Income/Expense

Other expense for the first six months of fiscal 2015 increased to $12,000, compared to income of $6,000 in the first six months of fiscal 2014, primarily due to the interest on the $2.75 million term loan. The borrowings under the term loan were used to fund the Sterimedix Acquisition.

Operating Income, Income Taxes and Net Income

Operating income for the first six months of fiscal 2015 increased $1.3 million to $2.4 million, as compared to the comparable 2014 fiscal period. The increase in operating income was primarily the result of a 13.7 percent increase in sales, partially offset by a 20.1 percent increase in cost of sales, resulting in a $1.5 million increase in gross profit. The increase in gross profit was augmented by a 17.8 percent decrease in R&D and partially offset by a 39.9 percent increase in exit costs, a 5.9 percent increase in general and administrative expenses and a 1.9 percent increase in sales and marketing expenses.

The Company recorded a $623,000 tax provision on pre-tax income of $2.3 million, a 26.6 percent tax provision, in the first six months ended January 31, 2015. The decrease in the effective tax rate for the first six months of fiscal 2015 was primarily due to the re-enactment of the Research and Experimentation credit in December 2014. The Company recorded a $312,000 tax provision on pre-tax income of $1.0 million, a 30.6 percent tax provision, in the first six months ended January 31, 2014.

Net income increased by $1.0 million to $1.7 million for the first six months of fiscal 2015 from $709,000 for the same period in fiscal 2014. The increase in net income was primarily from the increase in operating income discussed above. Basic and diluted earnings per share for the first six months of fiscal 2015 were $0.07 as compared to $0.03 in the first six months of fiscal 2014. Basic weighted average shares outstanding increased from 25,301,830 at January 31, 2014, to 25,352,279 at January 31, 2015.

Liquidity and Capital Resources

The Company had approximately $8.9 million in cash and $2.75 million in interest-bearing debt as of January 31, 2015.

Working capital, including the management of inventory and accounts receivable, is a key management focus. At January 31, 2015, the Company had an average of 70 days of sales outstanding utilizing the trailing 12 months' sales for the period ended January 31, 2015. The 70 days of sales outstanding at January 31, 2015, was 12 days favorable when compared to July 31, 2014, and 5 days favorable when compared to January 31, 2014, utilizing the trailing 12 months of sales.

At January 31, 2015, the Company had 191 days of average cost of sales in inventory on hand utilizing the trailing 12 months' cost of sales for the period ended January 31, 2015. The 191 days of cost of sales in inventory was favorable to July 31, 2014, by 3 days and 22 days favorable to January 31, 2014, utilizing the trailing 12 months of cost of sales. The Company had invested $4.0 million in inventory for new products and new product launches at January 31, 2015. In addition, the Company had $4.5 million in backlog as of January 31, 2015.

Cash flows provided by operating activities were $4.8 million for the six months ended January 31, 2015, compared to cash flows used by operating activities of $302,000 for the comparable fiscal 2014 period. The increase in cash flows of $5.1 million was primarily attributable to the decrease in inventory of $1.8 million, the increase in accounts payable and accrued expenses of $1.6 million, an increase in net income of $1.0 million, a decrease in accounts receivable of $474,000 and a decrease in prepaid expenses of $431,000 and various other adjustments to reconcile net income to cash provided of $48,000; partially offset by a $337,000 increase in income taxes payable.

Cash flows used by investing activities were $13.6 million for the six months ended January 31, 2015, compared to $874,000 of cash used by investing activities for the comparable fiscal 2014 period. During the six months ended January 31, 2015, the Company expended $13.2 million on the Sterimedix Acquisition. During the six months ended January 31, 2015, cash additions to property and equipment were $393,000, compared to $735,000 during the six months ended January 31, 2014. During the six months ended January 31, 2015, cash additions to patents and other intangibles were $69,000, compared to $139,000 during the six months ended January 31, 2014.

Cash flows provided by financing activities for the six months ended January 31, 2015 were $2.7 million compared to $61,000 for the six months ended January 31, 2014. The increase in cash flows provided by financing activities was due primarily to the $2.75 million borrowed under the Company's term loan facility.

The Company had the following committed financing arrangements as of January 31, 2015:

Revolving Credit Facility: The Company has a credit facility with a bank which allows for borrowings of up to $9.5 million. There were no borrowings under this facility at January 31, 2015.

Equipment Line of Credit: Under this credit facility, the Company may borrow up to $1.0 million. There were no borrowings under this facility at January 31, 2015.

Term Loan Facility: The Company has a credit facility with a bank which allows for borrowings of up to $13.0 million with $6.5 million restricted for earn-out payments required under the Sterimedix Acquisition Agreement. There was $2.75 million borrowed under this facility at January 31, 2015. The advances under the term loan are amortized quarterly over five years.

These facilities bear interest based on either the one-, two- or three-month LIBOR plus 1.75 percent and adjusting each quarter based upon our Debt to Earnings before Interest, Taxes, Depreciation and Amortization ("EBITDA). As of January 31, 2015, interest under the facilities was 1.90 percent. The unused portion of the facilities is charged at a rate of 0.20 percent. The termination date of the facilities is February 28, 2018. The facilities are collateralized by substantially all of the Company's assets

These facilities have two financial covenants: a maximum Debt to EBITDA ratio of 2.25 times and a minimum fixed charge coverage ratio of 1.25 times. As of January 31, 2015, the Debt to EBITDA ratio was 0.33 and the minimum fixed charge coverage ratio was 14.0 times. The facility restricts the payment of dividends if, following the distribution, the fixed charge coverage ratio would fall below the required minimum.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or results of operations.

STATEMENT REGARDING FORWARD-LOOKING INFORMATION

The Private Securities Litigation Reform Act of 1995 and Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act, provide a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or oral statements that are "forward-looking," including statements contained in this report and other filings with the Securities and Exchange Commission ("SEC") and in our reports and presentations to stockholders or potential stockholders. In some cases forward-looking statements can be identified by words such as "believe," "expect," "anticipate," "plan," "potential," "continue" or similar expressions. Such forward-looking statements include risks and uncertainties and there are important factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. These factors, risks and uncertainties can be found in the Part I, Item 1A, "Risk Factors" section of the Company's Form 10-K for the fiscal year ended July 31, 2014.

Although we believe the expectations reflected in our forward-looking statements are based upon reasonable assumptions, it is not possible to foresee or identify all factors that could have a material effect on the future financial performance of the Company. The forward-looking statements in this report are made on the basis of management's assumptions and analyses, as of the time the statements are made, in light of their experience and perception of historical conditions, expected future developments and other factors believed to be appropriate under the circumstances.

In addition, certain market data and other statistical information used throughout this report are based on independent industry publications. Although we believe these sources to be reliable, we have not independently verified the information and cannot guarantee the accuracy and completeness of such sources.

Except as otherwise required by the federal securities laws, we disclaim any obligation or undertaking to publicly release any updates or revisions to any forward-looking statement contained in this Quarterly Report on Form 10-Q and the information incorporated by reference in this report to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

Critical Accounting Policies

The Company's significant accounting policies which require management's judgment are disclosed in our Annual Report on Form 10-K for the fiscal year ended July 31, 2014. In the first six months of fiscal 2015, there were no changes to the significant accounting policies.

Item 3 — Quantitative and Qualitative Disclosures about Market Risk

The Company's primary market risks include fluctuations in interest rates and exchange rate variability.

The Company has $8.9 million in cash and cash equivalents with a substantial portion of this cash held in short-term money market funds bearing interest at 30 basis points. Interest income from these funds is subject to market risk in the form of fluctuations in interest rates. A reduction in the interest on these funds to 15 basis points would decrease the amount of interest income from these funds by approximately $13,000 on an annual basis.

The Company currently has a revolving credit facility, an equipment line of credit facility and a term loan facility in place. The revolving credit facility and the equipment line of credit facility had no outstanding balance at January 31, 2015. However, the term loan facility had a $2.75 million balance at January 31, 2015. All three facilities bear interest at a current rate of LIBOR plus 1.75 percent. Interest expense from these credit facilities is subject to market risk in the form of fluctuations in interest rates. An increase in the interest on the aggregate borrowings of $2.75 million of 50 basis points would increase the amount of interest expense on these funds by approximately $14,000 on an annual basis. The Company does not perform any interest rate hedging activities related to these two facilities.

Additionally, the Company has exposure to non-U.S. currency fluctuations through export sales to international accounts and direct sales from our foreign subsidiaries. Approximately 13.0 percent of our sales revenue is denominated in non-U.S. currencies. In a period during which the U.S. dollar is strengthening or weakening as compared to other currencies, our revenues and expenses denominated in foreign currencies are translated into U.S. dollars at a lower or higher value than they would be in an otherwise constant currency exchange rate environment. The Company does not conduct any hedging activities related to non-U.S. currency.

Item 4 — Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures as of January 31, 2015. Based on such review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of January 31, 2015, the disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, (a) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 or 15d-15 of the Exchange Act that occurred during the fiscal quarter ended January 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — Other Information

Item 1 — Legal Proceedings

From time to time, we may become subject to litigation claims that may greatly exceed our liability insurance limits. An adverse outcome of such litigation may adversely impact our financial condition or liquidity. We record a liability when a loss is known or considered probable and the amount can be reasonably estimated. If a loss is not probable, a liability is not recorded. As of January 31, 2015, the Company has no litigation reserve recorded.

Item 1A — Risk Factors

The Company's business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to the "Risk Factors" section of the Company's Annual Report on Form 10-K for the fiscal year ended July 31, 2014. In connection with its preparation of this quarterly report, management has reviewed and considered these risk factors and has determined that there have been no material changes to the Company's risk factors since the date of filing the Annual Report on Form 10-K for the fiscal year ended July 31, 2014.

Item 2 — Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3 — Defaults Upon Senior Securities

None

Item 4 — Mine Safety Disclosures

Not applicable

Item 5 — Other Information

(a) None.
(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors since the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended January 31, 2015.

Item 6 — Exhibits

Exhibit No.	Description
2.1	Share Purchase Agreement dated December 10, 2014 among the selling shareholders, Synergetics Surgical EU Limited and Synergetics USA, Inc. (filed as Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 10, 2014 and incorporated herein by reference).
10.1	Consent to Credit and Security Agreement dated as of December 5, 2014 between Synergetics, Inc. and Synergetics USA, Inc., as borrowers, and Regions Bank, as lender (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 10, 2014 and incorporated herein by reference).
10.2	Amendment No. 3 by and between DePuy Synthes Products, LLC and Synergetics USA, Inc., as of December 9, 2014 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 17, 2014 and incorporated herein by reference).
10.3	Amended and Restated Loan and Security by and among Synergetics, Inc., Synergetics USA, Inc., Synergetics IP, Inc., Synergetics Delaware, Inc. and Synergetics Development Company LLC, and Regions Bank, dated December 16, 2014.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

Trademark Acknowledgements

Regarding our trademarks, the Company relies on protections from both formal registrations and common law rights. The Synergetics, Sterimedix and Silkann brand name are registered trademarks of the Company. Other trademarks used in association with the Company's products include the diamond logo, Vision for Life, VersaVIT and VersaVIT 2.0, VersaPACK, Core Essentials, Bullseye, Corona, Diamond Black, DDMS, Directional Laser Probe, Extendable Directional Laser Probe, Inverted Directional Laser Probe, FullView, I-Pack, Kryoptonite, Maxillum, Microfiber, Microserrated, One-Step, Photon, Photon I, Photon II, PhotonEX, P1, P2, Pinnacle, Syntrifugal, Apex, Synerport, TruCurve and Vivid. Other trademark registrations owned by the Company include Malis, the Malis waveform logo, Bident, Gentle Gel and Finest Energy Source Available for Surgery. Other trademarks owned by us and for which use inures to the benefit of the Company include Burst, Barracuda, Lumen, Lumenator and TruMicro. All other trademarks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNERGETICS USA, INC.
(Registrant)

March 10, 2015 /s/ David M. Hable

David M. Hable, President and Chief
Executive Officer (Principal Executive Officer)

March 10, 2015 /s/ Pamela G. Boone

Pamela G. Boone, Executive Vice
President, Chief Financial Officer, Secretary
and Treasurer (Principal Financial and
Principal Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, David M. Hable, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synergetics USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2015

/s/ David M. Hable

David M. Hable
President and
Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Pamela G. Boone, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Synergetics USA, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2015

/s/ Pamela G. Boone

Pamela G. Boone
Executive Vice President, Chief Financial
Officer, Treasurer and Secretary

Exhibit 32.1

Certification
Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Synergetics USA, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David M. Hable, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2015

/s/ David M. Hable
David M. Hable
President and
Chief Executive Officer

Exhibit 32.2

Certification
Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Synergetics USA, Inc. (the "Company") on Form 10-Q for the period ended January 31, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Pamela G. Boone, Executive Vice President, Chief Financial Officer, Treasurer and Secretary of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 10, 2015

/s/ Pamela G. Boone
Pamela G. Boone
Executive Vice President, Chief Financial Officer,
Treasurer and Secretary