UROPLASTY INC
Form 10QSB
November 14, 2005

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-QSB
Quarterly Report Under section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended September 30, 2005
Commission File No. 000-20989
UROPLASTY, INC.
(Name of Small Business Issuer in its Charter)

Minnesota, U.S.A.	**41-1719250**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2718 Summer Street NE
Minneapolis, Minnesota 55413-2820
(Address of principal executive offices)
(612) 378-1180
(Issuer s telephone number, including area code)

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $.01 par value (Title of class)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Company was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES þ NO o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act:

YES o NO þ

The number of shares outstanding of the issuer s only class of common stock on November 11, 2005 was 6,880,405.

Transitional Small Business Disclosure Format:

YES o NO þ

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		September 30, 2005 (unaudited)		March 31, 2005
Assets				
Current assets:				
Cash and cash equivalents	$	5,822,977	$	1,492,684
Accounts receivable, net		833,997		944,527
Inventories		671,967		547,476
Income tax receivable		93,917		114,189
Other		213,899		161,920
Total current assets		7,636,757		3,260,796
Property, plant, and equipment, net		1,074,882		1,040,253
Intangible assets, net		331,880		39,100
Deferred tax assets		141,995		103,075
Total assets	$	9,185,514	$	4,443,224

See accompanying notes to the condensed interim consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2005 (unaudited)	March 31, 2005
Liabilities and Shareholders Equity		
Current liabilities:		
Current maturities long-term debt	$ 41,468	$ 44,606
Accounts payable	557,955	362,994
Accrued liabilities	721,144	478,682
Warrant liability	1,357,253	
Total current liabilities	2,677,820	886,282
Long-term debt less current maturities	408,193	461,265
Accrued pension liability	320,379	303,781
Total liabilities	3,406,392	1,651,328
Shareholders equity:		
Common stock $.01 par value; 20,000,000 shares authorized, 6,873,739 and 4,699,597 shares issued and outstanding at September 30, 2005 and March 31, 2005, respectively	68,737	46,996
Additional paid-in capital	14,740,418	9,366,644
Accumulated deficit	(8,689,416)	(6,491,387)
Accumulated other comprehensive loss	(340,617)	(130,357)
Total shareholders equity	5,779,122	2,791,896
Total liabilities and shareholders equity	$ 9,185,514	$ 4,443,224

See accompanying notes to the condensed interim consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Net sales	$ 1,554,955	$ 1,650,724	$ 3,200,608	$ 3,403,220
Cost of goods sold	462,317	470,172	883,145	933,730
Gross profit	1,092,638	1,180,552	2,317,463	2,469,490
Operating expenses				
General and administrative	744,867	508,260	1,435,431	899,372
Research and development	1,030,808	585,716	1,661,406	1,165,769
Selling and marketing	804,606	590,799	1,468,639	1,118,756
	2,580,281	1,684,775	4,565,476	3,183,897
Operating loss	(1,487,643)	(504,223)	(2,248,013)	(714,407)
Other income (expense)				
Interest income	27,616	9,199	54,996	15,078
Interest expense	(4,515)	(5,137)	(9,324)	(10,321)
Warrant benefit	701,718		15,423	
Foreign currency exchange loss	(7,206)	(4,675)	(8,405)	(14,086)
	717,613	(613)	52,690	(9,329)
Loss before income taxes	(770,030)	(504,836)	(2,195,323)	(723,736)
Income tax expense (benefit)	(34,314)	(14,230)	2,706	52,229
Net loss	$ (735,716)	$ (490,606)	(2,198,029)	(775,965)
Basic and diluted loss per common share	$ (0.11)	$ (0.11)	$ (0.33)	$ (0.17)
Weighted average common shares outstanding:				
Basic and diluted	6,853,783	4,653,870	6,603,887	4,622,728

See accompanying notes to the condensed interim consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND COMPREHENSIVE LOSS
Six months ended September 30, 2005

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at March 31, 2005	4,699,597	$ 46,996	$ 9,366,644	$ (6,491,387)	$ (130,357)	$ 2,791,896
Private Placement	2,147,142	21,471	7,493,526			7,514,997
Costs of Private Placement			(776,506)			(776,506)
Reissuance of Warrants			(1,372,676)			(1,372,676)
Exercise of Stock Options	27,000	270	29,430			29,700
Net loss				(2,198,029)		(2,198,029)
Translation adjustment					(214,872)	(214,872)
Additional pension liability					4,612	4,612
Total comprehensive loss						(2,408,289)
Balance at September 30, 2005	6,873,739	$ 68,737	$ 14,740,418	$ (8,689,416)	$ (340,617)	$ 5,779,122

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended September 30, 2005 and 2004
(Unaudited)

	Six Months Ended September 30, 2005	Six Months Ended September 30, 2004
Cash flows from operating activities:		
Net loss	$ (2,198,029)	$ (775,965)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	116,565	80,503
Loss on disposal of assets		2,281
Warrant benefit	(15,423)	
Deferred tax assets	(48,160)	(30,094)
Changes in operating assets and liabilities:		
Accounts receivable	47,762	(64,874)
Inventories	(195,071)	4,992
Other current assets	(58,945)	(17,345)
Accounts payable	212,759	67,952
Accrued liabilities	271,288	(10,566)
Accrued pension liability	39,226	(1,552)
Additional pension liability		1,824
Net cash used in operating activities	(1,828,028)	(742,844)
Cash flows from investing activities:		
Payments for property, plant and equipment	(170,602)	(47,773)
Payments for intangible assets	(329,167)	(5,512)
Net cash used in investing activities	(499,769)	(53,285)
Cash flows from financing activities:		
Repayment of long-term debt	(21,650)	(20,761)
Net proceeds from issuance of common stock	6,768,191	162,112
Net cash provided by financing activities	6,746,541	141,351
Effect of exchange rates on cash and cash equivalents	(88,451)	25,014
Net increase (decrease) in cash and cash equivalents	4,330,293	(629,764)

Cash and cash equivalents at beginning of period	1,492,684	2,697,670
Cash and cash equivalents at end of period	$ 5,822,977	$ 2,067,906
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	9,803	$ 10,930
Cash paid during the period for income taxes	37,598	60,362

See accompanying notes to the condensed interim consolidated financial statements.

Table of Contents

UROPLASTY, INC. AND SUBSIDIARIES
Notes to the Condensed Interim Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

We have prepared our condensed consolidated financial statements included in this Form 10-QSB, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted, pursuant to such rules and regulations. The consolidated results of operations for any interim period are not necessarily indicative of results for a full year. These condensed consolidated statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-KSB for the year ended March 31, 2005.

The condensed consolidated financial statements presented herein as of September 30, 2005 and for the three and six-month periods ended September 30, 2005 and 2004 reflect, in the opinion of management, all material adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods.

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, inventories, foreign currency translation and transactions, and impairment of long-lived assets, each of which is more fully described in our Annual Report on Form 10-KSB for the year ended March 31, 2005. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three and six-month periods ended September 30, 2005, and have made no changes to these policies during fiscal 2006.

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

The majority of our products are sold primarily outside of the United States and we continue to pursue regulatory approvals to market our products in the United States. We anticipate increasing our sales and marketing activities in the U.S. once we obtain such approvals. The FDA approval process can be costly, lengthy and uncertain.

In March 2005, we entered into a business loan agreement with Venture Bank, pursuant to which we may borrow up to $500,000 on a revolving basis. All amounts, which the bank advances to us, are due in March 2006, unless the bank renews the agreement. Amounts advanced to us accrue interest at a variable rate of 1% in excess of the published prime rate in the Wall Street Journal, with a minimum rate of 6% per annum. We are obligated to pay interest monthly on the outstanding principal balance. Advances under this agreement are secured by substantially all our assets. At September 30, 2005 we had no outstanding balance under the agreement.

In April 2005, we conducted a private placement of common stock in which we sold 2,147,142 shares of our common stock at a price per share of $3.50, together with warrants to purchase 1,180,928 shares of common stock, for an aggregate purchase price of approximately $7.5 million. The stock sale proceeds are offset by costs of approximately $777,000, resulting in net proceeds of approximately $6.7 million. The warrants are exercisable for five years at an exercise price of $4.75 per share.

We believe that our current resources, funds generated from sale of our products outside the U.S. along with existing bank arrangements and the proceeds received from the recently completed private placement will be adequate to meet our cash flow needs, including regulatory activities associated with existing products, through fiscal 2006. Ultimately, we will need to achieve profitability and positive cash flows from operations to fund our operations and grow our business beyond fiscal 2006.

Table of Contents

3. Inventories

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

	September 30, 2005	March 31, 2005
Raw materials	$ 365,805	$ 193,980
Work-in-process	58,845	75,337
Finished goods	247,317	278,159
	$ 671,967	$ 547,476

4. Intangible Assets

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

	Estimated Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net value
		September 30, 2005		
Licensed technology	5	$ 355,457	$ 50,589	$ 304,868
Patents and trademarks	6	237,900	210,888	27,012
Totals		$ 593,357	$ 261,477	$ 331,880
		March 31, 2005		
Licensed technology	5	$ 26,290	$ 19,718	$ 6,572
Patents and trademarks	6	237,900	205,372	32,528
Totals		$ 264,190	$ 225,090	$ 39,100

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

Remainder of fiscal 2006	$ 36,000
2007	75,000
2008	72,000
2009	72,000
2010	70,000
Thereafter	7,000
	$ 332,000

Table of Contents

5. Comprehensive Loss

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2005	2004	2005	2004
Net loss	$ (735,716)	$ (490,606)	$ (2,198,029)	$ (775,965)
Items of other comprehensive income (loss):				
Translation adjustment	(6,713)	55,566	(214,872)	31,994
Additional pension liability	203	(1,929)	4,612	(988)
Comprehensive loss	$ (742,226)	$ (436,969)	$ (2,408,289)	$ (744,959)

6. Options and Warrants

The following options and warrants outstanding at September 30, 2005 and 2004 to purchase shares of common stock were excluded from diluted loss per share, because of their anti-dilutive effect:

	Number of Options/Warrants	Range of Exercise Prices
For the three months ended:		
September 30, 2005	3,597,705	$0.90 to $10.50
September 30, 2004	1,647,571	$0.90 to $10.50
For the six months ended:		
September 30, 2005	3,597,705	$0.90 to $10.50
September 30, 2004	1,647,571	$0.90 to $10.50

7. Shareholders Equity

Consulting Agreements

On April 1, 2003, we executed a consulting agreement with CCRI Corporation (CCRI) to provide investor relations and development services. We pay CCRI a monthly fee of $4,000 plus expenses. CCRI received 35,000 shares of fully vested restricted common stock, and vested warrants to purchase 50,000 shares of common stock at an exercise price of $3.00 per share, and received vested warrants to purchase 50,000 shares of common stock at an exercise price of $5.00 per share on November 2, 2003. We fully amortized the fair value of the common stock and warrants in fiscal 2004. On April 1, 2005, we extended the agreement for one year. The monthly fee of $4,000 plus expenses remained the same.

Warrants

As a result of our suspension of the exercise of the 706,218 warrants originally issued in July 2002, we granted a like number of new common stock purchase warrants to the holders of the expired warrants, in April 2005. The new warrants will be exercisable at $2.00 per share for 90 days after the effective date of a new registration statement covering the shares underlying these warrants. In April 2005, we recognized a liability of $1.4 million associated with the grant of these new warrants. We have reported a year-to-date net warrant benefit of approximately $15,000 due to the decrease in the fair value of these warrants since April 2005.

Table of Contents

8. Stock-based Compensation

We apply the intrinsic-value method to account for employee stock-based compensation. As such, compensation expense, if any, is recorded on the date of grant if the current market price of the underlying stock exceeds the exercise price.

We account for stock-based instruments granted to non-employees under the fair value method of Financial Accounting Standards Board (FASB) Statement No. 123 and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*. Under Statement No. 123, we record options at their fair value on the measurement date, which is typically the vesting date.

Had we determined compensation cost based on the fair value at the grant date for our stock options issued to employees under SFAS 123, Accounting for Stock-Based Compensation, our net loss and per share amounts would have increased to the pro forma amounts shown below:

	Three Months Ended September 30,		**Six Months Ended September 30,**	
	2005	**2004**	**2005**	**2004**
Net loss As reported	$ (735,716)	$ (490,606)	$ (2,198,029)	$ (775,965)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(424,902)	(35,914)	(858,333)	(71,921)
Net loss Pro forma	$ (1,160,618)	$ (526,520)	$ (3,056,362)	$ (847,886)
Net loss per common share As reported:				
Basic and diluted	$ (0.11)	$ (0.11)	$ (0.33)	$ (0.17)