UROPLASTY INC
Form 10QSB
November 09, 2006

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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, 2006
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.)

5420 Feltl Road
Minnetonka, Minnesota, 55343
(Address of principal executive offices)
(912) 426-6140
(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 October 24, 2006 was 8,411,188.

Transitional Small Business Disclosure Format:

YES o NO þ

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

		September 30, 2006 (unaudited)		March 31, 2006
Assets				
Current assets:				
Cash and cash equivalents	$	1,983,303	$	1,563,433
Short-term investments				1,137,647
Accounts receivable, net		1,123,388		716,587
Income tax receivable		195,348		270,934
Inventories		1,026,045		757,062
Other		327,502		353,178
Total current assets		4,655,586		4,798,841
Property, plant, and equipment, net		1,425,102		1,079,438
Intangible assets, net		358,491		411,604
Deferred tax assets		159,743		111,361
Total assets	$	6,598,922	$	6,401,244

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

		September 30, 2006 (unaudited)		March 31, 2006
Liabilities and Shareholders Equity				
Current liabilities:				
Current maturities long-term debt	$	43,640	$	41,658
Deferred rent current		35,000		
Notes payable		64,050		
Accounts payable		734,457		506,793
Accrued liabilities		799,275		917,981
Warrant liability		1,038,036		665,356
Total current liabilities		2,714,458		2,131,788
Long-term debt less current maturities		450,000		389,241
Deferred rent less current portion		231,082		
Accrued pension liability		641,598		473,165
Total liabilities		4,037,138		2,994,194
Shareholders equity:				
Common stock $.01 par value; 20,000,000 shares authorized, 8,411,188 and 6,937,786 shares issued and outstanding at September 30 and March 31, 2006, respectively		84,112		69,378
Additional paid-in capital		17,305,638		14,831,787
Accumulated deficit		(14,434,229)		(11,034,100)
Accumulated other comprehensive loss		(393,737)		(460,015)
Total shareholders equity		2,561,784		3,407,050
Total liabilities and shareholders equity	$	6,598,922	$	6,401,244

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Six Months Ended September 30, 2006	Six Months Ended September 30, 2005
Net sales	$ 1,760,771	$ 1,554,955	$ 3,524,980	$ 3,200,608
Cost of goods sold	452,857	462,317	1,008,372	883,145
Gross profit	1,307,914	1,092,638	2,516,608	2,317,463
Operating expenses				
General and administrative	827,290	744,867	1,711,399	1,435,431
Research and development	658,409	1,030,808	1,333,363	1,661,406
Selling and marketing	1,303,696	804,606	2,536,283	1,468,639
	2,789,395	2,580,281	5,581,045	4,565,476
Operating loss	(1,481,481)	(1,487,643)	(3,064,437)	(2,248,013)
Other income (expense)				
Interest income	18,308	27,616	37,815	54,996
Interest expense	(10,483)	(4,515)	(16,465)	(9,324)
Warrant benefit (expense)	(700,412)	701,718	(372,680)	15,423
Foreign currency exchange gain (loss)	3,553	(7,206)	29,964	(8,405)
Other	(1,216)		3,585	
	(690,250)	717,613	(317,781)	52,690
Loss before income taxes	(2,171,731)	(770,030)	(3,382,218)	(2,195,323)
Income tax expense (benefit)	(12,841)	(34,314)	17,911	2,706
Net loss	$ (2,158,890)	$ (735,716)	$ (3,400,129)	$ (2,198,029)
Basic and diluted loss per common share	$ (0.28)	$ (0.11)	$ (0.46)	$ (0.33)
Weighted average common shares outstanding:				
Basic and diluted	7,784,118	6,853,783	7,376,900	6,603,887

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY AND COMPREHENSIVE LOSS
Six months ended September 30, 2006
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance at March 31, 2006	6,937,786	$ 69,378	$ 14,831,787	$ (11,034,100)	$ (460,015)	$ 3,407,050
Proceeds from private placement, net of costs of $260,832	1,389,999	13,900	1,810,317			1,824,217
Warrant registration costs			(4,351)			(4,351)
Exercise of Stock Options	65,649	656	146,501			147,157
Employee Retirement Savings Plan Contribution	17,754	178	44,207			44,385
Share-Based Compensation			477,177			477,177
Comprehensive Loss				(3,400,129)	66,278	(3,333,851)
Balance at September 30, 2006	8,411,188	$ 84,112	$ 17,305,638	$ (14,434,229)	($393,737)	$ 2,561,784

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six Months Ended September 30, 2006 and 2005
(Unaudited)

	Six Months Ended September 30, 2006	2005
Cash flows from operating activities:		
Net loss	$ (3,400,129)	$ (2,198,029)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	147,989	116,565
Gain on disposal of furniture	(3,584)	
Warrant expense (benefit)	372,680	(15,423)
Stock-based consulting expense	29,524	
Stock-based compensation expense	447,652	
Deferred income taxes	(42,976)	(48,160)
Deferred rent	(14,583)	
Changes in operating assets and liabilities:		
Accounts receivable	(368,428)	47,762
Inventories	(221,587)	(195,071)
Other current assets and income tax receivable	121,808	(58,945)
Accounts payable	216,037	212,759
Deferred rent	280,666	
Accrued liabilities	(86,062)	271,288
Accrued pension liability	142,780	39,226
Net cash used in operating activities	(2,378,213)	(1,828,028)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	1,137,647	
Payments for property, plant and equipment	(406,740)	(170,602)
Proceeds from sale of property, plant and equipment	4,294	
Payments for intangible assets		(329,167)
Net cash provided by (used in) investing activities	735,201	(499,769)
Cash flows from financing activities:		
Proceeds from financing obligations	210,999	
Repayment of long-term obligations	(104,656)	(21,650)
Proceeds from issuance of common stock and warrants	1,967,023	6,768,191
Net cash provided by financing activities	2,073,366	6,746,541
Effect of exchange rates on cash and cash equivalents	(10,484)	(88,451)

Net increase in cash and cash equivalents	419,870	4,330,293
Cash and cash equivalents at beginning of period	1,563,433	1,492,684
Cash and cash equivalents at end of period	$ 1,983,303	$ 5,822,977
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 14,615	$ 9,803
Cash paid during the period for income taxes	58,335	37,598
Supplemental disclosure of non-cash financing and investing activities:		
Shares issued for 401(k) plan profit sharing contribution	$ 44,385	$
Property, plant and equipment additions funded by lessor allowance and classified as deferred rent	280,000	

See accompanying notes to the condensed interim consolidated financial statements.

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

1. Basis of Presentation

We have prepared our condensed consolidated financial statements included in this Form 10-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 financial 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, 2006.

The condensed consolidated financial statements presented herein as of September 30, 2006 and for the three and six-month periods ended September 30, 2006 and 2005 reflect, in the opinion of management, all material adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the consolidated financial position, results of operations and cash flows for the interim periods.

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, accounts receivable, inventories, foreign currency translation and transactions, impairment of long-lived assets, share-based compensation and income taxes, each of which is more fully described in our Annual Report on Form 10-KSB for the year ended March 31, 2006. 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, 2006, and we have made no changes to these policies during fiscal 2007.

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

The majority of our revenue is from products sold outside of the United States. The U.S. Food and Drug Administration (FDA) granted 510(k) premarket clearance in August 2005 for our I-Stop™ Mid-Urethral Sling, a biocompatible, tension-free sling used to treat female urinary incontinence. In October 2005 and July 2006, we received the 510(k) premarket clearances for, respectively, the original and enhanced versions of our Urgent® PC Neurostimulation System, a proprietary, minimally invasive nerve stimulation device designed for office-based treatment of overactive bladder symptoms of urge incontinence, urinary urgency and urinary frequency. In October 2006 we received from the FDA pre-market approval for Macroplastique®, a minimally invasive, implantable soft tissue bulking agent for the treatment of urinary incontinence. We expect to begin marketing this product in the United States in early 2007. We have established a sales force in the United States to commercialize these products and anticipate increasing our sales and marketing organization.

Our future liquidity and capital requirements will depend on numerous factors including: the timing and cost associated with FDA-required post approval studies to obtain market feedback on safety and effectiveness on Macroplastique; the timing and cost involved in manufacturing scale-up and in expanding our sales, marketing and distribution capabilities in the United States markets; the cost and effectiveness of our marketing and sales efforts with respect to our existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting our proprietary rights. Because we have yet to achieve profitability and generate positive cash flows, we need to raise additional debt or equity financing in fiscal 2007 to continue funding for product development and continued expansion of our sales and marketing activities. There can be no guarantee that we will be successful, as we currently have no committed sources of, or other arrangements with respect to, additional equity or debt financing. We therefore cannot ensure that we will obtain additional financing on acceptable terms, or at all. Aside from the recently established credit lines indicated below and proceeds from our August 2006 private placement, we have no committed resources of, or other arrangements with respect to, additional financing. If we are unable to raise substantial funds in fiscal 2007, we will need to rely on our existing credit facilities and curtail our operations including product development, clinical studies and sales and marketing activities in order to conserve cash and maintain our operations through the balance of fiscal 2007. This would adversely impact our future business and prospects. In any event, because we are not profitable, we will need to raise substantial additional financing to support our operations and planned growth activities in fiscal 2008 and beyond. Ultimately, we will need to achieve profitability and generate positive cash flows from operations to fund our operations and grow our business.

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In October 2006, we amended our business loan agreement with Venture Bank. The amended agreement provides for a credit line of up to $500,000 secured by substantially all of our assets. We may borrow up to 50% of the value of the inventory on hand in the U.S. and 75% of the U.S. accounts receivable value. The bank charges us interest on the loan at the rate of 1 percentage point over the prime rate (8.25% at September 30, 2006) subject to a minimum interest rate of 7% per annum.

In June 2006, we entered into a $100,000 3-year, term loan agreement with Venture Bank, at an interest rate of 8.25% per annum. In addition, Uroplasty BV, one of our subsidiaries entered into an arrangement with Rabobank of The Netherlands for a 200,000 (approximately $258,500) credit line.

At September 30, 2006, we had no borrowings against any of our credit lines.

3. Short-term Investments

At March 31, 2006, short-term investments consisted of certificates of deposit that matured in the first quarter of fiscal 2007.

4. Inventories

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

	September 30, 2006	March 31, 2006
Raw materials	$ 368,435	$ 340,268
Work-in-process	46,806	26,183
Finished goods	610,804	390,611
	$ 1,026,045	$ 757,062

5. Intangible Assets

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

	Estimated Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net value
		September 30, 2006		
Licensed technology	5	$ 501,290	$ 160,874	$ 340,416
Patents and inventions	6	237,900	219,825	18,075
Totals		$ 739,190	$ 380,699	$ 358,491
		March 31, 2006		
Licensed technology	5	$ 501,290	$ 111,183	$ 390,107
Patents and inventions	6	237,900	216,403	21,497
Totals		$ 739,190	$ 327,586	$ 411,604

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

Remainder of fiscal 2007	$ 50,399
2008	100,756
2009	100,652
2010	98,369
2011	8,315
	$ 358,491

6. 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,	
	2006	**2005**	**2006**	**2005**
Net loss	$ (2,158,890)	$ (735,716)	$ (3,400,129)	$ (2,198,029)
Items of other comprehensive income (loss):				
Translation adjustment	(18,492)	(6,713)	78,097	(214,872)
Additional pension liability	(416)	203	(11,819)	4,612
Comprehensive loss	$ (2,177,798)	$ (742,226)	$ (3,333,851)	$ (2,408,289)

7. Basic and Diluted Net Loss per Common Share.

We have excluded the following options and warrants outstanding at September 30, 2006 and 2005 to purchase shares of common stock from diluted loss per common share as they have an anti-dilutive effect because the Company had a loss in each of those periods:

	Number of Options/Warrants	Range of Exercise Prices
For the three and six months ended September 30:		
2006	4,967,380	$ 0.90 to $5.30
2005	3,597,705	$0.90 to $10.50

8. Shareholders Equity

Warrants

As a result of the suspension of the exercise of the 706,218 warrants we 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 are exercisable at $2.00 per share for 90 days after the effective date of a registration statement covering the shares underlying these warrants. Although as of September 30, 2006, we had filed this registration statement, the U.S. Securities and Exchange Commission had not declared it effective. We anticipate seeking effectiveness of the registration statement before the end of calendar year 2006. In April 2005, we recognized a liability and a charge to equity of approximately $1.4 million associated with the grant of these new warrants. We determined the fair value of these warrants using the Black-Scholes option-pricing model. We have since reduced the reported liability to approximately $1.0 million due to the decrease in the fair value of these warrants from their date of issuance through September 30, 2006. We recorded a warrant (expense) benefit of $(700,000) and $702,000 for the three months ended September 30, 2006 and 2005, respectively, and $(373,000) and $15,000 for the six months ended September 30, 2006 and 2005, respectively. We will continue to remeasure the value of this liability in relation to its fair value and adjust accordingly until such time as the warrants are exercised or expire.

In connection with our April 2005 private placement, we issued 1,180,928 warrants to purchase shares of common stock and registered the public resale the underlying shares for the security holders. The warrants are exercisable for five years at an exercise price of $4.75.

As part of a consulting agreement with CCRI Corporation, we issued a warrant to purchase 50,000 shares of common stock at a price of $3.00 per share on April 1, 2003, and an additional warrant to purchase 50,000 shares at a price of $5.00 on November 2, 2003. At September 30, 2006, all of these warrants were outstanding and expire five years from the date of issue.

In connection with our August 2006 private placement, we issued 695,000 warrants to purchase shares of our common stock. We also sold to the placement agent a warrant to purchase 69,500 shares of our common stock. We registered the public resale of the underlying shares for the security holders. The warrants are exercisable for five years, beginning on February 4, 2007, at an exercise price of $2.50 per share.

Authorized Common Shares

At our annual shareholders meeting in October 2006, our shareholders approved the proposal to amend our Restated Articles of Incorporation to increase the number of authorized common shares from 20,000,000 to 40,000,000.

9. Share-based Compensation

As of September 30, 2006, we had one active plan (2006 Stock and Incentive Plan) for share-based compensation awards. Under the plan, if we have a change in control, all outstanding awards, including those subject to vesting or other performance targets, fully vest immediately. We have reserved 1,200,000 shares of our common stock for stock-based awards under this plan, and as of September 30, 2006, we had granted awards for 173,000 options. We generally grant option awards with an exercise price equal to the market price of our stock at the date of the grant.

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

Under the modified prospective method, we recognize share-based employee compensation cost using the fair-value based method for all new awards granted after April 1, 2006 and to awards outstanding on April 1, 2006 that we subsequently modify, repurchase or cancel. We recognize compensation costs for unvested stock options and awards that are outstanding as of the April 1, 2006 adoption date, over the remaining requisite service period based on the grant-date fair value of those options and awards as previously calculated under the pro-forma disclosures pursuant to Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). We were not required to restate prior periods to reflect the impact of adopting the new standard. We incurred a total of $148,000 and $448,000 in compensation expense for the three and six months ended September 30, 2006, respectively, as a result of our adoption of SFAS No. 123(R).

As a result of adopting SFAS No. 123(R), for the three and six months ended September 30, 2006, our loss before taxes, net loss, and basic and diluted loss per share were higher than if we had continued to account for stock-based compensation under APB Opinion No. 25 for our stock option grants (see chart below).

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	Three Months Ended	Six Months Ended