

UROPLASTY INC
Form 10QSB
October 31, 2007

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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, 2007
Commission File No. 000-20989
UROPLASTY, INC.
(Name of Small Business Issuer in its Charter)**

Minnesota, U.S.A.
(State or other jurisdiction of
incorporation or organization)

41-1719250
(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 NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES NO

The number of shares outstanding of the issuer's only class of common stock on October 25, 2007 was 13,450,140.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	March 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,309,747	\$ 3,763,702
Short-term investments	2,400,000	3,000,000
Accounts receivable, net	1,796,574	1,240,141
Income tax receivable	19,356	113,304
Inventories	883,619	823,601
Other	310,272	272,035
Total current assets	8,719,568	9,212,783
Property, plant, and equipment, net	1,510,722	1,431,749
Intangible assets, net	4,633,676	308,093
Deferred tax assets	97,838	93,819
Total assets	\$ 14,961,804	\$ 11,046,444

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	March 31, 2007
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities - long-term debt	\$ 115,847	\$ 78,431
Deferred rent - current	35,000	35,000
Accounts payable	744,433	544,507
Accrued liabilities	1,294,330	1,347,670
Total current liabilities	2,189,610	2,005,608
Long-term debt - less current maturities	413,064	427,382
Deferred rent - less current portion	197,680	214,381
Accrued pension liability	318,564	596,026
Total liabilities	3,118,918	3,243,397
Shareholders' equity:		
Common stock \$.01 par value; 40,000,000 shares authorized, 13,450,140 and 11,614,330 shares issued and outstanding at September 30 and March 31, 2007, respectively	134,501	116,143
Additional paid-in capital	30,076,261	23,996,818
Accumulated deficit	(18,236,317)	(16,010,990)
Accumulated other comprehensive loss	(131,559)	(298,924)
Total shareholders' equity	11,842,886	7,803,047
Total liabilities and shareholders' equity	\$ 14,961,804	\$ 11,046,444

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		Six Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Net sales	\$ 3,039,543	\$ 1,760,771	\$ 5,988,217	\$ 3,524,980
Cost of goods sold	669,041	452,857	1,263,253	1,008,372
 Gross profit	 2,370,502	 1,307,914	 4,724,964	 2,516,608
 Operating expenses				
General and administrative	1,147,432	800,715	1,955,806	1,658,287
Research and development	426,997	658,409	933,122	1,333,363
Selling and marketing	1,974,583	1,303,696	3,607,372	2,536,283
Amortization of intangibles	206,482	26,575	423,003	53,112
	3,755,494	2,789,395	6,919,303	5,581,045
 Operating loss	 (1,384,992)	 (1,481,481)	 (2,194,339)	 (3,064,437)
 Other income (expense)				
Interest income	65,239	18,308	141,622	37,815
Interest expense	(9,279)	(10,483)	(20,644)	(16,465)
Warrant expense		(700,412)		(372,680)
Foreign currency exchange gain (loss)	(13,877)	3,553	(15,906)	29,964
Other, net		(1,216)	1,880	3,585
	42,083	(690,250)	106,952	(317,781)
 Loss before income taxes	 (1,342,909)	 (2,171,731)	 (2,087,387)	 (3,382,218)
 Income tax expense (benefit)	 41,783	 (12,841)	 137,940	 17,911
 Net loss	 \$ (1,384,692)	 \$ (2,158,890)	 \$ (2,225,327)	 \$ (3,400,129)
 Basic and diluted loss per common share	 \$ (0.10)	 \$ (0.28)	 \$ (0.17)	 \$ (0.46)
 Weighted average common shares outstanding:				
Basic and diluted	13,342,284	7,784,118	13,162,862	7,376,900

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, 2007
 (Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity
Balance (deficit) at March 31, 2007	11,614,330	\$ 116,143	\$ 23,996,818	\$ (16,010,990)	\$ (298,924)	\$ 7,803,047
Issuance of common stock in connection with the purchase of intellectual property	1,417,144	14,171	4,644,690			4,658,861
Registration costs private placement			(17,000)			(17,000)
Proceeds from exercise of warrants	50,000	500	149,500			150,000
Proceeds from exercise of stock options	368,666	3,687	631,611			635,298
Share-Based Consulting and Compensation			670,642			670,642
Comprehensive Loss				(2,225,327)	167,365	(2,057,962)
Balance(deficit) at September 30, 2007	13,450,140	\$ 134,501	\$ 30,076,261	\$ (18,236,317)	\$ (131,559)	\$ 11,842,886

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, 2007 and 2006
 (Unaudited)

	Six Months Ended	
	September 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (2,225,327)	\$ (3,400,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	529,766	147,989
Gain on disposal of equipment	(2,771)	(3,584)
Warrant expense		372,680
Stock-based consulting expense	26,005	29,524
Stock-based compensation expense	644,637	447,652
Deferred income taxes	2,474	(42,976)
Deferred rent	(17,500)	(13,917)
Changes in operating assets and liabilities:		
Accounts receivable	(498,578)	(368,428)
Inventories	(16,176)	(221,587)
Other current assets and income tax receivable	64,660	121,808
Accounts payable	190,508	216,037
Accrued liabilities	(80,460)	(86,062)
Accrued pension liability, net	(305,435)	142,780
Net cash used in operating activities	(1,688,197)	(2,658,213)
Cash flows from investing activities:		
Proceeds from sale of short-term investments	1,800,000	1,137,647
Purchase of short-term investments	(1,200,000)	
Purchases of property, plant and equipment	(135,984)	(126,740)
Proceeds from sale of equipment	4,417	4,294
Payments for intangible assets	(89,725)	
Net cash provided by investing activities	378,708	1,015,201
Cash flows from financing activities:		
Proceeds from financing obligations	178,374	210,999
Repayment of debt obligations	(184,458)	(104,656)
Net proceeds from issuance of common stock, warrants and option exercise	768,298	1,967,023
Net cash provided by financing activities	762,214	2,073,366
Effect of exchange rates on cash and cash equivalents	93,320	(10,484)

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Net increase (decrease) in cash and cash equivalents	(453,955)	419,870
Cash and cash equivalents at beginning of period	3,763,702	1,563,433
Cash and cash equivalents at end of period	\$ 3,309,747	\$ 1,983,303
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 17,024	\$ 14,615
Cash paid during the period for income taxes	38,923	58,335
Supplemental disclosure of non-cash financing and investing activities:		
Employee retirement savings plan contribution issued in common shares	\$	\$ 44,385
Property, plant and equipment additions funded by lessor allowance and classified as deferred rent		280,000
Purchase of intellectual property funded by issuance of stock	\$ 4,658,861	
See accompanying notes to the condensed consolidated financial statements.		

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

1. Basis of Presentation

We have prepared our condensed consolidated financial statements included in this 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, 2007.

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

We have identified certain accounting policies that we consider particularly important for the portrayal of our results of operations and financial position and which may require the application of a higher level of judgment by our management, and as a result are subject to an inherent level of uncertainty. These are characterized as critical accounting policies and address revenue recognition, accounts receivable, inventories, foreign currency translation and transactions, impairment of long-lived assets, share-based compensation, defined benefit pension plans and income taxes, each of which is more fully described in our Annual Report on Form 10-KSB for the year ended March 31, 2007. 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, 2007, and we have made no changes to these policies during fiscal 2008.

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

Overview

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

Strategy

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

educate physicians about the benefits of our Urgent PC neurostimulation system;

build patient awareness of office-based solutions;

focus on office-based solutions for physicians;

increase market coverage in the United States and internationally; and

develop, license or acquire new products.

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

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

Sales and Marketing

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

Sales of Common Stock and Corporate Liquidity

Our future liquidity and capital requirements will depend on numerous factors including: acceptance of our products, and the timing and cost involved in manufacturing scale-up and in expanding our sales, marketing and distribution capabilities, in the United States markets; the cost and effectiveness of our marketing and sales efforts with respect to our existing products in international markets; the effect of competing technologies and market and regulatory developments; and the cost involved in protecting our proprietary rights. Because we have yet to achieve profitability and generate positive cash flows, we will need to raise additional debt or equity financing to meet our liquidity needs for beyond fiscal 2008 for product development, continued expansion of our sales and marketing activities and for working capital.

In October 2007 we retained Craig-Hallum Capital Group and Noble International Investments, Inc. to act as underwriters in connection with our proposed public offering of \$10.0 million (exclusive of over-allotment option) of our common stock (see Note 16 to these Condensed Consolidated Financial Statements). 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. Ultimately, we will need to achieve profitability and generate positive cash flow from operations to fund our operations and grow our business.

3. Short-term Investments

At September 30, 2007, short-term investments consisted of \$2,400,000 of certificates of deposit maturing in the third quarter of fiscal 2008.

4. Inventories

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

	September 30, 2007	March 31, 2007
Raw materials	\$ 311,033	\$ 254,988
Work-in-process	24,414	20,773
Finished goods	548,172	547,840

\$ 883,619 \$ 823,601

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Intangible assets are comprised of patents, trademarks and licensed technology which are amortized on a straight-line basis over their estimated useful lives or contractual terms, whichever is less. In April 2007, we acquired from CystoMedix, Inc. certain intellectual property assets related to the Urgent PC system, which was previously licensed to us. In consideration, we issued CystoMedix 1,417,144 shares of our common stock. We have capitalized \$4.7 million of the acquisition costs as patents and inventions.

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

	Estimated Useful Lives (Years)	September 30, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net value
Licensed technology	5	\$ 26,290	\$ 26,290	\$
Patents and inventions	6	5,461,486	827,810	4,633,676
Totals		\$ 5,487,776	\$ 854,100	\$ 4,633,676

		March 31, 2007		
		Gross Carrying Amount	Accumulated Amortization	Net value
Licensed technology	5	\$ 26,290	\$ 26,290	\$
Patents and inventions	6	712,900	404,807	308,093
Totals		\$ 739,190	\$ 431,097	\$ 308,093

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

Remainder of fiscal 2008	\$ 423,003
2009	845,903
2010	843,619
2011	840,651
2012	840,250
Thereafter	840,250
	\$ 4,633,676

6. Deferred Rent and Leasehold Improvements

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

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

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

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Net loss	\$ (1,384,692)	\$ (2,158,890)	\$ (2,225,327)	\$ (3,400,129)
Items of other comprehensive income (loss):				
Translation adjustment	156,903	(18,492)	179,030	78,097
Pension related	(8,365)	(416)	(11,665)	(11,819)
Comprehensive loss	\$ (1,236,154)	\$ (2,177,798)	\$ (2,057,962)	\$ (3,333,851)

8. Net Loss per Common Share

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

	Number of Options/Warrants	Range of Exercise Prices
For the six months ended:		
September 30, 2007	4,119,578	\$1.82 to \$5.30
September 30, 2006	4,967,380	\$0.90 to \$5.30

9. Warrants

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

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

As part of a consulting agreement, we have outstanding five-year warrants, issued in November 2003 to CCRI Corporation, to purchase 50,000 shares of common stock at a per share price of \$5.00.

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

10. Share-based Compensation

As of December 31, 2006, we had one active plan (2006 Stock and Incentive Plan) for share-based compensation grants. Under the plan, if we have a change in control, all outstanding grants, including those subject to vesting or other performance targets, fully vest immediately. Under this plan, we had reserved 1,200,000 shares of our common stock for stock-based grants, and as of September 30, 2007, we had remaining 559,500 shares available for grant. We generally grant option awards with an exercise price equal to the closing market price of our stock at the date of the grant.

We account for share-based compensation costs under Statement of Financial Accounting Standards No. 123(R),

Share-Based Payment Revised 2004. We incurred a total of approximately \$645,000 and \$448,000 in compensation expense for the six months ended September 30, 2007 and 2006, respectively.

Proceeds from the exercise of stock options were \$635,000 for the six months ended September 30, 2007.

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

	Six Months Ended September 30, 2007	Six Months Ended September 30, 2006
Expected life in years	4.03	7.88