UROPLASTY INC
Form 10QSB
February 13, 2003

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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 December 31, 2002

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 [X] NO [ ]

The aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold or the average bid and asked prices of such stock as of January 27, 2003 was $8,977,942.

The number of shares outstanding of the issuer s only class of common stock on January 27, 2003 was 4,488,971.

Transitional Small Business Disclosure Format:

YES [ ] NO [X]

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

	December 31, 2002	March 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 3,564,176	1,046,121
Accounts receivable, net	800,526	845,431
Inventories	578,719	632,102
Deferred offering costs		112,544
Other	215,486	130,518
Total current assets	5,158,907	2,766,716
Property, plant, and equipment, net	829,430	764,855
Intangible assets, net	54,548	72,877
Total assets	$ 6,042,885	3,604,448

See accompanying notes to consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(unaudited)

	December 31, 2002	March 31, 2002
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 175,484	230,631
Accrued liabilities	336,021	399,478
Current maturities long-term debt	36,074	42,311
Total current liabilities	547,579	672,420
Long-term debt less current maturities	454,184	399,222
Total liabilities	1,001,763	1,071,642
Shareholders equity:		
Common stock $.01 par value; 20,000,000 shares authorized, 4,488,971 and 2,047,332 shares issued and outstanding at December 31, 2002 and March 31, 2002, respectively	44,890	20,473
Additional paid-in capital	8,393,901	6,149,571
Accumulated deficit	(2,885,053)	(3,204,370)
Vendor deposit	(48,000)	(51,000)
Accumulated other comprehensive loss	(464,616)	(381,868)
Total shareholders equity	5,041,122	2,532,806
Total liabilities and shareholders equity	$ 6,042,885	3,604,448

See accompanying notes to consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31		Nine Months Ended December 31	
	2002	**2001**	**2002**	**2001**
Net sales	$ 1,264,742	1,348,650	3,862,716	3,554,977
Cost of goods sold	330,015	548,826	1,105,018	982,626
Gross profit	934,727	799,824	2,757,698	2,572,351
Operating expenses				
General and administrative	312,003	273,225	884,131	856,790
Research and development	538,295	454,835	1,539,503	1,256,185
Selling and marketing	251,051	232,955	764,878	905,578
	1,101,349	961,015	3,188,512	3,018,553
Operating loss	(166,622)	(161,191)	(430,814)	(446,202)
Other income (expense)				
Interest income	12,482	5,336	35,075	15,353
Interest expense	(5,805)	(6,611)	(18,144)	(19,817)
Foreign currency exchange gain (loss)	146,024	(67,552)	553,357	42,068
Settlement		200,000	180,000	200,000
Other			(157)	(332)
	152,701	131,173	750,131	237,272
Income (loss) before income taxes	(13,921)	(30,018)	319,317	(208,930)
Income tax expense				
Net income (loss)	$ (13,921)	(30,018)	319,317	(208,930)
Basic income (loss) per common share	$ (0.00)	(0.01)	0.09	(0.09)
Diluted income (loss) per common share	$ (0.00)	(0.01)	0.09	(0.09)
Weighted average common shares outstanding:				
Basic	4,467,547	2,314,277	3,564,155	2,296,823
Diluted	4,467,547	2,314,277	3,587,996	2,296,823

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UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
Nine Months Ended December 31, 2002 and 2001
(Unaudited)

	2002	2001
Cash flows from operating activities:		
Net income (loss)	$ 319,317	(208,930)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	149,483	157,530
Loss on disposal of assets		2,120
Stock-based consulting expense	1,508	6,790
Changes in operating assets and liabilities:		
Accounts receivable	44,905	17,766
Inventories	53,383	(83,558)
Other current assets	(84,968)	145,242
Accounts payable	62,320	(11,133)
Accrued liabilities	(63,457)	(169,331)
Net cash provided by (used in) operating activities	482,491	(143,504)
Cash flows from investing activities:		
Payments for property, plant and equipment	(44,757)	(35,646)
Proceeds from sale of property, plant and equipment		2,225
Payments for intangible assets	(675)	
Net cash used in investing activities	(45,432)	(33,421)
Cash flows from financing activities:		
Repayment of long-term debt	(37,674)	(37,103)
Proceeds from issuance of note payable		8,000
Net proceeds from issuance of stock	2,265,316	13,000
Deferred offering costs		(17,347)
Net cash provided by (used in) financing activities	2,227,642	(33,450)
Effect of exchange rates on cash and cash equivalents	(146,646)	1,390
Net increase (decrease) in cash and cash equivalents	2,518,055	(208,985)
Cash and cash equivalents at beginning of period	1,046,121	1,012,397
Cash and cash equivalents at end of period	$ 3,564,176	803,412
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 19,503	22,201
Cash paid during the period for income taxes		
Shares issued for 401(k) plan profit sharing contribution	27,270	37,700
Restricted shares issued for mold purchase	24,000	48,600

See accompanying notes to consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

Notes to the Interim Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The consolidated financial statements included in this Form 10-QSB/A have been prepared by Uroplasty, Inc. (Uroplasty or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in 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, although management believes the disclosures are adequate to make the information presented not misleading. The consolidated results of operations for any interim period are not necessarily indicative of results for a full year. These consolidated statements should be read in conjunction with the consolidated financial statements and related notes included in the Company s Annual Report on Form 10-KSB for the year ended March 31, 2002.

The consolidated financial statements presented herein as of December 31, 2002 and for the three and nine-months periods ended December 31, 2002 and 2001 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, consolidated results of operations and consolidated cash flows for the interim periods.

The Company has identified certain of its accounting policies that it considers particularly important for the portrayal of the Company s results of operations and financial position and which may require the application of a higher level of judgment by the Company s 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 more fully described in the Company s Annual Report on Form 10-KSB for the year ended March 31, 2002. Based upon the Company s review, it has determined that these policies remain its most critical accounting policies for the three and nine-months periods ended December 31, 2002, and has made no changes to these policies during fiscal 2003.

2. Nature of Business

The Company is currently selling its products outside of the United States and is undertaking clinical trials in the United States and Canada. Based on the Company s current plans, it is anticipated the Company will launch its products in the U.S. after obtaining FDA approval. Completing clinical trials and obtaining FDA approval is a costly and time-consuming process. As a result of the $2.4 million gross proceeds of a Rights Offering completed July 2002, management believes current resources and the funds generated from sale of the Company s products outside the U.S. will be adequate to meet the Company s cash flow needs, including R&D activities, associated with existing products and markets through fiscal 2004. Ultimately, the Company will need to achieve profitability and positive cash flows from operations or obtain additional debt or equity financing to fund its operations.

3. New Accounting Pronouncement

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and nullifies EITF 94-3. The Company plans to adopt SFAS No. 146 in April 2003.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based compensation. The statement amends the disclosure requirements of FASB Statement No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. The Company accounts for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and complies with the disclosure provisions of FASB Statement No. 123. The transition provisions are effective for fiscal years ending after December 15, 2002. The disclosure provisions are effective for interim periods beginning after December 15, 2002. The Company will implement the required disclosure provisions in the Form 10-KSB for the period ended March 31, 2003. The adoption of this statement is not expected to have a material impact on the Company s consolidated financial position, results of operations or cash flows as the Company does not anticipate making the voluntary change to the fair value method of accounting for stock-based compensation.

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In November 2002, the FASB issued FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which addresses certain disclosure requirements to be made by a guarantor about its obligations under guarantees. The Company adopted this guidance in its financial statements. It did not have a material impact.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, which addresses accounting for special-purpose and variable interest entities. The Company is required to adopt this guidance for financial statements issued after December 31, 2002, as required and is currently analyzing the impact of its adoption on the Company s financial statements.

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:

	December 31, 2002	March 31, 2002
Raw materials	$ 73,956	91,050
Work-in-process	160,836	134,490
Finished goods	343,927	406,562
	$ 578,719	632,102

5. Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income (loss), and the translation adjustment as follows:

	Three Months Ended December 31,		Nine Months Ended December 31,	
	2002	2001	2002	2001
Net income (loss)	$ (13,921)	(30,018)	319,317	(208,930)
Items of other comprehensive income (loss):				
Translation adjustment	620	1,431	(82,748)	13,221
Comprehensive income (loss)	$ (13,301)	(28,587)	236,569	(195,709)

6. Reverse Stock Split

On April 2, 2002, the Company effected a 1-for-3 reverse stock split. All historical share and per share amounts have been restated to reflect the reverse stock split.

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7. Reconciliation of Net income (loss) and Share Amounts Used in EPS Calculation

Basic income (loss) per common share is calculated by dividing net income (loss) by the weighted-average common shares outstanding during the period. Diluted income (loss) per common share for the three and nine-months ended December 31, 2002 and 2001 was calculated using the treasury-stock method to compute the weighted average common stock outstanding assuming the conversion of dilutive potential common shares.

	Basic income (loss) per share to common shareholders	Effect of dilutive securities	Diluted income (loss) per share to common shareholders
For the three months ended:			
December 31, 2002			
Net loss	$ (13,921)		(13,921)
Shares	4,467,547		4,467,547
Per share amount	$ (0.00)		(0.00)
For the three months ended:			
December 31, 2001			
Net loss	$ (30,018)		(30,018)
Shares	2,314,277		2,314,277
Per share amount	$ (0.01)		(0.01)
For the nine months ended:			
December 31, 2002			
Net income	$ 319,317		319,317
Shares	3,564,155	23,841	3,587,996