UROPLASTY INC
Form 10-Q
July 28, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2011
o Transition Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from ______ to _______.

Commission File No. 001-32632

UROPLASTY, INC.
(Exact name of registrant as specified 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)

(952) 426-6140
(Registrant's telephone number, including area code)

Indicate by check mark whether the 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 x NO o

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 (§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 x NO o

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 o	Accelerated Filer x	Non-Accelerated Filer o	Smaller Reporting Company 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 x

As of July 25, 2011 the registrant had 20,752,282 shares of common stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	March 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$5,160,941	$6,063,573
Short-term investments	8,889,719	8,020,577
Accounts receivable, net	2,032,268	2,085,262
Inventories	714,089	677,960
Other	445,662	348,100
Total current assets	17,242,679	17,195,472
Property, plant, and equipment, net	1,228,182	1,210,542
Intangible assets, net	1,523,226	1,725,136
Long-term investments	4,229,328	5,508,701
Deferred tax assets	90,296	87,031
Total assets	$24,313,711	$25,726,882

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2011	March 31, 2011
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$564,957	$658,107
Current portion – deferred rent	35,000	35,000
Income tax payable	13,473	6,901
Accrued liabilities:		
Compensation	1,169,252	1,597,657
Other	344,863	247,451
Total current liabilities	2,127,545	2,545,116
Deferred rent – less current portion	68,465	77,272
Accrued pension liability	525,907	475,845
Total liabilities	2,721,917	3,098,233
Commitments and Contingencies	—	—
Shareholders' equity:		
Common stock $.01 par value; 40,000,000 shares authorized, 20,752,282 and 20,664,332 shares issued and outstanding at June 30, 2011 and March 31, 2011, respectively	207,523	206,643
Additional paid-in capital	54,271,839	54,014,368
Accumulated deficit	(32,596,771)	(31,265,464)
Accumulated other comprehensive loss	(290,797)	(326,898)
Total shareholders' equity	21,591,794	22,628,649
Total liabilities and shareholders' equity	$24,313,711	$25,726,882

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 June 30	
	2011	2010
Net sales	$4,653,123	$3,035,499
Cost of goods sold	709,566	510,696
Gross profit	3,943,557	2,524,803
Operating expenses		
General and administrative	1,021,858	850,509
Research and development	455,760	400,629
Selling and marketing	3,594,142	1,988,526
Amortization	212,315	210,768
	5,284,075	3,450,432
Operating loss	(1,340,518)	(925,629)
Other income (expense)		
Interest income	17,834	13,628
Interest expense	—	(1,947)
Foreign currency exchange gain	5,308	1,790
	23,142	13,471
Loss before income taxes	(1,317,376)	(912,158)
Income tax expense	13,931	17,150
Net loss	$(1,331,307)	$(929,308)
Basic and diluted loss per common share	$(0.06)	$(0.06)
Weighted average common shares outstanding:		
Basic and diluted	20,629,000	15,307,000

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

Three Months Ended June 30, 2011
(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Gain (Loss)	Total Shareholders' Equity
Balance at March 31, 2011	20,664,332	$206,643	$54,014,368	$(31,265,464)	$ (326,898)	$ 22,628,649
Share-based consulting and compensation	31,450	315	131,486	—	—	131,801
Proceeds from exercise of stock options	56,500	565	125,985	—	—	126,550
Comprehensive gain (loss)	—	—	—	(1,331,307)	36,101	(1,295,206)
Balance at June 30, 2011	20,752,282	$207,523	$54,271,839	$(32,596,771)	$ (290,797)	$ 21,591,794

See accompanying notes to the condensed consolidated financial statements.

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UROPLASTY, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30 2011	2010
Cash flows from operating activities:		
Net loss	$(1,331,307)	$(929,308)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	274,102	284,053
Loss on disposal of equipment	5,996	192
Amortization of premium on marketable securities	11,656	—
Share-based consulting expense	1,449	6,664
Share-based compensation expense	130,352	69,603
Deferred income taxes	(1,462)	(2,147)
Deferred rent	(8,807)	(8,807)
Changes in operating assets and liabilities:		
Accounts receivable, net	68,193	18,935
Inventories	(35,090)	(127,155)
Other current assets	(96,533)	(76,681)
Accounts payable	(94,797)	90,699
Accrued liabilities	(329,364)	(7,086)
Accrued pension liability, net	42,082	37,788
Net cash used in operating activities	(1,363,530)	(643,250)
Cash flows from investing activities:		
Proceeds from maturity of marketable securities	4,250,059	500,000
Purchases of marketable securities	(3,840,016)	(3,000,000)
Purchases of property, plant and equipment	(71,865)	(40,519)
Purchase of intangible assets	(10,405)	—
Proceeds from sale of property, plant and equipment	1,000	—
Net cash provided by (used in) investing activities	328,773	(2,540,519)
Cash flows from financing activities:		
Net proceeds from exercise of warrants and options	126,550	2,211,250
Net cash provided by financing activities	126,550	2,211,250
Effect of exchange rate changes on cash and cash equivalents	5,575	(29,969)
Net decrease in cash and cash equivalents	(902,632)	(1,002,488)
Cash and cash equivalents at beginning of period	6,063,573	2,311,269
Cash and cash equivalents at end of period	$5,160,941	$1,308,781
Supplemental disclosure of cash flow information:		
Cash (paid) received during the period for income taxes	$(8,968)	$8,034

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-Q, 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, although we believe that our disclosures are adequate to make the information not misleading. 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 audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended March 31, 2011.

The condensed consolidated financial statements presented herein as of June 30, 2011 and for the three month periods ended June 30, 2011 and 2010 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 described in our Annual Report on Form 10-K for the year ended March 31, 2011. Based upon our review, we have determined that these policies remain our most critical accounting policies for the three months ended June 30, 2011 and we have made no changes to these policies during fiscal 2012.

2. Cash Equivalents and Marketable Securities

We consider all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents. We classify marketable securities having original maturities of one year or less, but more than three months, as short-term investments and marketable securities with maturities of more than one year as long-term investments. We further classify marketable securities as either held-to-maturity or available-for-sale. We classify marketable securities as held-to-maturity when we believe we have the ability and intent to hold such securities to their scheduled maturity dates. All other marketable securities are classified as available-for-sale. We have not designated any of our marketable securities as trading securities.

We carry held-to-maturity marketable securities at their amortized cost and available-for-sale marketable securities at their fair value and report any unrealized appreciation or depreciation in the fair value of available-for-sale marketable securities in accumulated other comprehensive income. We monitor our investment portfolio for any decline in fair value that is other-than-temporary and record any such impairment as an impairment loss. We recorded no impairment losses for other-than-temporary declines in the fair value of marketable securities for the three months ended June 30, 2011 and 2010.

Cash and cash equivalents include highly liquid money market funds of \$4.9 million and \$5.8 million as of June 30, 2011 and March 31, 2011, respectively. Money market funds present negligible risk of changes in value due to changes in interest rates, and their cost approximates their fair market value.

Short-term and long-term investments include held-to-maturity certificates of deposit with maturities of six to twenty-four months of $5.8 million and $3.5 million as of June 30, 2011 and March 31, 2011, respectively. Due to the negligible risk of changes in value due to changes in interest rates and the short-term nature of these investments, their cost approximates their fair market value.

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The amortized cost and fair value of our marketable securities classified as available-for-sale are summarized as follows:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
June 30, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$4,009,000	$1,000	$—	$4,010,000
Long-term investments:				
U.S. Government and Agency debt securities	3,268,000	1,000	—	3,269,000
Total	$7,277,000	$2,000	$—	$7,279,000
March 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$4,520,000	$1,000	$—	$4,521,000
Long-term investments:				
U.S. Government and Agency debt securities	5,518,000	—	10,000	5,508,000
Total	$10,038,000	$1,000	$10,000	$10,029,000

All our available-for-sale marketable securities mature within two years from the date of purchase.

3. Fair Value Measurements

Estimates of fair value for financial assets and liabilities are based on the framework established in the accounting guidance for fair value measurements. The framework defines fair value, provides guidance for measuring fair value and requires certain disclosures. The framework prioritizes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three broad levels of inputs may be used to measure fair value under the fair value hierarchy:

Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Significant unobservable inputs that cannot be corroborated by observable market data and reflect the use of significant management judgment. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

If the inputs used to measure the financial assets and liabilities fall within more than one of the different levels described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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The following table provides the assets carried at fair value measured on a recurring basis.

Asset Class	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$4,010,000	$—	$4,010,000	$ —
Long-term investments:				
U.S. Government and Agency debt securities	3,269,000	—	3,269,000	—
March 31, 2011				
Short-term investments:				
U.S. Government and Agency debt securities	$4,521,000	$—	$4,521,000	$ —
Long-term investments:				
U.S. Government and Agency debt securities	5,508,000	—	5,508,000	—

U.S. Government and U.S. Government Agency debt securities. Our debt securities consist of bonds, notes and treasury bills with risk ratings of AAA/Aaa and maturity dates within two years from date of purchase. The estimated fair value of these securities represent valuations provided by external investment managers.

Measurements to fair value on a nonrecurring basis relate primarily to our tangible fixed assets and other intangible assets and occur when the derived fair value is below carrying value on our condensed consolidated balance sheet. We had no significant remeasurements of such assets or liabilities to fair value during the three months ended June 30, 2011 and March 31, 2011.

Our financial instruments, other than those presented in the disclosures above, include cash, receivables, inventories, accounts payable and other payables, and their carrying values approximate their fair values based of the short-term nature of these instruments.

4. Accounts Receivable

We grant credit to our customers in the normal course of business and, generally, do not require collateral or any other security to support amounts due. If necessary, we have an outside party assist us with performing credit and reference checks and establishing credit limits for the customer. Accounts outstanding longer than the contractual payment terms, are considered past due. We carry our accounts receivable at the original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. We determine the allowance for doubtful accounts by considering a number of factors, including the length of time accounts receivables are past due, customer financial condition and ability to pay the obligation, historical and expected credit loss experience, and the condition of the general economy and the industry as a whole. We write off accounts receivable when deemed uncollectible. We record recoveries of accounts receivable previously written off when received. We are not always able to timely anticipate changes in the financial condition of our customers and if circumstances related to these customers deteriorate, our estimates of the recoverability of accounts receivable could be materially affected and we may be required to record additional allowances. Alternatively, if more allowances are provided than are ultimately required, we may reverse a portion of such provisions in future periods based on the actual collection experience. Historically, the accounts receivable balances we have written off have generally been within our expectations. The allowance for doubtful accounts was $6,000 and $11,000 at June 30, 2011 and March 31, 2011, respectively.

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5. Inventories

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

	June 30, 2011	March 31, 2011
Raw materials	$147,000	$233,000
Work-in-process	45,000	9,000
Finished goods	522,000	436,000
	$714,000	$678,000

6. Intangible Assets

Our intangible assets are comprised of patents which we amortize on a straight-line basis over their estimated useful lives of six years.

	Gross carrying amount	Accumulated amortization	Net value
June 30, 2011	$ 5,519,000	$ 3,996,000	$ 1,523,000
March 31, 2011	$ 5,508,000	$ 3,783,000	$ 1,725,000

At June 30, 2011, we estimate the following annual amortization for these assets in subsequent fiscal years:

Remainder of 2012	$637,000
2013	850,000
2014	12,000
2015	10,000
2016 and beyond	14,000
	$1,523,000

7. Deferred Rent and Leasehold Improvements

We entered into an 8-year operating lease agreement, effective May 2006, for our corporate facility in Minnesota. 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. We are amortizing the leasehold improvements over the shorter of the asset life or the lease term.

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8. Comprehensive Loss

Comprehensive loss includes our net loss, accumulated translation adjustment, unrealized loss on available for sale investments, and change in minimum pension obligation as follows:

	Three Months Ended June 30 2011		2010	
Net loss	$	(1,331,000)	$	(929,000)
Items of other comprehensive income (loss):				
Translation adjustment		26,000		(133,000)
Unrealized gain on available for sale investments		11,000		—
Pension related		(1,000)		19,000
Comprehensive loss	$	(1,295,000)	$	(1,043,000)

Other accumulated comprehensive net loss at June 30, 2011 totaled $291,000 and consists of a $34,000 loss for accumulated translation adjustment, a $259,000 loss for accumulated additional pension liability, and a $2,000 unrealized gain on available for sale investments.

9. Net Loss per Common Share

The following unvested restricted stock and options outstanding at June 30, 2011 and 2010, to purchase shares of common stock, were excluded from diluted loss per common share because of their anti-dilutive effect:

	Number of unvested restricted stock and options	Range of exercise prices	
June 30, 2011	2,159,000	$	0.71 to $7.98
June 30, 2010	2,173,000	$	0.71 to $5.19

10. Credit Facilities

Uroplasty BV, our subsidiary, has an agreement with Rabobank of The Netherlands for a €500,000 (approximately $720,000 as of June 30, 2011) credit line. The bank charges interest on the loan at the rate of one percentage point over the Rabobank base interest rate (4.00% base rate on June 30, 2011), subject to a minimum interest rate of 3.50% per annum. We had no borrowings outstanding on this credit line at June 30, 2011 and March 31, 2011.

11. Share-based Compensation

As of June 30, 2011, we had one active plan (2006 Amended 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 2,700,000 shares of our common stock for share-based grants. As of June 30, 2011, we had 1,192,000 shares remaining that were available for grant. We grant option awards with an exercise price equal to the closing market price of our stock at the date of the grant. Options granted under this plan generally expire over a period ranging from five to seven years from date of grant and vest at varying rates ranging up to three years.

We recognize share-based compensation expense in the statement of operations based on the fair value of the share-based payment over the requisite service period. We incurred approximately $132,000 and $76,000 in share-based compensation expense (inclusive of $1,000 and $7,000, respectively, for option grants to consultants) for the three months ended June 30, 2011 and 2010, respectively.

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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 three months ended June 30:

	2011	2010
Expected life in years	5.21	6.08
Risk-free interest rate	1.83 %	2.38 %
Expected volatility	90.35 %	90.34 %
Expected dividend yield	0 %	0 %
Weighted-average grant date fair value	$ 5.37	$ 3.69

The expected life selected for options granted during the quarter represents the period of time that we expect our options to be outstanding based on historical data of option holder exercise and termination behavior for similar grants. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury rate over the expected life at the time of grant. Expected volatilities are based upon historical volatility of our stock. We estimate a forfeiture rate for stock awards of up to 13.0% based on our historical experience.

The following table summarizes the activity related to our stock options during the three months ended June 30, 2011:

	Number of shares	Weighted average exercise price	Weighted average remaining life in years	Aggregate intrinsic value
Outstanding at March 31, 2011	2,066,000	$3.39		
Options granted	85,000	7.58		
Options exercised	(57,000)	2.24		$324,000
Options surrendered	(6,000)	5.06		
Outstanding at June 30, 2011	2,088,000	$3.59	3.58	$8,185,000
Exercisable at June 30, 2011	1,814,000	$3.26	3.15	$7,684,000

The total fair value of stock options vested during the three months ended June 30, 2011 and 2010 was $168,000 and $215,000 respectively.

Our 2006 Stock and Incentive Plan also allows for our Compensation Committee to grant other stock-based benefits, including restricted shares. Restricted shares are subject to risk of forfeiture for termination of employment. The forfeiture risk generally lapses over a period of four years.

The following table summarizes the activity related to our restricted shares during the three months ended June 30, 2011:

	Number of Shares	Weighted average grant date fair value	Weighted average remaining life in years	Aggregate intrinsic value
Balance at March 31, 2011	55,000	$4.96		
Shares granted	31,000	7.98		

Shares vested	(16,000)	5.00		$79,000
Balance at June 30, 2011	70,000	$6.30	1.77	$443,000

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The aggregate intrinsic value represents the total pre-tax value of stock that holders would have received (based on the closing price of our Company's common stock on the grant date) had all restricted stock vested and if we had issued common stock to the holders on the grant date.

As of June 30, 2011, we had approximately $1,302,000 of unrecognized share-based compensation expense, net of estimated forfeitures, related to stock options and restricted shares that we expect to recognize over a weighted-average period of approximately 2.6 years.

12. Savings and Retirement Plans