

UROPLASTY INC  
Form 10QSB  
August 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 June 30, 2003**

**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.)

**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  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 August 1, 2003 was \$11,374,229.

The number of shares outstanding of the issuer's only class of common stock on August 1, 2003 was 4,527,672.

Transitional Small Business Disclosure Format:

YES  NO

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(unaudited)

	<u>June 30, 2003</u>	<u>March 31, 2003</u>
Assets		
Current assets:		
Cash and cash equivalents	\$3,197,129	3,375,981
Accounts receivable, net	865,123	969,556
Inventories	524,754	455,114
Other	229,389	188,192
Total current assets	<u>4,816,395</u>	<u>4,988,843</u>
Property, plant, and equipment, net	868,473	833,234
Intangible assets, net	47,927	48,214
Total assets	<u>\$5,732,795</u>	<u>5,870,291</u>

See accompanying notes to consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(unaudited)

	<u>June 30, 2003</u>	<u>March 31, 2003</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 278,939	199,673
Income tax payable	78,608	
Accrued liabilities	288,128	349,937
Current maturities of long-term debt	39,569	37,502
	<u>685,244</u>	<u>587,112</u>
Long-term debt less current maturities	478,412	462,787
	<u>1,163,656</u>	<u>1,049,899</u>
Shareholders' equity:		
Common stock \$.01 par value; 20,000,000 shares authorized, 4,523,971 and 4,488,971 shares issued and outstanding at June 30, 2003 and March 31, 2003, respectively	45,240	44,890
Additional paid-in capital	8,782,364	8,457,901
Accumulated deficit	(3,613,275)	(3,163,156)
Vendor deposit	(108,000)	(112,000)
Deferred compensation	(246,609)	
Accumulated other comprehensive loss	(290,581)	(407,243)
	<u>4,569,139</u>	<u>4,820,392</u>
Total liabilities and shareholders' equity	<u>\$ 5,732,795</u>	<u>5,870,291</u>

See accompanying notes to consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

	Three Months Ended June 30	
	2003	2002
Net sales	\$ 1,359,589	1,309,099
Cost of goods sold	405,587	419,714
Gross profit	954,002	889,385
Operating expenses		
General and administrative	465,276	272,467
Research and development	438,573	519,418
Selling and marketing	422,410	254,163
	1,326,259	1,046,048
Operating loss	(372,257)	(156,663)
Other income (expense)		
Interest income	10,509	12,865
Interest expense	(5,844)	(6,280)
Foreign currency exchange gain (loss)	(2,361)	420,020
Settlement		180,000
Other		(157)
	2,304	606,448
Income (loss) before income taxes	(369,953)	449,785
Income tax expense	80,166	
Net income (loss)	\$ (450,119)	449,785
Basic income (loss) per common share	\$ (0.10)	0.19
Diluted income (loss) per common share	\$ (0.10)	0.19
Weighted average common shares outstanding:		
Basic	4,483,971	2,343,249
Diluted	4,483,971	2,362,030

See accompanying notes to consolidated financial statements.

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## UROPLASTY, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Three Months Ended June 30, 2003 and 2002

(Unaudited)

	Three Months Ended June 30,	
	2003	2002
Cash flows from operating activities:		
Net income (loss)	\$ (450,119)	449,785
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	37,354	54,502
Stock-based consulting expense	82,204	1,508
Changes in operating assets and liabilities:		
Accounts receivable	104,433	(98,640)
Inventories	(69,640)	3,809
Other current assets	(41,197)	(62,218)
Accounts payable	79,266	64,372
Accrued liabilities	16,799	(51,571)
Net cash provided by (used in) operating activities	<u>(240,900)</u>	<u>361,547</u>
Cash flows from investing activities:		
Payments for property, plant and equipment	(27,107)	(29,206)
Payments for intangible assets	(5,167)	(675)
Net cash used in investing activities	<u>(32,274)</u>	<u>(29,881)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(9,794)	(13,408)
Net proceeds from issuance of stock		28,515
Deferred offering costs		(37,499)
Net cash used in financing activities	<u>(9,794)</u>	<u>(22,392)</u>
Effect of exchange rates on cash and cash equivalents	<u>104,116</u>	<u>(127,112)</u>
Net increase (decrease) in cash and cash equivalents	(178,852)	182,162
Cash and cash equivalents at beginning of period	<u>3,375,981</u>	<u>1,046,121</u>
Cash and cash equivalents at end of period	<u>\$3,197,129</u>	<u>1,228,283</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 6,729	6,575
Cash paid during the period for income taxes		

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 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. 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, 2003.

The consolidated financial statements presented herein as of June 30, 2003 and for the three-months periods ended June 30, 2003 and 2002 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, 2003. Based upon the Company s review, management has determined that these policies remain its most critical accounting policies for the three-months period ended June 30, 2003, and has made no changes to these policies during fiscal 2004.

**2. Nature of Business**

The Company is currently selling its products outside of the United States and is undertaking FDA investigational 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 May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective for the Company at the beginning of the first interim period beginning after June 15, 2003. It is to be implemented by reporting the cumulative effect of a change in an accounting principle for financial instruments created before the issuance date of the Statement and still existing at the beginning of the interim period of adoption. Restatement is not permitted. 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.

**4. Inventories**



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

	<u>June 30, 2003</u>	<u>March 31, 2003</u>
Raw materials	\$ 111,385	78,910
Work-in-process	95,837	163,989
Finished goods	317,532	212,215
	<u>\$ 524,754</u>	<u>455,114</u>

**5. Comprehensive Income (Loss)**

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

	<u>Three Months Ended June 30,</u>	
	<u>2003</u>	<u>2002</u>
Net income (loss)	\$(450,119)	449,785
Items of other comprehensive income (loss):		
Translation adjustment	116,662	(91,271)
Comprehensive income (loss)	<u>\$(333,457)</u>	<u>358,514</u>

**6. 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-months ended June 30, 2003 and 2002 was calculated using the treasury-stock method to compute the weighted average common stock outstanding assuming the conversion of dilutive potential common shares.

	<u>Basic Income (Loss) Per Share</u>	<u>Effect of Dilutive Securities</u>	<u>Diluted Income (Loss) Per Share</u>
For the three months ended:			
June 30, 2003			
Net loss	\$ (450,119)		(450,119)
Shares	4,483,971		4,483,971
Per share amount	<u>\$ (0.10)</u>		<u>(0.10)</u>
For the three months ended:			
June 30, 2002			
Net income	\$ 449,785		449,785
Shares	2,343,249	18,781	2,362,030
Per share amount	<u>\$ 0.19</u>		<u>0.19</u>



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The following options and warrants outstanding at June 30, 2003 and 2002 to purchase shares of common stock were excluded from diluted loss per share, because of the anti-dilutive effect:

	Number of Options/Warrants	Range of exercise prices
For the three months ended:		
June 30, 2003	1,763,458	\$0.90 to \$10.50
June 30, 2002	451,248	\$2.00 to \$10.50

**7. Shareholders Equity**

The Company applies 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.

The Company accounts for stock-based instruments granted to non-employees under the fair value method of SFAS 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 SFAS No. 123, options are recorded at their fair value on the measurement date, which is typically the vesting date.

**Consulting Agreements**

On April 1, 2003, the Company executed a consulting agreement with C.C.R.I. Corporation (CCRI) to provide investor relations and development services. The Company pays the Consultant 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 will receive vested warrants to purchase 50,000 shares of common stock at an exercise price of \$5.00 per share on November 2, 2003 unless the agreement is sooner terminated. The November 2, 2003 warrants issuable to CCRI will be recorded in the Company's financial statements upon issuance. The Company recorded the fair value of the common stock and the warrants aggregating \$212,974, as of April 1, 2003, as deferred compensation in shareholders' equity. The balance is amortized over the 1 year service period. Stock-based compensation expense for CCRI agreement for the three-months ended June 30, 2003 aggregated \$53,242.

On April 1, 2003, the Company executed a consulting agreement with Executive Advisory Group (EAG) to perform services for and on behalf of the Company. Mr. Sam B. Humphries, a Director of the Company, is President of EAG. The Company pays EAG a monthly fee of \$6,000 plus expenses. EAG also received stock options to purchase 50,000 shares of common stock, exercisable at \$2.80 per share. The Company recorded the fair value of the stock options aggregating \$115,839, as of April 1, 2003, as a deferred compensation in shareholders' equity. The balance is amortized over the 1 year service period. Stock-based compensation expense for the EAG agreement for the three-months ended June 30, 2003 aggregated \$28,962.

The options and warrants issued to EAG and CCRI to acquire an aggregate of 100,000 shares of common stock were fully vested upon issuance. The fair value of these instruments was determined using the Black-Scholes options pricing model with the following variables:

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Expected dividend yield	0.00%
Risk-free interest rate	2.93%
Expected volatility	118%
Expected life, in years	5.00

**Stock Option Grant**

On April 15, 2003, the Company granted 30,000 options to its Director Sam B. Humphries, for his services as a member of the board of directors. These options vest over a period of five years. All vesting of these options would accelerate when the Company receives written FDA market approval or in case a change in control should occur.

**Vendor Deposit**

In September 2001, the Company executed an agreement with a vendor to manufacture a mold for one of the Company's products. As consideration, the Company issued to the vendor 20,000 shares of its common stock in September 2001. The Company amended the agreement in September 2002 and issued an additional 20,000 shares of common stock to be held in escrow until completion of the mold. The Company recorded the fair value of the restricted common stock aggregating \$108,000, as of June 30, 2003, as a vendor deposit in shareholders' equity. The final measurement of the fair value will occur when the vendor completes and the Company accepts the mold.

**8. Stock Option Plans**

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, Accounting for Stock-Based Compensation, the Company's net income (loss) would have decreased (increased) to the pro forma amounts shown below:

	Three Months Ended June 30,	
	2003	2002
Net income (loss) As reported	\$(450,119)	449,785
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(37,254)	(69,603)
Net income (loss) Pro forma	\$(487,473)	380,182
Net income (loss) per common share As reported:		
Basic	\$ (0.10)	0.19
Diluted	\$ (0.10)	0.19
Net income (loss) per common share Pro forma:		
Basic	\$ (0.11)	0.16
Diluted	\$ (0.11)	0.16

**9. Settlement**

On October 26, 2001, the Company reached a litigation settlement with a third party. Net proceeds from the settlement, totaling \$388,000, were recognized upon receipt of cash. In the quarter ended June 30, 2002, the Company received the final payment and recorded a \$180,000 gain related to this settlement.

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**10. Foreign Currency Gains (Losses)**

For the three-month period ended June 30, 2003 and 2002, the Company recognized foreign currency gains (losses) of \$(2,361) and \$420,020, respectively. At June 30, 2003 and 2002, the Company had \$0.3 million and \$3.5 million of dollar denominated intercompany debt at its Dutch subsidiaries. In January 2003 the Company recapitalized one of the Dutch subsidiaries with an investment of 1.5 million euros (\$1.6 million). The proceeds from the investment were used to reduce the dollar denominated intercompany debt at the Dutch subsidiary. Furthermore, the Dutch subsidiaries are profitable and the generated cash flows were used to pay off the intercompany debt. These intercompany balances are revolving in nature and are not deemed to be long-term balances.

**11. Income Tax Expense**

During the quarter ended June 30, 2003, the Company's Dutch subsidiaries recorded income tax expense of \$80,166 as they have fully utilized their net operating loss carryforwards. The income tax has been accrued and therefore included under current liabilities. The U.S. net operating loss carryforwards cannot be used to offset taxable income in foreign jurisdictions.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS**

This Report on Form 10-QSB should be read in conjunction with the Annual Report on Form 10-KSB for the period ended March 31, 2003.

**Forward-looking Statements**

The Registrant may from time to time make written or oral forward-looking statements, including statements contained in this filing by the Company with the Securities and Exchange Commission and in its reports to stockholders, as well as elsewhere. Forward-looking statements are statements such as those contained in projections, plans, objectives, estimates, statements of future economic performance, and assumptions related to any of the foregoing, and may be identified by the use of forward-looking terminology, such as may, expect, anticipate, estimate, go on to continue, or other comparable terminology. By their very nature, forward-looking statements are subject to known and unknown risks and uncertainties relating to the Company's future performance that may cause the actual results, performance, or achievements of the Company, or industry results, to differ materially from those expressed or implied in any such forward-looking statements. Any such statement is qualified by reference to the following cautionary statements.

The Registrant's business operates in highly competitive markets and is subject to changes in general economic conditions, competition, customer and market preferences, government regulation, the impact of tax regulation, foreign exchange rate fluctuations, the degree of market acceptance of products, the uncertainties of potential litigation, as well as other risks and uncertainties detailed elsewhere herein and from time to time in the Registrant's Securities and Exchange Commission filings.

In this filing, the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. Various factors and risks (not all of which are identifiable at this time) could cause the Company's results, performance, or achievements to differ materially from that contained in the Company's forward-looking statements, and investors are cautioned that any forward-looking statement contained herein or elsewhere is qualified by and subject to the warnings and cautionary statements contained above and in the Company's other filings with the Securities and Exchange Commission.

The Company does not undertake and assumes no obligation to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

**Overview**

Uroplasty, Inc. develops, manufactures, and/or markets medical products in certain segments of the urology, gynecology, urogynecology, colon and rectal, wound care, otolaryngology and plastic surgery markets. Products sold by the Company are subject to regulation by the U.S. FDA and/or various regulating agencies in countries outside the U.S. Existing sales have been, and future sales growth is expected to be, derived from Macroplastique and related ancillary products designed for use by urologists, gynecologists, and uro-gynecologists for the primary treatment of stress urinary incontinence (SUI) and for the treatment of vesicoureteral reflux (VUR), a condition in which urine flows backward from the bladder to the kidney.

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Macroplastique is comprised of soft, irregularly textured, vulcanized, medical grade silicone elastomer implants suspended in a biocompatible carrier solution. When injected via a minimally invasive procedure in the soft tissue of the mid-urethra and bladder neck (in the case of SUI), and at the ureteral orifice (in the case of vesicoureteral reflux), the implants act as a bulking material to restore urinary continence or to eliminate reflux of urine from the bladder to the kidneys.

In addition to the urological applications, the Company's implantable tissue bulking material is also marketed by the Company outside the U.S. for reconstructive and cosmetic plastic surgery applications under the trade name Bioplastique Implants; fecal incontinence applications under the trade name PTP Implants; and vocal cord rehabilitation under the trade name VOX Implants. In The Netherlands and the United Kingdom, the Company's direct sales force distributes certain wound care products on behalf of another company in accordance with an executed Distributor Agreement. Under the terms of the Distributor Agreement, the Company is not obligated to purchase any minimum level of wound care products.

The Company's products are currently sold by direct sales forces in the United Kingdom and The Netherlands, and by a network of distributors in numerous countries outside the U.S., including Western Europe, Australia, and Central and South America. The Company is currently conducting a multi-center human clinical trial with its urethral bulking agent, Macroplastique, pursuant to an FDA IDE as a minimally invasive, office-based procedure for treating female SUI. This study is required as part of a Premarket Approval Submission to the FDA for marketing within the United States. The Company has completed both the patient enrollment and treatment phases of the FDA clinical study, and is now in the final stage of patient follow-up.

The Company's objectives are to focus on sales and marketing activities designed to increase market penetration and sales of Macroplastique for SUI, VUR, and of PTP Implants for fecal incontinence applications in countries outside the U.S., and to efficiently and effectively execute the Macroplastique human clinical study for treatment of female SUI within the U.S.

Set forth below is management's discussion and analysis of the financial condition and results of operations for the three-month periods ended June 30, 2003 and 2002.

## **Results of Operations**

**Net Sales:** The Macroplastique product line accounts for approximately 84% of total net sales during the periods presented. In the first quarter ended June 30, 2003, net sales of all products were \$1,359,589, representing a \$50,490 or 4% increase when compared to net sales of \$1,309,099 for the first quarter ended June 30, 2002. The sales increase is the result of a decrease in unit sales, offset by favorable fluctuations in foreign currency exchange rates between the U.S. Dollar (the functional reporting currency) and the Euro and the British Pound (currencies of the Company's subsidiaries). Excluding the fluctuations in foreign currency exchange rates the sales decrease is approximately 14%.

**Gross Profit:** Gross profit was \$954,002 and \$889,385 for the quarters ended June 30, 2003 and 2002, respectively, or 70% and 68% of net sales. Gross profit in any one period is highly variable depending on unit sales and utilization of manufacturing capacity.

**General and Administrative Expense:** General and administrative (G&A) expenses increased from \$272,467 during the first quarter of fiscal 2003 to \$465,276 during the first quarter of fiscal 2004. Increased consulting, legal, audit and shareholders expenses, combined with general price increases and fluctuations in foreign currency exchange rates caused the increase in G&A expenses. The consulting fees and shareholders expense relates to the consulting agreements with the Executive Advisory Group (EAG) to perform services for and on behalf of the Company and the consulting agreement with C.C.R.I. Corporation to provide investor relations and development services. The two agreements accounted for \$120,204 of the increased expense for the current-year quarter.

**Research and Development Expense:** Research and development (R&D) expenses decreased \$80,845, or 16%, from \$519,418 during the first quarter of fiscal 2003 to \$438,573 during the first quarter of fiscal 2004. The decrease in R&D expense resulted from a decrease in clinical costs due to the completion of the patient enrollment phase in the Company's multi-center IDE clinical trial in February 2003.

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**Selling and Marketing Expenses:** Selling and marketing ( S&M ) costs increased 66% from \$254,163 during the first quarter of fiscal 2003 to \$422,410 during the first quarter of fiscal 2004. The increase resulted from additional staff, increased travel costs, increased costs relating to trade-shows, conventions and congresses, increased costs for marketing materials, general price increases and fluctuations in foreign currency exchange rates.

**Other Income (Expense):** Other income (expense) includes interest income, interest expense, foreign currency exchange gains and losses, settlement income and other non-operating costs when incurred. The Company's financial results are subject to material fluctuations based on changes in currency exchange rates. Other income was \$2,304 and \$606,448 for the first quarter ended June 30, 2003 and 2002, respectively. The majority of the differences between periods were due to foreign currency exchange gains and losses and the settlement proceeds from the litigation. Exchange gains and losses are recognized primarily as a result of fluctuations in currency rates between the U.S. Dollar (the functional reporting currency) and the Euro and British Pound (currencies of the Company's subsidiaries), as well as their effect on the dollar denominated intercompany obligations between the Company and its foreign subsidiaries. At June 30, 2003 and 2002, the Company had \$0.3 million and \$3.5 million dollar denominated intercompany debt at its foreign Dutch subsidiary. These intercompany balances are revolving in nature and are not deemed to be long-term balances. The Company recognized foreign currency gains and losses of \$(2,361) and \$420,020 for the first quarter ended June 30, 2003 and 2002, respectively. The currency gains are primarily the result of a weakened U.S. Dollar compared to the Euro and the currency loss the result of a strengthened U.S. Dollar compared to the Euro. In January 2003 the Company recapitalized one of the Dutch subsidiaries with an investment of 1.5 million euros (\$1.6 million). The Company used proceeds from the investment to reduce the dollar denominated intercompany debt at the Dutch subsidiary, resulting in an adjusted balance at December 31, 2002 of \$0.9 million of intercompany debt at the Dutch subsidiary subject for foreign currency transaction accounting. This resulted in less volatility for changes in currency exchange rates in the Company's statement of operations.

**Income Tax Expense:** During the quarter ended June 30, 2003, the Company's Dutch subsidiaries recorded income tax expense of \$80,166 as they have fully utilized their net operating loss carryforwards. The income tax has been accrued and therefore included under current liabilities. The U.S. net operating loss carryforwards cannot be used to offset taxable income in foreign jurisdictions.

## **Liquidity and Capital Resources**

As of June 30, 2003, the Company's cash and cash equivalent balances totaled \$3,197,129.

At June 30, 2003, the Company had working capital of approximately \$4.1 million. During the three months ended June 30, 2003, \$240,900 of cash was used in operating activities, compared to \$361,547 of cash provided by operating activities in the prior-year period. This change was primarily due to the change in net income of \$449,785 in the 2002 period to a net loss of \$450,119 in the 2003 period. The significant change in results was due to \$420,020 of foreign currency gains and \$180,000 of settlement income recorded in the 2002 period compared to a foreign currency loss of \$2,361 in the current year period. Accounts receivable decreased by \$104,433, due to the timing of payment by our customers. Other current assets, accounts payable, and accrued expenses fluctuated due to the timing of payments and fluctuations in foreign currency exchange rates. The Company recorded \$82,204 of non-cash stock-based compensation expense during the quarter ended June 30, 2003.

The Company currently has no financing arrangements in place with any bank for general working capital needs, and no material unused sources of liquidity other than the cash, equipment leasing arrangements, and its accounts receivable and inventory balances at June 30, 2003 of \$865,123 and \$524,754, respectively. For fiscal 2004, management does not anticipate any material capital expenditures.

The Company's financial condition and results of operations could be materially affected by fluctuations in foreign currency exchange rates and weak economic conditions in foreign markets where the Company's products are distributed. The effects of these conditions could include reduced unit sales and reduced sales in dollars when converted from foreign currency amounts and material gains and losses on transactions denominated in foreign currencies. Furthermore, because the Company's U.S. operations are funded by sales denominated in foreign currency, strengthening of the U.S. dollar against the Euro, and/or the British Pound could have an adverse effect on the Company's cash flow and results of operations.

Management expects continued high costs associated with the conduct of the U.S. human clinical study for Macroplastique pursuant to the FDA approved IDE, the subsequent U.S. Premarket Approval process, and pre-commercialization and market launch costs in the U.S. relating to Macroplastique for female SUI.

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Management believes that 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.

**ITEM 3. CONTROLS AND PROCEDURES.**

Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal accounting officer, of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the principal executive officer and principal accounting officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in the Company's internal control over financial reporting during the Company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Internal Controls and Procedures. There were no significant changes in internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.



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PART II. OTHER INFORMATION

Except as indicated below, none of the items contained in PART II of Form 10-QSB are applicable to the Company for the three months ended June 30, 2003.

**ITEM 2. CHANGES IN SECURITIES**

( c ) Recent Sales of Unregistered Securities

In April 2003, the Company issued the following securities:

The Company granted a director an option to purchase 30,000 shares of the Company's Common Stock in consideration of services as a director;

The Company granted a consulting firm affiliated with a director an option to purchase 50,000 shares of the Company's Common Stock in consideration of executive advisory services; and

The Company issued a consulting firm 35,000 shares of the Company's Common Stock, and granted this firm a warrant to purchase an additional 50,000 shares, in consideration of investor relations and development services.

Each recipient informed the Company that he or it was acquiring the securities for investment and not with a view to their distribution. The Company placed a restrictive legend under the Securities Act on the certificate representing the issued shares and a corresponding stop transfer order with its transfer agent.

The Company believes that the grant of the options and warrant do not involve the sale of a security and was therefore exempt from the registration requirements of the Securities Act. The Company believes the sale and issuance of the shares was exempt pursuant to Section 4(2) of the Securities Act.

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.**

(a) Exhibits

31 Certifications by the Chief Executive Officer/Chief Financial Officer and the Controller pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32 Certifications by the Chief Executive Officer/Chief Financial Officer and the Controller pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (this Exhibit is furnished pursuant to SEC rules, but is deemed not filed )

99.1 Press Release dated August 13, 2003

(b) Reports on Form 8-K

None

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**SIGNATURES**

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UROPLASTY, INC

Date: August 13, 2003

by: /s/ DANIEL G. HOLMAN  
Daniel G. Holman  
President, Chief Executive Officer,  
Chief Financial Officer and Director (Principal Executive  
and Financial Officer)

Date: August 13, 2003

by: /s/ ARIE J. KOOLE  
Arie J. Koole  
Controller (Principal Accounting Officer)

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