BSD MEDICAL CORP
Form 10-Q
April 05, 2013

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

FORM 10-Q

(Mark One)

ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended February 28, 2013

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. 001-32526

BSD Medical Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	75-1590407
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2188 West 2200 South
Salt Lake City, Utah 84119
(Address of principal executive offices, including zip code)

(801) 972-5555
(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 ý 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-T (§

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 ý 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 ý
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 ý

As of April 5, 2013, there were 29,753,191 shares of the Registrant's common stock, $0.001 par value per share, outstanding.

BSD MEDICAL CORPORATION
FORM 10-Q

FOR THE QUARTER ENDED FEBRUARY 28, 2013

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BSD MEDICAL CORPORATION
Condensed Balance Sheets
(Unaudited)

ASSETS	February 28, 2013	August 31, 2012
Current assets:		
Cash and cash equivalents	$7,731,846	$11,102,508
Accounts receivable, net of allowance for doubtful accounts of $20,000	481,777	289,587
Related party trade accounts receivable	24,593	33,257
Inventories, net	2,380,035	2,403,957
Other current assets	173,377	120,069
Total current assets	10,791,628	13,949,378
Property and equipment, net	1,359,384	1,412,639
Patents, net	-	4,032
	$12,151,012	$15,366,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$299,209	$195,754
Accrued liabilities	637,002	424,698
Customer deposits	41,250	24,980
Deferred revenue – current portion	92,229	96,865
Total current liabilities	1,069,690	742,297
Deferred revenue – net of current portion	87,719	126,420
Total liabilities	1,157,409	868,717
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.001 par value; 10,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, $.001 par value, 80,000,000 shares authorized, 29,777,522 shares issued	29,778	29,778
Additional paid-in capital	52,421,367	51,845,035
Treasury stock, 24,331 shares at cost	(234)	(234)
Accumulated deficit	(41,457,308)	(37,377,247)
Total stockholders' equity	10,993,603	14,497,332

	$12,151,012	$15,366,049

See accompanying notes to condensed financial statements

BSD MEDICAL CORPORATION
Condensed Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Revenues:				
Sales	$766,084	$236,437	$1,283,698	$553,925
Sales to related parties	6,275	546	76,546	301,406
Equipment rental	46,900	34,900	118,800	75,550
Total revenues	819,259	271,883	1,479,044	930,881
Cost of Revenues:				
Cost of sales	411,365	343,922	820,235	498,414
Cost of related party sales	5,069	744	66,446	214,183
Cost of equipment rental	2,947	2,947	5,894	5,894
Total cost of revenues	419,381	347,613	892,575	718,491
Gross margin (loss)	399,878	(75,730)	586,469	212,390
Operating costs and expenses:				
Research and development	558,691	582,611	1,085,958	1,119,346
Selling, general and administrative	1,705,682	1,457,662	3,594,931	2,912,497
Total operating costs and expenses	2,264,373	2,040,273	4,680,889	4,031,843
Loss from operations	(1,864,495)	(2,116,003)	(4,094,420)	(3,819,453)
Other income (expense):				
Interest income	6,720	15,970	16,666	34,029
Other (expense)	(3,622)	(2,565)	(2,307)	(4,579)
Total other income	3,098	13,405	14,359	29,450
Loss before income taxes	(1,861,397)	(2,102,598)	(4,080,061)	(3,790,003)
Income tax benefit	-	-	-	-
Net comprehensive loss	$(1,861,397)	$(2,102,598)	$(4,080,061)	$(3,790,003)
Net loss per common share:				
Basic	$(0.06)	$(0.07)	$(0.14)	$(0.13)
Diluted	$(0.06)	$(0.07)	$(0.14)	$(0.13)
Weighted average number of shares outstanding:				

Basic	29,778,000	29,686,000	29,778,000	29,686,000
Diluted	29,778,000	29,686,000	29,778,000	29,686,000

See accompanying notes to condensed financial statements

BSD MEDICAL CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

	Six Months Ended	
	February 28, 2013	February 29, 2012
Cash flows from operating activities:		
Net loss	$(4,080,061)	$(3,790,003)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	70,026	74,440
Stock-based compensation	576,332	580,510
Loss on disposition of property and equipment	-	118
Decrease (increase) in:		
Receivables	(183,526)	543,346
Inventories	23,922	(76,639)
Other current assets	(53,308)	(3,320)
Increase (decrease) in:		
Accounts payable	103,455	(50,530)
Accrued liabilities	212,304	73,462
Customer deposits	16,270	-
Deferred revenue	(43,337)	17,334
Net cash used in operating activities	(3,357,923)	(2,631,282)
Cash flows from investing activities:		
Purchase of property and equipment	(12,739)	(84,618)
Cash flows from financing activities	-	-
Net decrease in cash and cash equivalents	(3,370,662)	(2,715,900)
Cash and cash equivalents, beginning of the period	11,102,508	17,135,968
Cash and cash equivalents, end of the period	$7,731,846	$14,420,068

See accompanying notes to condensed financial statements

BSD MEDICAL CORPORATION
Notes to Condensed Financial Statements
(Unaudited)

Note 1. Basis of Presentation

The interim financial information of BSD Medical Corporation (the "Company") as of February 28, 2013 and for the three months and six months ended February 28, 2013 and February 29, 2012 is unaudited, and the condensed balance sheet as of August 31, 2012 is derived from our audited financial statements. The accompanying unaudited condensed balance sheets as of February 28, 2013 and August 31, 2012, the related unaudited condensed statements of operations for the three months and six months ended February 28, 2013 and February 29, 2012, and the related unaudited condensed statements of cash flows for the six months ended February 28, 2013 and February 29, 2012 have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The condensed financial statements do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. These condensed financial statements should be read in conjunction with the notes thereto, and the financial statements and notes thereto included in our annual report on Form 10-K for the year ended August 31, 2012.

All adjustments (consisting only of normal recurring adjustments) necessary for the fair presentation of our financial position as of February 28, 2013 and August 31, 2012, our results of operations for the three months and six months ended February 28, 2013 and February 29, 2012 and our cash flows for the six months ended February 28, 2013 and February 29, 2012 have been included. The results of operations for the three months and six months ended February 28, 2013 may not be indicative of the results for our fiscal year ending August 31, 2013.

Certain amounts in the prior periods have been reclassified to conform to the current period presentation.

Note 2. Inventories

Inventories consisted of the following:

	February 28, 2013	August 31, 2012
Parts and supplies	$ 1,192,863	$ 1,180,428
Work-in-process	928,421	803,049
Finished goods	358,751	520,480
Reserve for obsolete inventory	(100,000)	(100,000)
Inventories, net	$ 2,380,035	$ 2,403,957

Note 3. Property and Equipment

Property and equipment consisted of the following:

	February 28, 2013	August 31, 2012
Equipment	$ 1,379,188	$ 1,368,183
Rental equipment	58,940	58,940
Furniture and fixtures	300,061	298,576
Building improvements	54,736	54,736
Building	956,000	956,000
Land	244,000	244,000
	2,992,925	2,980,435
Less accumulated depreciation	(1,633,541)	(1,567,796)
Property and equipment, net	$ 1,359,384	$ 1,412,639

Note 4. Stockholders' Equity

The Company has 10,000,000 authorized shares of $.001 par value preferred stock. As of February 28, 2013 and August 31, 2012, there were no shares of preferred stock outstanding. The Company also has 80,000,000 authorized shares of $.001 par value common stock.

Shelf Registration Statement

On September 28, 2012, we filed a universal shelf registration statement with the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of $50.0 million. We may periodically offer one or more of these securities in amounts, prices and terms to be announced when and if the securities are offered. On October 11, 2012, the universal shelf registration statement was declared effective by the SEC.

Warrants

A summary of the outstanding warrants issued in prior stock offerings as of February 28, 2013, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)
Outstanding as of August 31, 2012	2,408,523	$ 4.56	
Issued	-	-	
Exercised	-	-	

Forfeited or expired	-		-	
Outstanding and exercisable as of February 28, 2013	2,408,523	$	4.56	2.99

Note 5. Net Loss Per Common Share

The computation of basic earnings per common share is based on the weighted average number of shares outstanding during the period. The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the weighted average common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period.

The shares used in the computation of our basic and diluted earnings per share are reconciled as follows (rounded to thousands):

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Weighted average number of shares outstanding – basic	29,778,000	29,686,000	29,778,000	29,686,000
Dilutive effect of stock options and warrants	-	-	-	-
Weighted average number of shares outstanding – diluted	29,778,000	29,686,000	29,778,000	29,686,000

No stock options or warrants are included in the computation of diluted weighted average number of shares for the three months and six months ended February 28, 2013 and February 29, 2012 because the effect would be anti-dilutive. As of February 28, 2013, we had outstanding options and warrants to purchase a total of 5,698,762 shares of our common stock that could have a future dilutive effect on the calculation of earnings per share.

Note 6. Related Party Transactions

During the three months ended February 28, 2013 and February 29, 2012, we had sales of $6,275 and $546, respectively, to entities controlled by a significant stockholder and member of the Board of Directors. These related party transactions represent approximately 1% and 0% of total sales for each respective three-month period. During the six months ended February 28, 2013 and February 29, 2012, we had sales of $76,546 and $301,406 to these related parties, representing approximately 5% and 32% of total sales for each respective six-month period.

As of February 28, 2013 and August 31, 2012, receivables included $24,593 and $33,257, respectively, from these related parties.

Note 7. Stock-Based Compensation

We have both an employee and director stock incentive plan, which are described more fully in Note 10 to the financial statements in our 2012 Annual Report on Form 10-K. As of February 28, 2013, we had approximately 2,572,000 shares of common stock reserved for future issuance under the stock incentive plans.

Stock-based compensation cost is measured at the grant date based on the value of the award granted using the Black-Scholes option pricing model, and recognized over the period in which the award vests. For stock awards no longer expected to vest, any previously recognized stock compensation expense is reversed in the period of termination. The stock-based compensation expense has been allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense as follows:

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Cost of sales	$ 16,022	$ 16,023	$ 32,045	$ 32,046
Research and development	50,285	51,748	100,570	109,769
Selling, general and administrative	220,113	223,684	443,717	438,695
Total	$ 286,420	$ 291,455	$ 576,332	$ 580,510

During the six months ended February 28, 2013, we granted employees a total of 210,000 stock options at exercise prices ranging from $1.59 to $2.05 with one third vesting each year for the next three years. The estimated weighted average grant date fair value per share of these stock options was $0.86, and our weighted average assumptions used in the Black-Scholes valuation model to determine this estimated fair value are as follows:

Expected volatility	63.04%
Expected dividends	0%
Expected term	7.4 years
Risk-free interest rate	1.05%

Unrecognized stock-based compensation expense expected to be recognized over the estimated weighted-average amortization period of 0.99 years was approximately $1,373,000 as of February 28, 2013.

A summary of the time-based stock option awards as of February 28, 2013, and changes during the six months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining	Aggregate Intrinsic Value

				Contract Term (Years)		
Outstanding as of August 31, 2012	3,182,239	$	3.54			
Granted	210,000		1.60			
Exercised	-		-		$	-
Forfeited or expired	(102,000)		3.54			
Outstanding as of February 28, 2013	3,290,239	$	3.41	6.41	$	23,558
Exercisable as of February 28, 2013	2,104,444	$	3.86	5.51	$	23,558

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $1.32 as of February 28, 2013, which would have been received by the holders of in-the-money options had the option holders exercised their options as of that date.

Note 8. Supplemental Cash Flow Information

We paid no amounts for interest expense and income taxes during the six months ended February 28, 2013 and February 29, 2012.

During the six months ended February 28, 2013 and February 29, 2012, we had no non-cash financing and investing activities.

Note 9. Recent Accounting Pronouncements

No new accounting pronouncements were issued during the six months ended February 28, 2013 and through the date of filing this report that we believe are applicable to, or would have a material impact on our financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations and other parts of this quarterly report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled "Forward-Looking Statements" below. The following discussion should be read in conjunction with our financial statements and notes thereto included in this report. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview

We develop, manufacture, market, and service systems to treat cancer and benign diseases using heat therapy delivered using focused radiofrequency (RF) and microwave energy. Our product lines include both ablation and hyperthermia treatment systems. Our microwave ablation system has been developed as a stand-alone therapy to employ precision-guided microwave energy to ablate (destroy) soft tissue. Our hyperthermia cancer treatment systems, which have been in use for several years in the United States, Europe and Asia, are used to treat certain tumors with heat (hyperthermia) while increasing the effectiveness of other therapies such as radiation therapy. We have developed extensive intellectual property, multiple products in the market and established distribution in the United States, Europe and Asia. Certain of our products have received regulatory approvals and clearances in the United States, Europe and China.

MicroThermX® Microwave Ablation System

Our MicroThermX® Microwave Ablation System ("MicroThermX®") is a compact, mobile, state-of-the-art, proprietary system that includes a microwave generator, single-patient-use disposable antennas, and a thermistor-based temperature monitoring system. The innovative design of the MicroThermX® is the first of its kind that allows delivery of higher power levels using a single generator. The MicroThermX® utilizes innovative synchronous phased array technology that was developed and patented by us to provide larger and more uniform zones of ablation during a single procedure.

The MicroThermX® introduces into our product line an innovative SynchroWave disposable antenna that is used in each ablation treatment, which we believe will provide a significant ongoing revenue stream after the sale of the system. We expanded the MicroThermX® market opportunity by introducing a new SynchroWave short tip ("ST") antenna that can be used to deliver smaller, spherical ablation zones that more accurately target smaller tumors. The existing SynchroWave long tip ("LT") antenna delivers larger ablation zones, reducing the need for multiple ablations on larger tumors. The multiple configurations of the SynchroWave antenna provide physicians the ability to precisely target the ablation zone to the numerous sizes and shapes of diseased tissue, significantly increasing the number of cases that can be treated with the MicroThermX®. The soft tissue ablation world market potential is estimated to exceed $2.3 billion.

We introduced a new Table Top MicroThermX® Microwave Ablation System ("T2") designed for our fee-per-use rental program, which is more fully described below. Portability and ease of use are keys to successful implementation of the equipment rental program. The T2 is a small, lightweight, tabletop configuration that has the same advanced features as the original MicroThermX® configuration.

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In August 2010, the FDA granted us a 510(k) clearance to market the MicroThermX® for ablation of soft tissue. Clearance from the FDA of the 510(k) Premarket Notification submission authorizes the commercial sale of the MicroThermX® in the United States. We have also received CE Marking for the MicroThermX®, which allows us to market the MicroThermX® in the thirty countries that comprise the European Union ("EU") and the European Free Trade Association ("EFTA"). CE Marking is also recognized in many countries outside of the EU, providing us the ability to market the MicroThermX® to a number of international markets. As further discussed below, we have established distribution in a number of EU countries and have accepted purchase orders for and have shipped both MicroThermX® systems and SynchroWave antennas.

Increased sales activity has resulted in a full schedule of clinical evaluations and an increase in the number of sites evaluating MicroThermX® equipment for purchase. We have placed a select number of MicroThermX® systems with pivotal, high-profile, interventional oncology opinion leaders. These medical facilities continue to reorder disposable SynchroWave antennas, validating the ongoing revenue stream we anticipate. Existing users of the MicroThermX® continue to report positive clinical results in the treatment of cancerous tumors.

Approximately 600 patients have been successfully treated with the MicroThermX® at hospitals throughout the U.S. and Europe. Clinicians have used the MicroThermX® to treat patients with cancers of the liver, lung, bone, and kidneys. These evaluations represent an important milestone in the MicroThermX® sales cycle. However, with hospital capital budgeting, committee review and other approvals, the sales cycle for the MicroThermX® may extend to well over six months. Political and economic uncertainty in the industry due to recent government healthcare reform is also slowing hospital acquisitions of capital equipment at all levels.

To bolster our MicroThermX® sales line and accelerate and maximize revenues, we have added a MicroThermX® fee-per-use equipment rental program. We have experienced ongoing success with a MicroThermX® fee-per-use equipment rental program in the Salt Lake City, Utah area. We launched a program with 5 hospitals in Salt Lake City that allowed hospitals to purchase disposable SynchroWave antennas and pay a fee-per-use equipment rental for the treatment of patients using the MicroThermX®, dramatically shortening the sales cycle. This rental program has generated a revenue stream from sales of disposable SynchroWave antennas combined with highly profitable equipment rental fees, and we continue an aggressive rollout of this successful equipment rental program throughout the U.S.

We expanded the successful equipment rental program throughout the U.S., hiring new direct sales representatives in key major metropolitan areas who will provide "personal service" to new users of the microwave ablation technique. These new hires are experienced interventional sales representatives with seasoned contacts in the field of interventional oncology. We also added a new Vice President of Sales and Marketing with a 36 year history in marketing medical equipment to physicians. He will initially focus his efforts exclusively on the worldwide sale of our MicroThermX® line of products and the implementation of our fee-per-use equipment rental program. Our U.S. sales program also includes one domestic specialty distribution firm.

This new sales model will allow us to clearly focus on major areas of opportunity in the ablation market. We have hired direct sales representatives to cover the following key metropolitan areas: Florida, New York, New Jersey, Philadelphia, Chicago, Phoenix, Las Vegas, Southern California, Dallas and Houston, Ohio, Western Pennsylvania, Northern Kentucky and Oklahoma. We plan to continue to expand the direct sales program into other metropolitan areas in the future.

We also continue our emphasis on Europe and other international markets. We hired a Director of International Sales, have met with several international distribution firms and have entered into exclusive distribution agreements with specialty distribution firms in Italy, Ireland, Northern Ireland, The Netherlands and Turkey. These firms have purchased MicroThermX® systems and SynchroWave antennas. We provide our international sales teams with extensive hands-on training to ensure success in clinical use of the MicroThermX® system. We continue to build our

international sales and distribution network to expand upon a dedicated team of medically trained sales representatives presenting the advantages of the MicroThermX® to interventional oncologists throughout Europe. We anticipate reaching agreements with additional international distribution firms, and we anticipate additional international shipments of the MicroThermX® and supplies of SynchroWave antennas in calendar year 2013.

Hyperthermia Systems

BSD-500. Our BSD-500 Hyperthermia System, or the BSD-500, is used to deliver either superficial hyperthermia therapy, which is non-invasive and delivered externally using antennae placed over the tumor, or interstitial hyperthermia therapy, which is delivered using antennae that are inserted into the tumor, or both. These systems include a touch screen display monitor by which the operator controls the hyperthermia treatment, computer equipment and software that controls the delivery of microwave energy to the tumor, and a generator that creates the needed microwave energy for the treatment. Additionally, the systems include a variety of applicator (radiating antennae) configurations, depending on the system. Various configurations of non-invasive applicators (antennae) are used for superficial hyperthermia treatments. For interstitial hyperthermia treatments, the system may include up to 24 small microwave heat-delivering antennae that are inserted into catheters used for internal radiation therapy (called brachytherapy).

Our primary FDA approval (described as a pre-market approval, or “PMA”, which is the standard FDA approval required to market Class III medical devices in the United States) for the BSD-500 is for the use of hyperthermia and radiation therapy to treat certain tumors using the BSD-500. The BSD-500 is indicated for use alone or in conjunction with radiation therapy in the palliative management of certain solid surface and subsurface malignant tumors (i.e., melanoma, squamous- or basal-cell carcinoma, adenocarcinoma, or sarcoma) that are progressive or recurrent despite conventional therapy.

There are some clinical studies that have been published that show the effectiveness and safety for the use of hyperthermia and certain chemotherapy drugs for the treatment of some cancers. However, we do not currently have FDA approval for the use of hyperthermia in conjunction with chemotherapy. Physicians are allowed to utilize medical devices that have been approved or cleared by the FDA, including the BSD-500, for off label indications (indications for use that are not included in the FDA approval or clearance), but a manufacturer cannot promote for an off label use in the United States, as the FDA considers this to be an unproven clinical application.

We have received FDA approval through FDA supplements for implementation of a new operating system and a new power generation system and other commercial upgrades for the BSD-500 configurations.

We are currently in discussions with our notified body, DQS Medizinprodukte GmbH, to resolve some outstanding issues with our CE certificate for our Hyperthermia Systems. Although we cannot predict the ultimate outcome of these discussions, we are confident we will be able to solve the outstanding issues in a timely manner.

BSD-2000. The BSD-2000 Hyperthermia System, or the BSD-2000, family of products includes the BSD-2000, the BSD-2000/3D and the BSD-2000/3D/MR. These systems non-invasively deliver localized therapeutic heating (hyperthermia) to solid tumors by applying radiofrequency (RF) energy to certain cancerous tumors, including those located deep within the body. These systems consist of four major subsystems: an RF power generator delivery subsystem; a proprietary, thermistor-based, thermometry subsystem; a computerized monitoring and control subsystem; and an applicator subsystem that includes an applicator and patient support system; as well as various accessories. The BSD-2000 delivers energy to a patient using a power source and an array of multiple antennae that surround the patient’s body. The BSD-2000 systems create a central focusing of energy that can be adjusted to target the shape, size, and location of the tumor, thus providing dynamic control of the heating delivered to the tumor region. The basic BSD-2000 has eight microwave antennae, enabling electronic steering of energy within the patient’s body. The BSD-2000/3D has 24 microwave antennae enabling additional electronic steering along the long axis of the body. The 3D steering is particularly useful when used with a magnetic resonance system that provides non-invasive 3D imaging of the heated regions, thus permitting the clinician to view the heating pattern in the tumor and steer the energy to the tumor site.

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We have received CE Marking for the BSD-2000 family of products, which allows us to market the BSD-2000 systems in the thirty countries that comprise the EU and the EFTA. CE Marking is also recognized in many countries outside of the EU, providing us the ability to market the BSD-2000 family of products to a number of international markets. We have also obtained regulatory approval for the sale of the BSD-2000 in the People's Republic of China.

On May 18, 2009, the FDA granted HUD designation for our BSD-2000 for use in conjunction with radiation therapy for the treatment of cervical carcinoma patients who are ineligible for chemotherapy. This is the first of the two steps required to obtain HDE marketing approval. Subsequent to the FDA granting the HUD for the BSD-2000, which confirms that the intended use population is fewer than 4,000 patients per year, we filed an HDE submission with the FDA.

On November 21, 2011, we announced that the Company had obtained HDE marketing approval for the BSD-2000 from the FDA. The BSD-2000 is approved for use in conjunction with radiation therapy for the treatment of cervical cancer patients who normally would be treated with combined chemotherapy and radiation but are ineligible for chemotherapy due to patient related factors. The HDE approval authorizes the commercial sale of the BSD-2000. An HDE approval is obtained after a company has demonstrated the product's safety and probable benefit for the treatment of a disease affecting fewer than 4,000 people in the United States every year. In addition, we cannot charge an amount for an HDE approved device that exceeds the costs of research and development, fabrication, and distribution. A device can have both PMA and an HDE approval as long as the approvals are for different indications for use. In addition, a product can have multiple HDE approvals for different applications, and we may decide to pursue a PMA and/or additional HDE approvals for the BSD-2000 in the future.

Development of the BSD-2000, the BSD-2000/3D and the BSD-2000/3D/MR has required substantial effort involving the cooperative work of such United States research institutions as Duke University, Northwestern University, University of Southern California, Stanford University, University of Utah and University of Washington St. Louis. Contributing European research institutions include Daniel den Hoed Cancer Center of the Academisch Ziekenhuis (Rotterdam, Netherlands), Haukeland University Hospital (Bergen, Norway), Dusseldorf University Medical School, Tübingen University Medical School, Essen University Hospital, Charité Medical School of Humboldt University (Berlin), Luebeck University Medical School, Munich University Medical School Grosshadern, Interne Klinik Argirov of the Munich Comprehensive Cancer Center, University of Erlangen (all of Germany), University of Verona Medical Center (Italy), Graz University Medical School (Austria) and Kantonsspital Aarau (Switzerland).

BSD-2000/3D. Through research funded by the National Cancer Institute in the United States and supportive efforts by other domestic and international research institutions, we enhanced the BSD-2000 to create the BSD-2000/3D. The BSD-2000/3D adds three-dimensional steering of deep focused energy, enabling additional electronic steering along the long axis of the body. As part of our international collaborative research efforts, sophisticated treatment planning software for the BSD-2000/3D has also been developed.

We have not yet submitted to the FDA a marketing application for the BSD-2000/3D. However, we have obtained the CE Mark necessary to export the BSD-2000/3D to certain European countries and other countries requiring CE Mark certification.

BSD-2000/3D/MR. As a further enhancement of the BSD-2000/3D, we have added to it the option of concurrent magnetic resonance imaging, or MRI, used for monitoring the delivery of deep hyperthermia therapy. Using sophisticated microwave filtering and imaging software, the BSD-2000/3D/MR allows an MRI system to be interfaced with and operate simultaneously with a BSD-2000/3D. The development of MRI treatment monitoring is a significant breakthrough in the development of hyperthermic oncology primarily because it allows non-invasive "on-line" review of hyperthermic treatment progress.

We installed and tested the first BSD-2000/3D/MR system at a leading German oncological research institution, the Clinic of Medical Oncology of the Klinikum Großhadern Medical School of Ludwigs-Maximilians-Universität München, in Munich, Germany. We have since installed BSD-2000/3D/MR systems at multiple other locations.

As is the case for the BSD-2000/3D, we have not yet submitted to the FDA a marketing application for the BSD-2000/3D/MR. We can, however, market the BSD-2000/3D/MR in Europe, as we have CE Mark approval for the BSD-2000/3D/MR, provided we interface the system with an MRI system that also is approved in Europe.

On January 2, 2013, following a protracted period of public comment, the EU issued a directive known as Restriction of Hazardous Substances (RoHS) that restricts the use of certain hazardous substances used in electrical equipment. This directive mandates that all medical devices sold in the EU meet RoHS compliance requirements on or before July 22, 2014. Noncompliant medical devices will be prohibited for sale in the EU community after this date. We are currently evaluating the potential impact of this EU directive on our business including the costs and time needed to make our systems compliant with RoHS.

Marketing and Distribution of MicroThermX®. As previously discussed, our U.S. network of direct sales representatives and one domestic specialty distribution firm provides nationwide sales coverage for the MicroThermX® line of products.

In addition, we have a Director of International Sales and have entered into exclusive distribution agreements with specialty distribution firms in Italy, Ireland, Northern Ireland, the Netherlands and Turkey.

Marketing and Distribution of Hyperthermia Systems. To support our direct sales and marketing efforts for our hyperthermia systems and products in the United States, we currently utilize independent sales representatives supported by senior management of the Company.

Historically, a significant portion of our revenues have been derived from sales to Dr. Sennewald Medizintechnik GmbH ("Medizintechnik") located in Munich, Germany, which is our exclusive distributor of hyperthermia systems in Germany, Austria and Switzerland, and to certain medical institutions in Belgium and the Netherlands. Medizintechnik is owned by Dr. Gerhard W. Sennewald, one of our directors and a significant stockholder. We have also sold systems in Poland and Italy, and have conducted our own direct sales and marketing efforts in India and other countries in Europe and Asia.

In 2005, we entered into an agreement with Dalian Orientech Co. LTD ("Orientech"), a privately owned company, to assist us in obtaining regulatory approval for the sale of the BSD-2000 in the People's Republic of China, and thereafter to act as our distributor for the sale of the BSD-2000 in that country. We subsequently obtained Chinese regulatory approval, allowing the distributor to begin to market and sell the BSD-2000 system to hospitals in China. We renewed this exclusive distribution agreement in February 2012, which requires Orientech to purchase a minimum number of BSD-2000 Hyperthermia Systems from us each year. Orientech is also leading efforts to renew our Chinese regulatory approval.

In December 2011, we announced that the Company signed an exclusive agreement with CyberKnife Korea ("CKK") for the sale and distribution of our hyperthermia products in South Korea. CKK is a premier distributor of sophisticated medical devices in South Korea and represents a number of major medical device companies. CKK is a leading distributor of oncology products in South Korea and has established strong relationships with radiation oncologists throughout the country. As part of the agreement, CKK is required to purchase a minimum number of hyperthermia systems from us each year. We are in the process of obtaining regulatory approval for the BSD-2000 in South Korea.

In August 2012, we announced that the Company had obtained approval to market its hyperthermia systems in the Russian Federation. The marketing approval covers all BSD-2000 Hyperthermia System configurations and the BSD-500 Hyperthermia System.

In March 2013, we announced that the Company signed an exclusive agreement with Linden Bioscience Co., Ltd. ("Linden"), a Taiwan Corporation, for the sale and distribution of our hyperthermia products in Taiwan. Linden's primary focus will be licensing, marketing and selling the BSD-2000 in Taiwan. Per the agreement, Linden is required to purchase a minimum number of BSD-2000 systems annually over a five year period. Shipment of the first hyperthermia systems will coincide with Linden's receipt of Taiwan FDA import license approval.

Backlog

As of the date of the filing of this report, we had a hyperthermia systems sales backlog of $812,500.

Results of Operations

Fluctuation in Operating Results

Our results of operations have fluctuated in the past and may fluctuate in the future from year to year as well as from quarter to quarter. Revenue may fluctuate as a result of factors relating to the demand and market acceptance for our ablation and hyperthermia systems and related component parts and services, world-wide economic conditions, availability of financing for our customers, changes in the medical capital equipment market, changes in order mix and product order configurations, competition, regulatory developments, insurance reimbursement and other matters. Operating expenses may fluctuate as a result of the timing of sales and marketing activities, research and development, and general and administrative expenses associated with our potential growth. For these and other reasons described elsewhere, our results of operations for a particular period may not be indicative of operating results for any other period.

Revenues

We recognize revenue from the sale of our ablation and hyperthermia cancer treatment systems and related parts and accessories (collectively, product sales), the sale of disposables used with certain of our systems, training, service support contracts and other miscellaneous revenues. During the three months and six months February 28, 2013 and February 29, 2012, we also recognized revenues from equipment rental, including our fee-per-use rental income from our MicroThermX®. Our revenues can fluctuate significantly from period to period because our sales, to date, have been based upon a relatively small number of hyperthermia systems, the sales price of each being substantial enough to greatly impact revenue levels in the periods in which they occur. Sales of a few hyperthermia systems, particularly BSD-2000/3D/MR systems, can cause a large change in our revenues from period to period and the sales cycle for our systems generally extends over multiple financial reporting periods. In addition, differences in the configuration of the hyperthermia systems sold, pricing, and other factors can result in significant differences in the sales price per system and in the total revenues reported in a given period. As a result, there may be quarterly financial reporting periods where we may report no or minimal revenues from the sale of hyperthermia systems. Through fiscal year

2012, we had minimal revenues from our MicroThermX® family of products. However, with the successful introduction of our fee-per-use rental program and accelerating sales of disposable SynchroWave antennas, our revenues from our MicroThermX® family of products continue to grow.

To date, hyperthermia therapy has not gained wide acceptance by cancer-treating physicians. We believe this is due in part to the lingering impression created by the inability of early hyperthermia therapy technologies to focus and control heat directed at specific tissue locations and inaccurate conclusions drawn in early scientific studies that hyperthermia was only marginally effective. Additionally, we do not believe that reimbursement rates from third-party payers have been adequate to promote hyperthermia therapy acceptance in the medical community.

We also believe the continuing worldwide economic downturn has made it difficult for many of our customers to obtain approval for the purchase of our hyperthermia and microwave ablation systems and to arrange related financing.

Political, economic and regulatory influences are subjecting the U.S. healthcare industry to fundamental changes. We may continue to face significant uncertainty in the industry due to recent governmental healthcare reform. We believe the uncertainties regarding the ultimate features of reform initiatives and their enactment and implementation may also have an adverse effect on our customers' purchasing decisions regarding our products and services.

As a result of these negative factors, we have been unable to sustain a significant increase in the number of hyperthermia systems sold, and we believe these difficulties may continue to negatively impact the sales of our hyperthermia systems and our MicroThermX®, and our operating results.

The following table summarizes the number of our ablation and hyperthermia systems sold for the three months and six months ended February 28, 2013 and February 29, 2012:

	Three Months Ended		Six Months Ended	
	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
MicroThermX®	1	3	6	3
Hyperthermia Systems:				
BSD-500	2	-	2	1
BSD-2000	-	-	-	1
BSD-2000/3D	-	-	-	-
BSD-2000/3D/MR	-	-	-	-
Total Hyperthermia Systems	2	-	2	2

At times, we have derived a significant portion of our revenues from sales to related parties. All of the related party revenue was for the sale of hyperthermia systems and related component parts and services sold to Dr. Sennewald Medizintechnik GmbH. We derived $6,275, or approximately 1%, of our total revenue in the three months ended February 28, 2013 from sales to related parties, compared to $546, or approximately 0%, in the three months ended February 29, 2012. We derived $76,546, or approximately 5%, of our total revenue in the six months ended February 28, 2013 from sales to related parties, compared to $301,406, or approximately 32%, in the six months ended February 29, 2012. We had no sales of hyperthermia systems to related parties in the three months or six months ended February 28, 2013.

Total revenues for the three months ended February 28, 2013 were $819,259 compared to total revenues of $271,883 for the three months ended February 29, 2012, an increase of $547,376, or approximately 201%. Total revenues for the six months ended February 28, 2013 were $1,479,044 compared to total revenues of $930,881 for the six months ended February 29, 2012, an increase of $548,163, or approximately 59%. The increase in total revenues in the current year is due primarily to increases in all sources of revenues from our MicroThermX® line of products, including increased sales of MicroThermX® systems and consumable devices from increasing sales of SynchroWave disposable antennas that are used in each ablation treatment. The following tables summarize the sources of our revenues for the three months and six months ended February 28, 2013 and February 29, 2012:

	Three Months Ended		Six Months Ended	
Non-Related Parties	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Product sales	$ 491,700	$ 128,000	$ 710,700	$ 353,000
Consumable devices	204,510	59,315	428,935	101,670
Service contracts	60,314	42,939	129,836	86,686
Other	9,560	6,183	14,227	12,569
Total	$ 766,084	$ 236,437	$ 1,283,698	$ 553,925

	Three Months Ended		Six Months Ended	
Related Parties	February 28, 2013	February 29, 2012	February 28, 2013	February 29, 2012
Product sales	$ -	$ -	$ 50,000	$ 294,850
Consumable devices	1,050	-	2,400	-
Other	5,225	546	24,146	6,556
Total	$ 6,275	$ 546	$ 76,546	$ 301,406

During the three months ended February 28, 2013 and February 29, 2012, we had equipment rental revenues of $46,900 and $34,900, respectively. During the six months ended February 28, 2013 and February 29, 2012, we had equipment rental revenues of $118,800 and $75,550, respectively, with the increase in the current year attributable to increasing fee-per-use rental revenues from our MicroThermX®.

Cost of Revenues

Cost of sales includes raw material, labor and allocated overhead costs. We calculate and report separately cost of sales for both non-related and related party sales, which are sales to Medizintechnik and Dr. Sennewald. Cost of sales as a percentage of sales will fluctuate from period to period depending on the mix of sales for the period and the type and configuration of the hyperthermia systems sold during the period.

Cost of equipment rental includes installation, training, maintenance and support costs and depreciation of rental equipment.

Total cost of revenues for the three months ended February 28, 2013 was $419,381 compared to $347,613 for the three months ended February 29, 2012, an increase of $71,768, or approximately 21%. Total cost of revenues for the six months ended February 28, 2013 was $892,575 compared to $718,491 for the six months ended February 29, 2012, an increase of $174,084, or approximately 24%. These increases resulted primarily from increased sales in the current year.

Gross Margin (Loss)

Our gross margin (loss) and gross margin (loss) percentage will fluctuate from period to period depending on the mix of revenues reported for the period and the type and configuration of the hyperthermia systems sold during the period. Our total gross margin was $399,878, or approximately 49% of total revenues, for the three months ended February 28, 2013 and our gross margin loss was $(75,730), or approximately -28%, for the three months ended February 29, 2012. The increase in gross margin and gross margin percentage in the first three months of the current fiscal year compared to the first three months of the prior fiscal year resulted primarily from the increase in hyperthermia systems sold, which systems have higher gross margins. Our total gross margin was $586,469, or approximately 40% of total revenues, for the six months ended February 28, 2013 and $212,390, or approximately 22%, for the six months ended February 29, 2012. The increase in gross margin and gross margin percentage in the first six months of the current fiscal year compared to the first six months of the prior fiscal year resulted from a more favorable mix of products sold, including increasing sales of SynchroWave disposable antennas and fee-per-use rental revenues from our MicroThermX®. In addition, as our sales volume increases, we are more able to fully absorb certain fixed overhead costs that are allocated to cost of sales, thus increasing our gross profit percentage.

Operating Costs and Expenses

Research and Development Expenses – Research and development expenses include expenditures for new product development and development of enhancements to existing products. Research and development expenses for the three months ended February 28, 2013 were $558,691, compared to $582,611 for the three months ended February 29, 2012, a decrease of $23,920 or approximately 4%. Research and development expenses for the six months ended February 28, 2013 were $1,085,958, compared to $1,119,346 for the six months ended February 29, 2012, a decrease of $33,388 or approximately 3%.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $1,705,682 for the three months ended February 28, 2013 compared to $1,457,662 for the three months ended February 29, 2012, an increase of $248,020, or approximately 17%. Selling, general and administrative expenses were $3,594,931 for the six months ended February 28, 2013 compared to $2,912,497 for the six months ended February 29, 2012, an increase of $682,434, or approximately 23%. These increases are due primarily to our continuing roll out of the MicroThermX® product line and the support of its global distribution network. We have increased our marketing and sales staff and incurred additional marketing, sales and related operating expenses. Also included in the increase for the first six months of the current fiscal year is $110,740 for severance to be paid to our former Chief Financial Officer in connection with his separation from the Company. We believe that the level of our selling, general and administrative expenses may continue to increase over the levels reported for the first quarter of our current fiscal year, and the increase may be significant.

Other Income (Expense)

During the three months ended February 28, 2013 and February 29, 2012, other income (expense) was not material to our operations.

Liquidity and Capital Resources

Since inception through February 28, 2013, we have generated an accumulated deficit of $41,457,308 where generally our operating revenues have been insufficient to cover our operating expenses. We have financed our operations primarily through the sale of our common stock and the exercise of stock options and warrants. As of February 28, 2013, we had cash and cash equivalents of $7,731,846, comprised primarily of money market funds and savings accounts.

As of February 28, 2013, we had current liabilities totaling $1,069,690, comprised of accounts payable, accrued liabilities, customer deposits and deferred revenue incurred in the normal course of our business. Our long-term liabilities consisted of deferred revenue of $87,719.

Stock Offerings

On October 1, 2009, a universal shelf registration statement was declared effective by the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of $50.0 million. We completed four stock offerings utilizing the universal shelf registration statement during calendar year 2010, and we received total net proceeds of approximately $19 million, including proceeds from the exercise of warrants issued in the stock offerings.

On September 28, 2012, we again filed a universal shelf registration statement with the SEC for the issuance of common stock, preferred stock, warrants, senior debt, subordinated debt and units up to an aggregate amount of $50.0 million. We may periodically offer one or more of these securities in amounts, prices and on terms to be announced when and if the securities are offered. At the time any of the securities covered by the registration statement are offered for sale, a prospectus supplement will be prepared and filed with the SEC containing specific information about the terms of any such offering. On October 11, 2012, the universal shelf registration statement was declared effective by the SEC.

Cash Flows from Operating, Investing and Financing Activities

During the six months ended February 28, 2013, we used net cash of $3,357,923 in operating activities, primarily as a result of our net loss of $4,080,061, decreased by non-cash expenses totaling $646,358, comprised of depreciation and amortization and stock-based compensation. Net cash used in operating activities also included increases in receivables of $183,526 and other current assets of $53,308 and a decrease in deferred revenue of $43,337, partially offset by a decrease in inventories of $23,922 and increases in accounts payable of $103,455, accrued liabilities of $212,304 and customer deposits of $16,270.

During the six months ended February 29, 2012, we used net cash of $2,631,282 in operating activities, primarily as a result of our net loss of $3,790,003, decreased by non-cash expenses totaling $655,068, comprised of depreciation and amortization, stock-based compensation, and loss on disposition of property and equipment. Net cash used in operating activities also included increase in inventories of $76,639 and other current assets of $3,320, and a decrease in accounts payable of $50,530, partially offset by a decrease in receivables of $543,346 and increases in accrued liabilities of $73,462 and deferred revenue of $17,334.

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Net cash used in investing activities, resulting from the purchase of property and equipment, was $12,739 and $84,618 for the six months ended February 28, 2013 and February 29, 2012, respectively.

We had no net cash provided by or used in financing activities for the six months ended February 28, 2013 and February 29, 2012.

We believe that our current cash and cash equivalents will be sufficient to fund our operations for the next twelve months.

If we cannot cover any future cash shortfalls with cost cutting or available cash, or our sales are less than projected, we would need to obtain additional financing. Due to adverse conditions in the global financial markets, we cannot be certain that any financing will be available when needed or will be available on terms acceptable to us. If we raise equity capital, our stockholders will be diluted. Insufficient funds may require us to delay, scale back or eliminate some or all of our programs designed to facilitate the commercial introduction of our systems or entry into new markets.

As of February 28, 2013, we had no significant commitments for the purchase of property and equipment.

We had no material off balance sheet arrangements as of February 28, 2013.

Critical Accounting Policies

The following is a discussion of our critical accounting policies and estimates that management believes are material to an understanding of our results of operations and which involve the exercise of judgment or estimates by management.

Revenue Recognition: Revenue from the sale of cancer treatment systems is recognized when a purchase order has been received, the system has been shipped, the selling price is fixed or determinable, and collection is reasonably assured. Most system sales are F.O.B. shipping point; therefore, shipment is deemed to have occurred when the product is delivered to the transportation carrier. Most system sales do not include installation. If installation is included as part of the contract, revenue is not recognized until installation has occurred, or until any remaining installation obligation is deemed to be perfunctory. Some sales of systems may include training as part of the sale. In such cases, the portion of the revenue related to the training, calculated based on the amount charged for training on a stand-alone basis, is deferred and recognized when the training has been provided. The sales of our cancer treatment systems do not require specific customer acceptance provisions and do not include the right of return except in cases where the product does not function as warranted by us. To date, returns have not been significant.

Revenue from the sale of consumable devices is recognized when a purchase order has been received, the devices have been shipped, the selling price is fixed or determinable, and collection is reasonably assured. Currently, our customers are not required to purchase a minimum number of disposable devices in connection with the purchase of our systems.

Revenue from training services is recorded when an agreement with the customer exists for such training, the training services have been provided, and collection is reasonably assured.

Revenue from service support contracts is recognized on a straight-line basis over the term of the contract, which approximates recognizing it as it is earned.

Revenue from equipment rental under an operating lease is recognized when billed in accordance with the lease agreement.

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Our revenue recognition policy is the same for sales to both related parties and non-related parties. We provide the same products and services under the same terms for non-related parties as with related parties.

Sales to distributors are recognized in the same manner as sales to end-user customers.

Deferred revenue and customer deposits include amounts from service contracts as well as cash received for the sales of products, which have not been shipped.

Inventory Reserves: We maintain a reserve for obsolete inventories to reduce excess and obsolete inventories to their estimated net realizable value. This reserve is a significant estimate and we periodically reviewed our inventory levels and usage, paying particular attention to slower-moving items. If projected sales do not materialize or if our hyperthermia systems do not receive increased market acceptance, we may be required to increase the reserve for obsolete inventories in future periods.

Product Warranty: We provide product warranties on our systems. These warranties vary from contract to contract, but generally consist of parts and labor warranties for one year from the date of installation. To date, expenses resulting from such warranties have not been material. We record a warranty expense at the time of each sale. This reserve is estimated based on prior history of service expense associated with similar units sold in the past.

Allowance for Doubtful Accounts: We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. This allowance is a significant estimate and is regularly evaluated by us for adequacy by taking into consideration factors such as past experience, credit quality of the customer base, age of the receivable balances, both individually and in the aggregate, and current economic conditions that may affect a customer’s ability to pay. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Stock-based Compensation: Stock-based compensation cost of stock options and other stock-based awards to employees and directors is measured at the grant date based on the estimated value of the award granted, using the Black-Scholes option pricing model, and recognized over the period in which the award vests. For stock awards no longer expected to vest, any previously recognized stock compensation expense is reversed in the period of termination. The stock-based compensation expense has been allocated to the various categories of operating costs and expenses in a manner similar to the allocation of payroll expense. The Black-Scholes valuation model utilizes inputs that are subject to change over time, including the volatility of the market price of our common stock, risk free interest rates, requisite service periods and assumptions made by us regarding the assumed life and vesting of stock options and stock-based awards. As new options or stock-based awards are granted, additional non-cash compensation expense will be recorded by us.

Income Taxes: We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We maintain valuation allowances where it is more likely than not that all or a portion of a deferred tax asset will not be realized. Changes in valuation allowances are included in our income tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior earnings history, expected future earnings and our ability to carry back reversing items within two years to offset income taxes previously paid.

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To the extent that we have the ability to carry back current period taxable losses to offset income taxes previously paid, we record an income tax receivable and a current income tax benefit.

Recent Accounting Pronouncements

No new accounting pronouncements were issued during the six months ended February 28, 2013 and through the date of filing this report that we believe are applicable or would have a material impact on our financial statements.

Medical Device Excise Tax:

A Medical Device Excise Tax (MDET) was enacted into law as part of the Health Care Education Reconciliation Act of 2010 and imposes an excise tax on medical device manufacturers on their sales in the U.S of certain devices after December 31, 2012. The tax is 2.3% of the taxable base. We estimate approximately 80 - 85% of our worldwide sales will be subject to the MDET which commenced on January 1, 2013.

FORWARD-LOOKING STATEMENTS

With the exception of historical facts, the statements contained in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other parts of this quarterly report on Form 10-Q are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which reflect our current expectations and beliefs regarding our future results of operations, performance and achievements. These statements are subject to risks and uncertainties and are based upon assumptions and beliefs that may or may not materialize. These forward-looking statements include, but are not limited to, statements concerning:

- our belief about the market opportunities for our products;
- our anticipated financial performance and business plan;
- our belief that the MicroThermX® will be a major part of our business plan moving forward and that the growth in our revenues and our ultimate profitability will be largely dependent on the success of our MicroThermX® marketing and sales efforts;
- our expectations that we will continue and grow the successful results from our MicroThermX® fee-per-use equipment rental program throughout the U.S. that we have experienced to date;
- our expectations that the SynchroWave antennas to be used in conjunction with the MicroThermX® will represent a significant ongoing revenue stream;
- our expectations that we will reach agreements with additional international distribution firms;
- our expectations that additional international shipments of the MicroThermX® and supplies of SynchroWave antennas will occur in calendar year 2013;

- our belief that the level of our operating expenses, including selling, general and administrative expenses, will increase and that the increase may be significant;

- our belief that we will be able to solve outstanding issues related to our CE certificate for the Hyperthermia Systems;

- our belief that our operating results, revenue and operating expenses may fluctuate in the future from year to year as well as from quarter to quarter; and

- our belief that our current cash and cash equivalents will be sufficient to finance our operations for the next twelve months.

We wish to caution readers that the forward-looking statements and our operating results are subject to various risks and uncertainties that could cause our actual results and outcomes to differ materially from those discussed or anticipated, including the factors set forth in Item 1A – "Risk Factors" in our Annual Report on Form 10-K for the year ended August 31, 2012 and our other filings with the Securities and Exchange Commission. We also wish to advise readers not to place any undue reliance on the forward-looking statements contained in this report, which reflect our beliefs and expectations only as of the date of this report. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances or any changes in our beliefs or expectations, other than as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There are no material changes to our market risk as described in our annual report on Form 10-K for the year ended August 31, 2012.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures.

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934 ("Exchange Act"). Based on this evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, in a manner that allows timely decisions regarding required disclosure.

Changes in internal controls over financial reporting.

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the risk factors reported in our Annual Report on Form 10-K for the year ended August 31, 2012.

Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit No.	Description of Exhibit
31.1	Certification of the Principal Executive Officer Required Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Principal Accounting Officer Required Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Accounting Officer Required Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BSD MEDICAL CORPORATION

Date: April 5, 2013	/s/ Harold R. Wolcott Harold R. Wolcott President (Principal Executive Officer)
Date: April 5, 2013	/s/ William S. Barth William S. Barth Chief Financial Officer (Principal Accounting Officer)