FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2013-01-09** | Period of Report: **2012-11-30**
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FILER

BSD MEDICAL CORP

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SIC: **3845** Electromedical & electrotherapeutic apparatus

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2012

☐ **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 ☒ No ☐

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 ☒ No ☐

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 ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of January 4, 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 NOVEMBER 30, 2012

PART I - Financial Information

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BSD MEDICAL CORPORATION
Condensed Balance Sheets
(Unaudited)

ASSETS	November 30, 2012	August 31, 2012
Current assets:		
Cash and cash equivalents	$ 9,142,517	$ 11,102,508
Accounts receivable, net of allowance for doubtful accounts of $20,000	436,562	289,587
Related party trade accounts receivable	56,526	33,257
Inventories, net	2,344,058	2,403,957
Other current assets	136,373	120,069
Total current assets	12,116,036	13,949,378
Property and equipment, net	1,383,559	1,412,639
Patents, net	-	4,032
	$ 13,499,595	$ 15,366,049
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 210,344	$ 195,754
Accrued liabilities	459,454	424,698
Customer deposits	41,250	24,980
Deferred revenue – current portion	132,248	96,865
Total current liabilities	843,296	742,297
Deferred revenue – net of current portion	87,719	126,420
Total liabilities	931,015	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	52,134,947	51,845,035
Treasury stock, 24,331 shares at cost	(234)	(234)
Accumulated deficit	(39,595,911)	(37,377,247)
Total stockholders' equity	12,568,580	14,497,332
	$ 13,499,595	$ 15,366,049

See accompanying notes to condensed financial statements

BSD MEDICAL CORPORATION
Condensed Statements of Comprehensive Loss
(Unaudited)

	Three Months Ended November 30, 2012	2011
Revenues:		
Sales	$ 517,614	$ 317,488
Sales to related parties	70,271	300,860
Equipment rental	71,900	40,650
Total revenues	659,785	658,998
Cost of revenues:		
Cost of sales	408,870	154,492
Cost of related party sales	61,377	213,439
Cost of equipment rental	2,947	2,947
Total cost of revenues	473,194	370,878
Gross margin	186,591	288,120
Operating costs and expenses:		
Research and development	527,267	536,735
Selling, general and administrative	1,889,249	1,454,835
Total operating costs and expenses	2,416,516	1,991,570
Loss from operations	(2,229,925)	(1,703,450)
Other income (expense):		
Interest income	9,946	18,059
Other income (expense)	1,315	(2,014)
Total other income (expense)	11,261	16,045
Loss before income taxes	(2,218,664)	(1,687,405)
Income tax benefit	-	-
Net loss and comprehensive loss	$ (2,218,664)	$ (1,687,405)
Net loss per common share:		
Basic	$ (0.07)	$ (0.06)
Diluted	$ (0.07)	$ (0.06)
Weighted average number of shares outstanding:		
Basic	29,778,000	29,686,000
Diluted	29,778,000	29,686,000

See accompanying notes to condensed financial statements

BSD MEDICAL CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
Cash flows from operating activities:		
Net loss	$ (2,218,664)	$ (1,687,405)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	37,272	37,059
Stock-based compensation	289,912	289,055
Loss on disposition of property and equipment	-	118
Decrease (increase) in:		
Receivables	(170,244)	223,563
Inventories	59,899	(57,055)
Other current assets	(16,304)	23,324
Increase (decrease) in:		
Accounts payable	14,590	(130,524)
Accrued liabilities	34,756	(66,070)
Customer deposits	16,270	-
Deferred revenue	(3,318)	(10,329)
Net cash used in operating activities	(1,955,831)	(1,378,264)
Cash flows from investing activities:		
Purchase of property and equipment	(4,160)	(29,120)
Cash flows from financing activities	-	-
Net decrease in cash and cash equivalents	(1,959,991)	(1,407,384)
Cash and cash equivalents, beginning of period	11,102,508	17,135,968
Cash and cash equivalents, end of period	$ 9,142,517	$ 15,728,584

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 November 30, 2012 and for the three months ended November 30, 2012 and 2011 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 November 30, 2012 and August 31, 2012 and the related unaudited condensed statements of comprehensive loss and cash flows for the three months ended November 30, 2012 and 2011 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 November 30, 2012 and August 31, 2012 and our results of operations and our cash flows for the three months ended November 30, 2012 and 2011 have been included. The results of operations for the three months ended November 30, 2012 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:

	November 30, 2012	August 31, 2012
Parts and supplies	$ 1,187,094	$ 1,180,428
Work-in-process	827,235	803,049
Finished goods	429,729	520,480
Reserve for obsolete inventory	(100,000)	(100,000)
Inventories, net	$ 2,344,058	$ 2,403,957

Note 3. Property and Equipment

Property and equipment consisted of the following:

	November 30, 2012	August 31, 2012
Equipment	$ 1,372,093	$ 1,368,183
Rental equipment	58,940	58,940
Furniture and fixtures	298,576	298,576
Building improvements	54,736	54,736
Building	956,000	956,000
Land	244,000	244,000
	2,984,345	2,980,435
Less accumulated depreciation	(1,600,786)	(1,567,796)
Property and equipment, net	$ 1,383,559	$ 1,412,639

Note 4. Stockholders' Equity

The Company has 10,000,000 authorized shares of $.001 par value preferred stock. As of November 30, 2012 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 November 30, 2012, and changes during the three months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)
Outstanding at August 31, 2012	2,408,523	$ 4.56	
Issued	-	-	
Exercised	-	-	
Forfeited or expired	-	-	
Outstanding and exercisable at November 30, 2012	2,408,523	$ 4.56	3.23

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 November 30,	
	2012	2011
Weighted average number of shares outstanding – basic	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

No stock options or warrants are included in the computation of diluted weighted average number of shares for the three months ended November 30, 2012 and 2011 because the effect would be anti-dilutive. As of November 30, 2012, we had outstanding options and warrants to purchase a total of 5,583,762 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 November 30, 2012 and 2011, we had sales of $70,271 and $300,860, respectively, to entities controlled by a significant stockholder and member of the Board of Directors. These related party transactions represent approximately 11% and 46% of total sales for each respective three-month period.

As of November 30, 2012 and August 31, 2012, receivables included $56,526 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 in our 2012 Annual Report on Form 10-K. As of November 30, 2012, we had approximately 2,687,000 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 November 30, 2012	2011
Cost of sales	$ 16,023	$ 16,023
Research and development	50,285	58,021
Selling, general and administrative	223,604	215,011
Total	$ 289,912	$ 289,055

During the three months ended November 30, 2012, we granted an employee 5,000 stock options at an exercise price of $2.05 per share and 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 $1.10, and our weighted average assumptions used in the Black-Scholes valuation model to determine this estimated fair value are as follows:

Expected volatility	62.67%
Expected dividends	0%
Expected term	7.4 years
Risk-free interest rate	1.02%

Unrecognized stock-based compensation expense expected to be recognized over the estimated weighted-average amortization period of 1.06 years is approximately $1,560,000 as of November 30, 2012.

A summary of the time-based stock option awards as of November 30, 2012, and changes during the three months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)	Aggregate Intrinsic Value
Outstanding at August 31, 2012	3,182,239	$ 3.54		
Granted	5,000	2.05		
Exercised	-	-		$ -
Forfeited or expired	(12,000)	3.85		
Outstanding at November 30, 2012	3,175,239	$ 3.53	6.47	$ 92,207
Exercisable at November 30, 2012	1,781,444	$ 3.83	5.34	$ 90,307

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $1.66 as of November 30, 2012, 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 three months ended November 30, 2012 and 2011.

During the three months ended November 30, 2012 and 2011, we had no non-cash financing and investing activities.

Note 9. Recent Accounting Pronouncements

No new accounting pronouncements were issued during the three months ended November 30, 2012 and through the date of filing this report that we believe are applicable or would have a material impact on our financial statements.

Note 10. Subsequent Events

Subsequent to November 30, 2012, the Board of Directors of the Company approved the grant of a total of 200,000 stock options to an employee, with an exercise price of $1.59 per share and with one third vesting each year for the next three years.

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 develope, 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.

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.

Over 380 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 acquisition 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. The Company 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 have also certified the BSD-500 systems for the CE Mark, which is required for export into some European and non-European countries.

BSD is 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.

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.

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. This company 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.

Backlog

As of the date of the filing of this report, we had a hyperthermia systems sales backlog of $735,000.

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 ended November 30, 2012 and 2011, 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. We sold no hyperthermia systems in the three months ended November 30, 2012.

The following table summarizes the number of our ablation and hyperthermia systems sold for the three months ended November 30, 2012 and 2011:

	Three Months Ended November 30,	
	2012	**2011**
MicroThermX®	5	-
Hyperthermia Systems:		
BSD-500	-	1
BSD-2000	-	1
BSD-2000/3D	-	-
BSD-2000/3D/MR	-	-
Total	-	2

We have historically 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 $70,271, or approximately 11%, of our total revenue in the three months ended November 30, 2012 from sales to related parties, compared to $300,860 or approximately 46%, in the three months ended November 30, 2011. We had no sales of hyperthermia systems to related parties in the three months ended November 30, 2012.

Total revenues for the three months ended November 30, 2012 of $659,785 were comparable to total revenues for the three months ended November 30, 2011 of $658,998. The following tables summarize the sources of our revenues for the three months ended November 30, 2012 and 2011:

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
Non-Related Parties		
Product sales	$ 219,000	$ 225,000
Consumable devices	224,425	42,355
Service contracts	69,522	43,747
Other	4,667	6,386
Total	$ 517,614	$ 317,488

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
Related Parties		
Product sales	$ 50,000	$ 294,850
Consumable devices	1,350	-
Other	18,921	6,010
Total	$ 70,271	$ 300,860

All of the product sales revenues for the three months ended November 30, 2012 were from the sale of MicroThermX® systems. The significant increase in consumable devices revenues for the three months ended November 30, 2012 compared to the three months ended November 30, 2011 was due primarily to increasing sales of SynchroWave disposable antennas that are used in each ablation treatment.

During the three months ended November 30, 2012 and 2011, we had equipment rental revenues of $71,900 and $40,650, respectively, with the increase in the current year first quarter 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 November 30, 2012 was $473,194 compared to $370,878 for the three months ended November 30, 2011, an increase of $102,316, or approximately 28%. This increase resulted primarily from a different mix of sales in the three months ended November 30, 2012 compared to the three months ended November 30, 2011, particularly fewer sales of hyperthermia systems sold in the current year which have lower cost of sales as a percent of sales than our MicroThermX® systems.

Gross Margin

Our gross margin and gross margin 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 or other products sold during the period. Our total gross margin was $186,591, or approximately 28% of total revenues, for the three months ended November 30, 2012 and $288,120, or approximately 44%, for the three months ended November 30, 2011. The decrease in gross margin and gross margin percentage in the first three months of the current fiscal year resulted primarily from the decrease in hyperthermia systems sold, which systems have higher gross margins.

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 November 30, 2012 were $527,267 which is comparable to $536,735 for the three months ended November 30, 2011, a decrease of $9,468 or 2%.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $1,889,249 for the three months ended November 30, 2012 compared to $1,454,835 for the three months ended November 30, 2011, an increase of $434,414, or approximately 30%. Included in this increase is $110,740 for severance to be paid to the Company's former Chief Financial Officer. The remaining increase of $323,674 is 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. 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 November 30, 2012 and 2011, other income (expense) was not material to our operations.

<u>Liquidity and Capital Resources</u>

Since inception through November 30, 2012, we have generated an accumulated deficit of $39,595,911 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 November 30, 2012, we had cash and cash equivalents of $9,142,517, comprised primarily of money market funds and savings accounts.

As of November 30, 2012, we had current liabilities totaling $843,296, 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 (the “2009 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 $19.0 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 to replace the 2009 Registration Statement, 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 three months ended November 30, 2012, we used net cash of $1,955,831 in operating activities, primarily as a result of our net loss of $2,218,664, decreased by non-cash expenses of $327,184, including depreciation and amortization and stock-based compensation. Net cash used in operating activities included increases in receivables of $170,244, other current assets of $16,304, and accrued liabilities of $34,756 and a decrease in deferred revenue of $3,318, partially offset by a decrease in inventories of $59,899 and increases in accounts payable of $14,590 and customer deposits of $16,270.

During the three months ended November 30, 2011, we used net cash of $1,378,264 in operating activities, primarily as a result of our net loss of $1,687,405, decreased by non-cash expenses of $326,232, including depreciation and amortization, stock-based compensation, and loss on disposition of property and equipment. Net cash used in operating activities also included an increase in inventories of $57,055, and decreases in accounts payable of $130,524, accrued liabilities of $66,070 and deferred revenue of $10,329, partially offset by decreases in receivables of $223,563 and other current assets of $23,324.

Net cash used in investing activities, resulting from the purchase of property and equipment, was $4,160 and $29,120 for the three months ended November 30, 2012 and 2011, respectively.

We had no net cash provided by or used in financing activities for the three months ended November 30, 2012 and 2011.

We believe 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 November 30, 2012, we had no significant commitments for the purchase of property and equipment.

We had no material off balance sheet arrangements as of November 30, 2012.

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.

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.

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 three months ended November 30, 2012 and through the date of filing this report that we believe are applicable or would have a material impact on our financial statements.

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 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 fund 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.

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
10.1	Separation Agreement and Release of All Claims between the Company and Dennis Gauger
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: January 9, 2013	/s/ Harold R. Wolcott Harold R. Wolcott President (Principal Executive Officer)
Date: January 9, 2013	/s/ William S. Barth William S. Barth Chief Financial Officer (Principal Accounting Officer)

This document affects your legal rights. You are advised to consult with an attorney or other counsel of your choice prior to signing this Agreement.

SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS

THIS SEPARATION AGREEMENT AND RELEASE OF ALL CLAIMS ("Agreement") is made and entered into by and between BSD Medical Corporation (the "Company") and Dennis Gauger, an individual ("Employee", "I," or "me").

Additional Definition

Affiliate: As used herein, the term "Affiliate" shall mean and refer to any officer, director, shareholder, member, employee, and/or agent of the Company; and/or any subsidiary, division, or affiliate of the Company (including without limitation any officer, director, shareholder, member, employee, and/or agent of any such subsidiary, division, or affiliate); and/or any entity (including without limitation any officer, director, shareholder, member, employee, and/or agent of such entity) in which the Company owns, directly or indirectly, a legal or beneficial interest (whether in whole or in part); and/or any individual or entity (including without limitation any officer, director, member, shareholder, employee, and/or agent of such entity) that owns, directly or indirectly, a legal or beneficial interest (whether in whole or in part) in the Company.

Background

I have resigned my employment with the Company. The Company has requested that I remain employed until 12/31/2012 (the "Termination Date") and that I provide certain consulting services to the Company thereafter. To provide me with separation benefits, and to resolve any and all disputes between us, if any, arising from my employment with the Company, the termination of that employment, or otherwise, the Company and I agree as follows:

Agreement

1. Resignation. I acknowledge that I herewith irrevocably resign my employment, effective at close of business on the Termination Date, and that such resignation is of my own free will and choice.

2. Payment to Employee. In exchange for my execution of this Agreement, the Company shall pay to or for my benefit the following:

a. The total sum of Ninety Seven Thousand Two Hundred no/100 Dollars ($97,200.00). Said sum shall be paid to me in accordance with the Company's regular and customary bi-weekly payroll practices, commencing on January 11, 2013, and will be subject to applicable federal and state payroll withholding taxes.

b. If I properly elect continuation coverage under the Company's group medical insurance plan pursuant to Sections 601 through 607 of the Employee Retirement Income Security Act of 1974, as amended ("COBRA"), the Company will pay that portion of the premium which the Company paid on behalf of me and my enrolled family members immediately prior to the Termination Date through the earlier of (a) June 30, 2013; (b) the date I first become eligible for coverage under any group health plan maintained by another employer of me or my spouse; or (c) the date such COBRA continuation coverage otherwise terminates as to me under the provisions of the Company's group medical insurance plan. Nothing herein shall be deemed to extend the otherwise applicable maximum period in which COBRA continuation coverage is provided or supersede the plan provisions relating to early termination of such COBRA continuation coverage. I agree that my portion of the premium for such coverage shall be deducted from the payments payable to me under Section 2.a. above.

3. Consulting Services. Commencing on the Termination Date and continuing through June 30, 2013, unless otherwise extended by mutual agreement of the parties, I agree to provide consulting services to the Company in an amount not to exceed 10 hours per week unless otherwise mutually agreed between the parties. The Company will pay me a consulting fee of $100.00 per hour for such consulting services. I agree to submit an invoice to the Company detailing the amount of hours I worked and a description of the services provided within 10 business days after the last day of the month in which such consulting services are rendered. The Company agrees to pay said invoice within 10 business days of its receipt of each such invoice. The Company shall issue an IRS Form 1099 to me representing any and all amounts paid to me under this Section 3. I understand and agree that I shall be responsible for the payment of all income, social security, or other taxes that are or may be due or assessed as a result of my receipt of funds under this Section 3.

4. Release of Claims by Employee. In consideration for the payment stated in Section 2 and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, I, for myself and my heirs, assigns, and all persons and entities claiming by, through, or under me, hereby irrevocably, unconditionally, and completely release, discharge, and agree to hold harmless the Company and its Affiliates (hereinafter referred to, both individually and collectively, as "Releasees") of and from any and all claims, liabilities, charges, demands, grievances, lawsuits, and causes of action of any kind or nature whatsoever, including without limitation claims for contribution, subrogation, or indemnification, whether direct or indirect, liquidated or unliquidated, known or unknown, which I have, had, or may claim to have against Releasees.

The release, discharge, and agreement to hold harmless set forth in this Section 4 includes without limitation any Claim(s) that I had, have, or may claim to have against Releasees:

a. for wrongful or constructive discharge or termination, negligent or intentional infliction of emotional distress, breach of express or implied contract of employment, breach of the covenant of good faith and fair dealing, violation of public policy, defamation, promissory estoppel, detrimental reliance, retaliation, tortious interference with contract or prospective economic advantage, invasion of privacy, whistleblower protection, hostile work environment, personal injury (whether physical or mental), or any other Claim(s), whether arising in tort or in contract; and/or

b. for any Claim(s) for discrimination, hostile work environment / harassment, retaliation, or otherwise arising under federal, state, or local law, including without limitation Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Equal Pay Act, all claims under Titles 29 and 42 of the United States Code, the Americans with Disabilities Act of 1990, the Rehabilitation Act of 1973, the Utah Antidiscrimination Act, or any other federal, state, or local law prohibiting discrimination, harassment, or retaliation on the basis of race, color, national origin, religion, age, sex, disability, veteran status, or any other protected group status; and/or

c. for any Claim(s) for discrimination, hostile work environment / harassment, retaliation, or otherwise arising under the Age Discrimination in Employment Act, as amended by the Older Workers Benefit Protection Act arising on or before the date of this Agreement; and/or

d. for any Claim(s) arising under the Employee Retirement Income Security Act ("ERISA"); and/or

e. for any Claim(s) arising under the Family and Medical Leave Act ("FMLA"); and/or

f. for any Claim(s) for unpaid wages, bonuses, commissions, or other compensation of any type or kind to the full extent allowed by the Fair Labor Standards Act or other applicable law; and/or

g. for any other Claim(s) in any way related to or arising out of my employment with the Company or the termination of that employment; and/or

h. for any Claim(s) for attorney's fees and/or costs.

Nothing in this Agreement waives my rights, if any, to (i) continue my participation in the Company's employee health benefit plan, as allowed by COBRA and the terms, conditions, and limitations of the plan, (ii) any vested rights that I may have under any employee pension or welfare benefit plan in which I participated as an employee of the Company, and/or (iii) any claims I have or may claim to have for worker's compensation or unemployment benefits.

5. Full and Complete Release. I understand and agree that I am releasing and waiving any Claim(s) that I do not know exist or may exist in my favor at the time I sign this Agreement which, if known by me, would materially affect my decision to sign this Agreement. Nonetheless, for the purpose of implementing a full and complete release of all Claim(s), I expressly acknowledge that the release set forth in Section 4 is intended to include, without limitation, all Claim(s) that I do not know or suspect to exist in my favor and that the release set forth in Section 4 includes the release and extinguishment of any such Claim(s).

6. Stock Option Grants. Notwithstanding the provisions of Section 4 and 5 above and anything contained therein to the contrary, the parties agree that nothing in this Agreement shall modify, revoke, or rescind the parties' respective rights and obligations under those certain BSD Medical Corporation Notices of Grant of Stock Option signed by the Company and me with grant dates of September 12, 2008, April 28, 2009, February 2, 2011, and May 11, 2011 (the "Stock Option Grants"), all as set forth more fully in the respective Stock Option Grants. I understand that the termination date referenced in the Stock Option Grants shall be the Termination Date as set forth above.

7. Review and Revocation. I understand and acknowledge that I have 21 days from the date I received this Agreement to consider the terms of and to sign this Agreement. I understand that, in my sole and absolute discretion, I may sign this Agreement prior to the end of the 21-day period.

I further acknowledge and understand that I may revoke this Agreement for a period of up to 7 days after I sign it (not counting the day it was signed) and that the Agreement will not become effective or enforceable until the 7-day revocation period has expired. To revoke this Agreement, I must give written notice stating that I wish to revoke the Agreement to Michelle Cisneros, HR Manager, BSD Medical Corporation, 2188 West 2200 South, Salt Lake City, Utah 84119-1326, Fax: 801-924-7893, Email: mcisneros@bsdmc.com. Any notice stating that I wish to revoke this Agreement must be faxed, emailed (with confirmation of delivery), hand-delivered, or mailed to the Company, as set forth in this paragraph, in sufficient time to be received by the Company on or before the expiration of the 7-day revocation period.

/s/ DG /s/ HW
Initials

8. Covenant Not to File Claim. To the full extent allowed by law, and subject to the provisions and limitations of the Age Discrimination in Employment Act or regulations issued by the Equal Employment Opportunity Commission, I covenant that I have not, and agree that I will not, file any charge, lawsuit, or claim against the Company with any court or administrative agency relating to any Claim(s) released in this Agreement. I also agree that, to the full extent allowed by law, I am not entitled to and hereby waive any right to recover damages of any type or kind and/or reinstatement to employment that may be awarded or ordered by any court or administrative agency to or for my benefit arising from or relating to any Claim(s) released by me under this Agreement.

9. Return of Goods to the Company. I covenant and represent that I have returned or will return to the Company (i) all documents or other information about the Company, including without limitation confidential or proprietary information (whether developed by me or by any other employee of the Company), (ii) all electronic equipment and electronic information storage devices (e.g., computers, cellular phones, PDAs, zip drives, thumb drives, disks, etc.), and (iii) company credit cards, office keys, etc. that I obtained or that were made available to me as a consequence of my employment with the Company and/or that contain confidential or proprietary information about the Company or that otherwise are the rightful property of the Company.

10. Wages and Commissions Paid in Full. Except as specifically set forth in Section 2 above, I acknowledge and agree that I have received all monies due and owing to me from the Company, including without limitation any monies due and owing for wages (including without limitation overtime), accrued but unused vacation benefits, commissions, bonuses, or otherwise and that I have no claim against the Company whatsoever for the payment of any further wages (including without limitation overtime), commissions, bonuses, vacation benefits, or other monies except as specifically set forth in Section 2.

11. Confidentiality. This Agreement is confidential information owned by the Company. I agree that I will not disclose the terms of this Agreement except to the extent required by law. Nonetheless, I understand that I may disclose the terms of this Agreement to my spouse, attorney, and/or tax advisor. However, if I disclose the terms of this Agreement to my spouse, attorney, and/or tax advisor, I agree that I will obtain the agreement of such person(s) that, as a condition of such disclosure, he/she will not disclose the terms of this Agreement except to the extent required by law. I further agree that any breach by my spouse, attorney, and/or tax advisor shall be treated as if I had breached the provisions of this Section 11.

12. Confirmation of Prior Agreements. Notwithstanding anything in this Agreement to the contrary, I understand and agree that nothing in this Agreement shall alter, limit, or void the respective rights and obligations of the parties under any noncompetition, nonsolicitation, nondisclosure, employee invention, or other similar agreement entered into between me and the Company prior to the date hereof.

13. Not an Admission. This Agreement is not an admission by any party hereto that either has violated any contract, law, or regulation or that the Company or Employee has discriminated against the other or otherwise infringed on the other's rights and privileges or done any other wrongful act.

14. Integrated Document. This Agreement is the entire, integrated agreement between the parties regarding the subject matter of this Agreement. No other promises or agreements regarding the subject matter of this Agreement have been made to either Employee or the Company other than those contained in this Agreement. In electing to sign this Agreement, neither the Employee nor the Company has relied on any representation or promise, whether oral or written, not specifically set out in this Agreement.

15. No Assignment of Claims. I represent that I have not made, and will not make, any assignment of Claim(s) released by this Agreement and that no other person or entity had or has any interest in any Claim(s) released by me under this Agreement. I agree to indemnify and hold harmless the Company from any and all claims, demands, expenses, costs, attorney's fees, and causes of action asserted by any person or entity due to a violation of this non-assignment provision.

16. Miscellaneous. This Agreement shall be governed by the laws of the State of Utah. Notwithstanding any Utah statutory or case law to the contrary, this Agreement may not be modified except by a document signed by the Company and Employee, whether or not such claimed modification is supported by separate consideration. Any waiver by any party hereto of any breach of any kind or character whatsoever by any other party, whether such waiver be direct or implied, shall not be construed as a continuing waiver of, or consent to, any subsequent breach of this Agreement on the part of the other party. In addition, no course of dealing between the parties, nor any delay in exercising any rights or remedies hereunder or otherwise, shall operate as a waiver of any of the rights or remedies of the parties. This Agreement shall inure to and bind the heirs, devisees, executors, administrators, personal representatives, successors, and assigns, as applicable, of the respective parties hereto. The parties agree that any dispute between them, whether arising under this Agreement or the enforceability or interpretation thereof, shall be subject to the exclusive jurisdiction of the federal or state courts situated in the State of Utah, and each party hereby submits itself to the personal jurisdiction of the courts situated in the State of Utah.

17. Severability. The provisions of the Agreement are severable. If any part of this Agreement is found to be unenforceable, the other provisions shall remain fully valid and enforceable. It is the intention and agreement of the parties that all of the terms and conditions hereof be enforced to the fullest extent permitted by law.

18. Attorney's Fees. If a civil action or other proceeding is brought to enforce this Agreement, the prevailing party shall be entitled to recover reasonable attorney's fees, costs, and expenses incurred, in addition to any other relief to which such party may be entitled, whether incurred before or after the filing of a civil action or the entry of judgment.

19. Knowing and Voluntary Execution. I acknowledge that I have read this Agreement carefully, have consulted with an attorney or other counsel of my choice, and have had the opportunity to ask any questions I may have regarding this Agreement. I acknowledge that I fully understand the meaning and terms of this Agreement. I acknowledge that I have signed this Agreement voluntarily and of my own free will and that I am knowingly and voluntarily releasing and waiving all Claim(s) that I have or may claim to have against the Company to the full extent allowed by law.

/s/ DG /s/ HW
Initials

20. Consultation with Counsel. I acknowledged that I have been advised, by this Agreement, to consult an attorney or other counsel of my choice prior to signing this Agreement. Each party hereto acknowledges that it has had the opportunity, it such party so chooses, to consult with counsel of such party's choice prior to signing this Agreement. Each party agrees that it shall be solely responsible for any attorney's fees incurred by that party in the negotiation and execution of this Agreement.

/s/ DG /s/ HW
Initials

21. Counterparts. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument. Facsimile or other electronically delivered copies of signature pages to this Agreement shall be treated between the parties as original signatures for all purposes.

DATED: 11/28/12	/s/ Dennis Gauger
	Dennis Gauger
	BSD Medical Corporation
DATED: 11/28/12	By: /s/ Harold Wolcott
	Its: President

Exhibit 31.1

Certification of the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

I, Harold R. Wolcott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BSD Medical Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: January 9, 2013

By: /s/ Harold R. Wolcott
Harold R. Wolcott
President
(Principal Executive Officer)

Certification of the Principal Accounting Officer
Pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

I, William S. Barth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BSD Medical Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:January 9, 2013

By: /s/ William S. Barth
William S. Barth
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BSD Medical Corporation (the “Company”) on Form 10-Q for the quarterly period ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Harold R. Wolcott, President (Principal Executive Officer) of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Harold R. Wolcott
Harold R. Wolcott
President (Principal Executive
Officer)
January 9, 2013

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of BSD Medical Corporation (the “Company”) on Form 10-Q for the quarterly period ended November 30, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, William S. Barth, Chief Financial Officer (Principal Financial Officer) of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ William S. Barth
William S. Barth
Chief Financial Officer
(Principal Accounting Officer)
January 9, 2013

Note 4. Stockholders' Equity (Details) (USD $)	Nov. 30, 2012	Aug. 31, 2012
Preferred stock shares authorized	10,000,000	10,000,000
Preferred stock par value	$ 0.001	$ 0.001
Common stock shares authorized	80,000,000	80,000,000
Common stock par value	$ 0.001	$ 0.001

Note 3. Property and Equipment	3 Months Ended Nov. 30, 2012

Notes
Note 3. Property and Equipment

Note 3. Property and Equipment

Property and equipment consisted of the following:

	November 30, 2012	August 31, 2012
Equipment	$ 1,372,093	$ 1,368,183
Rental equipment	58,940	58,940
Furniture and fixtures	298,576	298,576
Building improvements	54,736	54,736
Building	956,000	956,000
Land	244,000	244,000
	2,984,345	2,980,435
Less accumulated depreciation	(1,600,786)	(1,567,796)
Property and equipment, net	$ 1,383,559	$ 1,412,639

Note 7. Stock-based Compensation: Schedule of Stock Based Compensation (Details) (USD $)	3 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Allocated stock-based compensation expense	$ 289,912	$ 289,055
Cost of Sales		
Allocated stock-based compensation expense	16,023	16,023
Research and Development Expense		
Allocated stock-based compensation expense	50,285	58,021
Selling, General and Administrative Expenses		
Allocated stock-based compensation expense	$ 223,604	$ 215,011

Note 6. Related Party Transactions (Details) (USD $)	3 Months Ended		
	Nov. 30, 2012	Nov. 30, 2011	Aug. 31, 2012
Sales to related parties	$ 70,271	$ 300,860	
Related party trade accounts receivable	$ 56,526		$ 33,257

Note 7. Stock-based Compensation (Details) (USD $)	3 Months Ended
	Nov. 30, 2012
Granted	5,000
Exercise price	$ 2.05
Grant date fair value per share	$ 1.10
Expected volatility	62.67%
Expected dividends	0.00%
Expected term, years	7.4
Risk-free interest rate	1.02%
Weighted average amortization period, years	1.06
Unrecognized stock-based compensation expense	$ 1,560,000

Note 7. Stock-based Compensation: Schedule of Share-based Compensation, Activity (Details)	3 Months Ended Nov. 30, 2012
Granted	5,000
Shares	
Options Outstanding, beginning of period	3,182,239
Granted	5,000
Exercised	0
Forfeited or expired	(12,000)
Outstanding, End of Period	3,175,239
Exercisable	1,781,444
Weighted Average Exercise Price	
Options Outstanding, beginning of period	3.54
Granted	2.05
Exercised	0
Forfeited or expired	3.85
Outstanding, End of Period	3.53
Exercisable	3.83
Weighted Average Remaining Contact Term (Years)	
Outstanding, End of Period	6.47
Exercisable	5.34
Aggregate Intrinsic Value	
Exercised	0
Outstanding, End of Period	92,207
Exercisable	90,307

Note 2. Inventories	3 Months Ended Nov. 30, 2012
Notes	
Note 2. Inventories	**Note 2. Inventories**

Inventories consisted of the following:

	November 30, 2012	August 31, 2012
Parts and supplies	$ 1,187,094	$ 1,180,428
Work-in-process	827,235	803,049
Finished goods	429,729	520,480
Reserve for obsolete inventory	(100,000)	(100,000)
Inventories, net	$ 2,344,058	$ 2,403,957

Balance Sheets (USD $)	Nov. 30, 2012	Aug. 31, 2012
Cash and cash equivalents	$ 9,142,517	$ 11,102,508
Accounts receivable, net of allowance for doubtful accounts of $20,000	436,562	289,587
Related party trade accounts receivable	56,526	33,257
Inventories, net	2,344,058	2,403,957
Other current assets	136,373	120,069
Total current assets	12,116,036	13,949,378
Property and equipment, net	1,383,559	1,412,639
Patents, net		4,032
Total assets	13,499,595	15,366,049
Accounts payable	210,344	195,754
Accrued liabilities	459,454	424,698
Customer deposits	41,250	24,980
Deferred revenue - current portion	132,248	96,865
Total current liabilities	843,296	742,297
Deferred revenue - net of current portion	87,719	126,420
Total liabilities	931,015	868,717
Commitments and contingencies		
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	52,134,947	51,845,035
Treasury stock, 24,331 shares at cost	(234)	(234)
Accumulated deficit	(39,595,911)	(37,377,247)
Total stockholders' equity	12,568,580	14,497,332
Total liabilities and stockholders' equity	$ 13,499,595	$ 15,366,049

Statements of Cash Flows (USD $)	3 Months Ended Nov. 30, 2012	Nov. 30, 2011
Net loss and comprehensive loss	$ (2,218,664)	$ (1,687,405)
Depreciation and amortization	37,272	37,059
Stock-based compensation	289,912	289,055
Loss on disposition of property and equipment		118
Decrease (increase) in receivables	(170,244)	223,563
Decrease (increase) in inventories	59,899	(57,055)
Decrease (increase) in other current assets	(16,304)	23,324
Increase (decrease) in accounts payable	14,590	(130,524)
Increase (decrease) in accrued liabilities	34,756	(66,070)
Increase (decrease) in customer deposits	16,270	
Increase (decrease) in deferred revenue	(3,318)	(10,329)
Net cash used in operating activities	(1,955,831)	(1,378,264)
Purchase of property and equipment	(4,160)	(29,120)
Net decrease in cash and cash equivalents	(1,959,991)	(1,407,384)
Cash and cash equivalents, beginning of period	11,102,508	17,135,968
Cash and cash equivalents, end of period	$ 9,142,517	$ 15,728,584

Note 7. Stock-based Compensation: Schedule of Share-based Compensation, Activity (Tables)

Tables/Schedules

Schedule of Share-based Compensation, Activity

3 Months Ended				
Nov. 30, 2012				
	Shares	**Weighted-Average Exercise Price**	**Weighted-Average Remaining Contract Term (Years)**	**Aggregate Intrinsic Value**
Outstanding at August 31, 2012	3,182,239	$ 3.54		
Granted	5,000	2.05		
Exercised	0	0		$ 0
Forfeited or expired	(12,000)	3.85		
Outstanding at November 30, 2012	3,175,239	$ 3.53	6.47	$ 92,207
Exercisable at November 30, 2012	1,781,444	$ 3.83	5.34	$ 90,307

Note 3. Property and Equipment: Property and Equipment Consisted of The Following (Details) (USD $)	Nov. 30, 2012	Aug. 31, 2012
Equipment	$ 1,372,093	$ 1,368,183
Rental equipment	58,940	58,940
Furnitures and fixtures	298,576	298,576
Building improvements	54,736	54,736
Building	956,000	956,000
Land	244,000	244,000
Property and equipment, gross	2,984,345	2,980,435
Accumulated depreciation	(1,600,786)	(1,567,796)
Property and equipment, net	$ 1,383,559	$ 1,412,639

Note 1. Basis of Presentation	3 Months Ended Nov. 30, 2012
Notes	
Note 1. Basis of Presentation	**Note 1. Basis of Presentation** The interim financial information of BSD Medical Corporation (the "Company") as of November 30, 2012 and for the three months ended November 30, 2012 and 2011 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 November 30, 2012 and August 31, 2012 and the related unaudited condensed statements of comprehensive loss and cash flows for the three months ended November 30, 2012 and 2011 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 November 30, 2012 and August 31, 2012 and our results of operations and our cash flows for the three months ended November 30, 2012 and 2011 have been included. The results of operations for the three months ended November 30, 2012 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.

Balance Sheets Parenthetical (USD $)	Nov. 30, 2012	Aug. 31, 2012
Allowance for doubtful accounts	$ 20,000	$ 20,000
Preferred stock par value	$ 0.001	$ 0.001
Preferred stock shares authorized	10,000,000	10,000,000
Preferred stock shares issued		
Preferred stock shares outstanding		
Common stock par value	$ 0.001	$ 0.001
Common stock shares authorized	80,000,000	80,000,000
Common stock shares issued	29,777,522	29,777,522
Treasury stock shares	24,331	24,331

Note 2. Inventories: Schedule of Inventory (Tables)

3 Months Ended Nov. 30, 2012

Tables/Schedules

Schedule of Inventory

Inventories consisted of the following:

	November 30, 2012	August 31, 2012
Parts and supplies	$ 1,187,094	$ 1,180,428
Work-in-process	827,235	803,049
Finished goods	429,729	520,480
Reserve for obsolete inventory	(100,000)	(100,000)
Inventories, net	$ 2,344,058	$ 2,403,957

Document and Entity Information	3 Months Ended Nov. 30, 2012	Jan. 04, 2013
Document and Entity Information		
Entity Registrant Name	BSD MEDICAL CORP	
Document Type	10-Q	
Document Period End Date	Nov. 30, 2012	
Amendment Flag	false	
Entity Central Index Key	0000320174	
Current Fiscal Year End Date	--08-31	
Entity Common Stock, Shares Outstanding		29,753,191
Entity Filer Category	Accelerated Filer	
Entity Current Reporting Status	Yes	
Entity Voluntary Filers	No	
Entity Well-known Seasoned Issuer	No	
Document Fiscal Year Focus	2013	
Document Fiscal Period Focus	Q1	

Note 3. Property and Equipment: Property and Equipment Consisted of The Following (Tables)	3 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Property and Equipment Consisted of The Following:	Property and equipment consisted of the following:

	November 30, 2012	August 31, 2012
Equipment	$ 1,372,093	$ 1,368,183
Rental equipment	58,940	58,940
Furniture and fixtures	298,576	298,576
Building improvements	54,736	54,736
Building	956,000	956,000
Land	244,000	244,000
	2,984,345	2,980,435
Less accumulated depreciation	(1,600,786)	(1,567,796)
Property and equipment, net	$ 1,383,559	$ 1,412,639

Statements of Comprehensive Loss (USD $)	3 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Sales	$ 517,614	$ 317,488
Sales to related parties	70,271	300,860
Equipment rental	71,900	40,650
Total revenues	659,785	658,998
Cost of sales	408,870	154,492
Cost of related party sales	61,377	213,439
Cost of equipment rental	2,947	2,947
Total cost of revenues	473,194	370,878
Gross margin	186,591	288,120
Research and development	527,267	536,735
Selling, general and administrative	1,889,249	1,454,835
Total operating costs and expenses	2,416,516	1,991,570
Loss from operations	(2,229,925)	(1,703,450)
Interest income	9,946	18,059
Other income (expense)	1,315	(2,014)
Total other income (expense)	11,261	16,045
Loss before income taxes	(2,218,664)	(1,687,405)
Net loss and comprehensive loss	$ (2,218,664)	$ (1,687,405)
Net loss per common share: Basic	$ 0	$ 0
Net loss per common share: Diluted	$ 0	$ 0
Weighted average number of shares outstanding: Basic	29,778,000	29,686,000
Weighted average number of shares outstanding: Diluted	29,778,000	29,686,000

Note 6. Related Party Transactions	3 Months Ended Nov. 30, 2012
Notes	
Note 6. Related Party Transactions	**Note 6. Related Party Transactions** During the three months ended November 30, 2012 and 2011, we had sales of $70,271 and $300,860, respectively, to entities controlled by a significant stockholder and member of the Board of Directors. These related party transactions represent approximately 11% and 46% of total sales for each respective three-month period. As of November 30, 2012 and August 31, 2012, receivables included $56,526 and $33,257, respectively, from these related parties.

Note 5. Net Loss Per Common Share	3 Months Ended Nov. 30, 2012

Notes
Note 5. Net Loss Per Common Share

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 November 30,	
	2012	2011
Weighted average number of shares outstanding - basic	29,778,000	29,686,000
Dilutive effect of stock options and warrants	0	0
Weighted average number of shares outstanding - diluted	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 ended November 30, 2012 and 2011 because the effect would be anti-dilutive. As of November 30, 2012, we had outstanding options and warrants to purchase a total of 5,583,762 shares of our common stock that could have a future dilutive effect on the calculation of earnings per share.

Note 2. Inventories: Schedule of Inventory (Details) (USD $)	Nov. 30, 2012	Aug. 31, 2012
Parts and supplies	$ 1,187,094	$ 1,180,428
Work-in-process	827,235	803,049
Finished goods	429,729	520,480
Inventory Reserve	(100,000)	(100,000)
Inventories, net	$ 2,344,058	$ 2,403,957

Note 4. Stockholders' Equity: Schedule of Outstanding Warrants (Tables)	**3 Months Ended**
	Nov. 30, 2012

Tables/Schedules

Schedule of Outstanding Warrants

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)
Outstanding at August 31, 2012	2,408,523	$	4.56	
Issued	-		-	
Exercised	-		-	
Forfeited or expired	-		-	
Outstanding and exercisable at November 30, 2012	2,408,523	$	4.56	3.23

Note 9. Recent Accounting Pronouncements	3 Months Ended Nov. 30, 2012
Notes	
Note 9. Recent Accounting Pronouncements	**Note 9. Recent Accounting Pronouncements** No new accounting pronouncements were issued during the three months ended November 30, 2012 and through the date of filing this report that we believe are applicable or would have a material impact on our financial statements.

Note 7. Stock-based Compensation	3 Months Ended Nov. 30, 2012

Notes
Note 7. Stock-based Compensation

Note 7. Stock-Based Compensation

We have both an employee and director stock incentive plan, which are described more fully in Note 10 in our 2012 Annual Report on Form 10-K. As of November 30, 2012, we had approximately 2,687,000 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 November 30, 2012	Three Months Ended November 30, 2011
Cost of sales	$ 16,023	$ 16,023
Research and development	50,285	58,021
Selling, general and administrative	223,604	215,011
Total	$ 289,912	$ 289,055

During the three months ended November 30, 2012, we granted an employee 5,000 stock options at an exercise price of $2.05 per share and 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 $1.10, and our weighted average assumptions used in the Black-Scholes valuation model to determine this estimated fair value are as follows:

Expected volatility	62.67%
Expected dividends	0%
Expected term	7.4 years
Risk-free interest rate	1.02%

Unrecognized stock-based compensation expense expected to be recognized over the estimated weighted-average amortization period of 1.06 years is approximately $1,560,000 as of November 30, 2012.

A summary of the time-based stock option awards as of November 30, 2012, and changes during the three months then ended, is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)	Aggregate Intrinsic Value

Outstanding at August 31, 2012	3,182,239	$ 3.54		
Granted	5,000	2.05		
Exercised	0	0		$ 0
Forfeited or expired	(12,000)	3.85		
Outstanding at November 30, 2012	3,175,239	$ 3.53	6.47	$ 92,207
Exercisable at November 30, 2012	1,781,444	$ 3.83	5.34	$ 90,307

The aggregate intrinsic value in the preceding table represents the total pre-tax intrinsic value, based on our closing stock price of $1.66 as of November 30, 2012, 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	3 Months Ended Nov. 30, 2012
Notes	
Note 8. Supplemental Cash Flow Information	**Note 8. Supplemental Cash Flow Information** We paid no amounts for interest expense and income taxes during the three months ended November 30, 2012 and 2011. During the three months ended November 30, 2012 and 2011, we had no non-cash financing and investing activities.

Note 10. Subsequent Events	3 Months Ended Nov. 30, 2012
Notes	
Note 10. Subsequent Events	**Note 10. Subsequent Events** Subsequent to November 30, 2012, the Board of Directors of the Company approved the grant of a total of 200,000 stock options to an employee, with an exercise price of $1.59 per share and with one third vesting each year for the next three years.

Note 7. Stock-based Compensation: Schedule of Stock Based Compensation (Tables)	3 Months Ended
	Nov. 30, 2012
Tables/Schedules	
Schedule of Stock Based Compensation	

	Three Months Ended November 30, 2012	Three Months Ended November 30, 2011
Cost of sales	$ 16,023	$ 16,023
Research and development	50,285	58,021
Selling, general and administrative	223,604	215,011
Total	$ 289,912	$ 289,055

Note 4. Stockholders' Equity: Schedule of Outstanding Warrants (Details) (USD $)	Nov. 30, 2012	Aug. 31, 2012
Outstanding Warrants	2,408,523	2,408,523
Weighted Average Exercise Price of Warrants Outstanding	$ 4.56	$ 4.56
Weighted Average Remaining Contractual Term of Warrants Outstanding	3.23	

Statements of Stockholders' Equity (USD $)	3 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Balance	$ 14,497,332	
Stock-based compensation	289,912	289,055
Net loss and comprehensive loss	(2,218,664)	(1,687,405)
Balance	$ 12,568,580	

Note 4. Stockholders' Equity	3 Months Ended Nov. 30, 2012
Notes	
Note 4. Stockholders' Equity	**Note 4. Stockholders' Equity**

Note 4. Stockholders' Equity

The Company has 10,000,000 authorized shares of $0.001 par value preferred stock. As of November 30, 2012 and August 31, 2012, there were no shares of preferred stock outstanding. The Company also has 80,000,000 authorized shares of $0.001 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 November 30, 2012, and changes during the three months then ended, is as follows:

	Shares		Weighted-Average Exercise Price	Weighted-Average Remaining Contract Term (Years)
Outstanding at August 31, 2012	2,408,523	$	4.56	
Issued	-		-	
Exercised	-		-	
Forfeited or expired	-		-	
Outstanding and exercisable at November 30, 2012	2,408,523	$	4.56	3.23

Note 5. Net Loss Per Common Share: Schedule of Earnings Per Share Reconciliation (Details) (USD $)	3 Months Ended	
	Nov. 30, 2012	Nov. 30, 2011
Weighted average number of shares outstanding: Basic	29,778,000	29,686,000
Dilutive Securities, Effect on Basic Earnings Per Share, Other	$ 0	$ 0
Weighted average number of shares outstanding: Diluted	29,778,000	29,686,000

Note 5. Net Loss Per Common Share: Schedule of Earnings Per Share Reconciliation (Tables)	**3 Months Ended**
	Nov. 30, 2012
Tables/Schedules	
Schedule of Earnings Per Share Reconciliation	

	Three Months Ended November 30,	
	2012	**2011**
Weighted average number of shares outstanding - basic	29,778,000	29,686,000
Dilutive effect of stock options and warrants	0	0
Weighted average number of shares outstanding - diluted	29,778,000	29,686,000