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BSD MEDICAL CORP  
Form 10QSB  
April 14, 2005

U.S. SECURITIES AND EXCHANGE  
COMMISSION  
WASHINGTON, D.C. 20549

FORM 10 - QSB

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended February 28, 2005

Commission file number 0-10783

BSD MEDICAL CORPORATION

DELAWARE	75-1590407
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(State of Incorporation)	(IRS Employer Identification Number)
2188 West 2200 South Salt Lake City, Utah	84119
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(Address of principal executive offices)	(Zip Code)

Registrant's telephone number: (801) 972-5555

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of February 28, 2005
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Common stock, \$.001 Par Value	20,135,333

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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## BSD MEDICAL CORPORATION Condensed Balance Sheet (Unaudited)

	Assets	February
	-----	2005
		-----
Current assets:		
Cash and cash equivalents		\$ 9,251,
Receivables, net		229,
Related party receivables		561,
Inventories		894,
Deferred tax asset		829,
Other current assets		177,
		-----
Total current assets		11,943,
		-----
Property and equipment, net		165,
Patents, net		24,
		-----
		\$ 12,132,
		-----
Liabilities and Stockholders' Equity		
-----		
Current liabilities:		
Accounts payable		\$ 2
Accrued expenses		2
Current portion of deferred revenue		
		-----
Total current liabilities		5
		-----
Long term liabilities		
Deferred tax liability		
		-----
Total liabilities		5
		-----
Stockholders' equity:		
Preferred stock, .001 par value; 10,000,000 authorized, no shares issued and outstanding		
Common stock, \$.001 par value; authorized 40,000,000 shares; issued 20,148,745 and outstanding 20,135,333, shares		
Additional paid-in capital		23,3
Deferred compensation		(
Accumulated deficit		(11,7
Common stock in treasury 13,412 shares, at cost		
		-----
Net stockholders' equity		11,5
		-----

See accompanying notes to financial statements

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## BSD MEDICAL CORPORATION

Condensed Statements of Operations  
(Unaudited)

Periods ended February 28, 2005 and February 29, 2004

	Three Months Ended:		
	February 28 2005	February 29 2004	
Sales	\$ 226,507	218,350	\$
Related party sales	488,906	208,192	
	-----	-----	
Total revenues	715,413	426,542	
	-----	-----	
Costs and expenses:			
Cost of product sales	184,629	206,765	
Cost of related party sales	190,330	61,969	
Research and development	191,283	166,733	
Selling, general, and administrative	459,280	248,581	
	-----	-----	
Total costs and expenses	1,025,522	684,048	
	-----	-----	
Operating loss	(310,109)	(257,506)	
Other income			
Interest income	86,905	2,500	
Interest expense	-	(245)	
Other income	1,094,406	-	
	-----	-----	
Total other income	1,181,311	2,255	
	-----	-----	
Income (loss) before income taxes	871,202	(255,251)	
Income tax benefit	-	-	
	-----	-----	
Net income (loss)	\$ 871,202	(255,251)	\$
	=====	=====	

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Net loss per common and common equivalent share, basic and diluted	\$ .04	(.01)	\$
Weighted average number of shares outstanding, Basic	20,060,000	18,898,000	
Diluted	21,495,000	18,898,000	

See accompanying notes to financial statements

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BSD MEDICAL CORPORATION

Condensed Statements of Cash Flows (Unaudited)  
Six Months Ended February 28, 2005 and February 29, 2004

	Feb. 28, 2005
	-----
Cash flows from operating activities:	
Net Income (loss)	\$ 366,865
Adjustments to reconcile net income (loss) to net cash used in operating activities:	
Depreciation and amortization	24,150
Bad debt expense	-
Stock compensation expense	30,000
Deferred compensation	9,508
(Increase) decrease in:	
Receivables	(531,736)
Inventories	(154,226)
Prepaid expenses and deposits	(126,293)
Increase (decrease) in:	
Accounts payable	163,457
Accrued expenses	(214,232)
Deferred revenue	(17,666)
Net cash used in operating activities	(450,172)
	-----
Cash flows from investing activities:	
Purchase of property and equipment	(49,324)
Net cash used in investing activities	(49,324)
	-----
Cash flows from financing activities:	
Proceeds from issuance of common stock options	53,700
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Net cash provided by financing activities	53,700
Increase in cash and cash equivalents	445,796
Cash and cash equivalents, beginning of period	9,697,154
Cash and cash equivalents, end of period	\$ 9,251,358

### Supplemental Disclosure of Cash Flow Information

- o The Company paid no cash for interest and taxes for the period ended February 28, 2005 and \$353 for interest and no cash for taxes during the period ended February 28, 2004.
- o The Company issued 75,000 options for the periods ended February 28, 2005 and February 29, 2004, which resulted in an increase to Deferred Compensation of \$15,750 and \$8,250, respectively.

See accompanying notes to financial statements

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### BSD MEDICAL CORPORATION Notes to Condensed Financial Statements

#### Note 1. Basis of Presentation

The Condensed Balance Sheet as of February 28, 2005, the Condensed Statements of Operations for the three and six months ended February 28, 2005 and February 29, 2004, and the Condensed Statements of Cash Flows for the six months ended February 28, 2005, and February 29, 2004 have been prepared by the Company without audit. In the opinion of management, all adjustments to the books and accounts (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations, and changes in financial position of the Company as of February 28, 2005 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The results of operations for the period ended February 28, 2005, are not necessarily indicative of the results to be expected for the full year.

#### Note 2. Net Income (Loss) Per Common Share

Net income (loss) per common share for the periods ended February 28, 2005 and February 29, 2004 is based on the weighted average number of shares outstanding during the respective periods. Diluted earnings per share are based upon the weighted average share per common stock equivalent. When common stock equivalents are anti dilutive they are not included.

#### Note 3. Related Party Transactions

During the six months ended February 28, 2005 and February 29, 2004,

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the Company had sales to an unconsolidated affiliate and an entity controlled by a significant stockholder and member of the Board of Directors of \$496,060 and \$608,798, respectively. These related party transactions represents 50.96% and 54.96 % of total sales. Related party revenue from TherMatrx was \$0 in the period ended February 28, 2005 compared to \$86,620 in period ended February 29, 2004.

At February 28, 2005, receivables include \$561,746 due from an entity controlled by a significant stockholder and member of the Board of Directors.

### Note 4. Stock-Based Compensation

The Company accounts for stock options granted to employees under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations, and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." Accordingly, only the intrinsic value has been recognized in the financial statements as expense. Had the Company's options been determined based on the fair value method, the results of operations would have been reduced to the pro forma amounts indicated below for the six months ended February 28:

	Six Months Ended February 28/29 2005                      2004		Three Mon Februar 2005
Net income (loss) - as reported	\$ 366,865	\$ (279,389)	\$ 871,202
Add: Stock based employee compensation expense included in reported net income (loss), net of related tax effects	9,508	7,858)	-
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards, net of related taxes	(103,089)	(25000)	-
Net income (loss) - pro forma	\$ 273,284	\$ (296,531)	\$ 871,202
Basic and Diluted income (loss) per share - as reported	\$ .02	\$ (.01)	\$ .04
Basic and Diluted income (loss) per share - pro-forma	\$ .01	\$ (.02)	\$ .04

The fair value of each option granted for the six months ended February 28, 2005 and February 29, 2004 is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

2005	2004
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Expected dividend yield	\$	-	\$	-
Expected stock price volatility		84%		114%
Risk-free interest rate		3.32%		4.2%
Expected life of options		10 years		5 years

The weighted average fair value of options granted during the three months ended February 28, 2005 and 2004 was \$1.20 and \$.64, respectively.

### Note 5. Gain on Sale of Investment in TherMatrx

On July 15, 2004, the Company's investment in TherMatrx was sold to American Medical Systems, Inc. (AMS). The Company's portion of the initial payment from this sale, received in fiscal 2004, was nearly \$9 million, with additional payments contingent on the quarterly sales of TherMatrx through the fourth calendar quarter of 2005. During the quarter ended February 28, 2005, the Company received additional payments from the sale of TherMatrx that totaled \$1,094,406. This amount was recorded as a gain and is reflected in "Other income" in the statement of operations. The Company is scheduled to receive its next payment in May, 2005; however, the amount of such payment cannot be determined at this time.

### 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 report 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 subsections entitled "Forward-Looking Statements" below. The following discussion should be read in conjunction with our consolidated financial statements and notes thereto included in this report. All information presented herein is based on the six months ended February 28, 2005. We assume no obligation to revise or update any forward-looking statements for any reason, except as required by law.

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### General

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We develop, manufacture, market and service systems that deliver focused electromagnetic energy for use in a variety of medical therapies and applications. Our objective is to commercialize our developed products and further expand the application of our technology into new markets. We pioneered the use of microwave thermal therapy for the treatment of the symptoms associated with enlarged prostate, and are responsible for much of the technology that has created a substantial medical industry using that therapy. Our longest-term development has been the application of focused electromagnetic energy for the treatment of cancer.

One of our significant contributions to the advancement of medical therapy has been our pioneering efforts in developing a new treatment for conditions associated with enlargement of the prostate that afflicts most men as they age. As the prostate enlarges it constricts urine flow. The condition is known medically as benign prostatic hyperplasia or BPH. We developed a

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technology that allows men to be treated for BPH through an outpatient procedure as an alternative to surgery or a lengthy regimen of medication.

We determined early in our planning that we would treat our BPH development as a spin-off business with the intent of providing an asset that could help fund our other business plans. As a result, we introduced the opportunity to investment groups and subsequently on October 31, 1997 entered into an agreement with investors Oracle Strategic Partners, L.P. and Charles Manker. Together we established a new company, TherMatrx, which was independently managed.

On July 15, 2004, TherMatrx was sold to American Medical Systems, Inc. (AMS). Our portion of the initial payment from this sale was nearly \$9 million, with additional payments contingent on the quarterly sales of TherMatrx through the fourth calendar quarter of 2005. We received additional payment totaling \$1,094,406 during the quarter ended February 28, 2005. We have estimated that our portion of the total payout from this sale will be approximately \$40 million. If TherMatrx sales exceed our projections, the maximum payout that we could receive from the sale is \$62.5 million. If TherMatrx sales fall under our projections, there is no guarantee of any further payment beyond those payments already received.

Since the inception of our company we have engineered systems designed to increase the effectiveness of cancer treatment through the use of focused electromagnetic energy. From this development our current BSD-500 and BSD-2000 systems have emerged. We have also developed enhancements to our BSD-2000 system, including the BSD-2000/3D that is designed to allow three dimensional steering of deep focused energy and heat to targeted tumors and tissue and the BSD-2000/3D/MR that includes an interface for magnetic resonance imaging. These systems are sold with supporting software and may also be sold with support services.

Our accumulated deficit since inception decreased from \$20,750,923 as of February 29, 2004 to \$11,706,281 as of February 28, 2005 due to net income recorded during our fiscal year ended August 31, 2004 and during the six months ending February 28, 2005, as a result of our sale of our interest in TherMatrx. We recorded a net profit for the first six months of fiscal 2005 of \$366,865.

We recognize revenue from the sale of cancer treatment systems, the sale of parts and accessories related to the cancer treatment systems, the sale of software license rights, providing manufacturing services, training, and service support contracts. Product sales were \$861,417 and \$1,052,042 for the six months ending February 28, 2005 and 2004, respectively. Service revenue was \$111,929 and \$55,633 for the six months ending February 28, 2005 and 2004, respectively.

We derived \$496,060, or 50.96%, of our revenue for the six months ending February 28, 2005, from sales to a related party, Medizin-Technik GmbH. Dr. Gerhard Sennewald, one of our directors, is a stockholder, executive officer and a director of Medizin-Technik GmbH. We also had sales to unrelated parties.

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In the six months ending February 28, 2005, we derived \$477,286, or 49.04%, of our revenue from sales to unrelated parties. These revenues consisted of product sales of approximately \$365,357, consulting services of approximately \$84,107, service contracts of approximately \$26,239, and other miscellaneous revenue of approximately \$1,583.

Cost of sales for the six months ending February 28, 2005, included raw material and labor costs. Research and development expenses include expenditures



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for new product development and development of enhancements to existing products.

### Critical Accounting Policies and Estimates

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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 cancer treatment 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 guaranteed by BSD. We provide a reserve allowance for estimated returns. To date, returns have not been significant.

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

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 payable include amounts from service contracts as well as cash received for the sales of products, which have not been shipped.

**Inventory Reserves.** As of February 28, 2005, we had recorded a reserve for potential inventory impairment of \$80,000. We periodically review our inventory levels and usage, paying particular attention to slower-moving items. We have projected no orders to be placed with us for TherMatrx systems, and do not project a requirement for any inventory impairment based on this decline.

**Product Warranty.** We provide product warranties on our BSD-500 and BSD-2000 systems. These warranties vary from contract to contract, but generally consist of parts and labor warranties for one year from the date of sale. 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 provide our customers with payment

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terms that vary from contract to contract. Our allowance for doubtful accounts at February 28, 2005 was \$0. Bad debt expense for the period ending February 28, 2005 was approximately \$9,000. We perform ongoing credit evaluations of our customers and maintain allowances for possible losses. Allowance estimates are recorded on a customer-by-customer basis and are determined based on the age of the receivable, compliance with payment terms, and prior history with existing clients. The non-payment of a receivable related to the sale of a BSD-500 or BSD-2000 could have a material adverse impact on our results of operations.

### Results of Operations

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Three Months Ended February 28, 2005 compared to the Three Months Ended February 29, 2004

Revenue. Revenue for the three months ended February 28, 2005 was \$715,413 compared to \$426,542 for the quarter ended February 29, 2004, an increase of \$288,871, or approximately 68%. The increase in total revenue was primarily due to an increase in sales to related parties. Sales to Medizin-Technik totaled \$488,906 in the quarter ending February 28, 2005 compared to \$140,180 in the corresponding quarter of fiscal 2004. Dr. Gerhard Sennewald, one of our directors, is a stockholder, executive officer and a director of Medizin-Technik GmbH. Sales to Medizin-Technik may fluctuate significantly depending on Medizin-Technik's anticipated sales and ability to place orders in Europe. Our revenue can fluctuate significantly from period to period because our sales, to date, have been based upon a relatively small number of 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 systems can cause a large change in the revenue from period to period as noted in the increase in sales to Medizin-Technik from the second quarter of fiscal 2005 to the second quarter of fiscal 2004. Product sales increased to \$645,960 as compared to \$407,426 in the corresponding quarter of fiscal 2004, an increase of \$238,534, or 59%.

Related Party Revenue. We derived \$488,906, or 68%, of our revenue in the three months ending February 28, 2005 from sales to related parties as compared to \$208,192 or 49%, in the corresponding quarter of fiscal 2004. All of the related party revenue in the 2005 period was from sales of systems and component parts to Medizin-Technik. For the period ending February 29, 2004, the related party revenue \$140,180 for sales to Medizin-Technik and the remaining sales of \$68,028 was to TherMatrx was from services provided to TherMatrx. Since the sale of TherMatrx in July 2004, TherMatrx is no longer considered a related party. Sales to Medizin-Technik may fluctuate significantly from period to period due to the high cost of a BSD-2000 or BSD-500 system. Sales increases of one or two systems can have a material effect on our revenue.

Non-related Party Revenue. In the three months ending February 28, 2005, we derived \$226,507, or 31.66% of our total revenue from sales to non-related parties, as compared to approximately \$218,350, or 51.19%, for the corresponding period of fiscal 2004. Our fiscal 2005 non-related party revenue consisted of product sales of approximately \$158,637, consulting services of approximately \$54,751, and service contracts of approximately \$13,119.

Gross Profit. Gross profit for the three months ending February 28, 2005 was \$340,454 or 47.58% as compared to \$154,808, or 36.29%, of total product sales for the corresponding period in fiscal 2004. The increase in gross profit margin was primarily due to improved utilization of labor resulting from the increase in sales. Because we have not had employee layoffs due to the specialized nature of our employees and because of the fixed costs associated with production, as our sales declined in the 2004 period, it resulted in a decline in gross profit percentage. As sales volumes increase, our employees are more utilized, thus increasing the gross profit percentage.

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Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to \$459,280 in the three months ending February 28, 2005, from \$248,581 for the corresponding period of fiscal 2004, an increase of \$210,699 or 84.76%. This increase was primarily due to an increase

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in sales and marketing costs supporting new product sales from \$34,744 for the three months ended February 29, 2004 to \$136,168 for the three months ended February 28, 2005. Legal and accounting costs increased from \$4,128 in the 2004 period to \$51,531 in the 2005 period. We also incurred higher consulting costs related to marketing and preparation of FDA submissions. Consulting costs increased from \$35,960 to \$54,970 in the 2004 and 2005 periods, respectively. Payroll costs also increased from \$223,623 to \$330,940, a result of wage and salary raises, the addition of new employees and fewer BSD employees working as consultants for TherMatrx..

Research and Development Expenses. Research and development expenses were \$191,283 for the three months ending February 28, 2005, as compared to \$166,733 for the corresponding period in fiscal 2004 an increase of \$24,550, or 14.72%, primarily due to an increase in payroll and consulting costs. Research and development expenses for the period ended February 28, 2005 related primarily to the conversion of systems software to foreign languages for international use and to new developments in the areas of thermal therapy and thermal ablation.

Interest income. Interest income increased to \$86,905 for the three months ended February 28, 2005 as compared to \$2,500 for the corresponding period in fiscal 2004 due to the significantly higher levels of cash resulting from the sale of TherMatrx.

Net income. The net income for the three months ended February 28, 2005, was \$871,202 as compared with a net loss of \$255,251 for the corresponding period of fiscal 2004. The increase in the net profit was primarily due to payments of \$1,094,406 received during the period ended February 28, 2005 from the sale of our investment in TherMatrx and the increase in interest income.

### Results of Operations

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Six Months Ended February 28, 2005 compared to the Six Months Ended February 29, 2004

Revenue. Revenue for the six months ended February 28, 2005 was \$973,346 compared to \$1,107,676 for the corresponding period in fiscal 2004, a decrease of \$134,330, or approximately 12%. The decrease in total revenue was primarily due to a decrease in sales to related parties. Sales to Medizin-Technik totaled \$496,060 in the period ending February 28, 2005 compared to \$606,798 in the corresponding period of fiscal 2004. Dr. Gerhard Sennewald, one of our directors, is a stockholder, executive officer and a director of Medizin-Technik GmbH. Sales to Medizin-Technik may fluctuate significantly depending on Medizin-Technik's anticipated sales and ability to place orders in Europe. Our revenue can fluctuate significantly from period to period because we have historically sold relatively few BSD-2000 and BSD-500 systems as these systems are expensive. Sales of a few systems can cause a large change in the revenue from period to period as noted in the decrease in sales to Medizin-Technik from the six month period ended February 28, 2005 as compared to the corresponding period of fiscal 2004. Product sales increased to \$645,960 as compared to \$407,426 in the corresponding period of fiscal 2004, an increase of \$238,534, or 59%.

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Related Party Revenue. We derived \$496,060, or 50.96%, of our revenue in six months ended February 28, 2005 from sales to related parties as compared to \$695,418 or 62.78%, in the corresponding period of fiscal 2004. All of the related party revenue in the 2005 period was from sales of BSD systems and component parts to Medizin-Technik. For the six months ended February 29, 2004, the related party revenue was \$606,798 for sales to Medizin-Technik and the remaining sales of \$88,620 was from services provided to TherMatrx. Since the sale of TherMatrx in July 2004, TherMatrx is no longer considered a related party. Sales to Medizin-Technik may fluctuate significantly from period to period due to the high cost of a BSD-2000 or BSD-500 system. Sales increases of one or two systems can have a material effect on our revenue.

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Non-related Party Revenue. In the six months ended February 28, 2005, we derived \$477,286, or 49.03% of our total revenue from sales to non-related parties, as compared to \$412,258, or 37.21%, for the corresponding period of fiscal 2004. Our fiscal 2005 non-related party revenue consisted of product sales of approximately \$365,357. The balance of our non-related party revenue consisted of consulting services of approximately \$84,107 and service contracts of approximately \$27,822.

Gross Profit. Gross profit for the six months ended February 28, 2005 was \$328,016 or 33.69% of product sales as compared to \$508,814, or 45.93% of total product sales for the corresponding period in fiscal 2004. The decline in gross profit margin was primarily due to the cost of excess production employees resulting from the significant decrease in sales during our first fiscal quarter. Because we have not had employee layoffs and because of the fixed costs associated with production, as our sales declined, it resulted in the costs of sales exceeding the sales during the first quarter of fiscal 2005.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased to \$838,698 in the six months ended February 28, 2005, from \$461,161 for the corresponding period of fiscal 2004, an increase of \$377,537 or 81.86%. This increase was primarily due to higher sales and marketing costs due to greater emphasis on marketing. Our sales and marketing costs increased from approximately \$27,000 in the six months ended February 29, 2004 to approximately \$125,000 in the six months ended February 28, 2005 due to higher sales and marketing costs due to greater emphasis on marketing. Legal and accounting costs increased from approximately \$36,000 in the 2004 period to approximately \$88,000 in the 2005 period, reflecting the use of legal counsel in preparation for the shareholders meeting and the review of the Form 10-QSB and proxy statements, as well as fees incurred in connection with tax consulting and planning. Shareholder relations costs increased from approximately \$10,000 in the 2004 period to approximately \$42,000 in the 2005 period reflecting costs incurred in connection with our annual shareholders meeting and the issuance of various press releases. Consulting costs increased from approximately \$1,000 to approximately \$46,000 from the 2004 period to the 2005 period, respectively. This is due to the use of consultants in marketing efforts and in efforts to complete the FDA approval process.

Research and Development Expenses. Research and development expenses were \$374,880 for the six months ended February 28, 2005, as compared to \$329,290 for the corresponding period in fiscal 2004 an increase of \$45,590, or 13.84%, primarily due to an increase in payroll and consulting costs. Research and development expenses for the period ended February 28, 2005 related primarily to the conversion of systems software to foreign languages for international use and to new developments in the areas of thermal therapy and thermal ablation.

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Interest income. Interest income increased to \$157,498 for the six months ended February 28, 2005 as compared to \$2,601 for the corresponding period in fiscal 2004 due to the significantly higher levels of cash on resulting from the sale of TherMatrx.

Net income. The net income for the six months ended February 28, 2005, was \$366,865 as compared with a net loss of \$279,389 for the corresponding period of fiscal 2004. The increase in the net profit was primarily due to payments of \$1,094,406 received during the 2005 period from the sale of our investment in TherMatrx and the increase in interest income.

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 for thermotherapy systems and component parts supplied by us to TherMatrx, market acceptance of our BSD hyperthermia systems, changes in the medical capital equipment market, changes in order mix and product order configurations, competition, regulatory developments and other matters. Operating expenses may fluctuate as a result of the timing of sales and marketing activities, research and development and clinical trial expenses, 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.

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### Liquidity and Capital Resources

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Our accumulated deficit since inception decreased from \$20,750,923 as of February 29, 2004 to \$11,706,281 as of February 28, 2005, due to net income recorded during our fiscal year ended August 31, 2004 as a result of our sale of our interest in TherMatrx and net income recorded for the first six months of fiscal 2005. We have historically financed our operations through cash from operations, licensing of technological assets and issuance of common stock and through the sale of our TherMatrx shares. We have projected substantial payments yet to be made to us as a result of the sale of our TherMatrx shares. However, these payments are contingent on the product sales that TherMatrx achieves through December 31, 2005. We believe these payments, if received, will contribute significantly to our future capital resources.

We used \$450,172 in cash from operating activities during the six months ended February 28, 2005 compared to \$408,622 for the corresponding period of fiscal 2004. Cash flow from operating activities increased for the period primarily because of lower sales volume compared to the prior year period. Our investing activities for the first quarter of fiscal 2005 resulted in net cash used of \$49,324 relating to the purchase of certain property and equipment. Total cash decreased from \$9,697,154 at August 31, 2004 to \$9,251,358 at February 28, 2005.

We expect to use the payments from the sale of our TherMatrx shares, including any contingent payments, for general corporate purposes, including the sales and marketing effort for our FDA approved cancer therapy products, supporting the FDA application for our cancer therapy products under investigational status, the development of new products used in medical therapy and the possibility of acquiring new companies or technology.

We expect to incur additional expenses related to the commercialization of our BSD-500 systems, which will precede any revenue from the sale of such

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systems. Due to additional participation at trade shows, expenditures on publicity, additional travel, higher sales commissions and other related expenses, we project that our sales and marketing expenses will be approximately \$500,000 higher in fiscal 2005 than in the prior year to support the commercial introduction of the BSD-500 systems. In addition, we anticipate that we will incur expenses of approximately \$200,000 related to governmental and regulatory, including FDA, approvals during fiscal 2005 in excess of fiscal 2004. We are making these investments in sales and marketing and on government and regulatory activities to increase our revenue from sales of our BSD-500 system and, upon receipt of FDA approval, from the sale of our BSD-2000 system in the United States. These increased marketing and regulatory expenses are an investment in generating offsetting revenue against the decline in TherMatrx sales that we have projected, and to provide future revenue growth over the long term. We also project that we will incur approximately \$250,000 in additional new development expenses associated with developments for the treatment of non-cancerous diseases and medical conditions.

We believe any cash shortfall during fiscal 2005 that results from a decrease in revenues and increase in expenses can be covered through cash received from the sale of our TherMatrx shares. We believe we can cover any cash shortfall with cost cutting or available cash. If we cannot cover any such cash shortfall with cost cutting or available cash, we would need to obtain additional financing. We cannot be certain that any financing will be available when needed or will be available on terms acceptable to us. 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.

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### FORWARD-LOOKING STATEMENTS

With the exception of historical facts, the statements contained in sections entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" 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:

- o our anticipated financial performance and business plan;
- o our expectations regarding the commercial introduction of the BSD-500 system;
- o our expectations and efforts regarding receipt of FDA approvals relating to the BSD-2000 system;
- o our technological developments to the BSD-500 and BSD-2000 systems;
- o our ability to successfully develop our technology for new applications and the expense of such developments;
- o our development or acquisition of new technologies;
- o our expectation that sales to TherMatrx may decline to zero in future periods;

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- o the amount of expenses we will incur for the commercial introduction of the BSD-500 system;
- o the amount of expenses we will incur for governmental and regulatory, including FDA, approvals;
- o our expectation that related party revenue will continue to be a significant portion of our total revenue;
- o our belief that sales of BSD-500 and BSD-2000 systems will increase through our future sales and marketing efforts;
- o our belief that our current working capital and cash from operations will be sufficient to fund our anticipated operations for fiscal 2005;
- o our assumption that we will receive contingent payments, and the amount of such payments, in connection with the sale of our ownership in TherMatrx to AMS; and
- o our anticipated use of proceeds from the sale of our ownership in TherMatrx to AMS.

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 the section entitled "Risk Factors" included in our Annual Report on Form 10-KSB for the year ended August 31, 2004 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. Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated 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 (the "Exchange Act")). Based upon that 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 and adequately designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable rules and forms.

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During the six months ended February 28, 2005 there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3: Defaults Upon Senior Securities

None.

Item 4: Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Shareholders was held on January 14, 2005. Of the 20,057,333 shares of common stock outstanding and entitled to vote at the meeting, 10,197,495 shares were present, either in person or by proxy. The following describes the matters considered by the Company's shareholders at the Annual Meeting, as well as the results of the votes cast at the Annual Meeting:

Proposal # 1 Election of Directors

	For	Withheld
Paul F. Turner	9,975,971	221,524
Hyrum A. Mead	9,975,971	221,524
Gerhard W. Sennewald	9,975,971	221,524
J. Gordon Short	10,185,595	11,900
Michael Nobel	10,185,595	11,900

Proposal # 2 Amend Company's 1998 Stock Incentive Plan to increase shares.

For	Against	Abstain
10,159,148	29,547	8,400

Proposal # 3 Ratify Tanner & Company as independent public Accounts

For	Against	Abstain
10,185,770	6,725	5,000

Proposal #4 Transact Business as may properly come before the meeting

For	Against	Abstain
9,962,615	231,855	3,025

Item 5: Other Information

None.



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Item 6. Exhibits

The following exhibits are filed as part of this report:

Exhibit No.	Description of Exhibit
31.1	Certification Required Pursuant to Section 302 of the Serbanes-Oxley Act of 2002
31.2	Certification Required Pursuant to Section 302 of the Serbanes-Oxley Act of 2002
32.1	Certification Required Pursuant to Section 902 of the Serbanes-Oxley Act of 2002
32.2	Certification Required Pursuant to Section 902 of the Serbanes-Oxley Act of 2002

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SIGNATURE

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

BSD MEDICAL CORPORATION

Date: April 14, 2005 /s/ Hyrum A. Mead  
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President (principal executive officer)

Date: April 14, 2005 /s/ Dennis E. Bradley  
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Controller (principal financial officer)

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