

BSD MEDICAL CORP
Form 10-Q
July 10, 2013

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 May 31, 2013

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
(State or other jurisdiction of incorporation
or organization)

75-1590407
(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

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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

Non-accelerated filer

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 July 10, 2013, there were 33,981,871 shares of the Registrant’s common stock, \$0.001 par value per share, outstanding.

BSD MEDICAL CORPORATION
FORM 10-Q

FOR THE QUARTER ENDED MAY 31, 2013

PART I - Financial Information

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

BSD MEDICAL CORPORATION
Condensed Balance Sheets
(Unaudited)

| ASSETS | May 31, 2013 | August 31, 2012 |
|---|---------------------|---------------------|
| Current assets: | | |
| Cash and cash equivalents | \$10,882,122 | \$11,102,508 |
| Accounts receivable, net of allowance for doubtful accounts of \$20,000 | 1,199,843 | 289,587 |
| Related party trade accounts receivable | 24,823 | 33,257 |
| Inventories, net | 2,309,299 | 2,403,957 |
| Other current assets | 201,609 | 120,069 |
| Total current assets | 14,617,696 | 13,949,378 |
| Property and equipment, net | 1,333,289 | 1,412,639 |
| Patents, net | - | 4,032 |
| | \$15,950,985 | \$15,366,049 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$385,334 | \$195,754 |
| Accrued liabilities | 423,419 | 424,698 |
| Customer deposits | 876,230 | 24,980 |
| Deferred revenue – current portion | 133,309 | 96,865 |
| Total current liabilities | 1,818,292 | 742,297 |
| Deferred revenue – net of current portion | 59,216 | 126,420 |
| Total liabilities | 1,877,508 | 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, 34,006,202 and 29,777,522 shares issued, respectively | 34,006 | 29,778 |
| Additional paid-in capital | 57,466,759 | 51,845,035 |
| Treasury stock, 24,331 shares at cost | (234) | (234) |
| Accumulated deficit | (43,427,054) | (37,377,247) |
| Total stockholders' equity | 14,073,477 | 14,497,332 |
| | \$15,950,985 | \$15,366,049 |

See accompanying notes to condensed financial statements (unaudited)

BSD MEDICAL CORPORATION
Condensed Statements of Comprehensive Loss
(Unaudited)

| | Three Months Ended May 31, | | Nine Months Ended May 31, | |
|---|-------------------------------|-----------------------|------------------------------|-----------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Sales | \$1,256,583 | \$611,730 | \$2,540,281 | \$1,165,655 |
| Sales to related parties | 230 | 13,757 | 76,776 | 315,163 |
| Equipment rental | 59,900 | 25,900 | 178,700 | 101,450 |
| Total revenues | 1,316,713 | 651,387 | 2,795,757 | 1,582,268 |
| Cost of Revenues: | | | | |
| Cost of sales | 713,383 | 435,656 | 1,533,618 | 934,070 |
| Cost of related party sales | 81 | 12,180 | 66,527 | 226,363 |
| Cost of equipment rental | 2,947 | 2,947 | 8,841 | 8,841 |
| Total cost of revenues | 716,411 | 450,783 | 1,608,986 | 1,169,274 |
| Gross margin | 600,302 | 200,604 | 1,186,771 | 412,994 |
| Operating costs and expenses: | | | | |
| Research and development | 607,690 | 641,457 | 1,693,648 | 1,760,803 |
| Selling, general and administrative | 1,967,082 | 1,667,503 | 5,562,013 | 4,580,000 |
| Total operating costs and expenses | 2,574,772 | 2,308,960 | 7,255,661 | 6,340,803 |
| Loss from operations | (1,974,470) | (2,108,356) | (6,068,890) | (5,927,809) |
| Other income (expense): | | | | |
| Interest income | 7,708 | 13,861 | 24,374 | 47,890 |
| Other expense | (2,984) | (2,371) | (5,291) | (6,950) |
| Total other income | 4,724 | 11,490 | 19,083 | 40,940 |
| Loss before income taxes | (1,969,746) | (2,096,866) | (6,049,807) | (5,886,869) |
| Provision for income taxes | - | (988) | - | (988) |
| Net loss and comprehensive loss | \$(1,969,746) | \$(2,097,854) | \$(6,049,807) | \$(5,887,857) |
| Net loss per common share: | | | | |
| Basic | \$(0.06) | \$(0.07) | \$(0.20) | \$(0.20) |
| Diluted | \$(0.06) | \$(0.07) | \$(0.20) | \$(0.20) |
| Weighted average number of shares outstanding: | | | | |
| Basic | 32,042,000 | 29,717,000 | 30,541,000 | 29,696,000 |

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| | | | | |
|---------|------------|------------|------------|------------|
| Diluted | 32,042,000 | 29,717,000 | 30,541,000 | 29,696,000 |
|---------|------------|------------|------------|------------|

See accompanying notes to condensed financial statements (unaudited)

BSD MEDICAL CORPORATION
Condensed Statements of Cash Flows
(Unaudited)

| | Nine Months Ended May 31, | |
|---|------------------------------|----------------|
| | 2013 | 2012 |
| Cash flows from operating activities: | | |
| Net loss | \$(6,049,807) | \$(5,887,857) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 101,454 | 113,207 |
| Stock-based compensation | 862,514 | 891,054 |
| Stock issued for services | 180,001 | 180,000 |
| Loss on disposition of property and equipment | - | 118 |
| Decrease (increase) in: | | |
| Receivables | (901,822) | 542,204 |
| Inventories | 94,658 | 87,954 |
| Other current assets | (81,540) | (30,215) |
| Increase (decrease) in: | | |
| Accounts payable | 189,580 | (64,597) |
| Accrued liabilities | (1,279) | (132,176) |
| Customer deposits | 851,250 | - |
| Deferred revenue | (30,760) | (2,317) |
| Net cash used in operating activities | (4,785,751) | (4,302,625) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (18,072) | (96,345) |
| Cash flows from financing activities: | | |
| Net proceeds from the sale of common stock | 4,583,437 | - |
| Net decrease in cash and cash equivalents | (220,386) | (4,398,970) |
| Cash and cash equivalents, beginning of the period | 11,102,508 | 17,135,968 |
| Cash and cash equivalents, end of the period | \$10,882,122 | \$12,736,998 |

See accompanying notes to condensed financial statements (unaudited)

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

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

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

Note 2. Inventories

Inventories consisted of the following:

| | May 31, 2013 | August 31, 2012 |
|--------------------------------|-----------------|--------------------|
| Parts and supplies | \$ 1,216,454 | \$ 1,180,428 |
| Work-in-process | 986,279 | 803,049 |
| Finished goods | 206,566 | 520,480 |
| Reserve for obsolete inventory | (100,000) | (100,000) |
| Inventories, net | \$ 2,309,299 | \$ 2,403,957 |

Note 3. Property and Equipment

Property and equipment consisted of the following:

| | May 31, 2013 | August 31, 2012 |
|-------------------------------|-----------------|--------------------|
| Equipment | \$ 1,384,520 | \$ 1,368,183 |
| Rental equipment | 58,940 | 58,940 |
| Furniture and fixtures | 300,061 | 298,576 |
| Building improvements | 54,736 | 54,736 |
| Building | 956,000 | 956,000 |
| Land | 244,000 | 244,000 |
| | 2,998,257 | 2,980,435 |
| Less accumulated depreciation | (1,664,968) | (1,567,796) |
| Property and equipment, net | \$ 1,333,289 | \$ 1,412,639 |

Note 4. Stockholders' Equity

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

Shelf Registration Statement

On September 28, 2012, we filed a universal shelf registration statement (form S-3; file number 333-184164) 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. On October 11, 2012, the universal shelf registration statement was declared effective by the SEC. 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. 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.

April 2013 Stock Offering

On April 9, 2013, we entered into a placement agency agreement (the "Agency Agreement") with Roth Capital Partners, LLC (the "Placement Agent"), pursuant to which the Placement Agent agreed to use its reasonable efforts to arrange for the sale of up to 4,065,042 shares of our common stock and warrants to purchase up to 3,048,782 shares of our common stock in a registered direct public offering (the "Offering"). The Placement Agent was entitled to a cash fee of 6.5% of the gross proceeds paid to us for the securities sold in the Offering. We also reimbursed the Placement Agent for all reasonable and documented out-of-pocket expenses incurred by the Placement Agent in connection with the Offering, not to exceed the lesser of (i) \$35,000 or (ii) 8% of the gross proceeds of the Offering, less the Placement Agent's placement fee.

The Agency Agreement contains customary representations, warranties and covenants by us. It also provides for customary indemnification by us and the Placement Agent for losses or damages arising out of or in connection with the sale of the securities being offered. We agreed to indemnify the Placement Agent against liabilities under the

Securities Act of 1933, as amended. We also agreed to contribute to payments the Placement Agent may be required to make in respect of such liabilities.

Also on April 9, 2013, we and certain institutional investors entered into a securities purchase agreement (the "Purchase Agreement") in connection with the Offering, pursuant to which we agreed to sell an aggregate of 4,065,042 shares of our common stock and warrants to purchase a total of 3,048,782 shares of our common stock to such investors for aggregate gross proceeds, before deducting fees to the Placement Agent and other estimated offering expenses payable by us, of approximately \$5.0 million. The common stock and warrants were sold in fixed combinations, with each combination consisting of one share of common stock and a warrant to purchase 0.75 shares of common stock. The purchase price was \$1.23 per fixed combination. The warrants will become exercisable six months and one day following the closing date of the Offering and will remain exercisable for five years thereafter at an exercise price of \$1.65 per share. The exercise price of the warrants is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions.

The exercisability of the warrants may be limited if, upon exercise, the holder or any of its affiliates would beneficially own more than 4.9% of our common stock.

We agreed with each of the purchasers that, subject to certain exceptions, we will not, within the 30 trading days following the closing of the Offering (which period may be extended in certain circumstances), enter into any agreement to issue or announce the issuance or proposed issuance of any securities.

We also agreed with each of the purchasers that while the warrants are outstanding, we will not affect or enter into an agreement to affect a "Variable Rate Transaction," which means a transaction in which we:

issue or sell any convertible securities either (A) at a conversion, exercise or exchange rate or other price that is based upon and/or varies with the trading prices of, or quotations for, the shares of our common stock at any time after the initial issuance of such convertible securities, or (B) with a conversion, exercise or exchange price that is subject to being reset at some future date after the initial issuance of such convertible securities or upon the occurrence of specified or contingent events directly or indirectly related to our business or the market for our common stock, other than pursuant to a customary "weighted average" anti-dilution provision; or

enter into any agreement (including, without limitation, an equity line of credit) whereby we may sell securities at a future determined price (other than standard and customary "preemptive" or "participation" rights).

We also agreed with each of the purchasers if we issue securities within the 12 months following the closing of the Offering, the purchasers shall have the right to purchase all of the securities on the same terms, conditions and price provided for in the proposed issuance of securities.

We also agreed to indemnify each of the purchasers against certain losses resulting from our breach of any of our representations, warranties, or covenants under agreements with each of the purchasers, as well as under certain other circumstances described in the Purchase Agreement.

We closed the Offering on April 12, 2013. The net proceeds to us from the Offering, after deducting placement agent fees and the offering expenses borne by us, were approximately \$4.6 million.

The Offering was completed using our shelf registration statement on Form S-3, pursuant to a prospectus supplement filed with the SEC.

Warrants

A summary of the outstanding warrants issued in the Offering and prior stock offerings as of May 31, 2013, and changes during the nine months then ended, is as follows:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contract Term (Years) |
|-----------------------------------|-----------|---------------------------------|--|
| Outstanding as of August 31, 2012 | 2,408,523 | \$ 4.56 | |
| Issued | 3,048,782 | 1.65 | |
| Exercised | - | - | |
| Forfeited or expired | - | - | |
| Outstanding as of May 31, 2013 | 5,457,305 | \$ 2.93 | 4.21 |
| Exercisable as of May 31, 2013 | 2,408,523 | \$ 4.56 | 2.74 |

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 May 31, | | Nine Months Ended May 31, | |
|---|-------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Weighted average number of shares outstanding – basic | 32,042,000 | 29,717,000 | 30,541,000 | 29,696,000 |
| Dilutive effect of stock options and warrants | - | - | - | - |
| Weighted average number of shares outstanding – diluted | 32,042,000 | 29,717,000 | 30,541,000 | 29,696,000 |

No stock options or warrants are included in the computation of diluted weighted average number of shares for the three months and nine months ended May 31, 2013 and 2012 because the effect would be anti-dilutive. As of May 31, 2013, we had outstanding options and warrants to purchase a total of 8,772,544 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 May 31, 2013 and 2012, we had sales of \$230 and \$13,757, respectively, to entities controlled by a significant stockholder and member of the Board of Directors. These related party transactions represent approximately 0% and 2% of total sales for each respective three-month period. During the nine months ended May 31, 2013 and 2012, we had sales of \$76,776 and \$315,163 to these related parties, representing approximately 3% and 20% of total sales for each respective nine-month period.

As of May 31, 2013 and August 31, 2012, receivables included \$24,823 and \$33,257, respectively, from these related parties.

Note 7. Stock-Based Compensation

We have both an employee and director stock incentive plan, which are described more fully in Note 10 to the financial statements in our 2012 Annual Report on Form 10-K. As of May 31, 2013, we had approximately 2,547,000 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 May 31, | | Nine Months Ended May 31, | |
|--|-------------------------------|-------------------|------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Cost of sales | \$ 16,022 | \$ 16,021 | \$ 48,067 | \$ 48,067 |
| Research and development | 50,285 | 44,956 | 150,855 | 154,725 |
| Selling, general and administrative | 219,875 | 249,567 | 663,592 | 688,262 |
| Total | \$ 286,182 | \$ 310,544 | \$ 862,514 | \$ 891,054 |

During the nine months ended May 31, 2013, we granted employees a total of 360,000 stock options at exercise prices ranging from \$1.20 to \$2.05 with one third vesting each year for the next three years. The estimated weighted average grant date fair value per share of these stock options was \$0.77, and our weighted average assumptions used in the Black-Scholes valuation model to determine this estimated fair value are as follows: